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Market Chameleon

How to Read Option Volume Profile

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Option Volume Profile

An interpretation of the option volume by end users

Dealer vs End User

Option Volume Delta

Order Flow Sentiment

Multi Leg Trades

Open Interest vs Volume

Option Volume Interpretation

The option trades and quotes are reported on the OPRA data feed.

However, the trades have limited information.

The intent and end users are not reported on the tape.

Using the available information, you can make an educated interpretation what most likely happened.

Option Volume Interpretation

Raw Data reported on the tape:

Quotes (Bid, ask, size, exchanges)

Trades (price, volume, trade condition, exchange)

Option Volume Interpretation

Derived data to consider:

Delta

Bid Ask Spread

Implied Volatility

Trade Sequence

Hedge Price

Tick Data

Historical Benchmarks

Dealer vs End User

Broker Dealer is a registered broker that provides liquidity to the exchange.

Dealers makes the theoretical edge (bid/ask) spread for adding liquidity to the markets (provide bid/offers)

Dealer is passive and would try to balance book to reduce risk

End user (retail order flow) takes liquidity to make a trade based on their unique outlook

Option Volume Delta

Convert the option volume to option volume delta

Delta is the amount of stock the dealer would need to hedge against a \$1 move in the stock price

Example: +1,000 delta would mean the dealer would need to short 1,000 shares of stock to get position to delta neutral

Multi Leg Trades

Trades that involve more than one leg of an option.

Such as vertical spread, time spread, straddle, butterfly etc...

The OPRA tape does not give enough information on the multi leg trades to identify the spread.

This requires you to make an interpretation using surrounding data.

Option Order Flow Sentiment

Option order flow sentiment is the aggregated option volume delta to measure the net imbalance in the order flow.

How end users are using options. Options can be used to hedge positions or take on risk based on outlook.

Open Interest vs Volume

Volume shows the amount of contracts that traded on the day.

Open Interest shows how many contracts are open and not yet closed out.

Volume updates throughout the day

Open interest updates once a day based on settled trades