

PRE-BUDGET 2020 DERIVATIVES STRATEGY

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Introduction

A lot of market expectations have been built around this Budget considering the slowing pace economy and the much need push to revive consumption. Market participants expect abolition of LTCG, removal of STT, tweaking income tax structure to revitalize consumer spending, infra spending boost, allocations towards rural spending and many more measures.

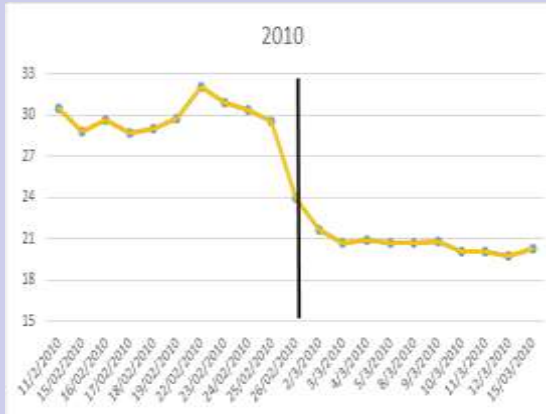
All these expectations cannot be fulfilled by the Finance Minister considering the strain on the fiscal situation. Implied volatility on options rise ahead of the event and falls sharply post the event, as has been observed in the past.

This note highlights four possible strategies, two of which will benefit out of fall in volatility and the balance two will benefit in case the market direction goes sustainably in one way.

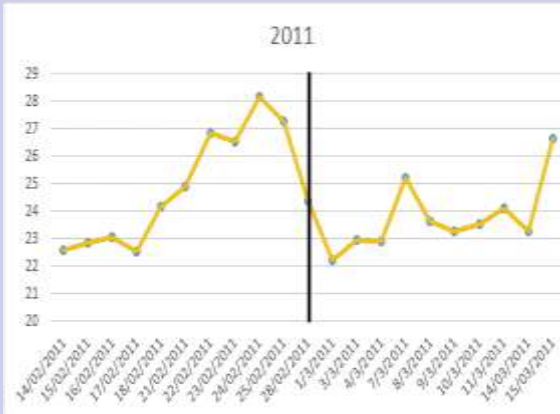
Technically if Nifty sustains above 11700 then there is a good chance of making a new life high i.e. breaking 12440 level. On the contrary if it fails to hold 11700, the Nifty might test 11300-11000 mark. Traders may find these levels useful.

Past volatility behaviour (IV)

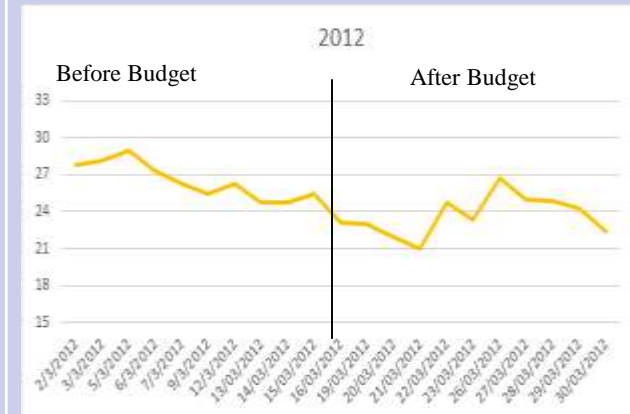
2010



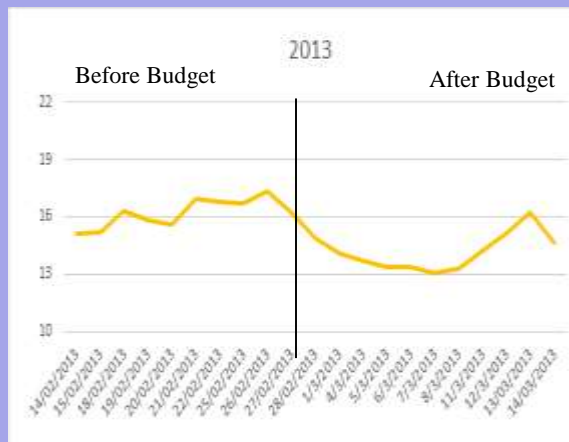
2011



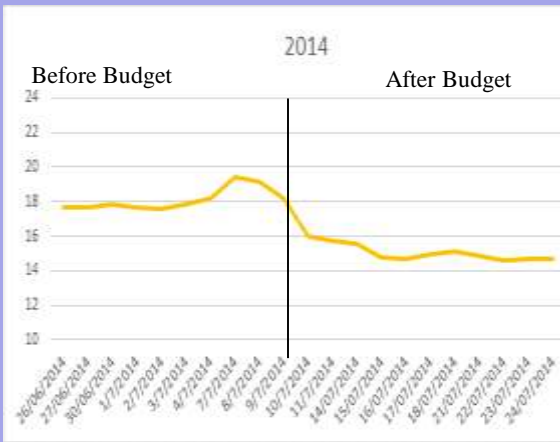
2012



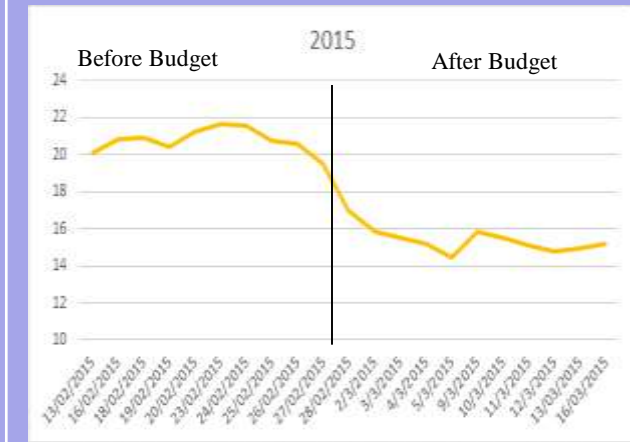
2013



2014

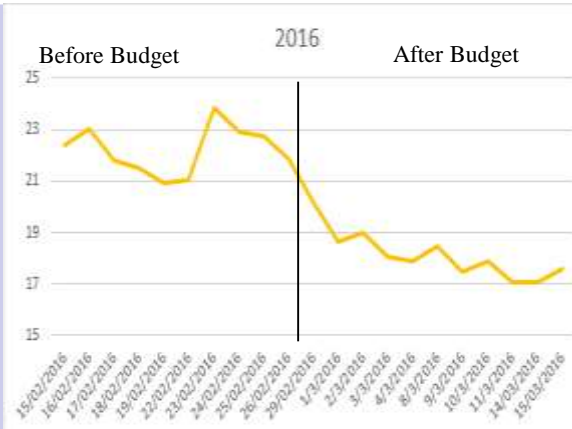


2015

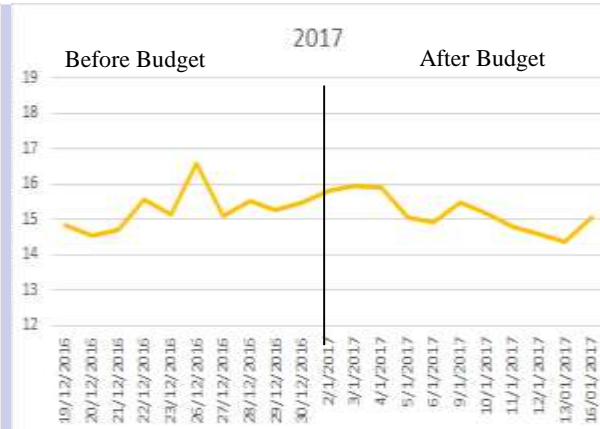


Past volatility behaviour (IV)

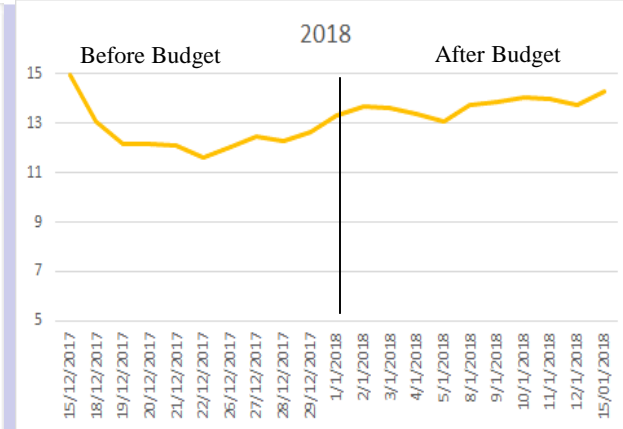
2016



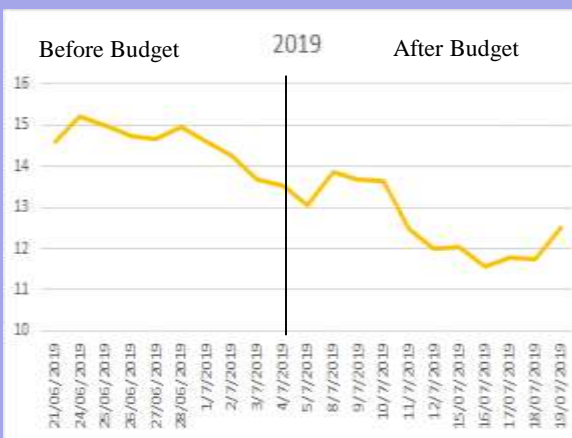
2017



2018



2019



2020



Volatility fall strategy Nifty (low risk)

Market expectation:

Implied volatility might fall post Budget based on past experience.

The Trade:

Sell 1 lot of 12100 27Feb Call @ 205.45

Sell 1 lot of 12100 27Feb Put @ 220.35

Buy 1 lot of 11800 27Feb Put @ 112.7

Buy 1 lot of 12400 27Feb Call @ 82

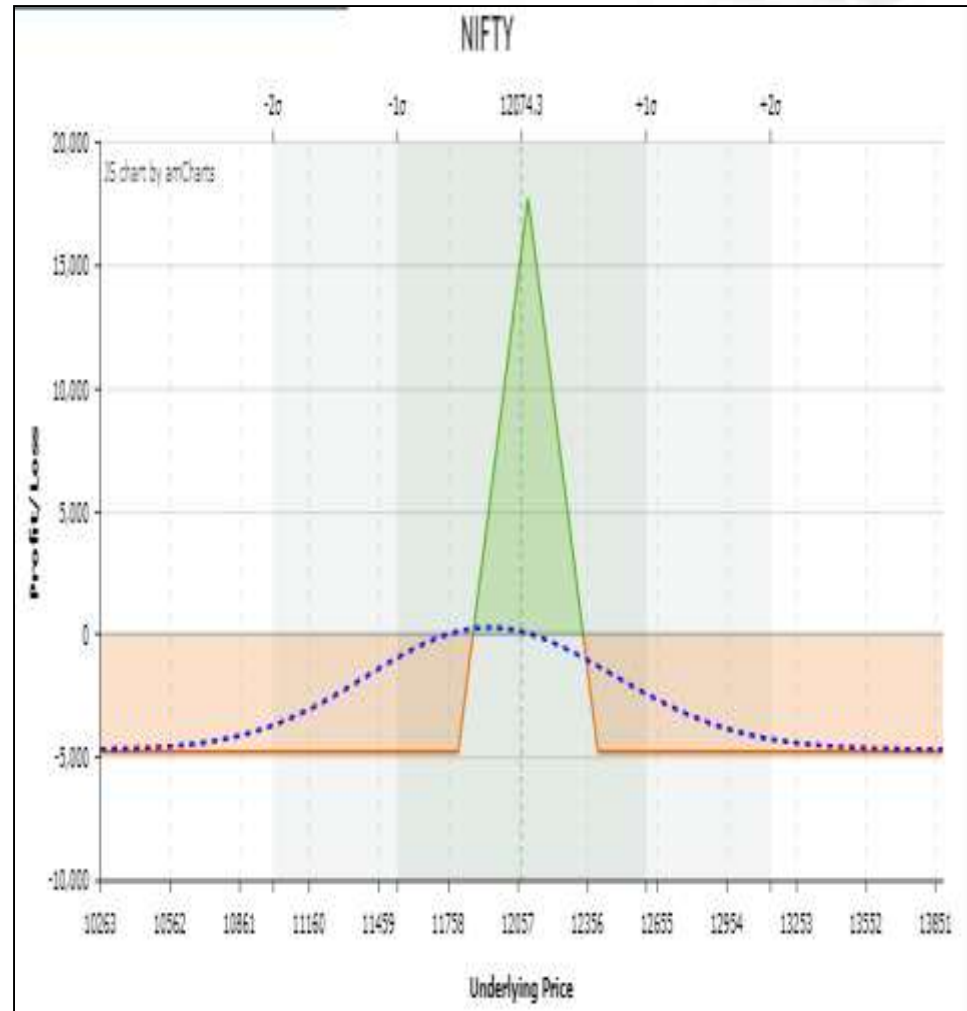
Net Premium Received : 235

Low BEP : 11869

Upper BEP : 12331

Max Risk : 69 Points (Rs. 5168)

Max Reward : 231 Points (Rs. 17332.5)



Volatility fall strategy Nifty (high risk)

Market expectation:

Implied volatility might fall post Budget based on past experience.

The Trade:

Sell 1 lot of 12400 27Feb Call @ 82

Sell 1 lot of 11800 27Feb Put @ 112.7

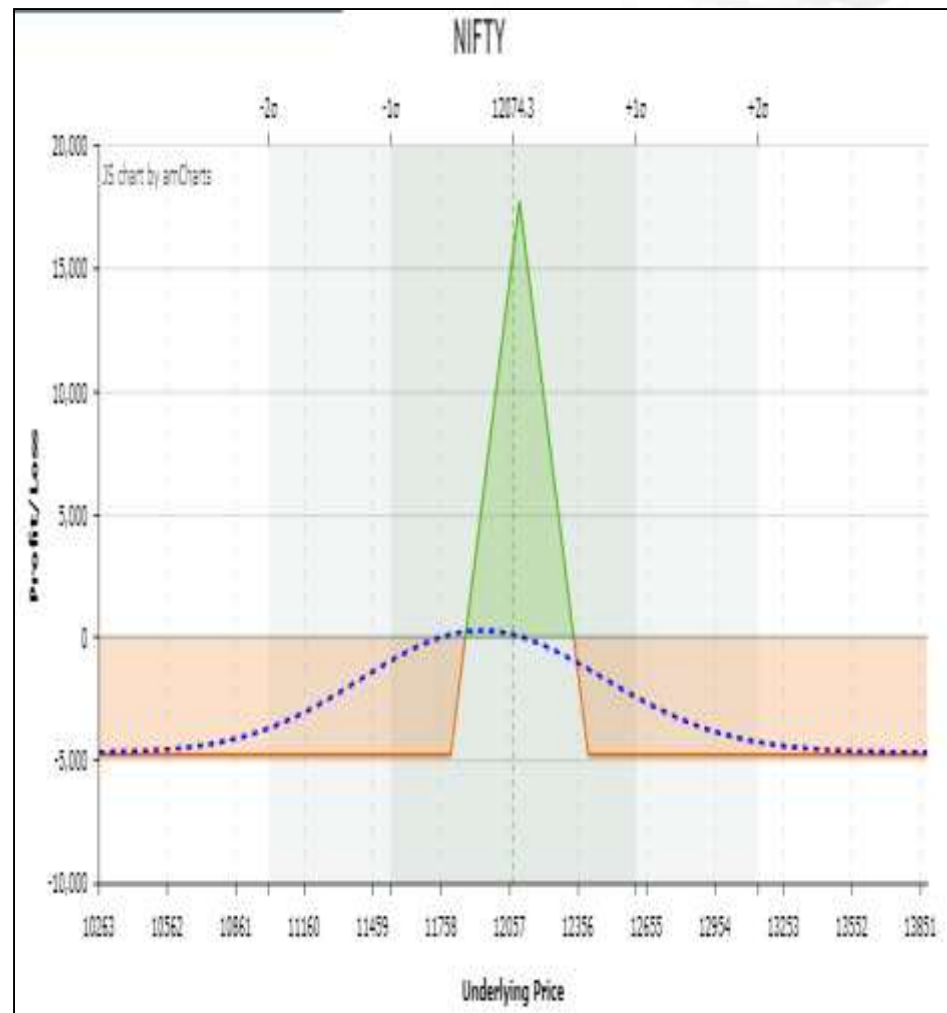
Net Premium Received : Rs.194.7

Low BEP : 11606

Upper BEP : 12594

Max Risk : unlimited

Max Reward : 194 Points (Rs. 14602.5)



Volatility fall strategy Bank Nifty (low risk)

Market expectation:

Implied volatility might fall post Budget based on past experience.

The Trade:

Sell 1 lot of 30500 27Feb Call @ 835

Sell 1 lot of 30500 27Feb Put @ 593

Buy 1 lot of 32000 27Feb Call @ 170

Buy 1 lot of 29000 27Feb Put @ 234

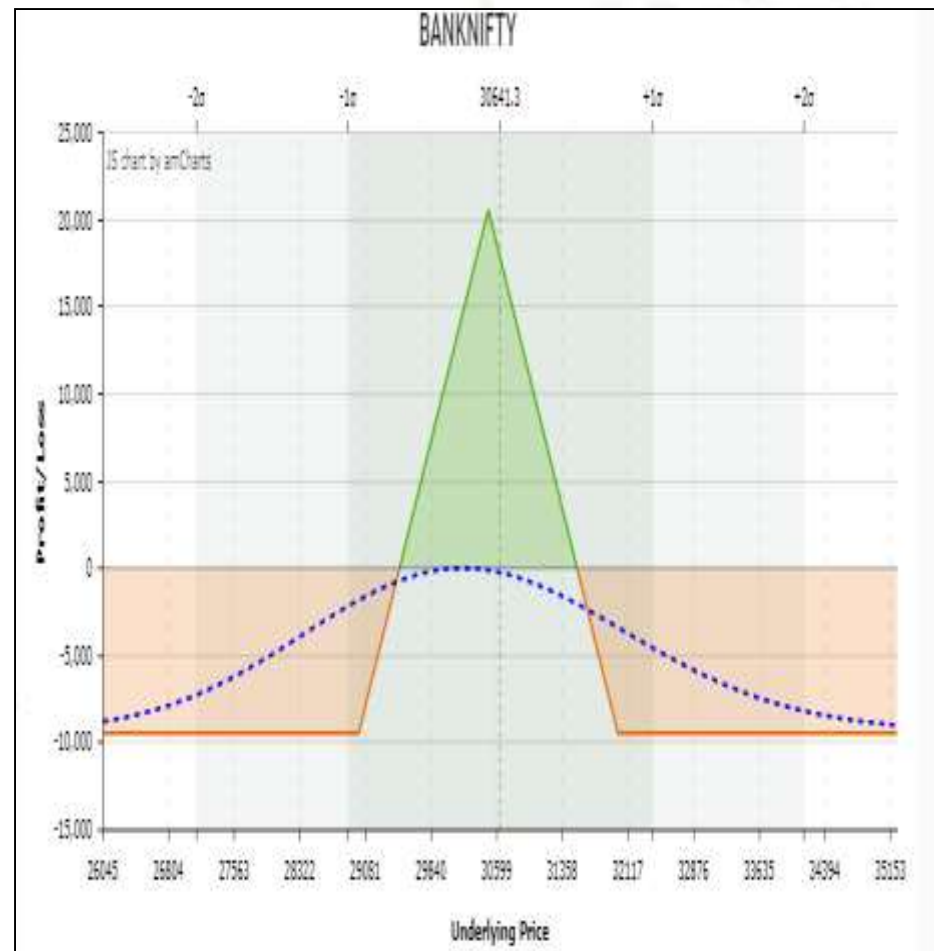
Net Premium Received : Rs. 1024

Low BEP : 29476

Upper BEP : 31524

Max Risk : 476 Points (Rs. 9520)

Max Reward : 1024 Points (Rs. 20480)



Volatility fall strategy Bank Nifty (high risk)

Market expectation:

Implied volatility might fall post Budget based on past experience.

The Trade:

Sell 1 lot of 32000 27Feb Call @ 170

Sell 1 lot of 29000 27Feb Put @ 234

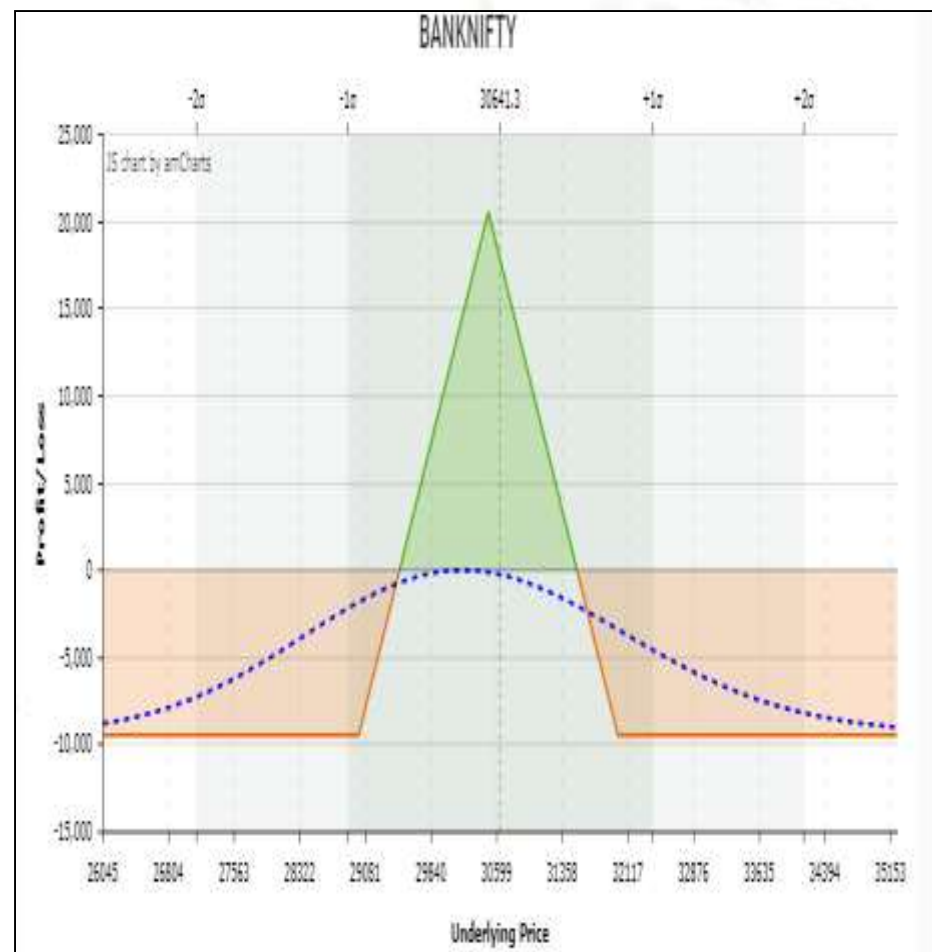
Net Premium Received : Rs. 404

Low BEP : 28596

Upper BEP : 32404

Max Risk : unlimited

Max Reward : 404 Points (Rs. 8080)



Bullish strategy Nifty (limited risk)

Market expectation:

Markets may react favorably to the announcements and Nifty may edge higher.

The Trade:

Buy 1 lot of 12100 27Feb Call @ 205.45

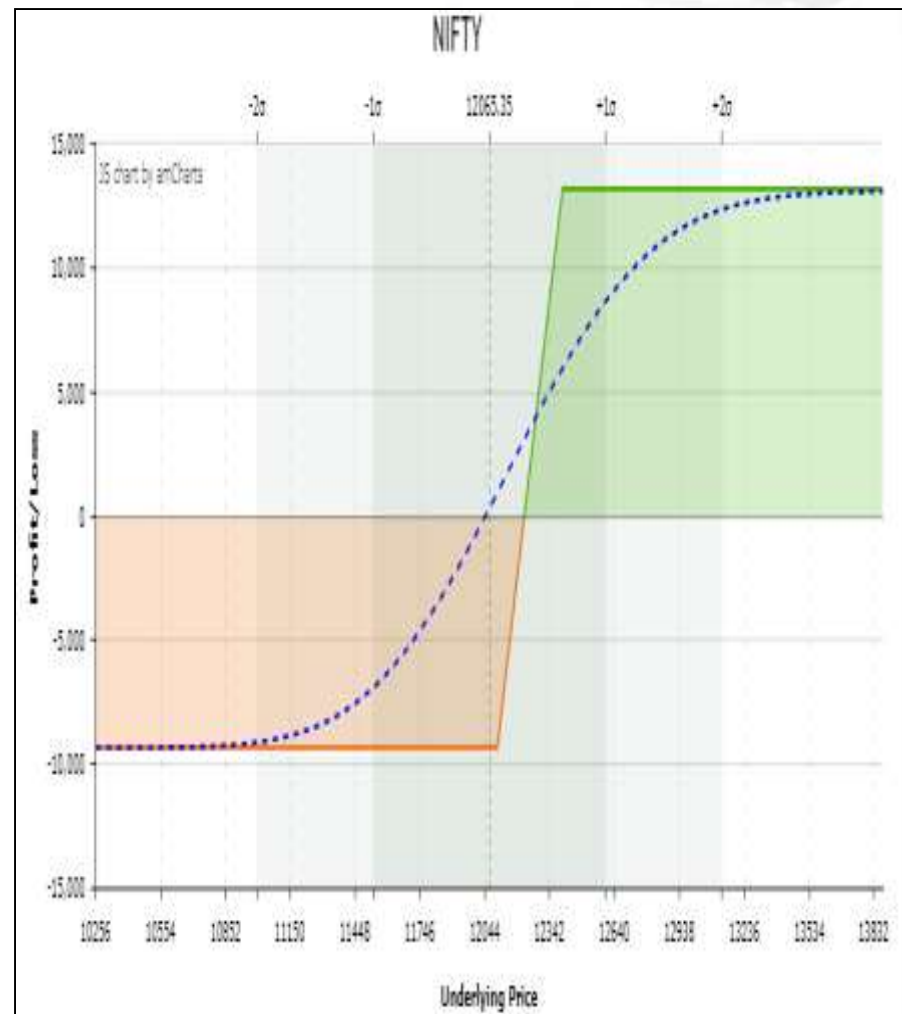
Sell 1 lot of 12400 27Feb Call @ 82

BEP : 12225

Net Premium Paid : Rs.9259

Max Risk : 123.45 Points (Rs. 9259)

Max Reward : 175.6 Points (Rs. 13174)



Bearish strategy Nifty (limited risk)

Market expectation:

Markets may react unfavorably to the announcements in the Budget and Nifty may edge lower.

The Trade:

Buy 1 lot of 12050 27Feb Put @ 202

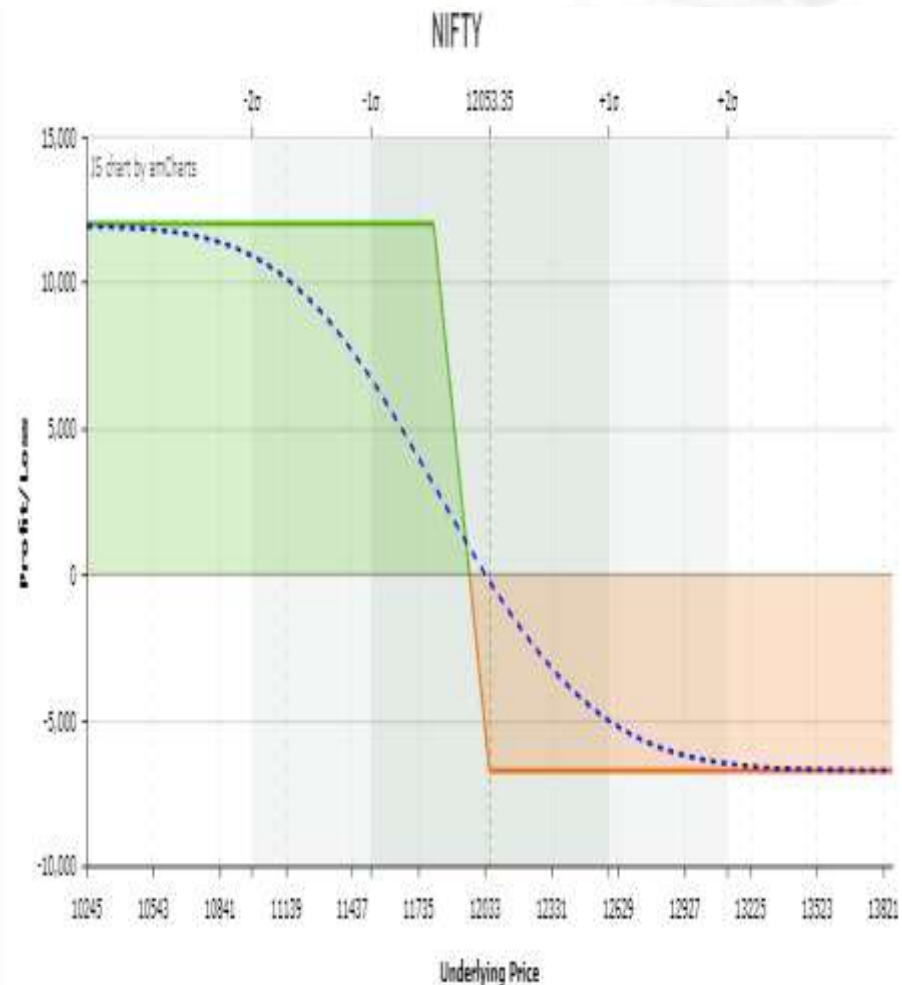
Sell 1 lot of 11800 27Feb Put @ 112.55

BEP : 11960

Net Premium Paid : Rs.6709

Max Risk : 89.45 Points (Rs. 6709)

Max Reward : 160 Points (Rs. 12041)



Disclosure:

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