

S&P 500 Weekly Forecast 7/5 (and white paper!)

From: SqueezeMetrics <info@sqzme.co>
To: SqueezeMetrics <info@sqzme.co>
Subject: S&P 500 Weekly Forecast 7/5 (and white paper!)
Date: Sunday, July 05, 2020 9:01 PM
Size: 534 KB

Hey everyone,

The content of this note is basically what we hinted at on Thursday:

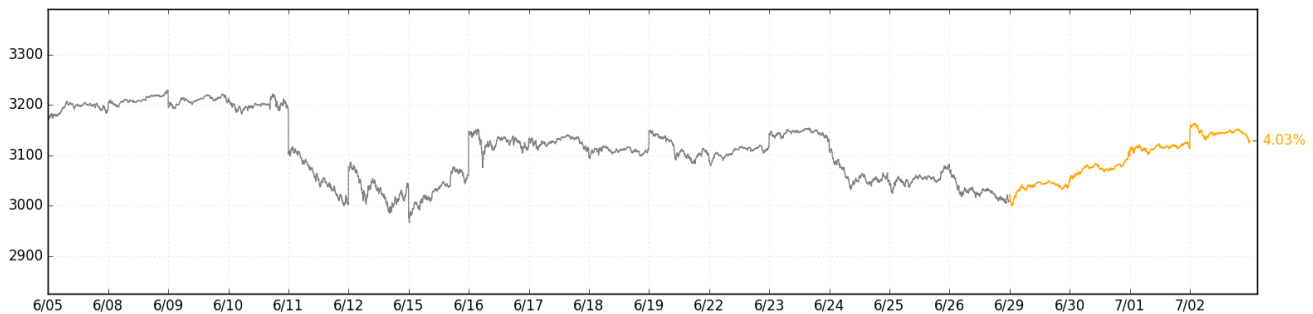
On Sunday, we'll be showing off a new white paper before it's released to the masses.

And here it is. The plan is to publicize the paper tomorrow afternoon/evening, so if you find any typos or errors, let us know! We're hopeful that this paper is able to provide a consistent framework with which we can discuss the effects of GEX and VEX, that framework being the "implied order book." As you know, the last few months have featured a lot of groping in the dark as we worked out assessing SPX options' trade direction and the impact of vanna, but having a paper like this should be able to serve as a bit of an anchor for future discussions. At least that's the hope.

Very briefly, though, let's still talk about the past week and the coming week.

The past week

The week was short, boring, and bullish.

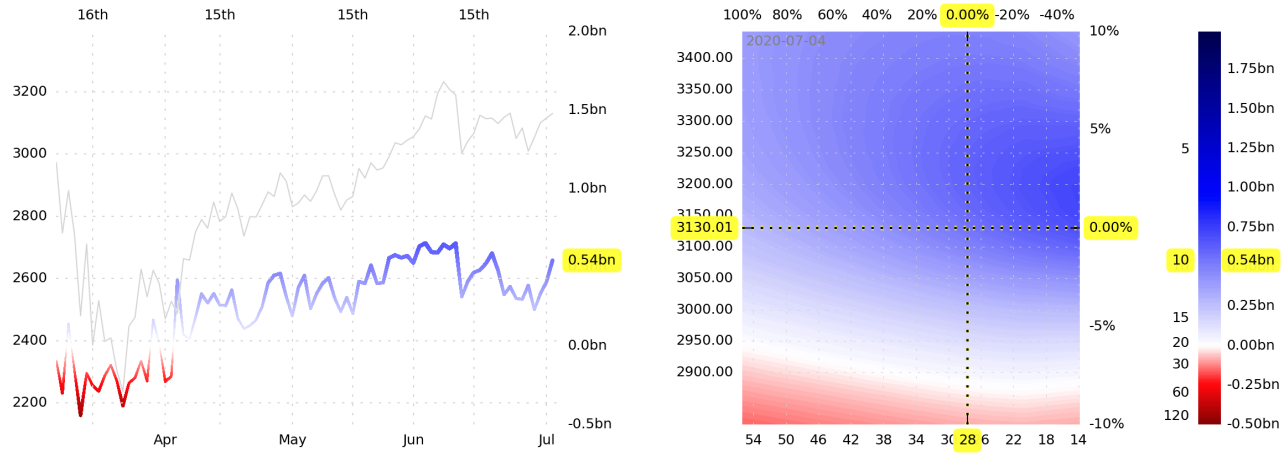


Forecasted daily average moves were around 1.00% to 1.20% (lower later in the week as GEX+ rose), and that's turned out being pretty accurate. The 4-day average was a 0.99% return. The big story of the week is that, at long last, VIX took the lack of realized vol seriously, and took quite a dive, from the mid-30s down to a 27 handle. The only one of our favored positions that *wouldn't* have performed too well was the weekly iron fly -- which did not benefit from the one-directional trending behavior of the week. But everything else? Pretty good!

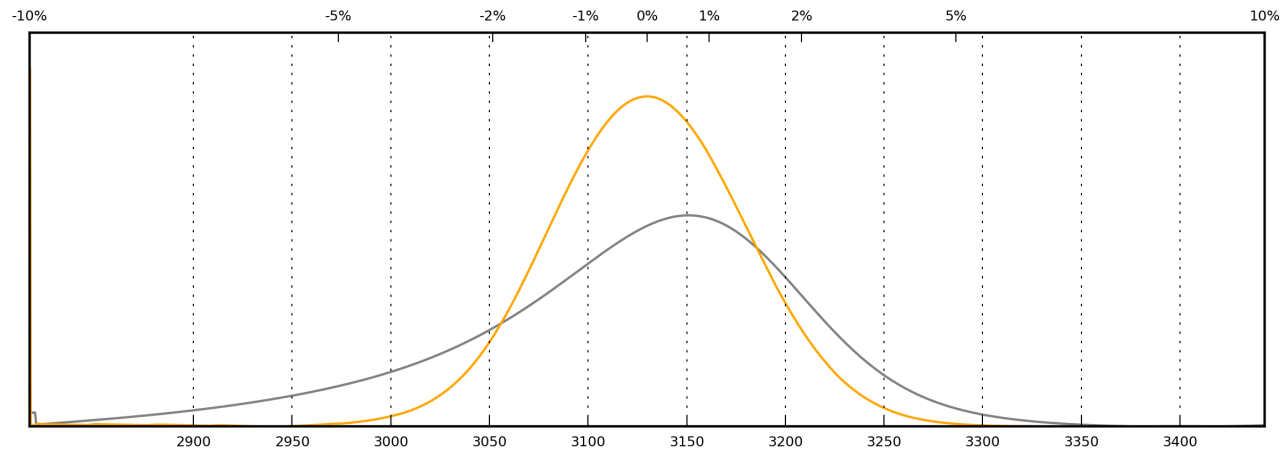
Followers of the Dark Index (DIX) will note that this week was the first time we saw some tempering of the super-bullish index flows of late. Still, 45%+ are bullish prints, and the effects of DIX tend to last for up to a quarter -- so it's telling us bullish things. But maybe the record-setting bullishness is over.

The coming week

The essentials are all the same as last week, with expected daily ranges a bit lower and the "red zone" even further away.



Our VIX + GIV heuristic says that daily vol should be the mean of 28 and 10 (**19**), which translates to **0.95%** average daily moves (we had 1.16% last weekend). When you take this and feed it into the probability machine, your distribution of returns for the week looks like this, with SPX options telling you gray is more likely and GIV telling you orange is more likely. Still quite a difference.



Whether you want to be short VIX in the 20s is going to largely come down to your opinions on sentiment -- we found it easy to be short in the mid-30s, given what we know about the liquidity situation (low vol-of-vol, decent SPX depth-of-book), but there's certainly less meat on the short /VX trade now. Perhaps some modestly sized SPX iron flies again! Or some bets against skew (risk-reversals and the like), given the probability differential between GIV and SPX IV at 3000 SPX.

Remember to look at the daily chart-dump, too, found on the GammaVol page (<https://squeezeMetrics.com/monitor/v/gxv>).

Have a great week!

The SqueezeMetrics Team

