

UNION BUDGET 2025

PRE-BUDGET DERIVATIVE STRATEGIES - 2025



Date: 30 Jan 2025

- The Union Budget 2025-26 marks Finance Minister Nirmala Sitharaman's eighth budget presentation and her second full-fledged budget in Modi 3.0. The budget session will unfold in two phases, with the first session starting from January 31st to February 13th, 2025, followed by the second phase from March 10th to April 4th, 2025. The finance minister is expected to give her Budget speech in Parliament at 11 am on Feb 1, 2025. The BSE and NSE will remain open on February 1, 2025, despite it being a Saturday due to the Union Budget 2025-26.
- In the budget 2026, the industry is expecting significant announcements ranging from income tax breaks, GST rationalization, industry-specific policies and more, aimed at reviving the economy, the job market, and boosting consumer sentiments.
- The upcoming Budget holds high significance for the capital markets. If there is any tinkering with the tax rates with respect to STT, LTCG or STCG. However, as the government has emphasized tax rationalization, with changes to capital gains tax last year, we expect only minor adjustments this time if any, rather than any major shifts. Depending on the budgetary announcements, Nifty may swing wildly on either side.
- Though our markets have corrected more than 12% from the recent all time high of 26277, it has risen more than two hundred percent (208%) from the March 2020 lows and 50% from June 2022 lows. Risk management becomes crucial in this environment.
- **Therefore, for investors who are fully invested, it is advisable to hedge your portfolio (full or partial) ahead of such big events. This can be done by buying Nifty Put Options. However, one should understand that hedging is like an Insurance, which comes with some cost.**
- **Traders who understand derivatives (Risks and Rewards) and like to take benefit out of expected volatility on account budget announcements, can implement the trading strategy we prescribe in this report.**

For Investors who understand derivatives and want to protect their portfolio against the volatility arising on account of budget announcements.

- The current market context demands careful consideration of portfolio protection strategies ahead of the Union Budget 2025-26. Despite a 12% correction from peak levels, the market remains significantly elevated, having gained more than 200% from March 2020 lows and 50% from June 2022 levels.
- If there are any major budgetary announcements related to capital markets, there could be lot of volatility in the Markets depending on the announcements from the budget. However, with notable changes to capital gains tax last year, we expect only minor adjustments this time if at all, rather than any major shifts in the rates.
- For large portfolio investors, implementing a hedging strategy through Nifty Put Options presents a prudent risk management approach.
- **STRATEGY : BUY NIFTY 23000 PUT AT Rs 240 (06 FEB EXPIRY). LOT SIZE 75. CONTRACT VALUE Rs. 17,25,000**
- The quantity of Put options that need to be bought will vary depending on the size and composition of the portfolio.
- **Large cap Portfolio** : A portfolio with predominantly large cap stocks are likely to move in sync with Index. (Beta around 1). Assuming the size of the portfolio is Rs 1 Cr, one need to buy 6 lots (100 lakh/17.25 lakh) of Nifty 23000 Put options.
- The cost of hedging Rs. 1 Cr portfolio will be approximately Rs. 1.08 lakhs (1.08% of portfolio value at Nifty 23000 levels).

For Traders who understand derivatives (Risks and Rewards) and like to take benefit out of volatility on account budget announcement

LONG BUTTERFLY WITH CALLS :

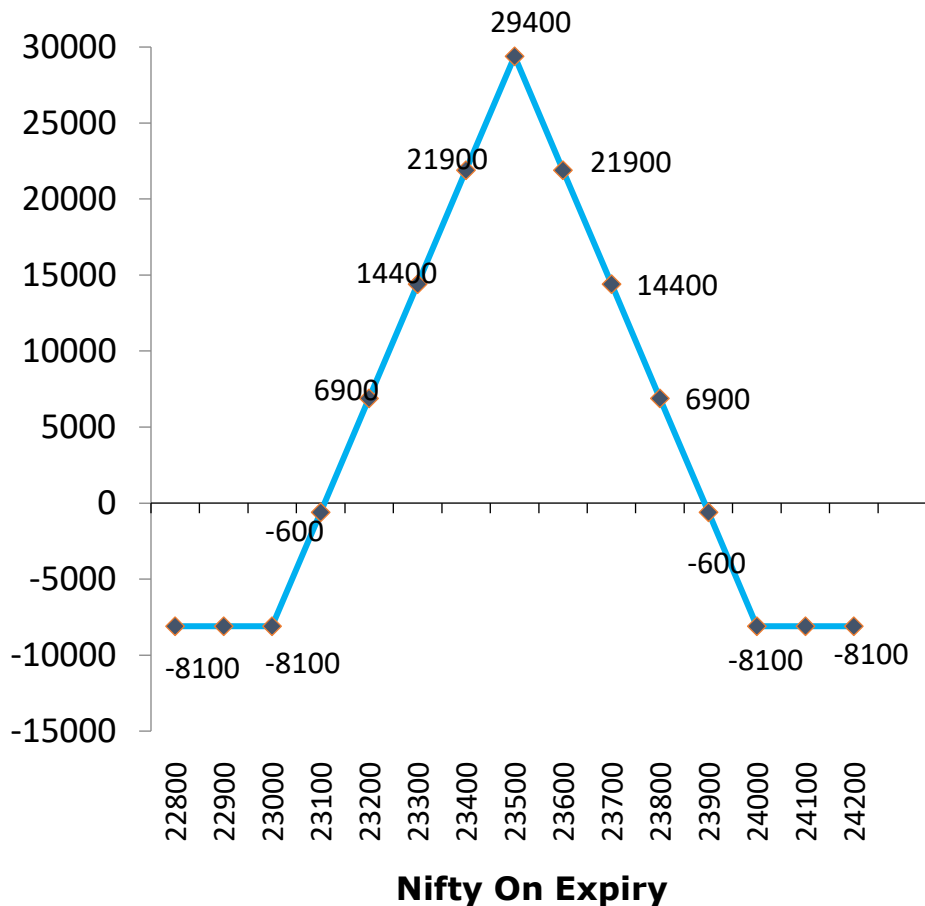
We recommend a **Long Butterfly Strategy** for traders looking to capitalize on market volatility on the back of budget announcements . Here's the rationale:

- In the options segment, aggressive put writing is seen at the 23000 level(06-Feb-Expiry), suggests strong support around that levels.
- The FIIs' long-to-short ratio in index futures has improved to 0.33 from 0.19, marking its highest level since December 23.
- This indicates early signs of short covering by FIIs.
- Current Options IVs (23%) are higher than the 5-year average of 20.6% (two days before the Budget).
- Historical data from the past 12 years shows that IVs drop significantly on Budget Day (refer to slides 9 & 10).
- If IVs decline after the Budget announcements, it will favor the Long Butterfly Strategy.
- Based on options data, Nifty is expected to remain within the 23000–24000 range until the 06 Feb expiry.

A long butterfly spread with Calls is a three-leg strategy that is created by buying one call at a lower strike price, selling two Calls with a higher strike price and buying one Call with an even higher strike price.

STRATEGY	INDEX	NAME OF THE STRATEGY	OUTLOOK	LEG 1	LEG 2	LEG 3	MAX PROFIT (Rs per lot)	MAX LOSS (Rs per lot)
1	NIFTY	LONG BUTTERFLY WITH CALLS	MODERATELY BULLISH	BUY 1 LOT 23000 CALL AT 474 (06-Feb-Expiry)	SELL 2 LOT 23500 CALL AT 220 (06-Feb-Expiry)	BUY 1 LOT 24000 CALL AT 74 (06-Feb-Expiry)	29400	8100

P&L



STRATEGY : NIFTY LONG BUTTERFLY WITH CALLS (MILDLY BULLISH)

Why Choose This Strategy?

Historical data shows a drop in IVs after budget announcements, making this strategy beneficial. Current options data suggests a tight range of 23000-24000, aligning with the butterfly's structure. It allows traders to benefit from a mild bullish bias while limiting downside risk.

NIFTY(CMP 23163) Lot size 75 EXPIRY (06 FEB)

Leg 1 : Buy 1 Lot NIFTY 23000 CALL at Rs 474

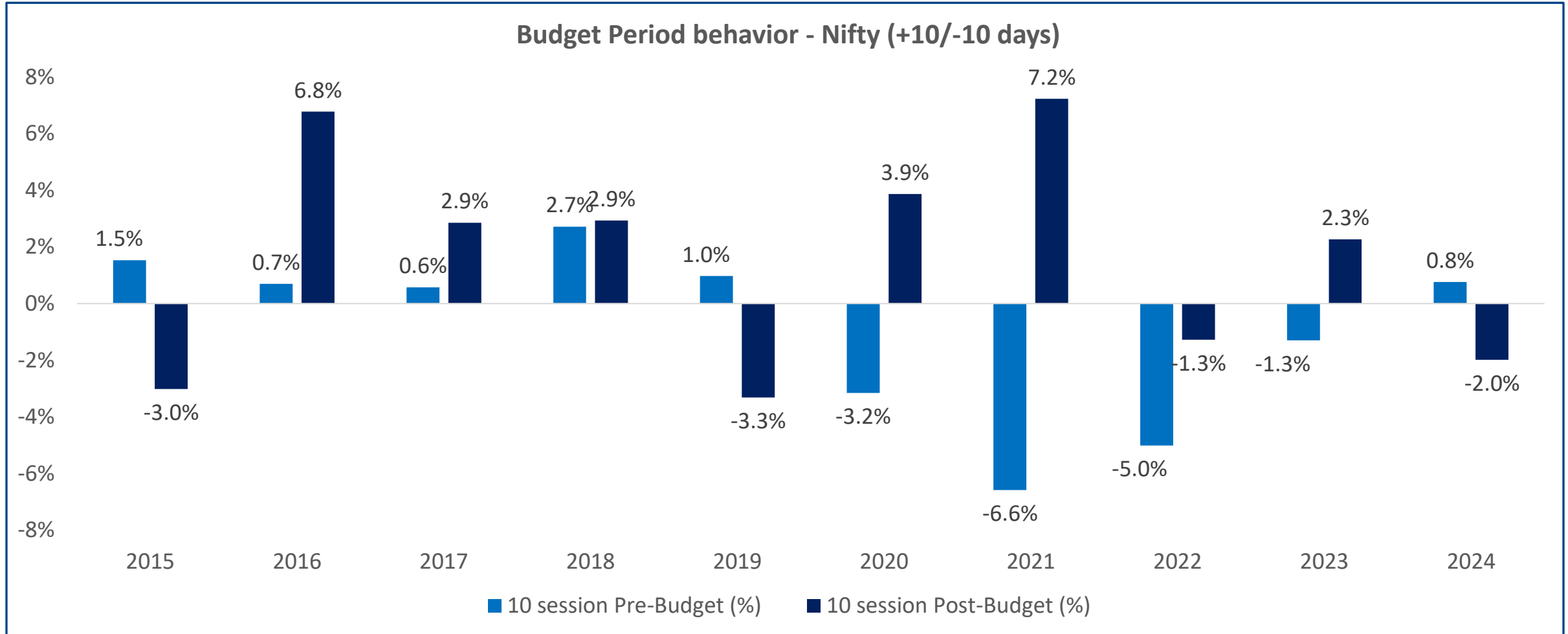
Leg 2 : Sell 2 Lot NIFTY 23500 CALL at Rs 220

Leg 3 : Buy 1 Lot NIFTY 24000 CALL at Rs 74

Max Risk Reward Ratio - 1:3.63

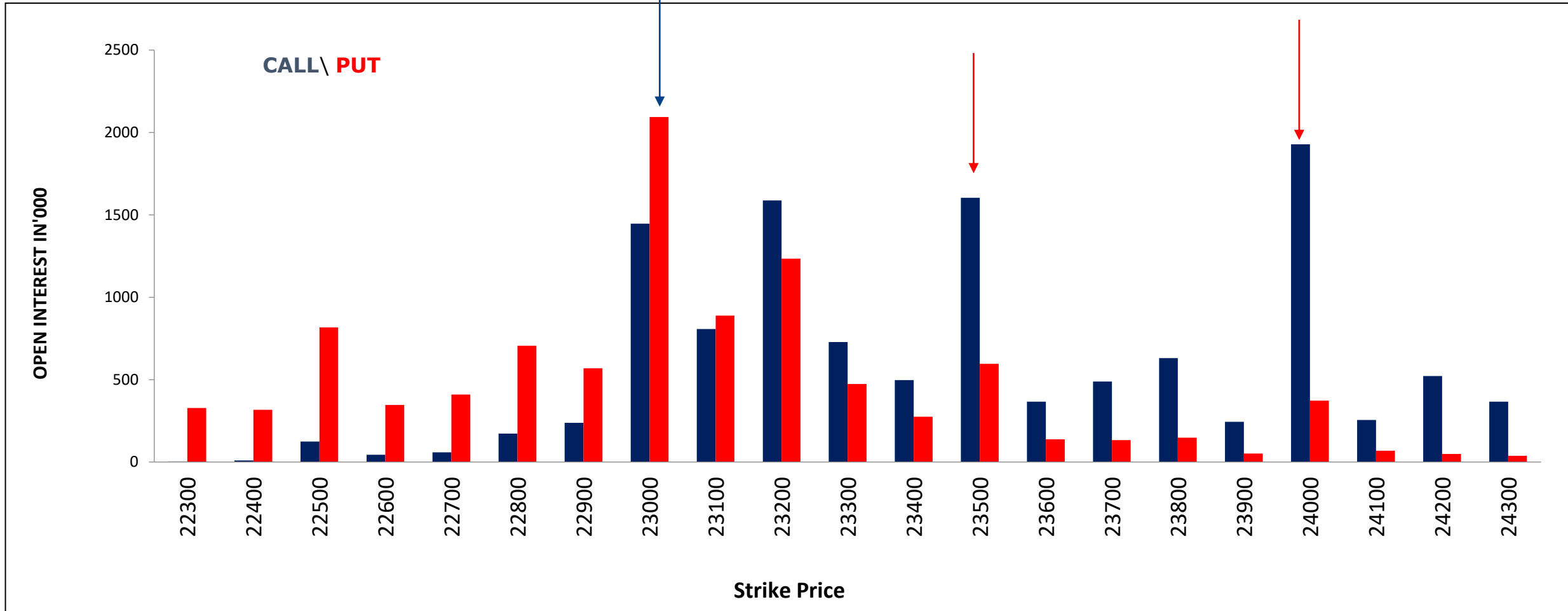
Upper Breakeven Points - 23892. Lower Breakeven Points - 23108

Maximum Profit Rs 29400 If Nifty closes at 23500. **Maximum loss** of Rs 8100 ,
Approx. Margin requirement : Rs 77000

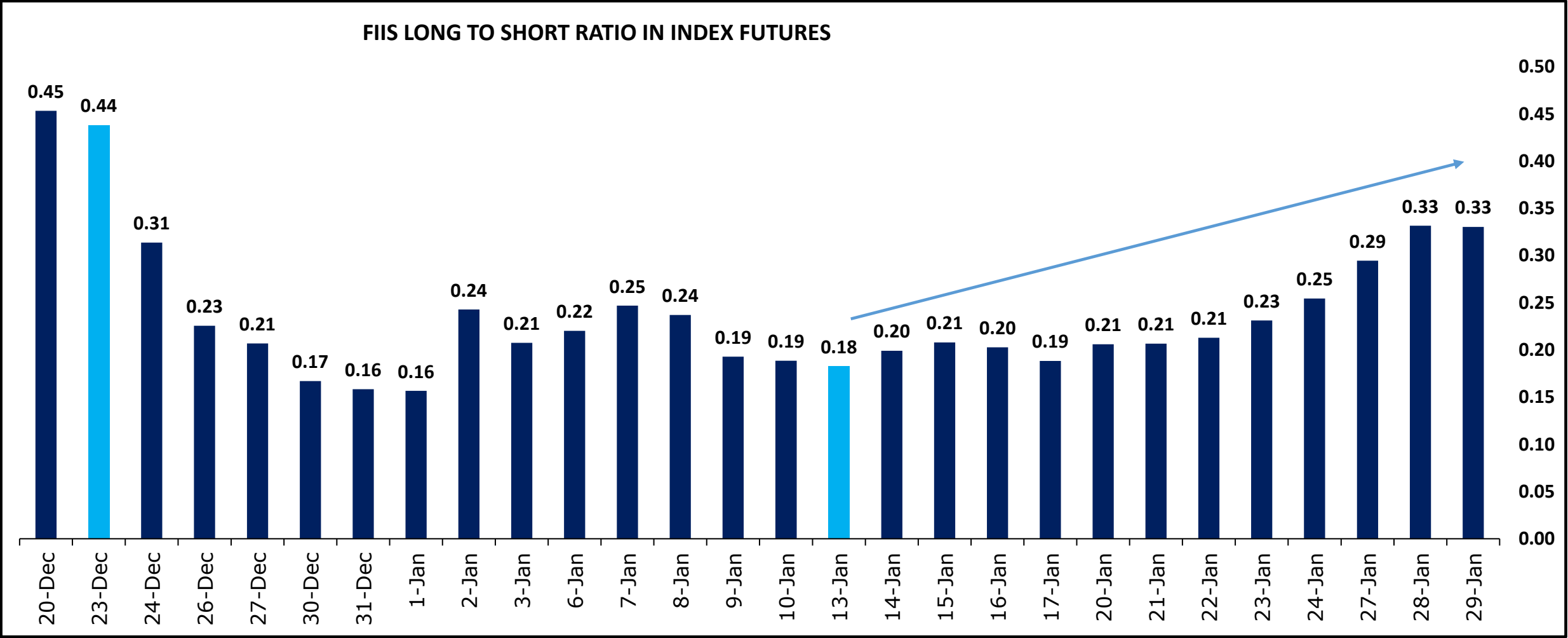


Put Writing At 23000 Levels

Call Writing Seen At 23500-24000 Levels



Long To Short Ratio - Highest Since 23 Dec 2024



History Suggests Option IVS Of Nifty Rises Before The Budget And Falls On Budget Day

BUDGET DATE (A)	ONE DAY BEFORE BUDGET (B)	ON BUDGET (C)	CHANGE BASIS(%) (D=B-C)	ONE MONTH BEFORE BUDGET (E)	CHANGE BASIS (%) (F=C-E)
28-Feb-15	19.68	16.99	-2.69	19.23	-2.24
29-Feb-16	20.36	19.10	-1.26	16.49	2.61
01-Feb-17	16.55	14.03	-2.52	14.85	-0.82
01-Feb-18	15.19	13.15	-2.04	12.29	0.86
01-Feb-19	16.85	14.76	-2.09	14.92	-0.16
05-Jul-19	14.18	12.39	-1.79	13.36	-0.97
01-Feb-20	16.76	16.35	-0.41	10.33	6.02
01-Feb-21	31.56	24.50	-7.06	17.18	7.32
01-Feb-22	23.80	21.18	-2.62	15.48	5.70
01-Feb-23	18.66	18.32	-0.34	13.04	5.28
01-Feb-24	18.54	15.23	-3.31	14.34	0.89
23-Jul-24	15.26	13.54	-1.72	12.18	1.36
AVERAGE			-2.32		2.15

Source : myfno.com

History Suggests Option IVS Of Bank Nifty Rises Before The Budget And Falls On Budget Day

BUDGET DATE (A)	ONE DAY BEFORE BUDGET (B)	ON BUDGET (C)	CHANGE BASIS(%) (D=B-C)	ONE MONTH BEFOR BUDGET (E)	CHANGE BASIS (%) (F=C-E)
28-Feb-15	27.80	24.65	-3.15	25.24	-0.59
29-Feb-16	26.63	24.84	-1.79	22.95	1.89
01-Feb-17	20.72	18.76	-1.96	19.85	-1.09
01-Feb-18	18.12	15.85	-2.27	13.25	2.6
01-Feb-19	17.05	15.47	-1.58	14.58	0.89
05-Jul-19	16.93	14.03	-2.90	15.59	-1.56
01-Feb-20	21.88	20.22	-1.66	13.00	7.22
01-Feb-21	40.65	31.22	-9.43	23.64	7.58
01-Feb-22	32.06	26.80	-5.26	21.93	4.87
01-Feb-23	25.58	25.76	0.18	16.77	8.99
01-Feb-24	25.47	21.41	-4.06	16.03	5.38
23-Jul-24	18.32	16.15	-2.17	15.34	0.81
AVERAGE			-3.00		3.08

Source : myfno.com

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