

Options traders brace for big swings as U.S. CPI data, Fed meeting loom

Options traders are bracing for a week of swings in U.S. stocks ahead of key inflation data, the Federal Reserve's last policy meeting of 2022 and the final monthly options expiration of the year.

Inflation data and the Fed's outlook on monetary policy could give traders more clarity on how much further the central bank may need to raise rates in its battle to cool consumer prices, potentially determining the trajectory of a late-year rally in stocks that has seen the S&P 500 bounce 14% off its October lows. The index remains down 17% for the year.

Pricing in the U.S. options market on Monday implied investors were positioned for the S&P 500 to move 2.5% in either direction in the wake of Tuesday's consumer price report, which covers November, data from options market-making firm Optiver showed.

A big move would be par for the course in a year during which CPI data has sparked explosive market gyrations, as surging inflation forced the Fed to embark on its most aggressive monetary policy tightening since the 1980s.

The S&P 500 has moved an average of around 3% in either direction over the past six CPI releases, including a 5.5% jump on Nov. 10, when inflation data came in weaker than expected. That compares with an average daily move of about 1.2% over the same period.

A second dose of softer-than-expected inflation data could bolster the case for those arguing that inflation may have peaked.

While investors broadly expect the Fed to raise rates by 50 basis points, Wall St will be focused on the central bank's projections for how high rates will ultimately rise and to what degree the U.S. economy can withstand monetary tightening.

Friday also marks the last monthly options expiration for the year, an event where traders looking to replace a large number of expiring contracts can cause a surge in trading volumes.

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