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Interpreting Open Interest Changes

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As with all investments, your capital is at risk

Open Interest Webinar: Advanced Insights

Beyond the Basics: Using Open Interest to Help Assess Trader Conviction & Positioning

- What open interest really tells us
- How to separate conviction from speculation
- Practical workflows using OI, volume, IV, and time & sales

Gain insights into how open interest shifts can reveal market sentiment and positioning. We'll walk through tools for tracking open interest changes and show how to use this data to better understand market activity.

Multiple leg strategies, including spreads, will incur multiple transaction costs.

Agenda

Quick refresher:

What open interest is (30-second recap) •

Open interest as *conviction*, not just activity • Volume → Open interest conversion

Reading OI increases vs decreases

Drilling down: time & sales, blocks, and spreads

OI + implied volatility for price discovery

Tracking OI over time

Case-study workflows

Risks and limitations

Multiple leg strategies, including spreads, will incur multiple transaction costs.

Open Interest: The 30-Second Refresher

Definition: Outstanding option contracts that remain open

Key refresher points:

OI starts at zero when listed

OI changes only when positions are opened, closed, or exercised

Reported end-of-day by OCC

Multiple leg strategies, including spreads, will incur multiple transaction costs.

Why Open Interest Can Matter More Than Volume

Volume answers: *What traded today?*

Open interest answers: *What stayed open?*

Key idea: • OI reflects **positions carried forward** • Carrying risk overnight = **conviction**

Multiple leg strategies, including spreads, will incur multiple transaction costs.

Conviction vs Short-Term Trading

High Volume + Low OI Change • Day trading • Position flipping • Short-term speculation

High Volume + Rising OI • New risk being added • Longer-term positioning • Stronger directional or structural conviction

Multiple leg strategies, including spreads, will incur multiple transaction costs.

Volume → Open Interest Conversion

A powerful lens:

What portion of today's volume became open interest?

Examples: • 50,000 contracts trade • OI increases by 35,000 → Majority of trades **stayed open**

Insight: • High conversion = positioning • Low conversion = churn

Multiple leg strategies, including spreads, will incur multiple transaction costs.

Interpreting OI Increases

OI Increasing Can Mean: • New bullish or bearish positions • New hedges • Multi-leg strategy deployment

Important: • OI increase \neq direction

Traders need context

Multiple leg strategies, including spreads, will incur multiple transaction costs.

Interpreting OI Decreases

OI Decreasing Can Signal:

- Profit-taking
- Risk reduction, or rolling
- Trade unwind ahead of events

Watch for:

- OI drops after earnings
- OI collapse near expiration

Multiple leg strategies, including spreads, will incur multiple transaction costs.

Using Time & Sales to Explain OI Changes

When OI changes, ask **why**:

- Was it one large block or many small trades?
- Were trades spread-based or single-leg?
- Did activity occur at bid, mid, or ask?

Time & sales turns OI from *summary* into *story*

Blocks vs Scattered Trades

Large Block Trades • Institutional positioning • Often deliberate and strategic

Many Small Trades • Retail participation • Momentum or reaction-based activity

Both can raise OI — implications differ

Multiple leg strategies, including spreads, will incur multiple transaction costs.

Identifying Multi-Leg Trades

Look for:

- Simultaneous call & put activity
- Same expiration, different strikes
- Matching timestamps

Why it matters: • Multi-leg trades change how risk is expressed

- OI without structure can mislead

Open Interest + Implied Volatility

OI rising + IV rising

- Traders paying up for exposure
- Strong demand for optionality

OI rising + IV falling

- Supply entering market
- Structured selling or hedging

Multiple leg strategies, including spreads, will incur multiple transaction costs.

IV Center of Gravity

Ask:

- At what IV level did most OI accumulate?
- Did later trades chase higher or lower IV?

This helps identify:

- Fair value discovery
- Where traders agreed on pricing

Tracking Open Interest Over Time

OI is more powerful as a *series*, not a snapshot

Track:

- OI before vs after events
- Persistent accumulation
- Sudden reversals

Patterns reveal evolving trader belief

Multiple leg strategies, including spreads, will incur multiple transaction costs.

Case Study Workflow

Step-by-step:

1. Detect large OI change
2. Compare against daily volume
3. Drill into time & sales
4. Identify blocks vs spreads
5. Overlay IV behavior
6. Track follow-through days

Multiple leg strategies, including spreads, will incur multiple transaction costs.

What Open Interest Does NOT Tell You

OI does not tell you:

- Direction by itself
- Trade profitability
- Trader identity
- Timing expectations

OI needs **confirmation**, not blind trust

Multiple leg strategies, including spreads, will incur multiple transaction costs.

Risks & Misinterpretations

Open interest is a *tool*, not a signal

Limitations include:

- End-of-day reporting lag
- Hedging vs speculation ambiguity
- Event-driven noise
- Pin risk near expiration

And more..

Multiple leg strategies, including spreads, will incur multiple transaction costs.

Key Takeaways

- Open interest reflects **risk carried forward**
- Volume tells activity — OI tells commitment
- OI + volume + IV helps explain positioning
- Time & sales reveals the story behind the numbers

Multiple leg strategies, including spreads, will incur multiple transaction costs.