

Title: Swaps may be linked to the enormous short interest of XRT

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****TLDR; ETF shares from XRT contain GME, and can be used to short GME. Currently, the short interest of XRT is over 1300%. This may be connected to recent swap trades: A huge amount of XRT swaps were traded in the last weeks.****

Many great DDs point out that swap positions are hidden in swap positions. Swap reporting data can be downloaded from the DTCC since February, and thus, we can observe trades. We only can see the data starting from the 14th of February, but over time, trades are terminated and amended, and thus we can see them in the data.

First, a short explanation of swaps: Swaps are only an exchange of money - a bet. For example, one party pays the total return while the other pays an interest rate. It is also possible to lend shares with this instrument, as the initial transaction can be done in the form of a basket (of shares).

Recent records show a huge chunk of those basket swaps from August 2020 - that was when GME became a harder-to-borrow stock and before the January-squeeze. In total, more than 565 million USD swaps were traded linked to this date starting from mid-March this year.

A single trade increased an unknown swap position by over 250 million USD in March with an expiration date in 2025. Afterwards several trades reduced it by 315 million USD [1]. I described this artifact already in a previous post; since then I have observed even more of these large swap trades. These trades are connected to the swap position from August 2020 by their "effective date". In an activity plot that accumulates increases as well as decreases of any swap positions, it looks like this:

[See the large blue spike? Explanation to the plot: "1e8" on the y axis stands for hundred millions USD. I summed up any trades on their effective date by their amount (regardless whether it was a new trade, a termination or an amendment) to visualize trade activity. "Amount" means the money spent on the swap. In most cases, trades with the same effective date are connected.](<https://preview.redd.it/t91vd12w9dt81.png?width=3510&format=png&auto=webp&s=3d6e7ffffbdf1f6269203107d778f03371942fc>)

My interpretation:

A considerable amount of XRT shares have been lent out using swaps. But who lent out these shares? Authorized Participants lend out their ETF shares, e.g., because of tax benefits [2]. I guess Vanguard because we know that they lent out 5 million shares of GME [3], and most of these shares are bound in ETFs.

But to whom? Basket swaps are not useful for regular traders. However, Authorized Participants can dissolve the ETF shares into the individual stocks. Authorized participants are, for example, Blackrock, Vanguard, or, Citadel. We already know from great DDs that if an AP wants to short a stock that is hard to obtain, e.g., GME, it can obtain the shares from ETF shares. Or, they can simply short the ETF and go long with every other stock in the ETF except GME. So basket swaps can be a helpful tool for short selling.

Today, XRT has a short interest of over 1300%. Let's assume that the trading party with short XRT shares terminated their long-term swap position. Nevertheless, they did not (yet) exit their short position; instead, they switched to a shorter-term short position using options. Why would they terminate their long-term swaps early? Let me speculate: Then they can quickly exit their short position before it squeezes. (... and let the dumb storm troopers hold their bags)

\[1\] Here are all XRT swap trades: <https://pastebin.com/S3e3FEQw> To investigate the mentioned trades, copy this into your spreadsheet app and filter by Product ID "equity:portfolioswap:pricereturnbasicperformance:basket".

\[3\] Book: Short selling - strategies, risks and rewards; 2003; Fabozzi; Wiley Finance

\[2\] "Vanguard lends their 5mil shares and cannot vote. Blackrock can vote their ~5mil votes. Vanguard not friend." by u/martinu271

Edit: some clarification of swaps.