Weekly Options Report

July 02, 2009

Options Open Interest Activity – Overall

	As on 010709		As on 240609		% Change w-o-w	
	Open Interest (Rs. crores)	No. of shares ('000s)	Open Interest (Rs. crores)	No. of shares ('000s)	Open Interest Value	No. of shares ('000s)
Nifty Options	26,234	60,435	43,479	1,01,279	-39.66%	-40.33%
Other Index Options	166	611	297	1,087	-44.11%	-43.79%
Stock Options	2,848	1,37,113	6,598	3,37,658	-56.84%	-59.39%
Total Options	**29,248**	**1,98,159**	**50,375**	**4,40,024**	**-41.94%**	**-54.97%**

The week ended July 01, 2009 saw the markets trading in a range with a positive bias. The total open interest has seen a fall of 41.94% in terms of value and 54.97 % in terms of number of shares (when the Nifty showed a rise of 1.01 % vis-à-vis previous week). This fall was seen in both the stock as well as the Nifty options. The stock options saw a fall of 56.84% and 59.39% in terms of value and shares respectively). The Nifty options OI saw a decline of 39.66% and 40.33% in terms of value and shares respectively. The Index options other than Nifty also saw a comparable fall in the OI. This major fall in OI can be attributed mainly to the expiry of the June derivatives series expiry this week. This can also be due to the cautious approach of the traders ahead of the budget.

Options Volumes Activity

	For the week ended 010709		For the week ended 240609		% Change w-o-w	
	Number of Contracts	Turnover (Rs. Crs.)	Number of Contracts	Turnover (Rs. Crs.)	Number of Contracts	Turnover
Stock Options	2,04,309	7,766	2,15,466	12,573	-5.2%	-38.2%
Index Options	45,93,231	1,01,613	72,67,097	1,58,793	-36.8%	-36.0%
Total Options	**47,97,540**	**1,09,082**	**74,82,563**	**1,71,366**	**-35.9%**	**-36.3%**

The total volumes saw a significant decline in the number of contracts (down by 35.9%) and the turnover saw a fall of about 36.3%. The fall in volumes post expiry is higher this month as compared to last month as the traders are being cautious and are choosing to stay away from the markets due to the uncertainly in the Nifty before the budget early next week. Last month, the volumes had dipped to about 60% of the volumes seen on the expiry day in the month of May. As compared to this, post the June expiry, the volumes have gone below 50% of the expiry day volumes. Higher IVs due to the approaching Budget could also be one reason for the fall; in volumes (IV this week was 44 % vs 42 % last week.

The Stock Options have seen a smaller fall in volumes in terms of the number of contracts as compared to the turnover, which indicates that the volumes have shifted from higher value stocks (like Reliance, ONGC, SBI) to lower value stocks (GMR Infra, RPL, Tata Motors, JP Hydro and HDIL) this week. As a result of this, the volumes in terms of number of contracts have seen a moderate fall of 5.2% compared to the fall in turnover of about 38.2%.

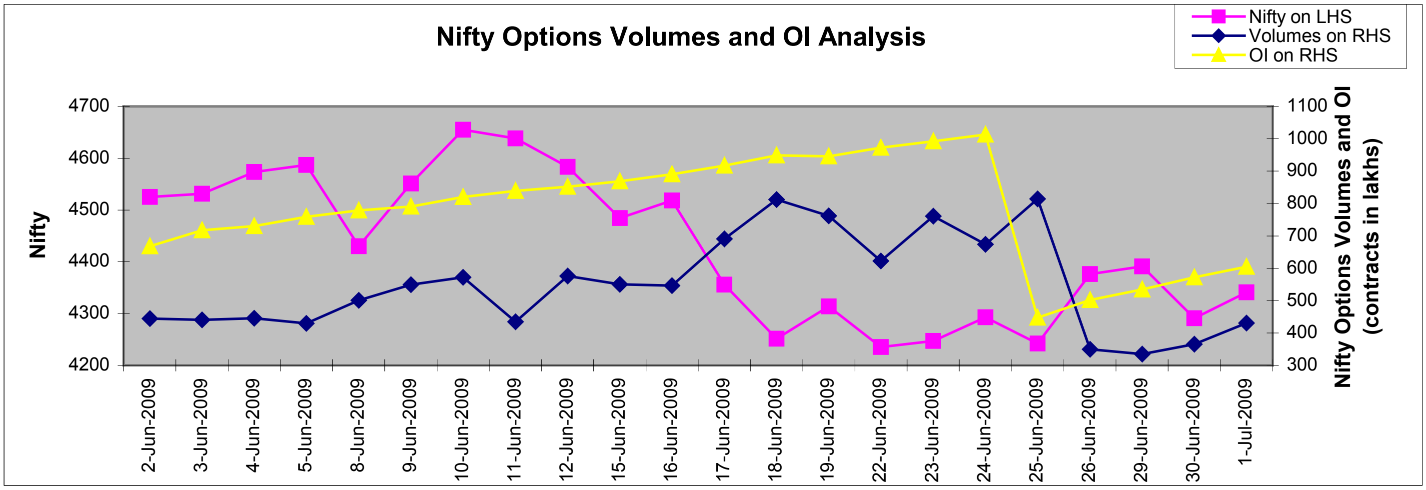
FII Activity in Options

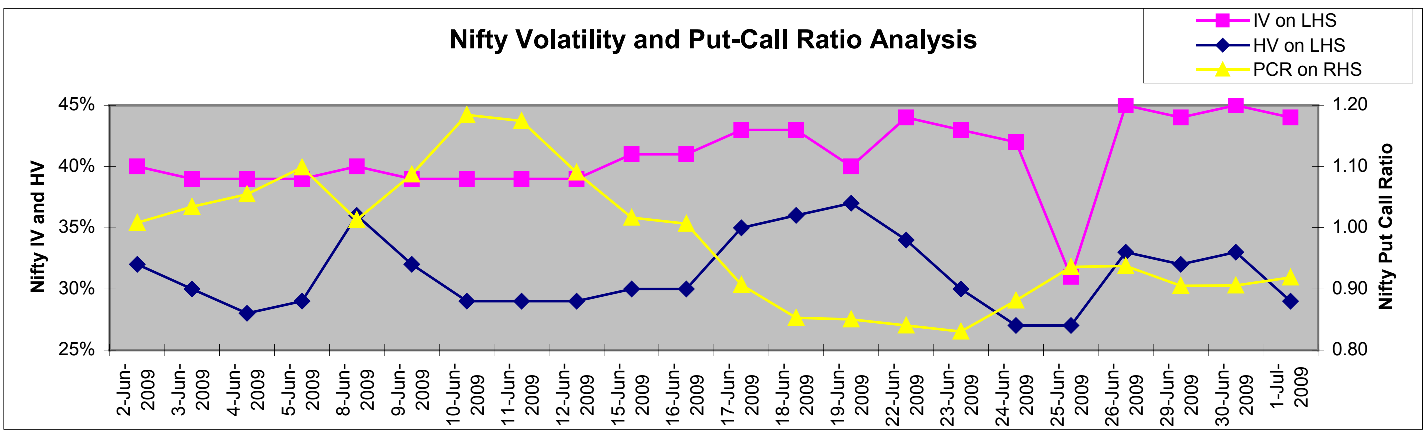
	BUY		SELL		Open Interest as on 010709		Open Interest as on 240609		Change in FIIs Open Interest (W-o-W)	
	No. of contracts	Amt in Rs.Crores	No. of contracts	Amt in Rs.Crores	No. of contracts	Amt in Rs. Crores	No. Of contracts	Amt in Rs. Crores	No. Of contracts	Amt in Rs. Crores
Index Options	6,25,526	13,584	6,28,333	13,654	7,85,941	17,108	13,89,226	29,907	-6,03,285	-12,799
Stock Options	5,055	184	2,321	65	23,617	605	20,564	959	3,053	-354

The FIIs have been net buyers in the stock options segment for the week ended July 01, 2009. The OI in terms of number of contracts have also gone up. However valuewise OI has fallen as compared to last week. This increase in value of OI in the stock options segment could be due to more than proportionate fall in stock price of certain stocks (like Realty).

The FIIs have been marginal sellers in the Nifty Options though the OI has gone down drastically by over 6 lakh contracts. This would mainly be contributed by the June derivatives series expiry. It also means that traders are choosing to stay away from the index options ahead of the uncertainty due to the Budget early next week.

Nifty Options Volumes, OI, PCR and Volatility Trend Analysis





The week ended July 01, 2009 saw the markets once again lacking a clear direction and ending marginally in the positive (1% higher vis-à-vis last week). The volumes this week were much lower (as evident from the chart above) as already mentioned above on page 1. As is typical at the expiry of the derivatives series, the OI dipped sharply post the June series expiry. The build up in the new July series has just started and we are seeing a rise in OI for the last 2-3 trading sessions.

The volatility has also gone up which could be another reason for the lower volumes in the Options contracts (as the options with a higher IV are overpriced in comparison to its theoretical value). In the case of Nifty, the IV on July 01, 2009 was 44%, which was significantly higher than the HV of 29% indicating that the volatility could remain high in the next few sessions. The PCR has continued to remain at lower levels and is currently at 0.92 (nearing the oversold zone of about 0.6).

Mid Month Options Activity

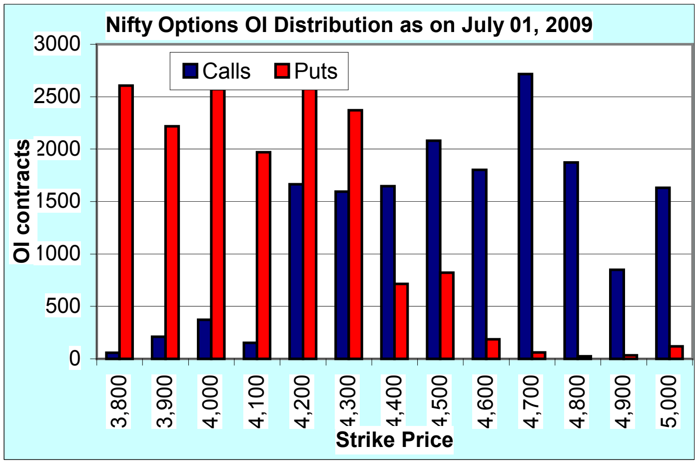
The ITC 190 August Put Options have seen a considerable build up on Wednesday indicating that the Rs.190 level is likely to act as a significantly support for the stock in the coming days. Accordingly, ITC has not been able to dip below the Rs.190 mark and finding support there for the last 3 sessions.

The Nifty 4300 Aug Put options have seen a substantial rise in OI (465% rise) on Wednesday. This reflects the increased participation interest in these series of the mid month put options. Thus it indicates that the traders are expecting the Nifty to remain above 4300 till August. The 4400 Aug Put Options have also seen an unusually high activity and could thus act crucial in the sessions to come.

The NTPC 200 Aug Call Options have seen a significant build up in OI indicating a crucial resistance level for the stock. Accordingly we have seen the stock facing resistance at Rs.200 levels on several occasions in the 7-8 sessions.

The Nifty 4400 and 4500 August Call options have seen a healthy rise in OI. This signals that in case of the Nifty moving higher, the 4500 will act as an immediate resistance. This simultaneous build up of 4400 August Calls and Puts indicates that the market participants are uncertain and are expecting the markets to breakout significantly. They are expecting the Nifty to move significantly in either direction and are thus entering into strategies like Strangle to gain out of the volatility in the markets post budget.

Nifty Options Strike - wise OI Distribution as on July 01, 2009



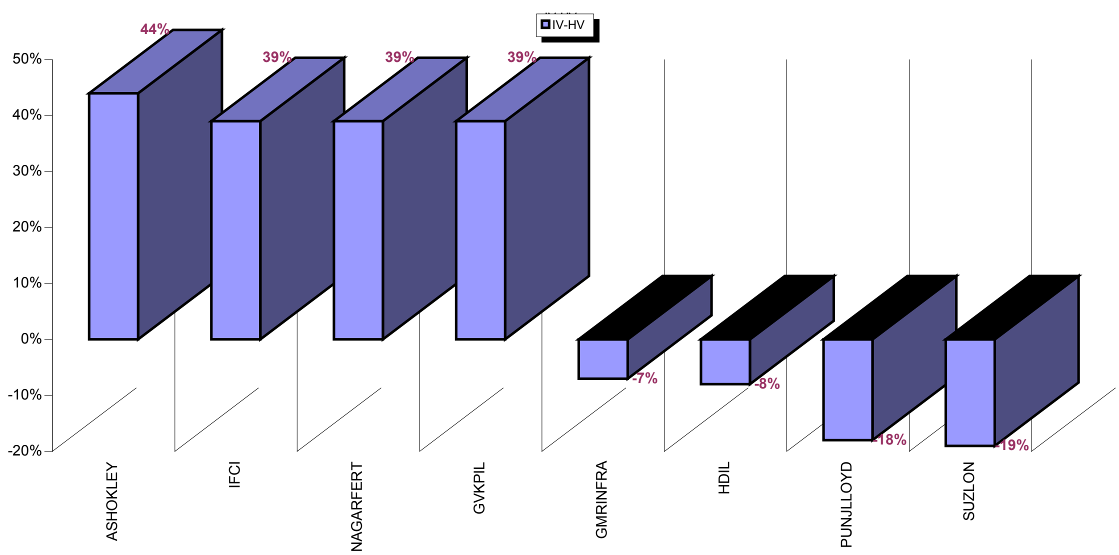
During the week ended July 01, 2009, maximum open interest was observed in Nifty July Call 4500 and 4700 series, which stood at 20.81 lacs and 27.16 lacs respectively. In Nifty July 4500, 4700 Call Options, traders have doubled their positions in anticipation that Nifty could face the resistance between 4500 – 4700 levels during this month.

During the week ended July 01, 2009, maximum open interest was observed in Nifty July Put 3800, 4000 and 4200 series, which stood at 26.05 lacs, 25.71 lacs and 26.28 lacs respectively. In Nifty July put 3800 & 4000 traders built fresh positions expecting the Nifty to remain above 4000 during this month.

Nifty Options Strike - wise Volumes Analysis as on July 01, 2009

During the week ended July 01, 2009, maximum volumes were observed in Nifty July Call 4500 to 4700 series, as traders are expecting Nifty to face resistance at 4500 – 4700 levels. In Nifty June series, maximum put volumes were observed in Nifty July 3800 to 4000 Put. From last week, traders had built up fresh positions in 3800 & 4000 Put in anticipation that Nifty could take support between 3800 - 4000 in the coming weeks which got reflected in an increase in volumes in these strike prices.

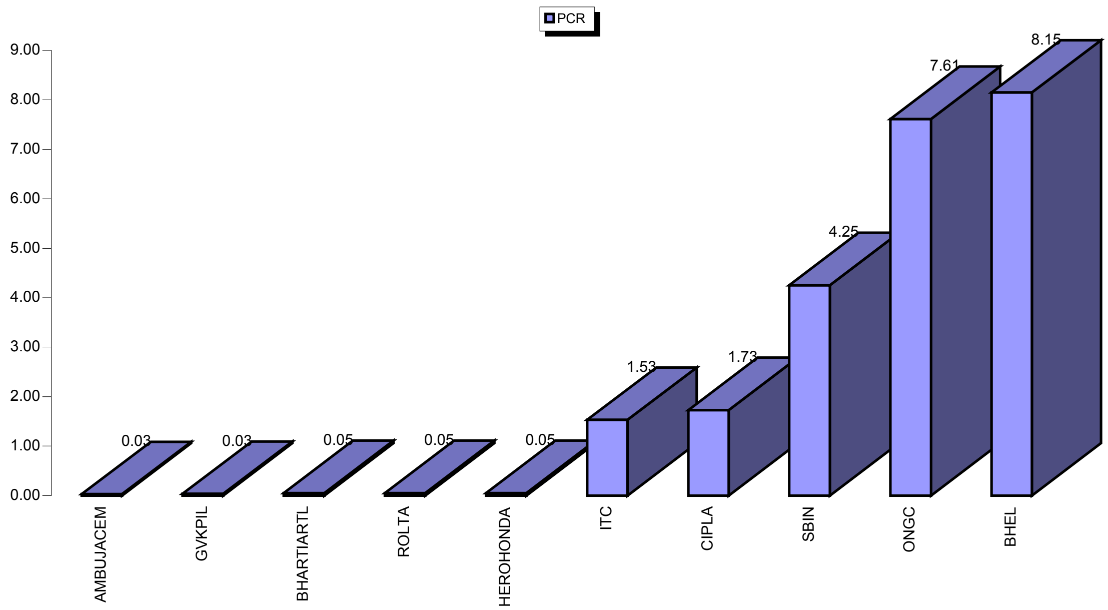
Stock Volatility Analysis (IV vis-à-vis HV) and Put Call Ratio for the week ended July 01, 2009



Historical Volatility (HV) reflects the past price movements (volatility) of the underlying asset, while implied volatility (IV) is a measure of market expectations regarding the asset's future volatility.

- Stocks like Ashok Leyland, IFCI, Nagarjuna Fertiliser & GVK Power after seeing a significant level of action in the recent past could see lower momentum or reversal as their IVs could try to fall near their HVs in the near future.

- Stocks like Suzlon, HDIL, GMR Infra & Punj Lloyd (whose IV are quoting at steep discount to HV) could try to move up as their HVs are trading significantly higher than their IVs.



Put-call ratios are useful, sentiment-based, indicators. The put-call ratio is simply the OI of all puts that are outstanding on any given day divided by the OI of calls. As this ratio increases, it can be interpreted to mean that investors are putting more money into put options rather than call options. This gives a hint of markets nearing overbought region.

Stocks like ITC, Cipla, State Bank, ONGC & BHEL have a high PCR. Hence we could see a downward movement in these stocks, as these stocks seem overbought. Stocks like Ambuja Cement, GVK Power, Bharti, Rolta & Hero Honda show a lower PCR indicating possible upward moves in these stocks.

Trading Ideas

1. Buy Suzlon 120 Call Option between Rs. 5.8 – Rs.6 for a Target of Rs. 10 in 3-4 days. Stop Loss = Rs.4.5. CMP = Rs.5.95.

The Suzlon 120 Call Option saw a significant build up in OI (up by about 6.56%) on Thursday. The Implied Volatility is about 97.65%, which is significantly lower than the HV of 130.7. Thus we feel that the value of this call option is likely to go up in the coming sessions and thus recommend a "buy" between Rs.5.8 and Rs.6 for a Target of Rs. 10 in 3-4 days. Stop Loss = Rs.4.5. CMP = Rs.5.95.

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