Title: Theory: The Swaps aren't to Short GME but to go LONG
Author: ValueInvestorGME
Created 2022-04-06 05:02:32 UTC
Permalink: /r/DDintoGME/comments/txefmh/theory_the_swaps_arent_to_short_gme_but_to_go_long/
Url: https://www.reddit.com/r/DDintoGME/comments/txefmh/theory_the_swaps_arent_to_short_gme_but_to_go_long/

This is my first attempt at a Due Diligence, and really, first post about GME overall, but I've been buying, holding, and DRSing since January of 2021, so be gentle.

I've been trying to better understand the quarterly cycles and the mechanics of swaps always confused me - mainly: how could they transfer their short position into a swap to hide recorded short interest? Why would it cause quarterly run-ups? Who is the counter party or parties? Why would they enter such a contract?

My brother finally got me to watch the Big Short, and now my wheels are turning, so here is where I'm at:

There are 3 primary parties involved:
SHFs - Short Hedge Funds (Citron, Melvin, etc.)
MMs - Market Makers (Citadel, Susquehanna, Virtu, etc.)
PBs - Prime Brokers (Goldman, BofA, etc.)

Phase 1: The Short (2004 through Jan. 2021)
SHFs grow egregious short positions while MMs grow correspondingly large and growing naked short positions on GME and other related stocks.
Evidence: Rising SI, Utilization, days to cover, and borrow rate.

Phase 2: The Cover (Jan. 2021)
As the price of these stocks balloon up, MMs quickly buyout rather than force close SHF positions.
Evidence: Large stakes taken in SHFs by MMs.
At this same time, MMs approach PBs and purchase swaps putting MMs into the LONG position and PBs into the Short Position on the basket we are familiar with. The resulting net Short and Long positions now held by MMs puts them into a net neutral position. However, this puts PBs into a new exposed Short position.
Evidence: Rapid clearing of SI in Jan of 21; possible exposed long positions by some MMs on GME in recent reporting that look like they are due to Swaps.

Phase 3: The Dump (Feb. 2021)
PBs dump GME holdings to put their swap SHORT position very much in the money.
Evidence: Institutional Ownership drops off a cliff. This repeats each cycle so either they are slowly dumping or selling the swap to other institutions who then dump holdings.

Implications: This puts the MMs and PBs into a tug of war with the PBs now on the short side of the position. This requires the PBs to pay premiums to MMs - likely quarterly and based upon the underlying's price. The quarterly run-ups therefore aren't runs up but runs DOWN and this is why RC knows when a big run down is coming. The PBs are likely abusing their Prime Broker privileges to drive the price of the underlying down so that their quarterly premiums are as low as possible on these swap positions.