# S&P 500 Weekly Forecast 7/11

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Hey everyone,

Ok, let's finally float some initial "gamma tension" data. The IWM ETF (i.e., the RTY index)—which we've been following closely for several weeks now—seems to have a robust signal with respect to its option open interest—*if* viewed specifically through the lens of the *change in gamma per change in IV.*

In other words, we would say that "gamma tension" is positive when a decrease in IV causes an increase in gamma exposure. Just as importantly, a decrease in IV can usually be compared to a certain amount of *time elapsing,* so even if IV doesn't fall, time passing has a similar impact to IV falling.

Thus, the "normal" state of affairs, for most stocks and indices, is for gamma tension to be [slightly] positive. I.e., for the passing of time or the falling of implied volatility to cause an increase in real underlying liquidity, and thus an average increase in underlying price.

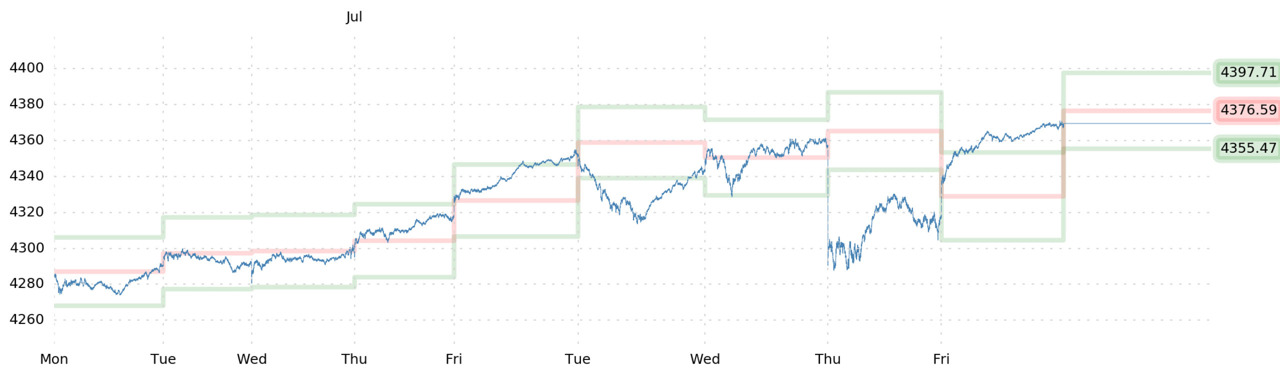
If that sounds like a crazy causal chain—well, it is. It's totally crazy. No rational individual would believe it. But you, dear reader, are [obviously] *not* a rational individual—so take a peek at the attached spreadsheet (the IWM ETF) and run your own backtests and analysis.

A few words on that, but first...

1. Interesting.
2. Interesting?
3. Interesting!

**Interesting.**
Last weekend, we said the coming week might be "interesting."

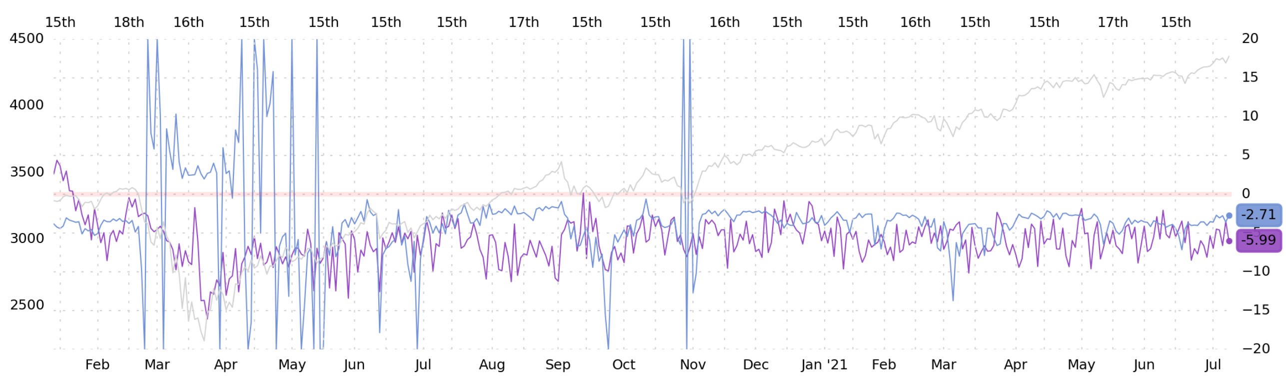
> The next four market days may be [sort of] interesting. And that's the first time we've said something like that in a while. [...] Some stuff is getting turned upside-down, and it means that folks' option positioning is going to be out of whack.
>
> And you need look no further than the customer vanna-gamma ratio (VGR) to confirm this to be the case. VGR is -2.7, and that's the closest to zero it's been in a while. It suggests that SPX option customers are *overexposed to changes in implied volatility,* relative to their exposure to gamma. This tends to result in SPX volatility going up.




But, amusingly, our proposed way of taking advantage of the situation (a near-term ATM put) really didn't pan out—unless you were adequately nimble. E.g., for the long gamma scalper (even just scalping close-to-close) it should have had a wonderful week—but we're much too lazy for that.

So hopefully this was in your wheelhouse, and you were able to profit, somehow or another. For our part, we were (as noted in the morning emails) able to get into short July VIX on Thursday in the AM (20.10), and then out of the position on Friday afternoon (17.80). So that was nice, anyway. Winning!

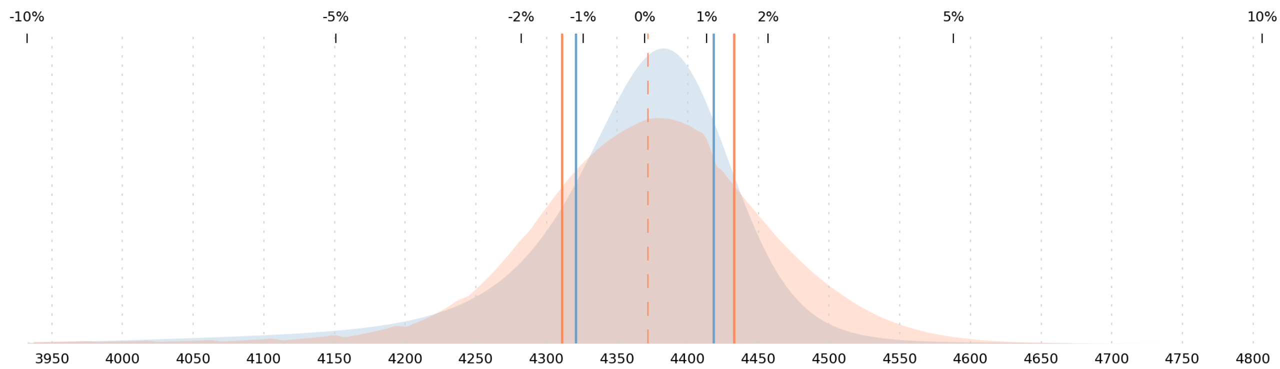
**Interesting?**
Does this shakeup mean next week will be interesting, too?




Well, we're getting mixed signals.

- VGR -2.71 ... VIX really shouldn't go down much. *Long vol!*
- NPD -5.99 ... Pretty neutral, especially in context of other recent prints.
- DIX 45.9% ... *Bullish SPX*, predicts low month-to-month volatility.

And then the 1-week probability density does what it often does when it sees options as a bit too cheap—it says buy some OTM calls. And this actually agrees with both DIX and VGR in saying, "be long vol, and long SPX delta."




So it's yet another week where buying a small, slightly OTM, call position just seems like the winning trade from an S&P 500 standpoint.

**Interesting!**
But recall that, recently, we've been trying to think *outside* the "S&P 500" box (because there have been fewer tactical opportunities in the index, *not* because we're naturally ambitious in trading different stuff).

So let's get back to talking about IWM, whose gamma tension data is all attached, and which we hope you will subject to a battery of cruel tests.

Something that interests us is that we've done very, very well with being broadly long QQQ and short IWM over the course of the last few weeks. QQQ has gone up, IWM has gone down. *(We first talked about this on the 20th, and got into the trade on the 21st, and since the close on the 21st, IWM is down 0.22% and QQQ is up 4.84%.)*

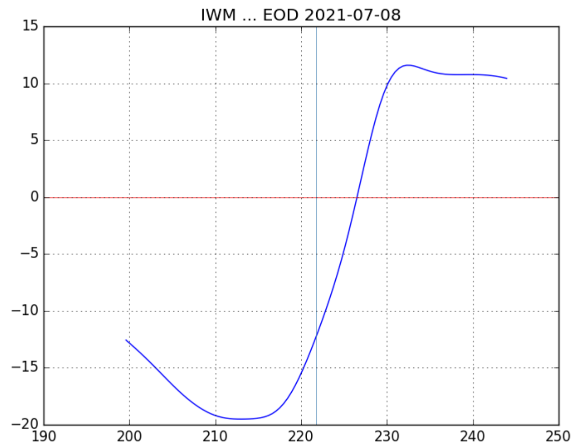
But there's potentially a lot more nuance to this trade than just "what's the current gamma tension number," and nuance is the tension *curve*, which—you may recall—is what's been occupying our thoughts for the past two weeks. Basically, a relatively small move in the underlying could turn tension from positive to negative, or vice versa, and knowing *where* that shift occurs ahead of time seems important.

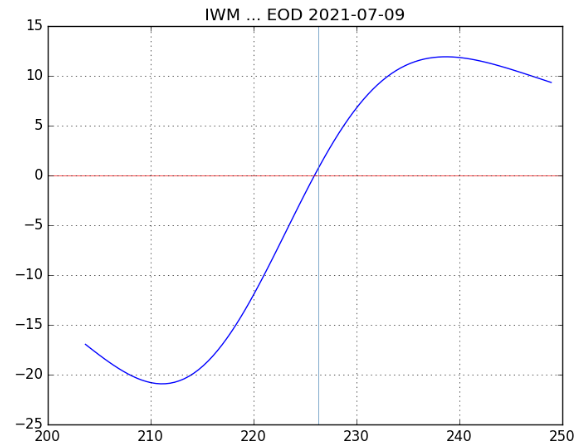
A demonstration of that importance is *again* apparent in this week's IWM data—specifically Thursday to Friday (attached):

```
   2893 2021-06-28   230.44    4.12333587708
   2894 2021-06-29   229.34    4.15052038541
   2895 2021-06-30   229.37    0.0733574920334
   2896 2021-07-01   231.39    4.86126409148
   2897 2021-07-02   229.19    0.591486417482
   2898 2021-07-06   225.86    -5.74184590912
   2899 2021-07-07   223.76    -8.85835795306
   2900 2021-07-08   221.7     -12.5866574327
   2901 2021-07-09   226.38    0.733595819011
(END)
```

If you see -12 as your tension number for the day, you understandably get some bearish feelings. But then on Friday, IWM was up 2.11%, and suddenly, tension is at zero?!

Here, one again remembers how important the curve can be:




If you look closely (we didn't have time to fix the axes, so you'll *have* to look closely), you'll notice that the shift in the curve itself wasn't *all that* dramatic, and that a tension number at zero following a rally to 226 was actually totally pre-known. And so you, a smart, data-driven trader, would have likely eased up on your short IWM exposure after Friday's gap up, to account for the movement of the underlying along that tension curve.

So when you're looking at the attached raw IWM data, keep this in mind: There is actually a lot more granular information in this dataset that you don't see in the closing data, but that you would see in a curve. And that's why we're spending so much time and thought on these curves. It's important.

In the meantime, take a look at the data. Trust us, it's worth looking at. The Premium subscription remains closed indefinitely.

Enjoy the week!

The SqueezeMetrics Team

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**IWM.csv** 102 KB