Twitter Thread by Subhadip Nandy

Subhadip Nandy
@SubhadipNandy16

Ok here is the explanation. Grab a cup of coffee and read on. If you have not read/noticed this, you will see intraday options movement in a new light.

> In a high IV environment or when the market is very volatile
> " OTM options will behave like ATM options", one will get almost the same delta movement
>
> — Subhadip Nandy (@SubhadipNandy16) January 21, 2022

Say we have two options, one 50 delta ATM options and another 30 delta OTM option. Normally for a 100 point move, the ATM option will move 50 points and the OTM option will move 30 points. But in a high volatile environment, the OTM option will also move nearly 50 points

To understand why this happens, first understand why an ATM option is 50 delta. An ATM option has the probability of 50% of expiring as ITM. The price just has to close a rupee above the strike for the CE to be ITM and vice versa for PEs

Now think of a highly volatile day like today. If someone is asked where the BNF will close for the day or expiry, no one can answer. BNF can close freakin anywhere, That makes every option of an equal probability of being ITM. So all options have a 50% probability of being ITM

Hence, when a huge volatile move starts, all OTM options behave like ATM options. This phenomenon was first observed in the Black Monday crash of 1987 at Wall Street, which also gave rise to the volatility skew/smirk

Someone asked me over DM what I will teach in the extra module of advanced greeks or it's nuances. This is just one of the things I will teach. Some things I will teach on LIVE markets. Course details here if you are interested, videos are already online :
https://t.co/3X8lCYDetq

BTW, what I have noticed is that this OTM moving like ATM happens till 25/30 delta options and not beyond.