

# TRADING IN BANK NIFTY



**Bank Nifty**

# EVOLUTION OF FUTURES AND OPTIONS IN INDIA

## Evolution Post-Independence:

- After India gained independence in 1947, the government took steps to regulate and modernize the financial markets.
- The Forward Contracts (Regulation) Act of 1952 was enacted to regulate and control futures trading in India. It provided a legal framework for organized futures trading.



# EVOLUTION OF FUTURES AND OPTIONS

- **Futures:** The concept of futures contracts can be traced back to ancient Mesopotamia, where farmers and traders entered into agreements to buy and sell goods at a predetermined price in the future. These agreements helped manage the risks associated with crop production and trade.
- **Options:** Early forms of options-like arrangements can be found in ancient Greece. Thales of Miletus, a philosopher and mathematician, is often cited as one of the first recorded users of options. He used options to secure the right to buy olive presses in advance of the olive harvest, benefiting from a price increase.



The background of the slide is a blue-tinted image. It shows a close-up of a pen writing on a document. In the foreground, there is a line graph with several peaks and troughs, representing market data. The overall aesthetic is professional and financial.

## **Evolution of Options:**

The introduction of options trading in India was a major development. In 2001, SEBI (Securities and Exchange Board of India) allowed options trading on NSE. This expanded the range of derivative products available to investors and traders.

## **Regulatory Changes:**

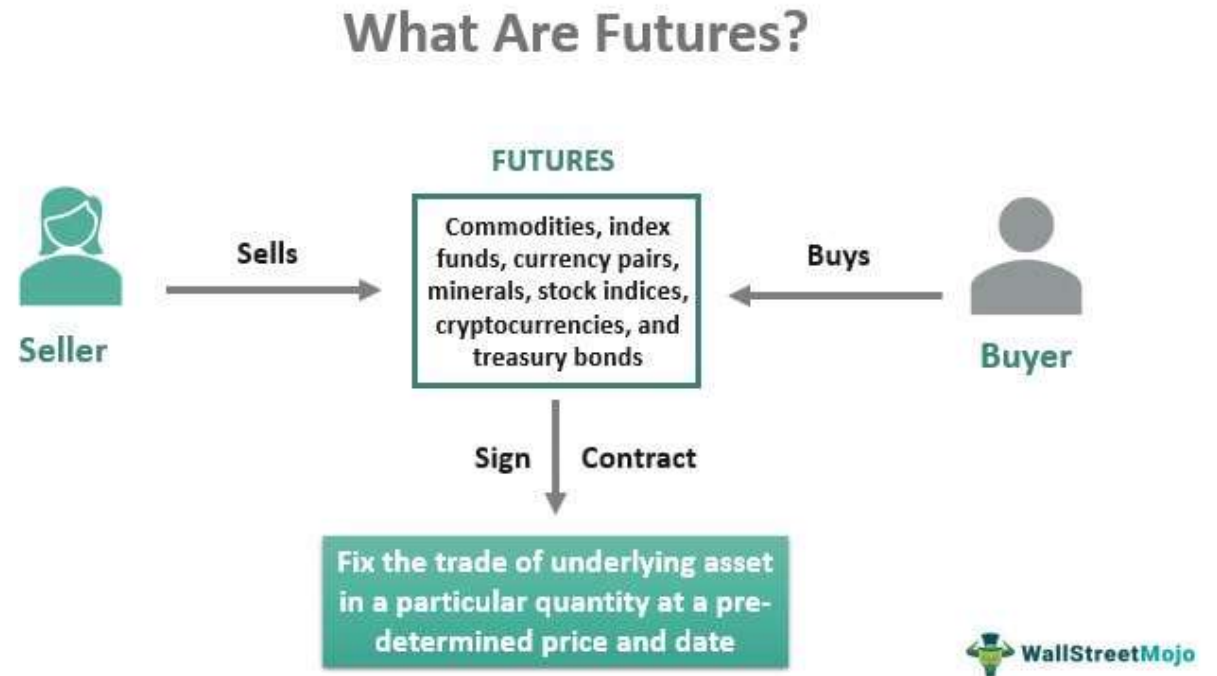
Over the years, SEBI has played a crucial role in regulating and promoting the development of futures and options markets in India. The regulatory framework has evolved to enhance transparency, investor protection, and market integrity.

# FUTURE CONTRACTS



# FUTURE CONTRACTS

A futures contract is a standardized financial agreement between two parties to buy or sell an asset at a specified future date for a price agreed upon today. These contracts are traded on organized exchanges, and they can involve a wide range of underlying assets, including commodities, financial instruments, and more.



# Key features of futures contracts

- **Standardization:** Futures contracts are standardized in terms of contract size, expiration date, and other terms. This standardization helps ensure liquidity and facilitates trading on organized exchanges.
- **Expiration Date:** Each futures contract has a predetermined expiration date, after which it cannot be traded. The expiration date is when the parties involved must fulfill their obligations by either buying or selling the underlying asset.
- **Clearinghouse:** Exchanges act as intermediaries and use clearinghouses to guarantee the fulfillment of the futures contract. The clearinghouse helps manage the risk of default by either party.
- **Leverage:** Futures contracts typically require a relatively small upfront payment known as the margin. This allows investors to control a larger position in the underlying asset, amplifying both potential gains and losses.
- **Price Fluctuations:** The value of a futures contract is influenced by the price movements of the underlying asset. Traders can profit from both rising (going long) and falling (going short) markets.
- **Hedging and Speculation:** Market participants use futures contracts for various purposes. Some use them to hedge against price fluctuations in the underlying asset, while others use them for speculative purposes, seeking to profit from price movements.
- **Marking to Market:** Each day, the contract's value is adjusted based on the current market price of the underlying asset. This process is known as marking to market and helps ensure that both parties meet their financial obligations.

## Top 4 facts about futures contracts <sup>TU</sup>

- 1** A futures contract is needed to buy or sell future deliveries of an asset at a fixed price.
- 2** Futures have an expiration date, which is the execution of the contract.
- 3** Futures can be available for any asset such as indices, commodities, currencies, etc.
- 4** Futures are important to the markets as they provide liquidity and stability.

The pricing of a futures contract is influenced by several factors, and the process involves considerations such as the current spot price of the underlying asset, interest rates, dividends, time to expiration, and market expectations.

# PRICING OF FUTURES CONTRACT

## Convergence of Futures and Spot Prices



- 1. Spot Price of the Underlying Asset (S):** The current market price of the underlying asset is a fundamental factor. This is the price at which the asset can be bought or sold in the spot market.
- 2. Risk-Free Interest Rate (r):** The cost-of-carry model assumes that investors can borrow or lend money at a risk-free interest rate. The interest rate is a crucial component of the pricing formula.
- 3. Dividends (D):** If the underlying asset pays dividends, this can affect the futures price. For assets that provide income, like stocks, the dividends received during the life of the futures contract reduce the cost of holding the asset, influencing the futures price.
- 4. Time to Expiration (T):** The time remaining until the futures contract expires is a factor. Generally, the longer the time to expiration, the higher the futures price.

# PROFIT OR LOSS IN FUTURE CONTRACT

## Long Position (Buying a Futures Contract):

•**Profit:** A trader with a long position makes a profit if the price of the underlying asset rises. The profit is calculated based on the difference between the entry price and the exit price, multiplied by the contract size.

•**Loss:** If the price of the underlying asset falls, the trader experiences a loss. The loss is calculated similarly to the profit but with the difference being a negative value.

$\text{Profit} = (\text{Exit Price} - \text{Entry Price}) \times \text{Contract Size}$

## Marking to Market:

Each day, the futures contract is marked to market, adjusting the trader's account for the gain or loss based on the current market price. Profits and losses are realized daily, and the margin account is adjusted accordingly.

## Short Position (Selling a Futures Contract):

•**Profit:** A trader with a short position profits when the price of the underlying asset falls. The profit is calculated in the same way as for a long position.

•**Loss:** If the price of the underlying asset rises, the trader incurs a loss. Again, the loss is calculated similarly to the profit but with the difference being a negative value.

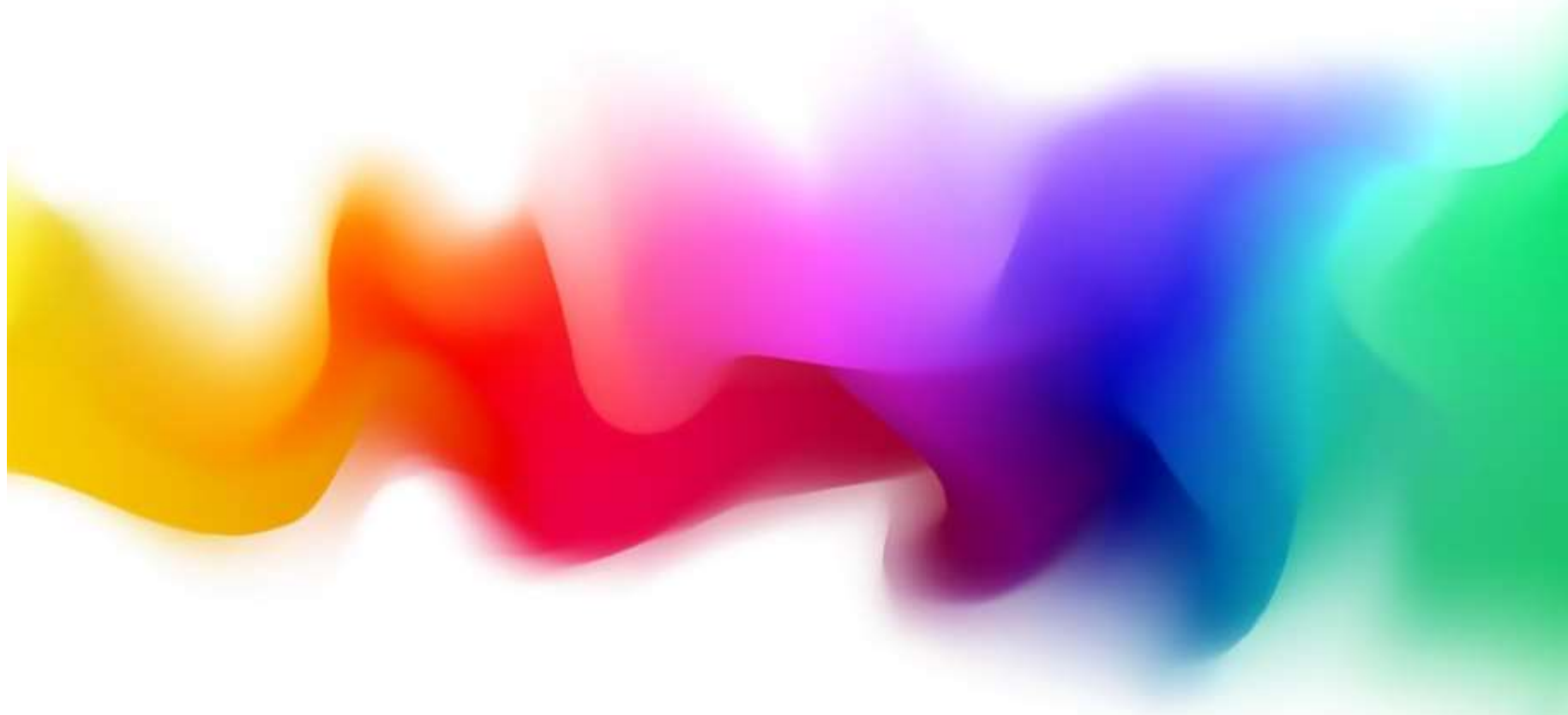
$\text{Profit} = (\text{Entry Price} - \text{Exit Price}) \times \text{Contract Size}$



# COMPARISON OF FUTURES AND FORWARDS



# OPTION CONTRACTS



An Option is a tool for protecting your position and reducing risk

A buyer of the call option has the right and the seller has an obligation to make delivery

The option is only given to one party in the transaction ( buyer of an option)

The option seller is also called the option writer

At the time of agreement the option buyer pays a certain amount to the option seller, this is called the 'Premium' amount

The agreement happens at a pre-specified price, often called the 'Strike Price'

The option buyer benefits only if the price of the asset increases higher than the strike price

If the asset price stays at or below the strike, the buyer does not benefit, for this reason it always makes sense to buy options when you expect the price to increase

Statistically the option seller has higher odds of winning in a typical option contract

The directional view is to pan out before the expiry date, else the option will expire worthless



# FUTURES

VERSUS

# OPTIONS

DIFFERENCES BETWEEN THE TRADE STYLES

## FUTURES



An "obligation" to  
Buy and Sell the  
Contract at  
the Strike Price on an  
Expiry Date

HIGH Risk

No Advance payment  
needed apart from  
the Brokerage.

No Limits on Profit or  
Loss

## OPTIONS



A "Right" to buy or  
sell the contract at  
the strike price  
on/before expiry date  
without any  
Obligation

Limited to the  
Premium Amount  
ONLY

A Small Premium  
Amount needs to be  
paid upfront before  
the contract  
activates.

High Profits but  
Limited Loss.

# CALLS VS PUTS

	CALLS	PUTS
LONG	<ul style="list-style-type: none"><li>● An option contract that gives the holder the right to purchase stock at the strike price</li><li>● <b>BULLISH</b></li></ul>	<ul style="list-style-type: none"><li>● An option contract that gives the holder the right to sell stock at the strike price</li><li>● <b>BEARISH</b></li></ul>
SHORT	<ul style="list-style-type: none"><li>● A short call obligates the call seller to sell a stock to the call buyer at the strike price if exercised</li><li>● <b>BEARISH/NEUTRAL</b></li></ul>	<ul style="list-style-type: none"><li>● A short put obligates the put seller to purchase a stock from the put buyer at the strike price if exercised</li><li>● <b>BULLISH/NEUTRAL</b></li></ul>



## Strike Price

*['stri:k 'pri:s]*

A set price at which the owner of an options contract can buy or sell the underlying security.

## For Calls

Price is the price at which the option holder has the **right** (but not the obligation) to **buy** the underlying asset. The option holder can exercise the call option and purchase the asset at the strike price, regardless of the current market price.

## For Puts

Price is the price at which the option holder has the **right** (but not the obligation) to **sell** the underlying asset. The option holder can exercise the put option and sell the asset at the strike price, regardless of the current market price.

The intrinsic value of an option is equivalent to the value of money the option buyer makes provided if he were to exercise the contract.

Intrinsic Value of an option cannot be negative; it is a non zero positive value.

The intrinsic value of call option = Spot Price – Strike Price

The intrinsic value of put option = Strike Price – Spot Price.

Any option that has an intrinsic value is classified as 'In the Money' (ITM) option.

Any option that does not have an intrinsic value is classified as 'Out of the Money' (OTM) option.

If the strike price is almost equal to spot price, then the option is considered as 'At the money' (ATM) option.

All strikes lower than ATM are ITM options (for call options)

All strikes higher than ATM are OTM options (for call options)

All strikes higher than ATM are ITM options (for Put options)

All strikes lower than ATM are OTM options (for Put options)

When the intrinsic value is very high, it is called 'Deep ITM' option.

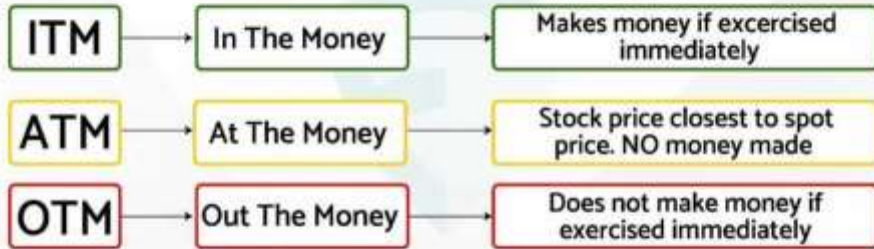
Likewise, when the intrinsic value is the least, it is called 'Deep OTM' option.

The premiums for ITM options are always higher than the premiums for OTM option.

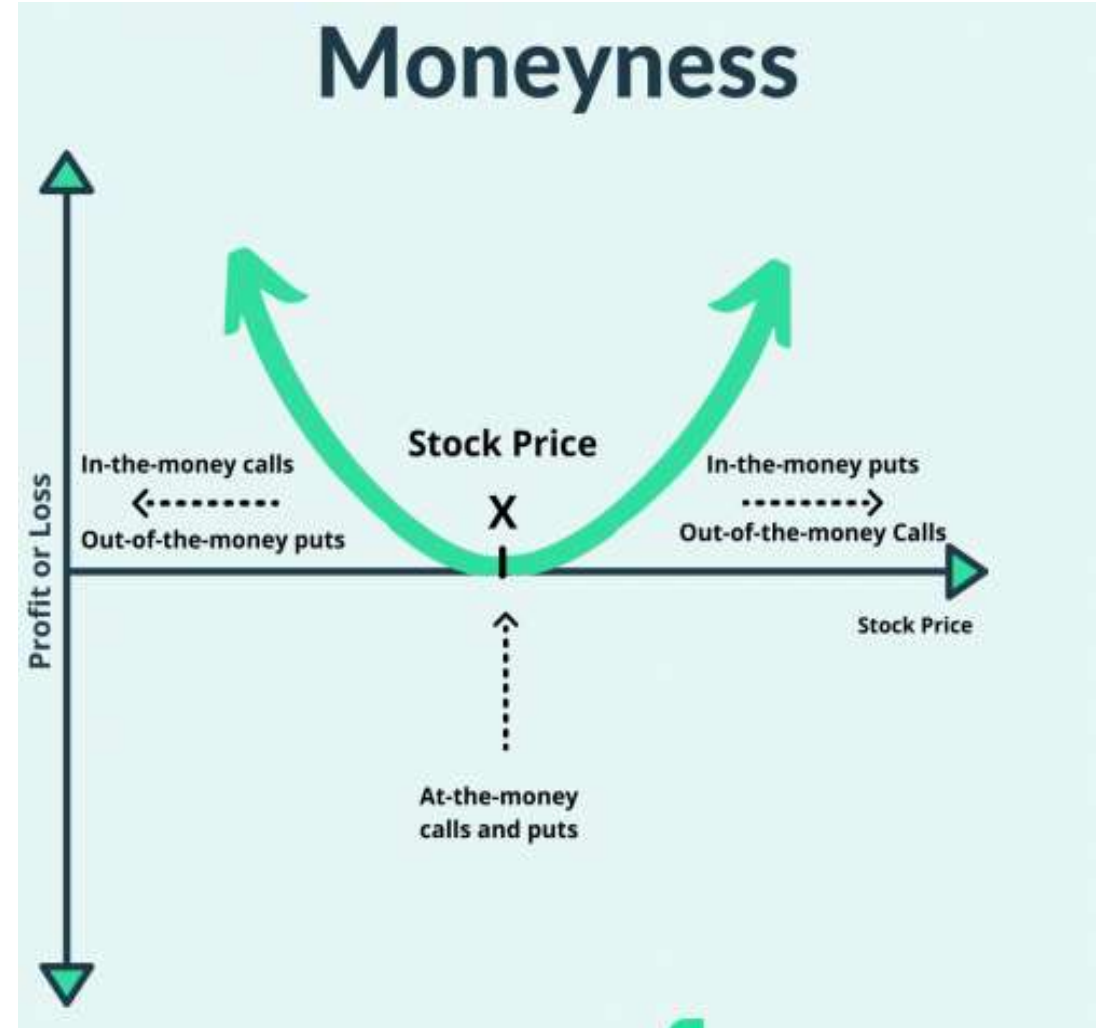
The Option chain is a quick visualization to understand which option strike is ITM, OTM, ATM (for both calls and puts) along with other information relevant to options.

# OPTION MONEYNES

“**Moneyness** explains the amount of money the option buyer will make if they exercise the option immediately.”



Moneyness	Calls	Puts
ITM	Spot price > Strike price	Spot price < Strike price
ATM	Spot price = Strike price	Spot price = Strike price
OTM	Spot price < Strike price	Spot price > Strike price





# INTRINSIC VALUE

Intrinsic value of a call option = Underlying asset price - Strike price

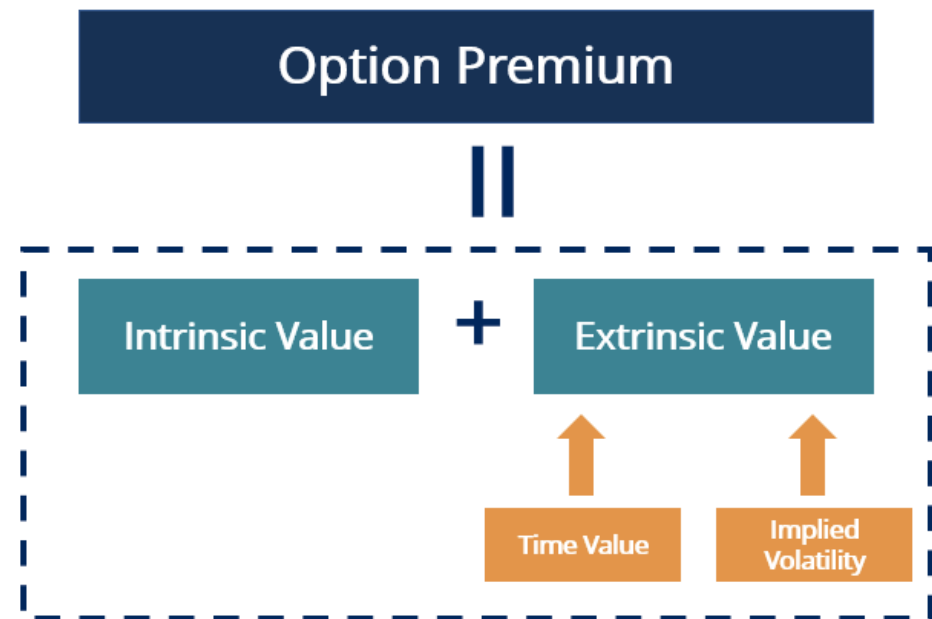
**Intrinsic Value:** This is the portion of the option premium that represents the actual value of the option based on the difference between the current market price of the underlying asset and the strike price. In other words, it's the profit that could be realized if the option were exercised immediately.

For call options, the intrinsic value is calculated as (Current Market Price - Strike Price) for in-the-money options.

For put options, it's calculated as (Strike Price - Current Market Price) for in-the-money options.

# TIME VALUE OF OPTION

- **Time Value (Extrinsic Value):** The time value represents the additional premium above the intrinsic value. It accounts for factors like the time remaining until the option's expiration, market volatility, and the potential for the option to move into or out of the money. Time value decreases as the option approaches its expiration date, all else being equal.



# Factors Affecting Option Premium:

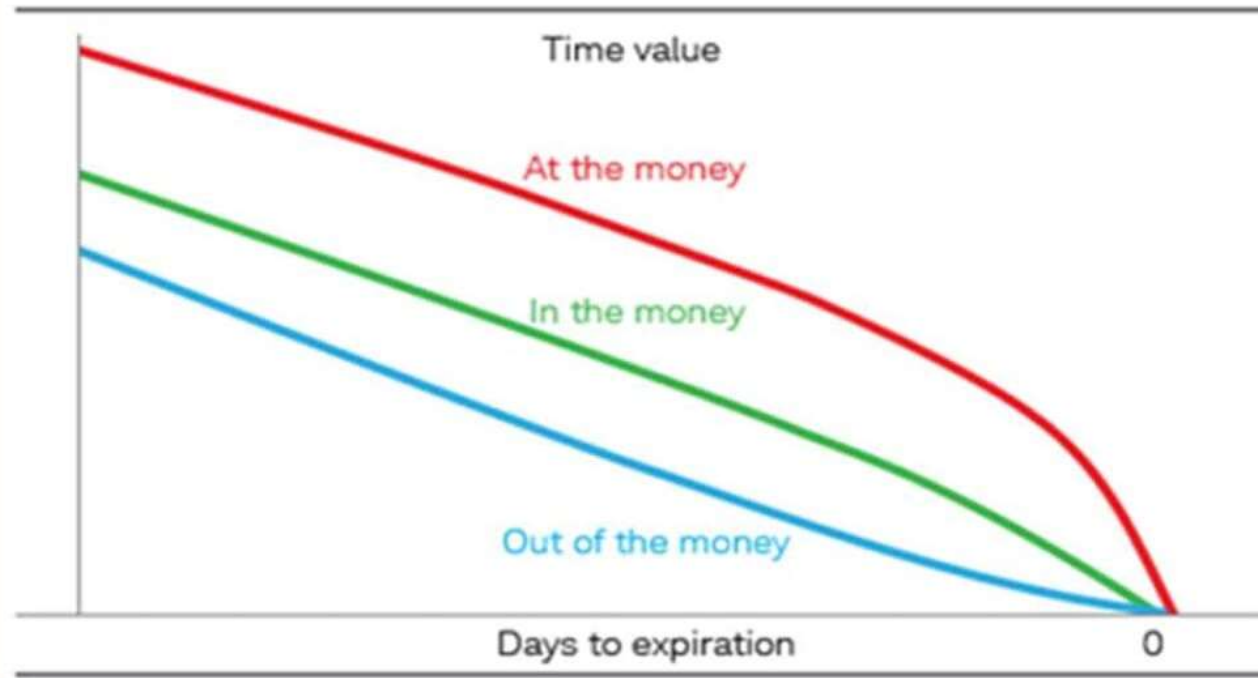
A red pawn stands on the left, and four yellow pawns stand in a row on the right, all on a wooden surface. The background is a light, neutral color.

Several factors influence the option premium, including:

- Current market price of the underlying asset.
- Strike price of the option.
- Time to expiration.
- Volatility of the underlying asset.
- Current interest rates.

# Time Decay Of Options

Time-value erosion



# OPTION EXPIRATION



**Expiry Date:** Expiry Date is the last date on or upto which the Option can be exercised.

Open interest information tells us how many contracts are open and live in the market. Volume on the other hand tells us how many trades were executed on the given day. For every 1 buy and 1 sell, volume adds up to 1. For instance, on a given day, 400 contracts were bought and 400 were sold, then the volume for the day is 400 and not 800. Clearly volumes and open interest are two different; buy seemingly similar set of information. The volume counter starts from zero at the start of the day and increments as and when new trades occur. Hence the volume data always increases on an intra-day basis. However, OI is not discrete like volumes, OI stacks up or reduces based on the entry and exit of traders. In fact for the example we have just discussed, let us summarize the OI and volume information.

### Bank Nifty OI Live Chart: Bank Nifty Option Chain



Day	Trader	Action	Qty (in lots)	Volume	OI
Monday	Ajay	Buy	6	10	10
	Varun	Buy	4		
	Neha	Sell	10		
Tuesday	Neha	Buy	8	8	10
	John	Sell	8		
Wednesday	John	Sell	7	7	15
	Neha	Buy	2		
	Arjun	Buy	3		
	Varun	Buy	2		
Thursday	Vikram	Sell	25	25	30
	John	Buy	10		
	Arjun	Buy	10		
	Varun	Buy	5		

**Today's** volume has no implication on tomorrow's volume. However, it is not true for OI. From a stand-alone perspective both OI and volume numbers are pretty useless. However traders generally associate these numbers with prices to draw an inference about the market.

The following tables summarizes the trader's perspective with respect to changes in volume and prices –

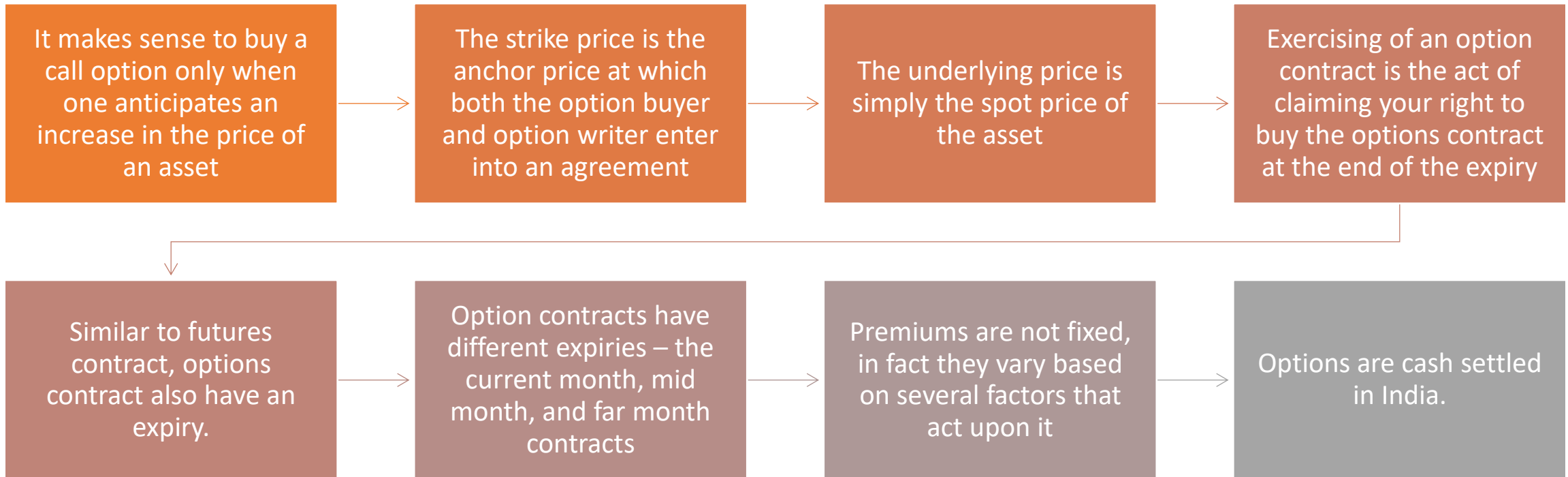
PRICE	VOLUME	TRADER'S PERCEPTION
Increase	Increase	Bullish
Decrease	Decrease	Bearish trend could probably end, expect reversal
Decrease	Increase	Bearish
Increase	Decrease	Bullish trend could probably end, expect reversal

Price	OI	Trader's Perception
Increase	Increase	More trades on the long side
Decrease	Decrease	Longs are covering their position, also called long unwinding
Decrease	Increase	More trades on the short side
Increase	Decrease	Shorts are covering their position, also called short covering

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Unlike volumes, the change in Open interest does not really convey any directional view on markets. However it does give a sense of strength between bullish and bearish positions.

Do note, if there is an abnormally high OI backed by a rapid increase or decrease in prices then be cautious. This situation simply means that there is a lot of euphoria and leverage being built up in the market. In situations like this, even a small trigger could lead to a lot of panic in the market.



SERIES TOTAL OPEN INTEREST

TODAYS VHANGE IN OI

EXPIRY

INSTRUMENT AND SPOT PRICE

# Option Chain (Equity Derivatives)

Underlying Index: **NIFTY 10574.50** As on Jul 02, 2020 13:43:57 IST

View Options Contracts for: NIFTY OR Search for an underlying stock: GO Filter by: Expiry Date 2JUL2020 Futures contracts

Chart	CALLS										PUTS											
	OI	Chng in OI	Volume	IV	LTP	Net Chng	Bid Qty	Bid Price	Ask Price	Ask Qty	Strike Price	Bid Qty	Bid Price	Ask Price	Ask Qty	Net Chng	LTP	IV	Volume	Chng in OI	OI	Cha
	87,525	-59,775	2,226	-	566.00	132.35	75	563.50	565.30	375	10000.00	114,375	0.15	0.20	394,725	-3.60	0.15	-	102,503	-269,175	3,157,650	
	10,350	600	41	-	500.00	117.70	525	513.95	516.60	150	10050.00	77,025	0.15	0.20	60,600	-4.20	0.15	-	18,440	-59,475	372,075	
	91,050	-27,525	1,822	-	467.85	131.50	75	463.00	466.65	150	10100.00	213,150	0.15	0.20	137,775	-5.05	0.15	-	73,120	-69,675	1,593,000	
	28,800	-900	237	-	416.90	130.40	75	413.45	416.65	75	10150.00	151,650	0.15	0.20	11,925	-6.55	0.15	-	50,377	39,225	849,600	
ITM	251,925	-133,800	7,912	-	365.30	123.80	150	363.95	365.55	150	10200.00	327,000	0.20	0.25	79,125	-8.90	0.20	-	211,545	1,501,425	3,902,250	
	87,225	-22,725	2,754	-	317.25	124.45	750	313.75	315.40	150	10250.00	163,500	0.30	0.35	37,275	-12.60	0.30	-	155,820	1,212,300	2,190,750	
	552,075	-426,075	39,727	-	264.65	112.15	75	264.90	265.55	75	10300.00	242,100	0.30	0.35	190,725	-19.05	0.35	-	484,604	2,402,775	5,915,850	OTM
	173,625	-103,350	15,484	-	216.00	103.75	75	214.30	215.25	150	10350.00	102,000	0.35	0.40	83,775	-29.20	0.40	-	345,757	1,635,900	2,610,825	
	683,475	-1,370,250	214,744	-	164.85	87.00	150	164.75	165.40	75	10400.00	88,050	0.55	0.60	91,575	-44.80	0.60	-	840,854	4,135,350	6,274,875	
	462,675	-443,250	198,849	-	115.00	64.35	75	115.50	115.95	75	10450.00	6,450	1.20	1.25	450	-66.15	1.25	-	687,896	3,501,750	3,829,350	
ATM	2,432,025	-792,750	1,009,627	-	69.20	39.60	225	69.20	69.50	150	10500.00	12,600	5.05	5.10	225	-91.30	5.10	-	1,162,291	6,257,175	6,748,950	
	2,978,925	1,958,100	961,208	-	32.70	17.40	150	32.65	32.85	600	10550.00	600	17.70	17.85	75	-113.55	17.75	-	425,680	2,842,950	2,864,400	
	5,880,750	3,290,850	1,326,678	-	10.40	3.35	3,675	10.40	10.50	975	10600.00	975	45.50	45.75	225	-126.35	45.60	-	213,456	734,700	847,050	ATM
	4,157,100	3,180,150	547,916	-	1.75	-1.10	7,650	1.75	1.80	10,650	10650.00	150	86.55	87.10	75	-140.45	87.05	-	13,438	92,700	99,900	
	3,872,850	1,783,650	357,561	-	0.40	-1.10	37,725	0.40	0.45	33,450	10700.00	75	135.35	135.75	75	-135.00	135.50	-	14,619	75,600	103,275	
	587,700	136,050	62,126	-	0.20	-0.80	34,425	0.15	0.20	28,575	10750.00	225	184.50	185.55	75	-140.10	184.35	-	404	1,725	6,075	
	1,459,425	57,975	75,345	-	0.05	-0.75	884,550	0.05	0.10	78,975	10800.00	75	235.05	236.10	225	-129.25	235.30	-	1,168	4,275	18,375	
OTM	113,250	-19,125	5,349	-	0.10	-0.60	147,675	0.05	0.10	18,000	10850.00	225	284.35	285.80	75	-135.30	285.95	-	15	225	3,375	
	880,575	-61,200	18,373	-	0.05	-0.55	550,875	0.05	0.10	65,175	10900.00	525	333.70	336.50	75	-130.00	334.85	-	137	675	9,000	
	81,375	25,875	1,612	-	0.10	-0.40	16,500	0.05	0.10	15,750	10950.00	375	383.00	386.35	600	-247.75	392.00	-	1	-	150	ITM
	2,650,200	183,225	41,359	-	0.05	-0.45	302,100	0.05	0.10	110,550	11000.00	225	433.35	435.85	75	-136.15	432.85	-	437	1,500	14,775	
	36,525	-1,350	581	-	0.05	-0.40	-	-	0.05	1,575	11050.00	600	482.90	486.40	600	-	-	-	-	-	75	
	270,675	-3,375	2,622	-	0.05	-0.30	-	-	0.05	18,750	11100.00	600	532.75	536.40	600	-	-	-	-	-	75	
	12,300	-300	17	-	0.05	-0.25	-	-	0.05	3,825	11150.00	7,350	547.00	697.10	7,725	-	-	-	-	-	75	
	421,200	3,225	3,576	-	0.05	-0.35	-	-	0.05	15,825	11200.00	7,350	597.10	655.45	75	-	-	-	-	-	25	
	30,225	2,925	190	-	0.05	-0.25	1,350	0.05	0.10	4,950	11250.00	75	650.05	713.60	75	-	-	-	-	-	00	
<b>Total</b>	<b>29,476,575</b>		<b>4,914,128</b>																<b>4,929,003</b>		<b>49,377,525</b>	<b>Tot</b>

TOTAL CALL OI

STRIKE PRICE

By its very nature, the index cannot be delivered on maturity of the contract. As such, the settlement of an equity index futures contract takes the form of payment of the difference between the price as agreed in the contract (contract price) and the value of the index on the maturity date (Settlement Date), in cash.

It may be noted that the **buyer/holder** of an option can make a **loss** of no more than the Option Premium paid to the seller/writer but the possible **gain is unlimited**. On the other hand, the Option Seller/Writer's maximum gain is limited to the Option Premium charged by him from the buyer/holder but can make unlimited loss.

Equity index options are of European style, i.e., buyer/holder can exercise his option only on the day on which the option expires, whereas equity stock options are of American style, i.e., the buyer/holder can exercise his option at any time before the Expiry Date or on the date of expiry itself



- **Clearing Corporation/House:**

Clearing Corporation/House means the Clearing Corporation/House approved by SEBI for clearing and settlement of trades on the Derivatives Exchange/Segment

- **Clearing Member:** Clearing Member means a member of the Clearing Corporation and includes all categories of Clearing Members as may be admitted as such by the Clearing Corporation to the Derivatives Segment.





**Contract Month:** Contract Month, in relation to a futures contract, means the month in which the exchange/Clearing Corporation rules require a contract to be finally settled, and in relation to an options contract, means the month in which the Expiry Date falls.

**Daily Settlement Price:** Daily Settlement Price is the closing price of the equity index/stock futures contract for the day or such other price as may be decided by the Clearing House from time to time

- **Expiry Date:** Expiry Date is the last date on or upto which the Option can be exercised.

- **Final Settlement Price:** Final Settlement Price is the closing price of the Equity Derivative Instruments contract on the last trading day of the contract or such other price as may be specified by the Clearing Corporation, from time to time.

**Exercise Date:** Exercise Date is the date on which the buying/selling right in the Option is actually exercised by the Option Buyer/Holder.

**Exercise of an Option:** Exercise of an Option means enforcing the right by the Option Buyer/Holder available under the option contract of buying or selling the underlying asset at the Strike Price.



# TRADING MECHANISM

- The Clearing Corporation/House of the exchange may act as legal counter-party to all deals or may provide an unconditional guarantee for all the deals in Equity Derivative Instruments on the exchange. Thus, for all practical purposes, both the parties to an Equity Derivative Instruments contract would be assured that the obligations of the other party would be met – either by the party itself or, in the event of default on the part of the party, by the Clearing Corporation.

# MARGIN

In order to minimise the risk of failure of parties to a contract in fulfilling their respective obligations under the contract, the Clearing Corporation, from time to time, prescribes margin requirements for Clearing/Trading Members. Margins are required to be paid by Clearing/Trading Members, who, in turn, collect margins from their respective Clients. Margins can be paid in cash or be provided by way of a bank guarantee or by deposit receipts or securities or such other mode and would be subject to such terms and conditions as the Clearing Corporation may specify from time to time. There is a continuing obligation, during the contract period, to maintain margins at the levels specified by the Clearing Corporation, from time to time.



### **What is SPAN and exposure margin?**

Standard Portfolio Analysis of Risk (SPAN) is used by exchanges to calculate risk and margins for F&O portfolios. SPAN uses the price and volatility of the underlying security along with several other variables to determine the maximum possible loss for a portfolio and determines an appropriate margin. SPAN margin is monitored and collected at the time of placing an order and is revised by the exchanges throughout the day. SPAN stands for Standard Portfolio Analysis of Risk. These SPAN margins are revised 6 times a day. The higher the volatility, the higher will be the SPAN margins.

Exposure margin is charged over and above SPAN margin by the exchanges to cover risks that the SPAN margin may not cover. It is an adjunct and is collected in addition to the SPAN margins. These are fixed percentages.

SPAN + Exposure margin is called initial margin, which is collected when entering a position.



# SCOPE

## Trading:

**Futures and Options (F&O) Trading:** Bank Nifty futures and options contracts are actively traded. Traders can take positions based on their expectations of the market movement.

**Intraday Trading:** Traders can take advantage of short-term price movements within a trading day to make profits.



# SCOPE

## Hedging

One of the most important and practical applications of Futures is 'Hedging'. In the event of any adverse market movements, hedging is a simple work around to protect your trading positions from making a loss



## NIFTY VS BANK NIFTY

**PREDICTION**

# **NIFTY & BANK NIFTY**

**TOMORROW**

**Bank**

**Nifty**



# FORMATION OF BANK NIFTY

The Bank Nifty was introduced by the National Stock Exchange of India (NSE) on September 15, 2003. It was created to provide investors with a benchmark to track and assess the performance of banking sector stocks listed on the NSE.

## **Calculation Methodology:**

The index is calculated using a free-float market capitalization weighted methodology. This means that the weight of each constituent stock is determined by its market capitalization and the amount of freely tradable shares in the market.

## **Regular Updates and Rebalancing:**

The index is regularly updated and rebalanced to ensure it accurately reflects the current state of the banking sector. Constituents can change based on various factors, including market capitalization and liquidity.



**Bank Nifty**: The Bank Nifty index is a set of securities from the financial sector that are mainly liquid and well-capitalized. Following that, the chosen stocks trade on the National Stock Exchange. Bank Nifty's significance is that it provides investors with a benchmark for the Indian banking sector's business results.

### What is Bank Nifty?

Bank Nifty is an index that represents the performance of the banking sector in India. It consists of the 12 most liquid and large-cap banking stocks listed on the NSE.

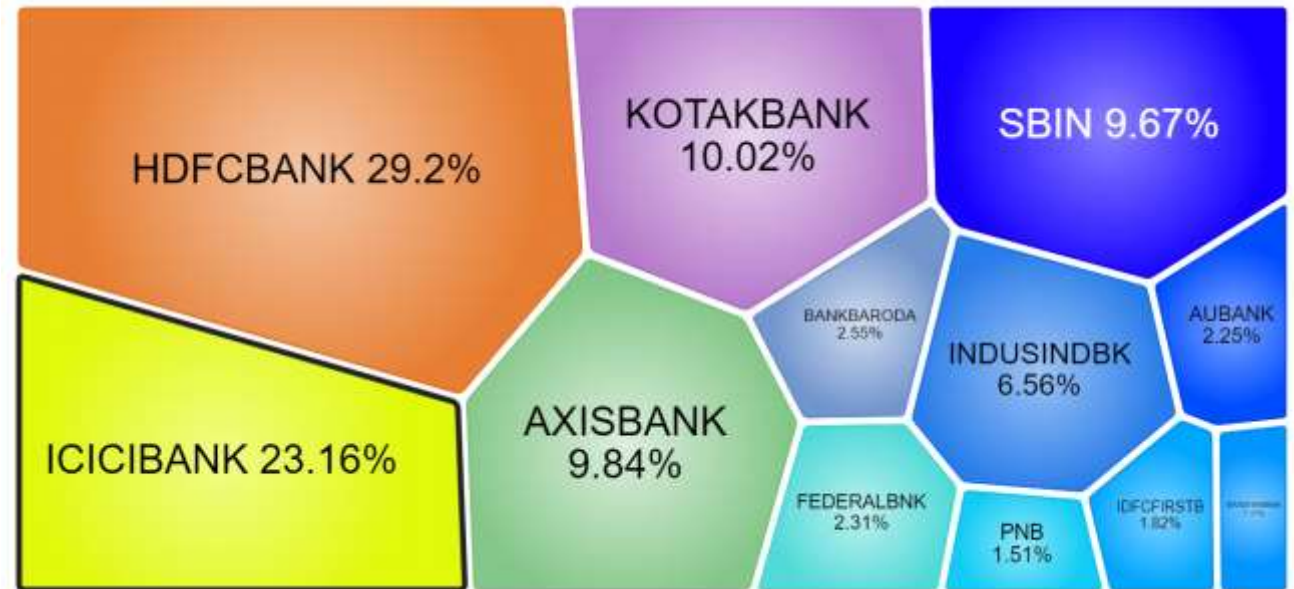
Launched in 2003, Bank Nifty is managed by India Index Services and Products (IISL).

It serves as a reliable gauge of the banking industry's overall health and provides investors with an opportunity to invest in the banking sector as a whole.

# COMPOSITION OF BANK NIFTY

The composition of Bank Nifty is periodically revised based on predefined criteria such as liquidity, free-float market capitalization, and sector representation.

The 12 stocks included in Bank Nifty are as follows:



AU Small  
Finance Bank  
Ltd.

Axis Bank Ltd.

Bandhan Bank  
Ltd.

Bank of  
Baroda

Federal Bank  
Ltd.

HDFC Bank  
Ltd.

ICICI Bank Ltd.

IDFC First Bank  
Ltd.

IndusInd Bank  
Ltd.

Kotak  
Mahindra  
Bank Ltd.

Punjab  
National Bank

State Bank of  
India

# Pros of Investing in Nifty Bank

## 1. Exposure to the banking sector

Nifty Bank focuses solely on the banking sector, providing investors with targeted exposure to this crucial industry. This can be beneficial for investors who have a positive outlook on the banking sector and believe in its long-term growth potential.

## 2. Sector-specific trends

The performance of banks is influenced by various factors such as interest rates, government policies, economic growth, and credit demand. By investing in [Nifty Bank](#), investors can actively participate in these sector-specific trends and potentially benefit from them.

## 3. Diversification within the sector

Nifty Bank includes stocks from various categories within the banking sector, such as public sector banks, private sector banks, and NBFCs. This diversification helps in spreading the risk associated with investing in a single bank stock.



# Cons of Investing in Nifty Bank



## **1. Concentration risk**

Nifty Bank is also concentrated, with a few large-cap banks having a considerable weightage in the index. Therefore, any adverse performance or negative news related to these banks can significantly impact the index's overall performance.

## **2. Vulnerability to market conditions**

Since the performance of the banking sector is closely linked to the overall economic conditions, Nifty Bank can be more vulnerable to economic downturns, regulatory changes, or a rise in non-performing assets.

## **3. Limited exposure to other sectors**

By investing solely in Nifty Bank, investors miss the opportunity to diversify into other promising sectors that might be performing well and potentially generating higher returns.

### **Diversity of Components:**

As mentioned earlier Bank Nifty is a specialized index that measures the performance of only the banking sector of India. On the other hand, the Nifty50 represents 13 sectors including IT, banking, pharma, telecom, energy, etc.

### **Market capitalization :**

In terms of market capitalization, the Nifty 50 is much larger than the Bank Nifty, since it is a broad market index comprising of 50 stocks as compared to 12 stocks in the Bank Nifty.

### **Volatility:**

Being a broad market, Nifty is less susceptible to ups and downs of a single index. Hence it is less volatile than Bank Nifty which is a sector specific index.

So, if you are wanting stable returns without taking a lot of risk then Nifty 50 is going to be perfect for you. However, if you are looking for higher returns and are willing to take higher risks than the Bank Nifty will be the index you must choose.

### **Returns:**

Since these are two completely different indices it is difficult to compare the returns of the two. Over the long term the Nifty 50 has generated more returns compared to Bank Nifty. However, the Bank Nifty is known to have provided the trader with good short term returns since its volatility is higher.



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**NSE changes  
Bank Nifty weekly  
expiry to  
Wednesday, Nifty  
Midcap expiry to  
Monday**

*Starting from  
September 4,  
2023, Bank Nifty's  
weekly index  
options will now  
expire on  
Wednesdays  
instead of  
Thursdays.*

The National Stock Exchange (NSE) on July 12 announced a revision in the expiry days for futures and options contracts of Bank Nifty and Nifty Midcap Select. Starting from September 4, 2023, Bank Nifty's weekly F&O contracts will expire on Wednesdays instead of Thursdays.

The first Wednesday weekly expiry is scheduled for September 6, 2023.

"All weekly contracts shall expire on Wednesday of every week excluding the expiry week of the monthly contract. If Wednesday is a trading holiday, then the expiry day is the previous trading day," NSE said in a circular.

## Forecasted benefits of the change

1) **Enabling better risk management for traders:** Having enough margin money to trade is the biggest issue. A losing trade requires additional funds in order to adjust or hedge positions in order to generate a profit because every trader has a finite amount of capital. Trading in lesser quantities can lower the trader's risk and give them a cash reserve to use as a safety net in case they need to change their trades.

2) **Portfolio hedging with lesser margin allowed:** Reduced contract value will result in lower margin requirements, which will benefit small retail traders with portfolios of 6 lakhs or less by enabling them to protect against market volatility and uncertainty with less margin.



**Starting 4th September, 2023**  
**BANKNIFTY weekly expiry day**  
**will be moved to**



## Impact of Bank Nifty Lot Size Changes in 2023: An In-depth Analysis

The National Stock Exchange (NSE) has decreased the market lot size for Nifty Bank futures and Options to 15 from 25 in an effort to increase customer participation in the derivatives market.

## What are Lot sizes? How are they determined in Futures and Options?

Lot size is the number of contracts or shares that can be traded at once. In the context of index futures, lot size determines the quantity of index contracts that can be bought or sold. It is a critical parameter that affects position sizing, risk management, and capital requirements for traders and investors. A smaller lot size provides more flexibility for retail participants with limited capital and allows for finer adjustments to trading strategies.





# Mark to Market

A very important margin that is collected from the second day of the trade is the mark to market or MTM margin. That is applicable when price movement is unfavorable to the trader. MTM losses are calculated by marking each transaction in security to the closing price and are mandatorily collected before the start of trading the next day.

In addition, option buyers also pay Premium Margin, which is the maximum loss on the buy options position, so there is no further margin on that position.

In addition, extreme loss margins or ELM for options and futures contracts are calculated at 2% of notional value for index derivatives



**PENALTIES**

**INTEREST**

## Interest and penalty on margins

Investors not able to provide the securities at the time of settlement are obligated to pay the penalty charges to the clearing member. The penal charge is levied on the amount in default as per the bye-laws relating to failure to meet obligations by any clearing member. Currently, clearing member charges 0.07 percent of the default amount per day for overnight settlement shortage of value more than Rs.5 lakhs, security deposit shortage, and shortage of capital cushion.

A penalty of 0.5% of the order value is levied in case of short reporting by trading/clearing members for a short collection of less than Rs.1 lakh and less than 10% of the applicable margin. However, a higher penalty of 1% of the order value is applicable on short reporting equal to Rs.1 lakh or equal to 10% of the applicable margin and above.



STRATEGY







## Key Characteristics:

### 1. Limited Risk:

The risk is limited to the net premium paid for the spread.

Max Loss=Net Premium Paid || Net Premium Paid=  
[(Premium Paid for Bought Call)- (Premium Received for Sold Call)] \*  
Lot size

$$=[246.15 - 197] * 15 = 49.15 * 15 = 737.25$$

### 2. Breakeven Point:

The strategy breaks even when the price of the underlying asset equals the higher strike price plus the net premium paid.

#### Lower Breakeven Point:

$$\text{Lower Breakeven} = \text{Lower Strike Price} + \text{Net Premium Paid} \\ = 43800 + 49.15 = 43849.15$$

#### Upper Breakeven Point:

$$\text{Upper Breakeven} = \text{Higher Strike Price} - \text{Net Premium Paid} \\ = 43900 - 49.15 = 43850$$



## Key Characteristics:

### 3. Limited Profit Potential:

Profit potential is also limited and is capped at the difference between the strike prices minus the net premium paid.

Max Profit = [Difference in Strike Prices – Net Premium Paid] \* Lot Size

$$= [(43900 - 43800) - 49.15] = 50.85 * 15 = 762.75$$

### 4. Profitable Scenario:

The strategy is profitable if the price of the underlying asset rises, but not beyond the higher strike price.

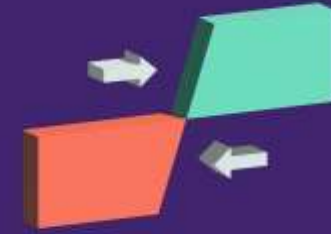
### 5. Time Decay Impact:

Time decay (theta) has a mixed impact. The goal is for the underlying asset to make a significant move before the short call option expires.

### 6. Volatility Impact:

Generally, a rise in volatility benefits the strategy.

# Bull Call Spread strategy in options trading



Build Strategy For:

NIFTY 50 NIFTY BANK FIN NIFTY

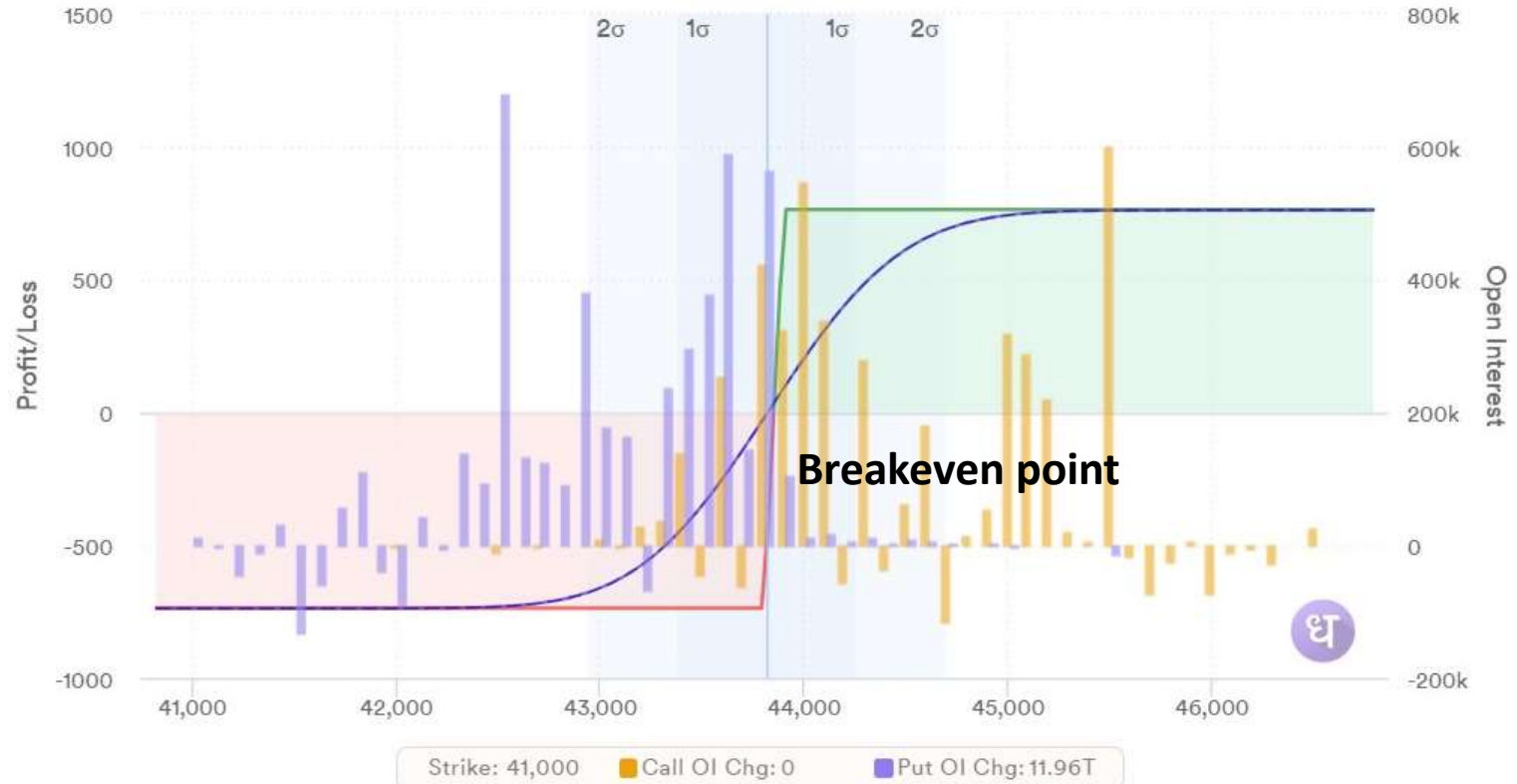
NIFTY BANK  
43,820.10 +136.50 (0.31%) Closed

2 Trades in your Strategy

+ Add New

Fast Create

<input checked="" type="checkbox"/>	B/S	Expiry	Strike Price	Type	Lot	Price	
<input checked="" type="checkbox"/>	B	15 Nov 23	- 43800 +	CE	- 1 +	246.15	⋮
<input checked="" type="checkbox"/>	S	15 Nov 23	- 43900 +	CE	- 1 +	197	⋮



# PROFIT/LOSS

Sl.No	Contract	Buy Value	Sell value	Profit/(loss)
1.	Nifty Bank 15 Nov 2023 43800 CE (Buy)	246.15	<b>266.15</b>	+20
2.	Nifty Bank 15 Nov 2023 43900 CE (Sell)	<b>207</b>	197	-10
	<b>Net Profit/(Loss)</b>			<b><u>10</u></b>

# BEAR PUT SPREAD

A Bear Put Spread, also known as a put debit spread or a long put spread, is an options trading strategy used by investors who anticipate a moderate decrease or at least a stable trend in the price of the underlying asset. This strategy involves buying a put option with a higher strike price and simultaneously selling a put option with a lower strike price.

## Components of a Bear Put Spread:

### Put Option Purchase (Long Put):

**Objective:** Profit from a decline in the price of the underlying asset.

**Execution:** Buy a put option with a higher strike price (in-the-money or at-the-money).

### Put Option Sale (Short Put):

**Objective:** Generate income to offset the cost of the long put option.

**Execution:** Simultaneously sell a put option with a lower strike price (out-of-the-money).



## Key Characteristics:

**1. Limited Risk :** The risk is limited to the net premium paid for the spread.

Max Loss=Net Premium Paid || Net Premium Paid=

[Net Premium Paid=(Premium Paid for Bought Put)–(Premium Received for Sold Put)] \* Lot size

=**[157.05 - 121.1] \* 15 = 35.95 \* 15 = 539.25**

## 2. Breakeven Point:

The strategy breaks even when the price of the underlying asset equals the higher strike price minus the net premium paid.

### Lower Breakeven Point:

Lower Breakeven = Lower Strike Price - Net Premium Paid

= **43700 - 35.95 = 43664.05**

### Upper Breakeven Point:

Upper Breakeven = Higher Strike Price – Net Premium Paid

=**43800 - 35.95 = 43764.05**



## Key Characteristics:

### 3. Limited Profit Potential:

Profit potential is limited to the difference in strike prices minus the net premium paid.

$$\begin{aligned} \text{Max Profit} &= [\text{Difference in Strike Prices} - \text{Net Premium Paid}] * \\ &\text{Lot Size} \\ &= [(43800 - 43700) - 35.95] = 64.05 * 15 = 960.75 \end{aligned}$$

### 4. Profitable Scenario:

The strategy is profitable if the price of the underlying asset decreases, but not below the Lower strike price.

### 5. Time Decay Impact:

Time decay (theta) works against the strategy. The goal is for the underlying asset to make a significant move before the options expire.

### 6. Volatility Impact:

Generally, an increase in volatility benefits the strategy.





Build Strategy For:

NIFTY 50 NIFTY BANK FIN NIFTY

NIFTY BANK  
43,820.10 +136.50 (0.31%) Closed

2 Trades in your Strategy + Add New Fast Create

B/S	Expiry	Strike Price	Type	Lot	Price
<input checked="" type="checkbox"/> B	15 Nov 23	- 43800 +	PE	- 1 +	157.05
<input checked="" type="checkbox"/> S	15 Nov 23	- 43700 +	PE	- 1 +	121.1



# PROFIT/LOSS

Sl.No	Contract	Buy Value	Sell value	Profit/(loss)
1.	Nifty Bank 15 Nov 2023 43800 PE (Buy)	157.05	<b>177.05</b>	+20
2.	Nifty Bank 15 Nov 2023 43700 PE (Sell)	<b>131.1</b>	121.1	-10
	<b>Net Profit/(Loss)</b>			<b><u>10</u></b>

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# SHORT IRON BUTTERFLY

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A Short Iron Butterfly is an options trading strategy that involves selling an at-the-money (ATM) call and put option while simultaneously buying a call and put option with higher and lower strike prices, respectively. The result is a net credit, and the strategy profits when the price of the underlying asset remains within a specific range.

## Components of a Short Iron Butterfly:

### Call Option Sale (Short Call):

**Objective:** Generate income by selling an ATM call option.

**Execution:** Sell a call option with a strike price at or near the current market price.

### Put Option Sale (Short Put):

**Objective:** Generate income by selling an ATM put option.

**Execution:** Sell a put option with a strike price at or near the current market price.

### Call Option Purchase (Long Call):

**Objective:** Limit risk on the upside.

**Execution:** Simultaneously buy a call option with a higher strike price.

### Put Option Purchase (Long Put):

**Objective:** Limit risk on the downside.

**Execution:** Simultaneously buy a put option with a lower strike price.



# Key Characteristics:

## Neutral Strategy:

- The Short Iron Butterfly is a neutral strategy, meaning it profits from minimal price movement in the underlying asset. It is designed for a market expectation of low volatility.

## 1. Limited Risk and Limited Reward:

- The maximum loss for this strategy is limited to the net premium paid to establish the position. This occurs if the underlying asset's price makes a significant move beyond the strike prices of the options sold.
- Max Loss = [Strike Price of Long Call – Strike Price of Short Call] - [Net Premium Paid=(Premium Received from Selling Call and Put-(Premium Paid for Buying Call and Put)] \* Lot size
- **=[[44300-43800] - [(157.05 + 246.15) - (41 + 54.2)]] \* 15 = [500 – 308] \* 15 = 2880**
- The maximum profit is limited and occurs when the underlying asset's price is at the center strike price (ATM) at expiration

# Key Characteristics:

## 2. Breakeven Points:

- There are two breakeven points. The strategy breaks even when the underlying asset's price is at the strike price of the call option sold plus the net premium paid and at the strike price of the put option sold minus the net premium paid.
- **Breakeven Point:**
- **Lower Breakeven Point:**
- Strike Price of Short Put – Net Premium Received
- = **43800 - 308 = 43492**
- **Upper Breakeven Point:**
- Strike Price of Short Call + Net Premium Received
- = **43800 + 308 = 44108**

# Key Characteristics:

## 3. Volatility Consideration:

- The Short Iron Butterfly benefits from low volatility in the underlying asset's price. An increase in volatility can impact the profitability of the strategy.

## 4. Profitable Range:

- The strategy is most profitable when the underlying asset's price remains close to the center strike price at expiration.
- Max Profit = Net Premium Paid  
= [Net Premium Paid=(Premium Received from Selling Call and Put-(Premium Paid for Buying Call and Put)] \* Lot size
- **=[(157.05 + 246.15) - (41 + 54.2)] \* 15 = 308 \* 15 = 4620**



# SHORT IRON BUTTERFLY



+300%

Max Profit: +\$407.00  
 Max Loss: -\$93.00

Build Strategy For:

NIFTY 50   NIFTY BANK   FIN NIFTY

NIFTY BANK  
43,820.10 +136.50 (0.31%) Closed

4 Trades in your Strategy + Add New   ⚡ Fast Create

<input checked="" type="checkbox"/>	B/S	Expiry	Strike Price	Type	Lot	Price	
<input checked="" type="checkbox"/>	B	15 Nov 23	- 43300 +	PE	- 1 +	41	⋮
<input checked="" type="checkbox"/>	S	15 Nov 23	- 43800 +	PE	- 1 +	157.05	⋮
<input checked="" type="checkbox"/>	S	15 Nov 23	- 43800 +	CE	- 1 +	246.15	⋮
<input checked="" type="checkbox"/>	B	15 Nov 23	- 44300 +	CE	- 1 +	54.2	⋮

# PROFIT/LOSS

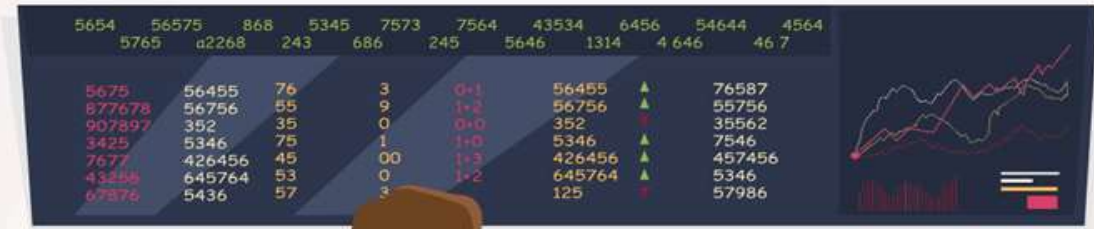
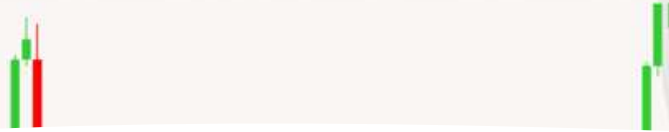
\*\*\*If Index goes upwards

Sl.No	Contract	Buy Value	Sell value	Profit/(loss)
1.	Nifty Bank 15 Nov 2023 43300 PE (Buy)	41	<b>34</b>	-7
2.	Nifty Bank 15 Nov 2023 43800 PE (Sell)	<b>152.05</b>	157.05	+5
3.	Nifty Bank 15 Nov 2023 43800 CE (Sell)	<b>249.15</b>	246.15	-3
4.	Nifty Bank 15 Nov 2023 44300 CE (Buy)	54.2	<b>64.2</b>	+10
	<b>Net Profit/(Loss)</b>			<b><u>+5</u></b>

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# LONG STRADDLE

## OPTION TRADING STRATEGY



A Long Straddle is an options trading strategy where an investor simultaneously buys a call option and a put option with the same strike price and expiration date. The primary motivation for using a long straddle is the expectation of significant price volatility in the underlying asset.

### Components of a Long Straddle:

#### Call Option Purchase (Long Call):

**Objective:** Profit from a substantial upward movement in the price of the underlying asset.

**Execution:** Buy a call option.

#### Put Option Purchase (Long Put):

**Objective:** Profit from a substantial downward movement in the price of the underlying asset.

**Execution:** Buy a put option.



## Key Characteristics:

### 1. Limited Risk:

The risk is **limited** to the total premium paid for both the call and put options.

$$\begin{aligned}\text{Max Loss} &= \text{Total Premium Paid} = \text{Premium Paid for Long Call} + \\ &\text{Premium Paid for Long Put} \\ &= (245 + 155) * 15 = 400 * 15 = 6,000\end{aligned}$$

### 2. Breakeven Points:

There are two breakeven points. On the upside, it's the strike price of the long call plus the total premium paid. On the downside, it's the strike price of the long put minus the total premium paid.

#### Breakeven Point:

##### **Lower Breakeven Point:**

$$\begin{aligned}\text{Lower Breakeven} &= \text{Lower Strike Price} + \text{Net Premium Paid} \\ &= 43800 - 400 = 43400\end{aligned}$$

##### **Upper Breakeven Point:**

$$\begin{aligned}\text{Upper Breakeven} &= \text{Strike Price} + \text{Total Premium Paid} \\ &= 43800 + 400 = 44200\end{aligned}$$



## **Key Characteristics:**

### **3. Unlimited Profit Potential:**

Profit potential is theoretically unlimited on the upside and significant on the downside.

### **4. Profitable Scenario:**

The strategy is profitable if the price of the underlying asset makes a significant move in either direction, enough to cover the combined cost of both options.

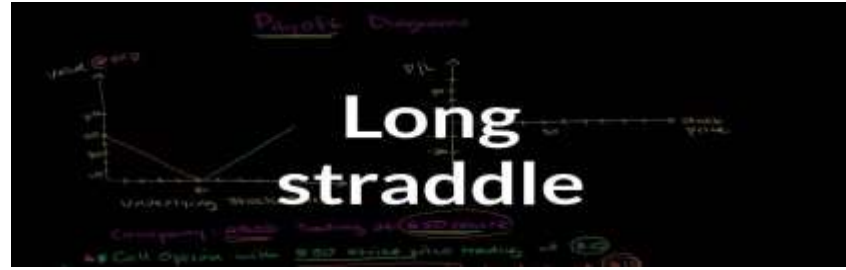
Max Profit : Theoretically unlimited, depending on how far the price of the underlying asset moves.

### **5. Time Decay Impact:**

Time decay (theta) works against the strategy. For maximum profitability, the underlying asset needs to make a substantial move before the options expire.

### **6. Volatility Impact:**

The strategy benefits from increased volatility. A more significant price movement increases the chances of the trade being profitable.



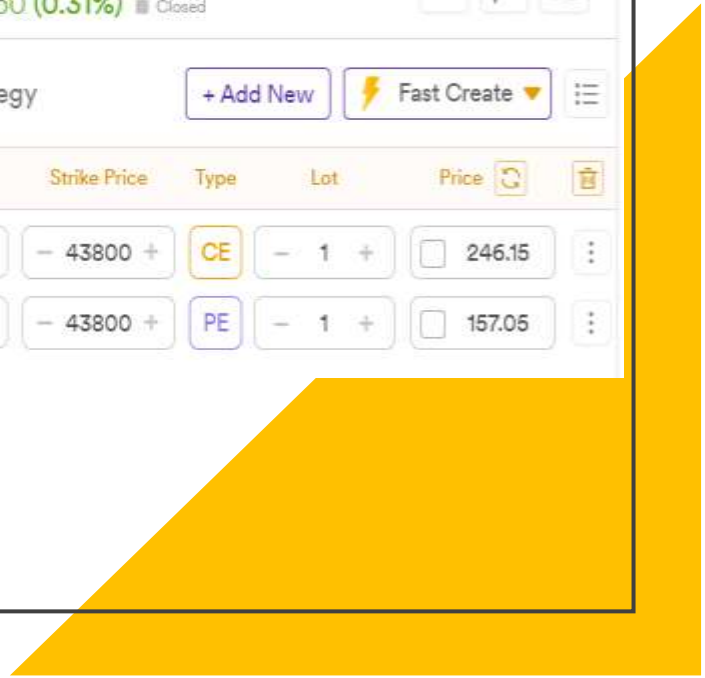
Build Strategy For:

NIFTY 50 NIFTY BANK FIN NIFTY

NIFTY BANK  
43,820.10 +136.50 (0.31%) Closed

2 Trades in your Strategy + Add New Fast Create

B/S	Expiry	Strike Price	Type	Lot	Price
✓ B	15 Nov 23	- 43800 +	CE	- 1 +	246.15
✓ B	15 Nov 23	- 43800 +	PE	- 1 +	157.05



# PROFIT/LOSS

\*\*\*If Index goes upwards

Sl.No	Contract	Buy Value	Sell value	Profit/(loss)
1.	Nifty Bank 15 Nov 2023 43800 CE (Buy)	245	<b>260</b>	+15
2.	Nifty Bank 15 Nov 2023 43800 PE (Buy)	155	<b>145</b>	-10
	<b>Net Profit/(Loss)</b>			<b><u>+5</u></b>

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THANK YOU