

Trade Ideas / Themes

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Hi Guys,

Some Ideas / Themes below

**All pricing indicative as of the time the original write up was sent.**

- 1) De-escalation Mid Curve Trades
- 2) BOE June hike Option trades that beat paid MPC
- 3) Fed on Hold with Cutting Bias
- 4) USD SOFR RV Fly
- 5) ERM7M8 Bull Steepeners

De-escalation Mid Curve Trades

I ran analysis for the optimised trades for a de-escalation scenario in the coming weeks.

Trades were re-valued based on the below criteria:

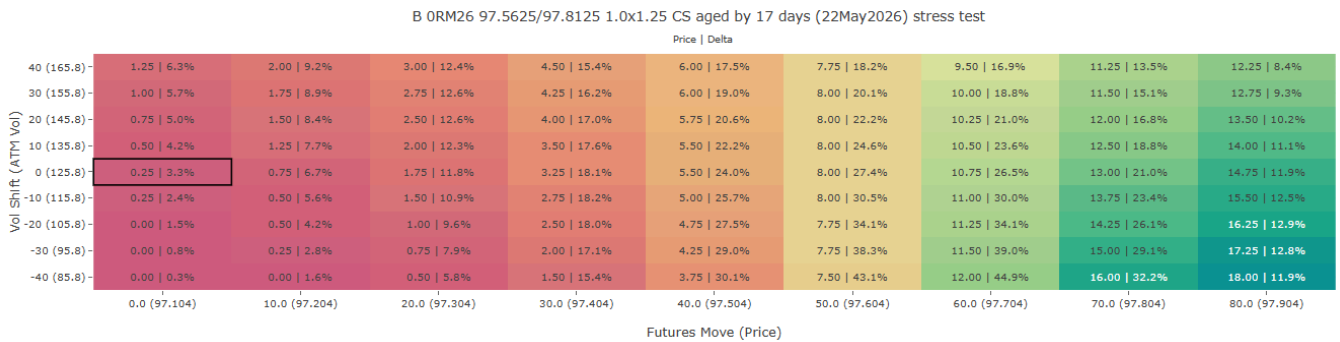
- 1) 40bp rally in U7
- 2) -20bpv (~40% of what the move would be if we returned to Pre Iran levels)
- 3) Aged all trades 18 days (22/05)

Trades filtered for at least 5% delta and no/minimal tail.

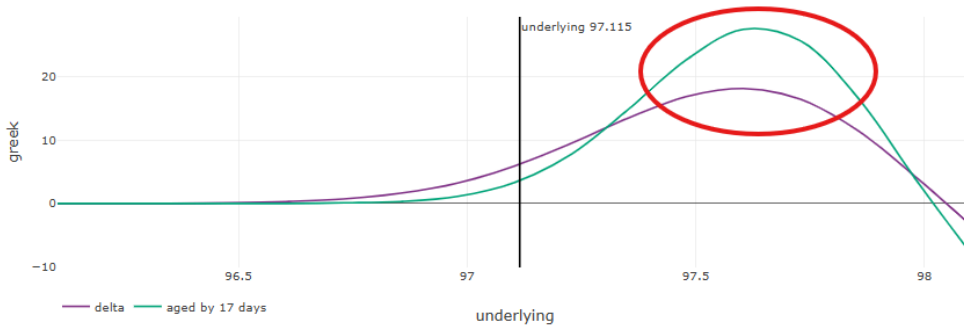
Orm6 97.56/97.81 1x1.25 cs 1.25/2, try pay 1.75, settled 1.1, runs +9d

Further BE of ~98.7725 is ~165bps from spot, effectively closing off the tail. Paper is short ~92k at 98.25, potential pin from dealer hedging if we rally up there.

Aged Stress test shows in my scenario trade is worth 4.75 - max payout of ~25x at exp.



B ORM26 97.5625/97.8125 1.0x1.25 CS delta profile



Orm6 97.56/97.81/98.06 1x1.5x0.5 c fly 1/1.75, try pay 1.5, settled 1.1, runs +9d

A way to own upside convexity in a fixed loss format without paying up for elevated call skew.

Aged Stress test shows in my scenario trade is worth 4.5 - max payout of ~25x at exp.

B ORM26 97.5625/97.8125/98.0625 1.0x1.5x0.5 Call Fly aged by 17 days (22May2026) stress test

	Price   Delta									
40 (165.8)	1.00   5.9%	1.75   8.5%	2.75   11.5%	4.00   14.2%	5.75   16.3%	7.25   17.0%	9.00   16.3%	10.50   14.0%	11.75   10.7%	
30 (155.8)	1.00   5.4%	1.50   8.3%	2.50   11.7%	4.00   15.0%	5.50   17.5%	7.25   18.5%	9.25   17.6%	10.75   14.9%	12.00   11.0%	
20 (145.8)	0.75   4.8%	1.25   7.9%	2.25   11.7%	3.75   15.7%	5.50   18.9%	7.50   20.2%	9.50   19.3%	11.25   16.0%	12.50   11.2%	
10 (135.8)	0.50   4.0%	1.00   7.3%	2.00   11.6%	3.50   16.3%	5.25   20.4%	7.50   22.3%	9.50   21.2%	11.50   17.1%	13.00   11.2%	
0 (125.8)	0.25   3.2%	0.75   6.4%	1.75   11.2%	3.00   16.9%	5.00   22.0%	7.50   24.7%	9.75   23.5%	12.00   18.4%	13.50   11.1%	
-10 (115.8)	0.25   2.3%	0.50   5.4%	1.25   10.5%	2.75   17.2%	4.75   23.9%	7.50   27.6%	10.25   26.3%	12.50   19.9%	14.00   10.6%	
-20 (105.8)	0.00   1.5%	0.50   4.1%	1.00   9.3%	2.25   17.2%	4.50   25.7%	7.25   31.1%	10.50   29.8%	13.00   21.5%	14.75   9.7%	
-30 (95.8)	0.00   0.8%	0.25   2.8%	0.75   7.7%	2.00   16.5%	4.00   27.5%	7.25   35.3%	10.75   34.2%	13.75   23.3%	15.25   8.2%	
-40 (85.8)	0.00   0.3%	0.00   1.5%	0.50   5.7%	1.50   15.1%	3.50   29.0%	7.25   40.4%	11.25   39.7%	14.50   25.2%	16.25   5.6%	
	0.0 (97.104)	10.0 (97.204)	20.0 (97.304)	30.0 (97.404)	40.0 (97.504)	50.0 (97.604)	60.0 (97.704)	70.0 (97.804)	80.0 (97.904)	

BOE June hike Option trades that beat paid MPC

PCA Options Optimisation Analysis focuses on positioning for a BOE June hike, with probability of July, targeting M6 expiry.

Scenario assumptions: +22bp in June, +15bp in July, implying M6 ~95.953, with trades aged to 1 day before expiry (11 June).

Recommended Option Trades:

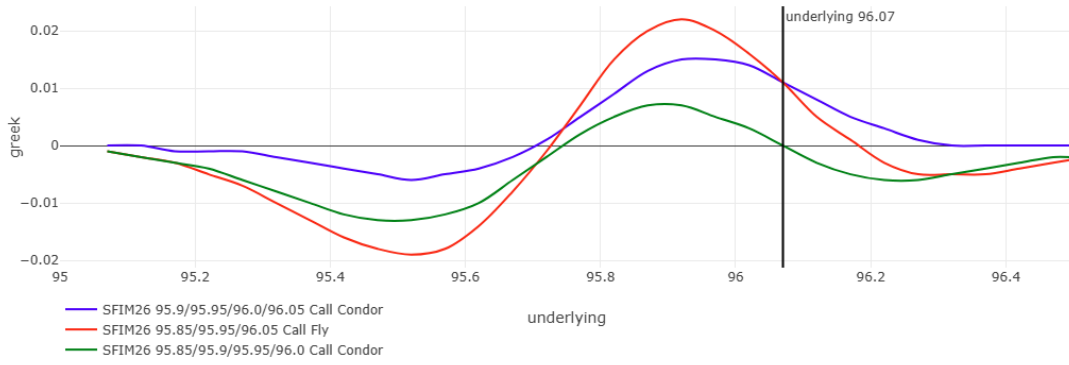
- SFIM6 95.9 / 95.95 / 96.0 / 96.05 call condor (0.5 / 1.5), try pay 1.25.
- SFIM6 95.85 / 95.95 / 96.05 call fly (1 / 2), try pay 1.75.
- SFIM6 95.85 / 95.9 / 95.95 / 96.0 call condor (0.25 / 1).

Below is the comparison in lvg between Options and Paid MPC

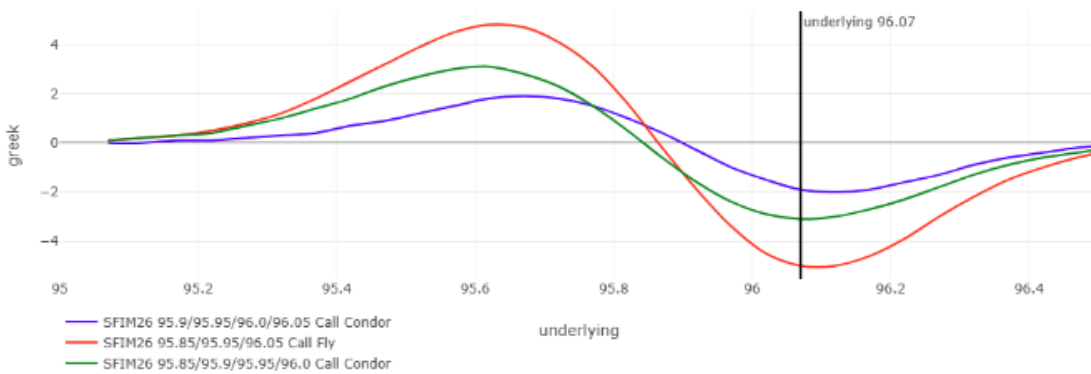
Jun BOE	July BOE	SFIM26 Comdty settle	SFIM26 95.9/95.95/96.0/96.05 Call Condor leverage, entry=0.0125, delta=-1.9	SFIM26 95.85/95.95/96.05 Call Fly leverage, entry=0.0175, delta=-5.0	SFIM26 95.85/95.9/95.95/96.0 Call Condor leverage, entry=0.01, delta=-3.1	GBP Jun26 leverage, entry=3.819
20.0	10.0	96.0	2.8	2.7	1.3	1.8
20.0	15.0	96.0	3.1	3.7	2.5	1.8
20.0	20.0	95.9	2.7	4.0	3.5	1.8
22.5	10.0	96.0	3.1	3.6	2.4	2.0
22.5	15.0	95.9	2.8	4.0	3.5	2.0
22.5	20.0	95.9	1.9	3.6	3.9	2.0
25.0	10.0	96.0	2.8	4.0	3.4	2.3
25.0	15.0	95.9	1.9	3.6	3.9	2.3
25.0	20.0	95.9	1.0	2.7	3.4	2.3

Theta and Delta comparisons

Theta vs Underlying Price - Combined



Delta vs Underlying Price - Combined



Fed on Hold with Cutting Bias

The below 2 expressions target the same outcome with a play on realised vs unrealised pricing for the Jul meeting.

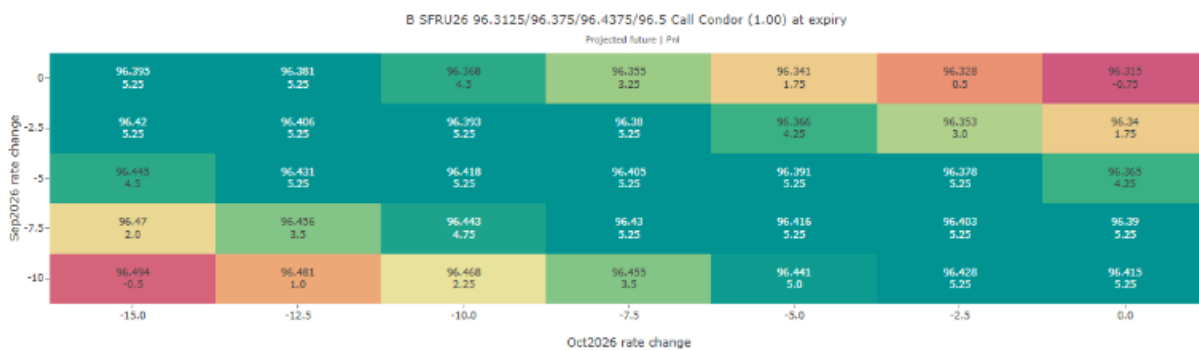
- +7k SFRN6 96.3125/37/43/50 c con at 1.75
- +5k SFRU6 96.3125/37/43/50 c con at 1

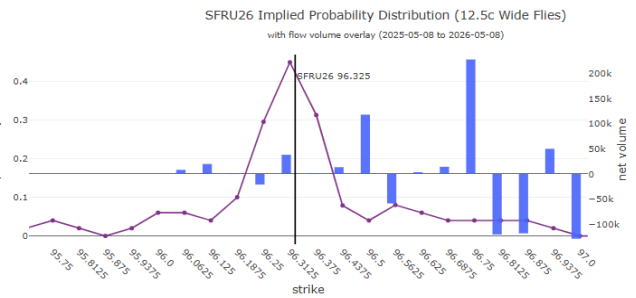
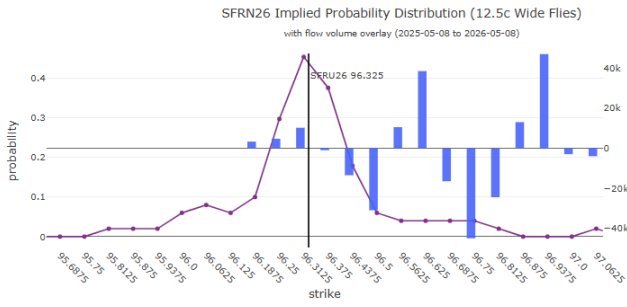
No Cuts/Hikes gives the below landing:  
 ~ 96.333 on SFRM6  
 ~ 96.315 on SFRU6

-2.5 px'ed Sep with -7.5 -> -15 Oct is max payout zone for the U6 version. I think this looks attractive from a leverage perspective.

Implied Probability distribution with volume shows modal pin of 96.3125 is relatively under positioned vs rest of distribution.

Landing Grid below:





**USD SOFR RV Fly**

Pay USD SOFR 1y2y-4y2y-5y2y fly

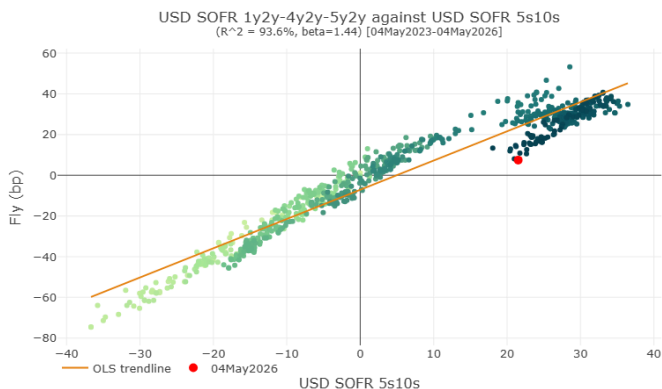
Positioning for further front-end steepening driven by a potentially more hawkish Fed and sticky inflation.

- FOMC: Three hawkish dissents increase the probability of a shift towards a neutral bias at the June meeting.
- RV: While the 2s5s10s fly has been stable since 28th Feb (-27 to -22bp), certain points on the curve look to offer RV.
- Optimised fly move: The 1y2y-4y2y-5y2y fly has moved from +28bp to +10.5bp, creating an entry opportunity.
- Macro: Expectation of sharp front-end SOFR steepening, supported by structurally firm oil prices and less need for medium-term rate cuts.

1-year z-score: **-3.31**

Residuals suggest mispricing versus individual legs: **~4bp** vs 1y2y-4y2y and **~6.5bp** vs 1y2y-5y2y.

USD SOFR 1y2y-4y2y-5y2y



**ERM7M8 Bull Steepeners**

M7M8 has steepened ~9bps from 3m lows this week but is still ~31bps away from pre Iran. I think the relationship of bull steepening in a rally should hold (as we saw on wed) yet the 0rm6/2rm6 vol ratio remains ~1.25 level, 0rm6 vols over.

ORM6 97.50 call vs 2RM6 97.625 call -> is 2/3.25, would try enter at 2.5

Conditional curve entry -12.5 vs -10 M7M8

Historical scatter of the M7M8 spread vs M7 underlying and your curve entry shown below. On a 6m lookback, when ERM7 was 97.5 the curve was closer to +7.5

At inception, the trade will run 15d curve M7M8 and +9d long in M7.

As an alternative, if you didn't want to spend premium the 97.5 vs 97.5 for conditional flat entry is closer to zero premium/small credit

