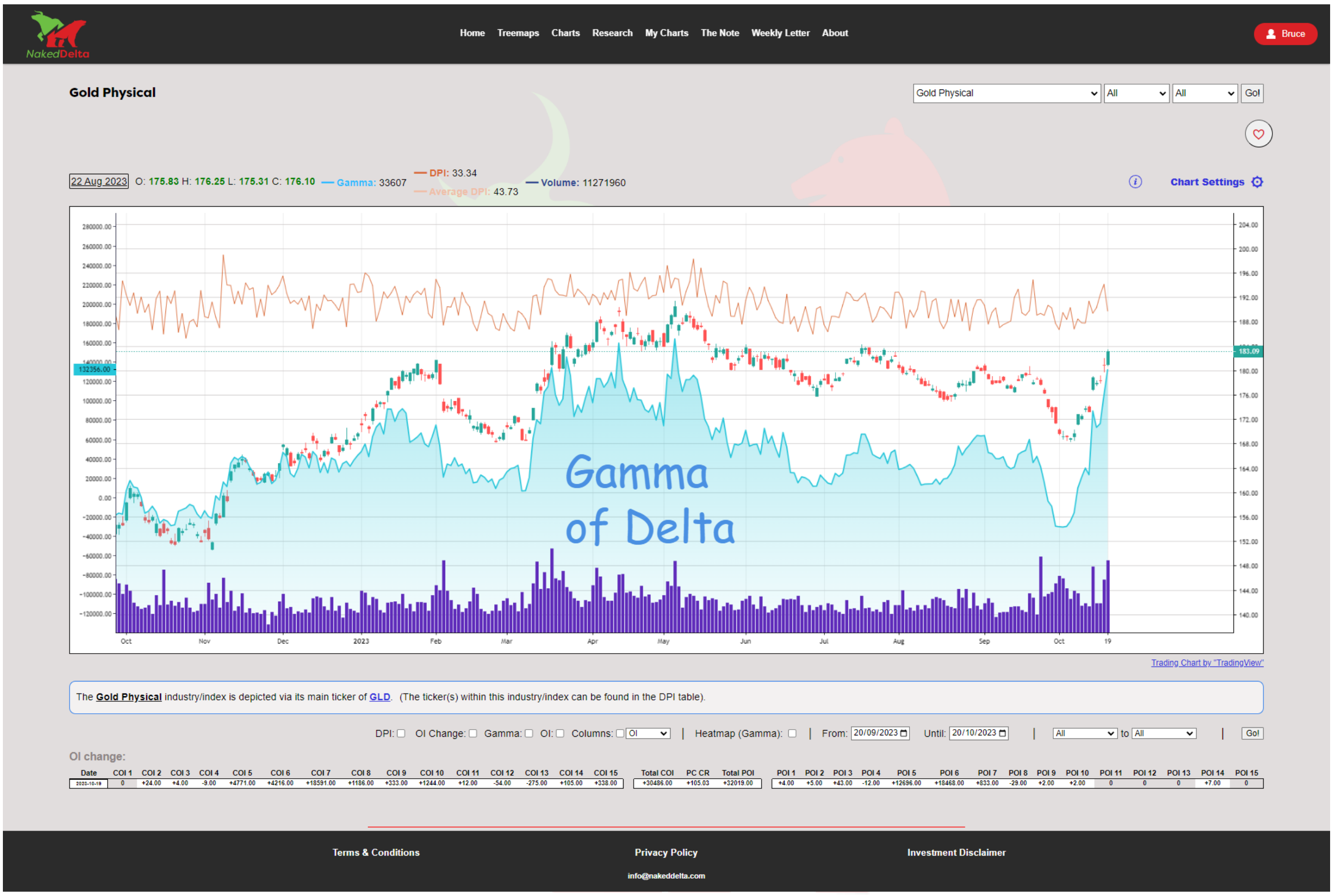
“So what?” NakedDelta

Charting logic



Gamma of Delta

Gamma exposure provides insights into other traders' perspectives and positions. It has a very high correlation coefficient to Commitment of Traders (COT) reports, making it a good proxy for “everyday” COT reports. The modern acronym for this concept is GEX (Gamma Exposure), which measures the market delta positioning by dollarizing the option Greek notion of Gamma. This idea was coined by Squeezemetrics.

Gamma is a derivative of option delta and the underlying security price. As an Option Greek, gamma is a metric that shows the rate of change of the option price and its relationship to the underlying security price movement.

In simple terms, the formula to calculate the net gamma exposure of an underlying option is to add up the product of each call option's open interest (OI) and their delta value for all strike prices, and then subtract the product of each put option's OI and their delta value for all strike prices. The resulting value is the Total Gamma Exposure (GEX) for that security, which can be extrapolated into industries, sectors, and indexes.

A high gamma reading indicates a higher delta hedging requirement in calls than puts, and vice versa (as long as those positions have a market maker on the other side). Generally, traders don't hedge against positions they have bought or sold very efficiently, and stability in the market requires market makers and dealers to hedge these deltas.
A low or negative gamma (GEX) reflects less open interest and/or higher delta hedging requirements for puts than calls.
The former is usually found in high priced compressed volatility markets where dealers hedge too well, while the latter is found in more volatile and unstable markets, which may be close to the securities price bottom. Delta hedging is not the only thing that keeps a market stable; otherwise, non-optionable stocks would all be volatile.

“DXY hinting”

DXY Complex as an indicator: Mechanics of Monetary Flows

Often called the “flight to safety” or risk off trade, a rising USD(DXY) correlates with market stress. At other times dollar strength is related to interest rate carry trades. These and a myriad of other reasons are what I see as the mechanics of trade.

The DXY is relatively finite, if investors buy or sell securities, commodities and their derivatives, Dealers/Market Makers(MMs) hedge these trades, needing more or less dollars to store their capital.

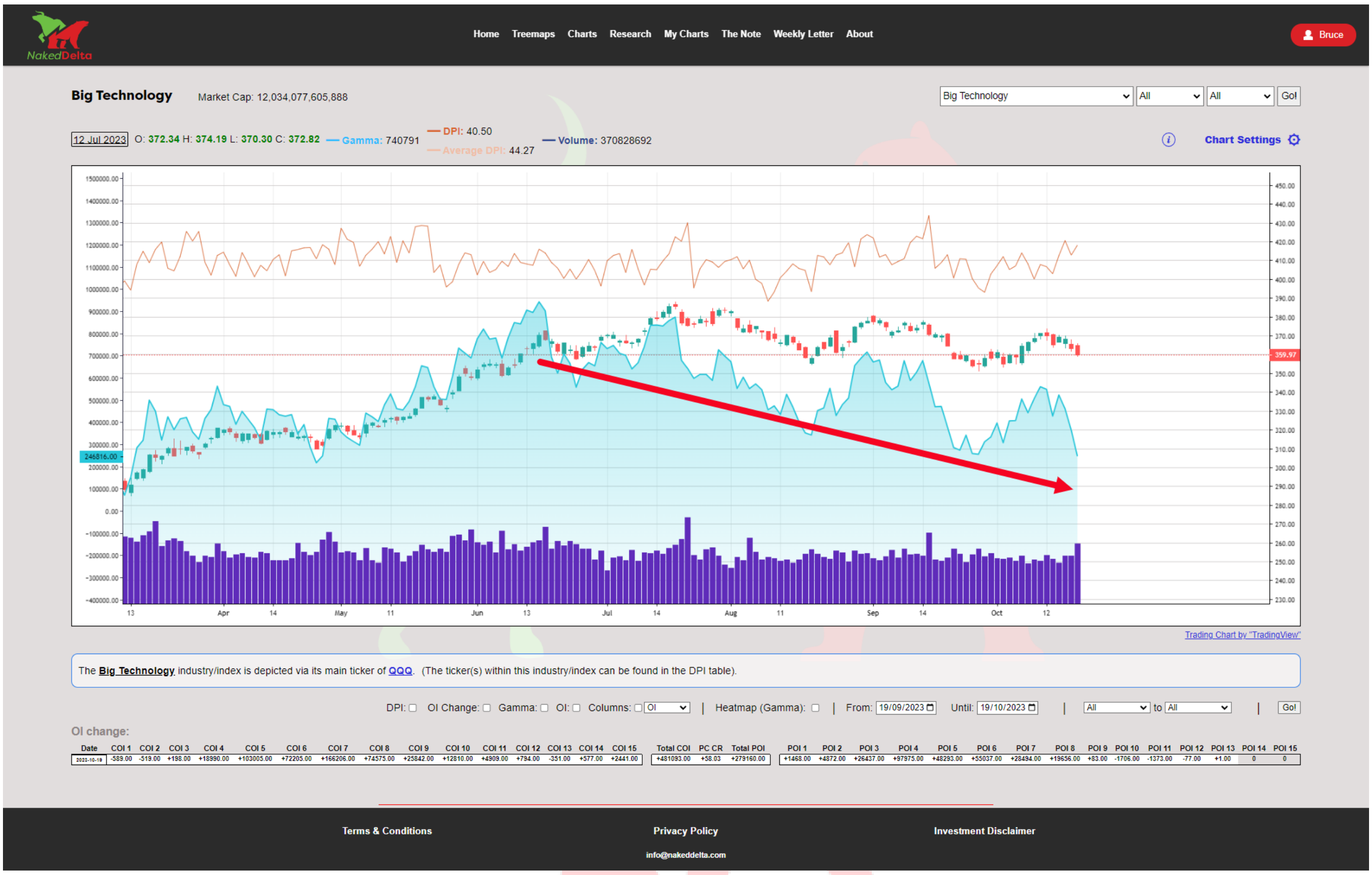
This mechanical transaction means more or less dollars squeezing in and out of accounts, changing its price with its availability.

So much liquid USD is used in hedging market positioning, especially options because of leverage effects.

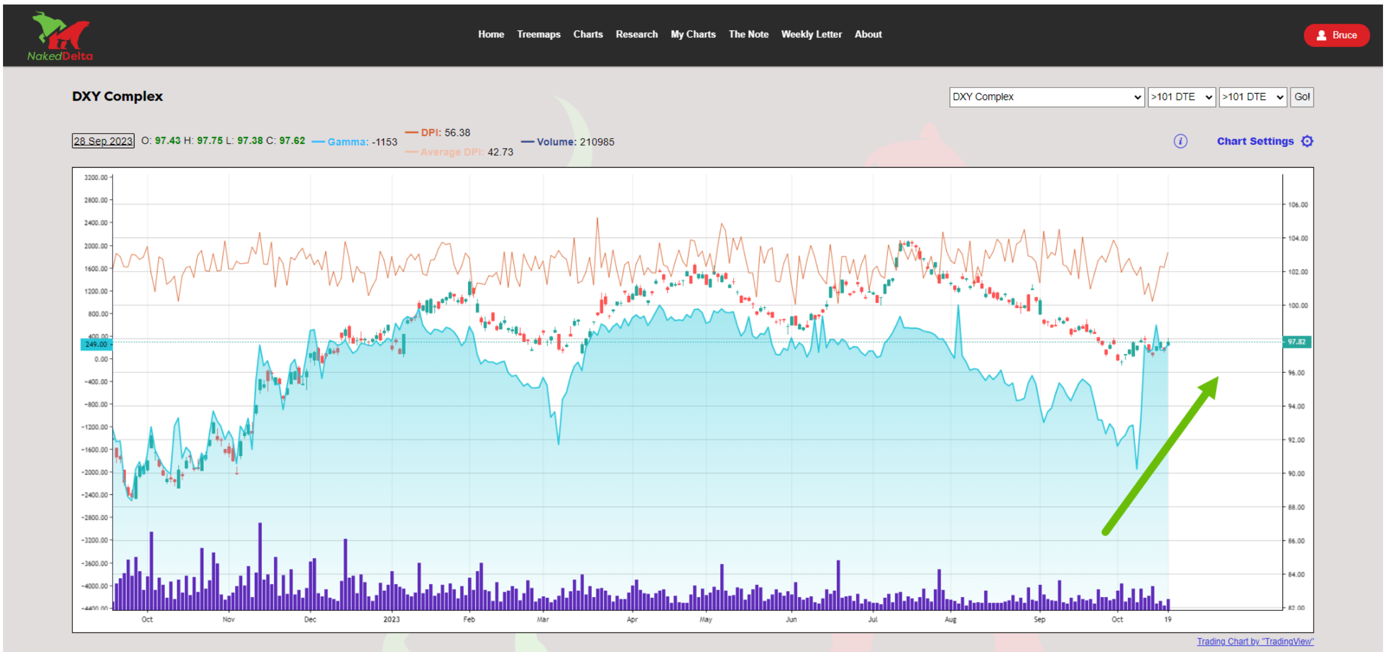
The DXYs path since the deleveraging of the Big Tech(QQQ above) plays at the June OPEX has been a wild journey. First the rise in the DXY as this huge deleveraging of Big Tech securities began, then squeezing the dollar down covering the buy backs into late July waiting for the gamma of the new positioning to take hold.

Vast amounts of USD were tied up whilst this deleveraging continued through to the September OPEX. Throw in large treasury issuance with failed auctions to keep it at a sticky high.

Big techs deleveraging seen here measured in Gamma of Delta.



This last week we have seen a dramatic increase in Long dated, >101DTE, positioning in the currencies that make up the DXY complex(EUR, CAD, CNY, JPY etc).



Date	COI 1	COI 2	COI 3	COI 4	COI 5	COI 6	COI 7	COI 8	COI 9	COI 10	COI 11	COI 12	COI 13	COI 14	COI 15
2023-10-19	-2.00	0	0	0	0	+16.00	+112.00	+173.00	+111.00	+30.00	0	0	0	0	0

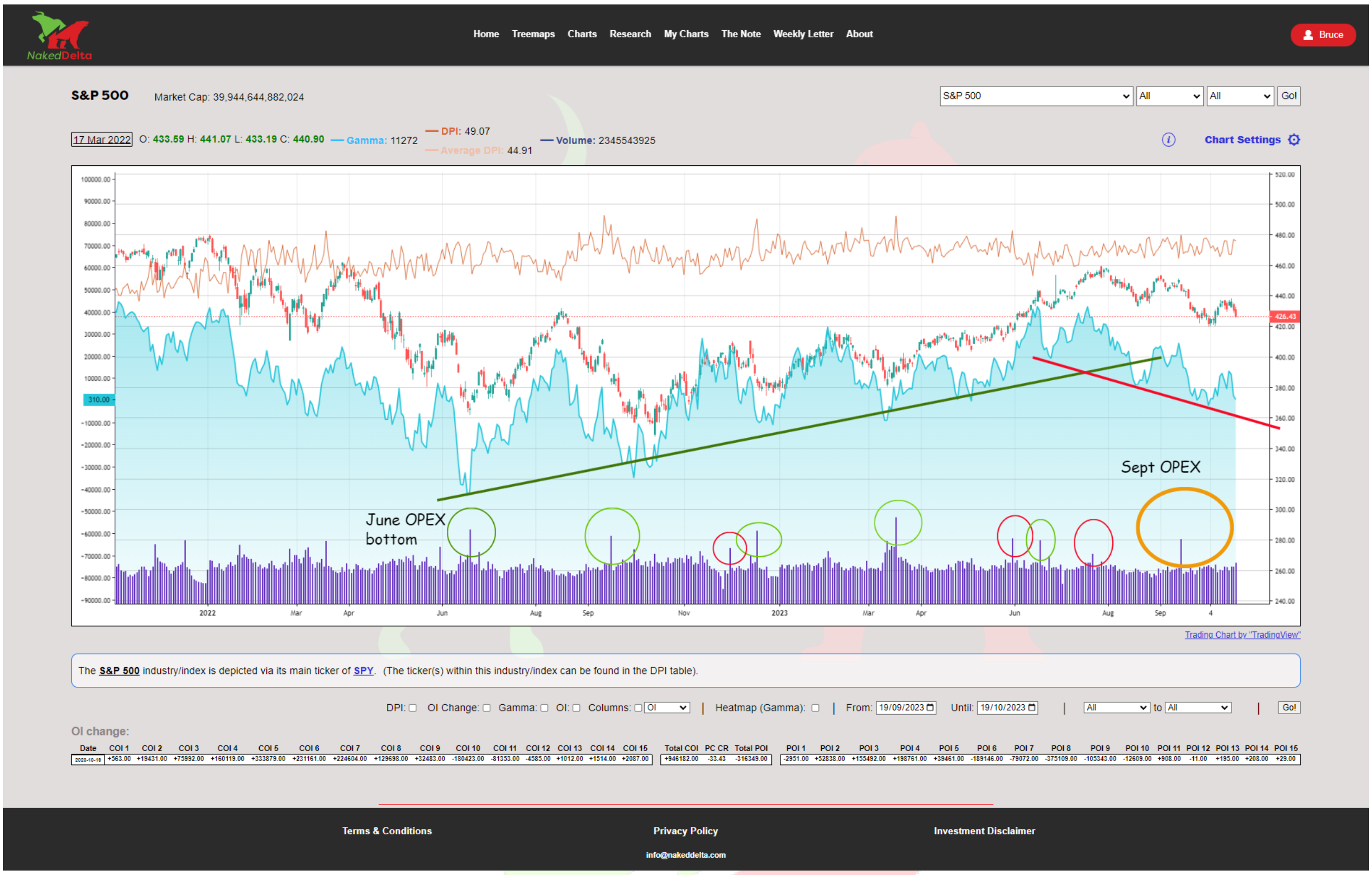
Total COI	PC CR	Total POI
+440.00	+2.05	+9.00

POI 1	POI 2	POI 3	POI 4	POI 5	POI 6	POI 7	POI 8	POI 9	POI 10	POI 11	POI 12	POI 13	POI 14	POI 15
0	0	0	0	0	+96.00	+5.00	-12.00	-22.00	-58.00	0	0	0	0	0

Gamma and Volume Spikes

Using Gamma to measure how much investors have at risk and over what duration, the next chart of the SP500 shows that the bottom of the Market gamma was June OPEX 2022. Well before price bottom Oct 2022.

If we follow the gamma up to June OPEX 2023 we can see the top, again well before the price peak at the end of July. Then a change of direction with gamma heading down.



The volume spikes are very good “tells” for a change in market direction, they love OPEX. Though, we do need a couple more data points to be sure. Check last weeks letter if you want to see more data points
https://www.nakeddelta.com/assets/pdfs/So%20what%20(3).pdf

With the DXY complex hinting that flows are testing with their feet to come back into the market, the next volume spike feels like a good time to place a bet on the next leg of the Market. If Big Tech doesn’t join in we can be pretty sure that the index will sink without them.

The Road Ahead

As anticipated by potential seasonal flows, current data doesn't signal significant shifts in option positioning. Big Tech stocks and indexes are mainly neutral this week.

If we get those seasonal flows, the DXY may mean revert to the 0.5 Fib of the recent climb, as more dollars will be tied up in securities and high return paper, with less of them to store capital in accounts.

What's clear is the ever-evolving nature of the markets. As I journey through these shifts, my aim is to demystify the intricate world of market positioning.

Cheers, Bruce

Founder of NakedDelta (and rabbit hole expeditioner.)