Title: Shake Your Market Maker
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Body:
A certain broker has been attempting to shake up the market… but maybe not in the ways you might think, or, at least the ways they want you to think. Seems sort of ludicrous, right? https://youtu.be/T9Op2YQ7yyU

TLDR:
- CDS activity explains OTC market volume
- OTC trading activity during the week of March 8th, 2021 could tie Robinhood to toxic Greensill Capital assets
- Robinhood could already be functioning as a Market Maker
- High-frequency traders (including Robinhood) have likely been attempting to close naked short positions taken by CDS traders in 2020 via the OTC markets
- All eyes on the Debt Ceiling

Background:

In a previous post https://www.reddit.com/r/DDintoGME/comments/oqr13t/otm_put_options_explained/ I discussed one possible explanation for the large volume of OTM GameStop PUT contracts being tied to bond traders hedging their bets throughout 2020.

Today I will be discussing how I think those OTM PUT contracts became the OTM PUT contracts we've been seeing in the Bloomberg Terminal screenshots and why the daily OTC volume has been so much higher than that of public exchanges… and how my re-researching of this topic provided me with a whole new set of revelations.

Context:

On March 8th, 2021 Greensill Capital filed for insolvency https://www.reuters.com/article/us-britain-greensill-idUSKBN2B01WB which was, I think, related to a probable Credit Event stemming from the failed CreditEx auction for Europcar Mobility Group on January 13th, 2021. The timing here is especially interesting if you go back and re-review the OTC data analyzed by u/nayboyer2 a few months ago:

April 22nd, 2021:
https://www.reddit.com/r/Superstonk/comments/myf505/probably_the_last_dd_youll_ever_need_to_read_the

"**Robinhood** (unfortunately) entered the fray during the week of **2/8**. They have progressively increased their trading activity.

The activity slowed during the week of 3/1, before ramping up during the week of **3/8**. Is that significant? Well if we look back to 3/10, we had that massive drop from 348 to 172 in a matter of minutes. So you tell me...

This one sort of confuses me as a Fidelity customer. National Financial Services first entered the OTC marketplace during the week of 1/11. There was a jump in the number of trades during the weeks of 1/25 and 2/1, but the average number of shares/trade remained between 1.02 and 1.00. There was also an increase in OTC trades during the week of 2/22 and 3/8."

July 6th, 2021:
https://www.reddit.com/r/Superstonk/comments/oejtty/the_otc_conspiracy_gme_idiosyncrasies_and_the

“**The week of March 8th was kind of wacky:**

Robinhood was **1.00%** of the weekly OTC shares, but used those 765,000 shares to make over 763,000 trades, which was **25.78%** of the weekly total. They made more OTC trades than any other participant. GME was almost **20%** of their total OTC shares and almost **21%** of their total OTC trades.”

Hypothesis:

First-things-first, per Investopedia https://www.investopedia.com/terms/c/creditdefaultswap.asp:

“Credit default swaps are the most common type of OTC credit derivatives and are often used to transfer credit exposure on fixed income products in order to hedge risk.”

Ok, so, how exactly is credit “swapped” in the OTC markets and how might those positions appear as OTM PUTs via Bloomberg’s Terminal? Well, Credit Default Swaps can be delivered (converted) into bonds, like what was expected of a loan-based position sold by Credit Suisse in October 2020 https://www.bloomberg.com/news/articles/2020-10-29/quirk-in-europcar-credit-insurance-offers-lucrative-trade. Why is this important? Because some bonds can be directly converted into a fixed number of shares https://www.investopedia.com/terms/c/convertiblebond.asp#what-is-a-convertible-bond. This leads me to believe what u/nayboyer2 was pointing out was the “swapping” of credit via “OTC options” in real-time. Check this out https://www.investopedia.com/terms/o/otcoptions.asp:

“Investors turn to OTC options when the listed options do not quite meet their needs. The flexibility of these options is attractive to many investors. There is no standardization of strike prices and expiration dates, so participants essentially define their own terms and there is no secondary market.”

This could explain two important things:
1. First, the unusual “1 share per trade” average pointed out by u/nayboyer2 - potential explanation being those single “shares” are actually credit default swaps or OTC options contracts and
2. Second, the unusual ~$100 premiums that have been occasionally show up in “glitchy” brokerage applications like https://www.reddit.com/r/Autisticats/comments/ou2540/gme_04212021_ah_glitch/ - potential explanation being OTC options contracts being covered by investors who desperately need to close positions (without impacting public share price).

If Robinhood did in fact purchase some of Greensill’s toxic assets and is actively “settling” the underlying positions via OTC options, I think that an argument could be made that Robinhood is already a Market Maker https://www.investopedia.com/terms/m/marketmaker.asp. Additionally, if these observations are corroborated, the rationale for both Vlad’s $275m sale of his Robinhood shares as well as ARK Invest’s recent ~$250m stake in Robinhood should be called into question and thoroughly scrutinized.

For example, why is ARK investing so heavily in crypto currency platforms despite rumors that Congress is looking at crypto currency taxation as a source of funding for the new infrastructure proposal https://www.forbes.com/sites/johnberlau/2021/08/03/infrastructure-bill-threatens-cryptocurrency-ecosystem-why-is-crypto-being-targeted-with-more-tax-reporting-burdens-than-traditional-finance/? Meanwhile, Gary Gensler literally just called crypto currencies the “Wild West” and stated the SEC “will regulate cryptocurrency markets to the maximum extent possible using its existing authority” a few hours ago https://www.wsj.com/articles/sec-will-police-cryptocurrencies-to-maximum-possible-extent-chair-gary-gensler-says-11628007567.

So, what gives? Where is the crypto bullishness coming from?

It makes me wonder if Cathie Wood:
1. Believes the U.S. Government is more likely to default based on non-public insights she has into the Credit Insurance market (like it being way over-leveraged) given her relationship with Bill Hwang
2. Wants the U.S. Government to default, thereby giving the crypto currency communities a stronger sales pitch for long-term value and “protection” from inflation
3. Knows Robinhood is going down as a sacrificial lamb and needs an excuse (over-leveraged credit

default swap traders) to offload assets until another Bill Hwang emerges.

Here are a few reminders of how closely tied ARK and Archegos seem to have been up until a few months ago:
1. ARK touts LendingClub on March 16th, 2021 https://www.bloomberg.com/news/articles/2021-03-16/cathie-wood-fuels-lendingclub-rally-by-increasing-etf-s-stake
2. Confusion related to LendingClub sell-off made public on April 21st, 2021 https://www.wsj.com/articles/executives-wonder-if-their-stock-selloffs-were-linked-to-archegos-11618997403
3. Cathie admits Archegos funded ARK on May 7th, 2021
https://www.reuters.com/article/us-ark-invest-cathie-wood-bill-hwang-idUSKBN2CO21I

Conclusion:

Remember, I'm not an investment advisor, just a Retail Investor who reads a lot of content from their phone… like this Wikipedia page outlining the 2007/2008 financial crisis here
https://en.m.wikipedia.org/wiki/Financial_crisis_of_2007–2008

"Toxic securities were owned by corporate and institutional investors globally. Derivatives such as credit default swaps also increased the linkage between large financial institutions. The de-leveraging of financial institutions, as assets were sold to pay back obligations that could not be refinanced in frozen credit markets, further accelerated the solvency crisis and caused a decrease in international trade."

It was a tweet from the other day that made me want to go refresh my memory
https://twitter.com/deitaone/status/1422210275340660746?s=21.

But, regardless of happens, there is one person who I think will be glad to clean up everyone else's "mess" - Jeffrey Sprecher https://www.reddit.com/r/DDintoGME/comments/orkrur/the_man_behind_the_curtain/

Lastly, and most importantly, we still don't know the the results from the GameStop Shareholder Meeting in June, 2021. The possibility absolutely exists that Retail Investors hold the float in the same way that King Street Capital and Anchorage Capital did during the Europcar Mobility Group on January 13th, 2021
https://www.reddit.com/r/Autisticats/comments/owdd16/casino_royale_credit_insurance/

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