FIS

COBALT OPTIONS WEEKLY REPORT

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CME Settle

	09 Oct
Oct 26	23.85
Nov 26	21.95
Dec 26	22.05
Q4 Avg	22.62
Jan 27	21.7
Feb 27	21.7
Mar 27	21.7
Q1 Avg	21.7

Historical / Realised Volatilities

	10 Day	30 Day	60 Day	90 Day
Oct 26	49.60%	37.00%	29.85%	25.70%
Nov 26	23.85%	21.35%	20.05%	19.25%
Dec 26	25.60%	33.35%	26.85%	23.55%
Q4 Avg	33.02%	30.57%	25.58%	22.83%
Jan 27	7.75%	14.40%	15.80%	16.50%
Feb 27	7.65%	14.60%	15.80%	16.55%
Mar 27	10.55%	15.25%	16.10%	16.75%
Q1 Avg	8.65%	14.75%	15.90%	16.60%

Implied Volatilities

	10d Put	20d Put	35d Put	ATM	35d Call	20d Call	10d Call
Oct 26	35.00%	33.50%	27.00%	24.00%	31.75%	33.50%	35.00%
Nov 26	40.00%	38.00%	30.50%	24.00%	26.75%	29.00%	34.00%
Dec 26	43.50%	42.00%	34.00%	24.00%	26.75%	30.00%	35.00%
Q4 Avg	39.50%	37.83%	30.50%	24.00%	28.42%	30.83%	34.67%
Jan 27		30.00%	24.50%	19.00%	19.75%	22.00%	23.00%
Feb 27		29.00%	23.75%	18.50%	19.25%	20.00%	23.75%
Mar 27		28.00%	23.00%	18.00%	18.75%	19.50%	28.25%
Q1 Avg		29.00%	23.75%	18.50%	19.25%	20.50%	25.00%

Commentary:

*** TRADE * 40x Q1 2027 $23 calls live at 45 cents on Fri 9th Oct (Q1-27 reference price $21.70) ***

Q1-27 Cobalt implied volatility traded lower again, this time down at 18.85%; this is the first sub 20% trade we have seen, a new cycle low for Q1 implied vols, and we now trade at a modest premium to realised vols which are in the 16%-16.5% area using 60-90 day historicals. Whilst appearing low at first sight, given the background call selling interest seen in recent weeks this did not come as a complete surprise.

CME volatility marks are now more realistic, helped by the recent increase in option trades so we now have a greater degree of confidence in these (particularly in Q1). There may continue to be some divergence of opinion in Q4 marks; however given a general lack of appetite to show bids for these tenors we feel the risk is that implied volatilites are more than likely overvalued, even in the face of higher realiseds.

We would continue to hold our short $24.5/$21.5 strangle in Nov & Dec, having collected a reasonable amount of theta since established; however, we would be mindful that a break lower could see us approach and possibly breach the short put strike so we would exercise caution. Given continued call selling pressure we might be tempted to buy back the short calls, especially if the market was willing to sell sub 20% vol in Nov or Dec as these could potentially be covered back for under 10 cents.

Sources: CME, Bloomberg, FIS

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