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Derivatives Thematic: Breaking the Silence

From Contraction to Expansion

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Five Months of Compression. A Sharp Move Ahead

Nifty has been consolidating for last 5 months

Nifty has remained around 24000 levels for last 5 series with monthly settlements around these levels since April. Continued weakness among top index heavyweights has kept triggered the relative underperformance from the Nifty while midcap and small cap names outperformed significantly gaining more than 20% each from March lows.

After the introduction of CAS system, volatility has declined substantially and moved to its lowest levels seen during the year so far. We expect sharp move in the index (Probably up move) to the tune of ~2-3% in the coming sessions considering large consolidation and fresh inflows from FIIs.

Nifty likely to witness 3-4% move in the September series

Historically, in last 15 years, there has been just one instance of Nifty exhibiting such range bound move. In 2015, Nifty has followed by ~7% move next month while the first week itself saw ~2% gains. Even the other occasions have seen follow up by large directional moves.

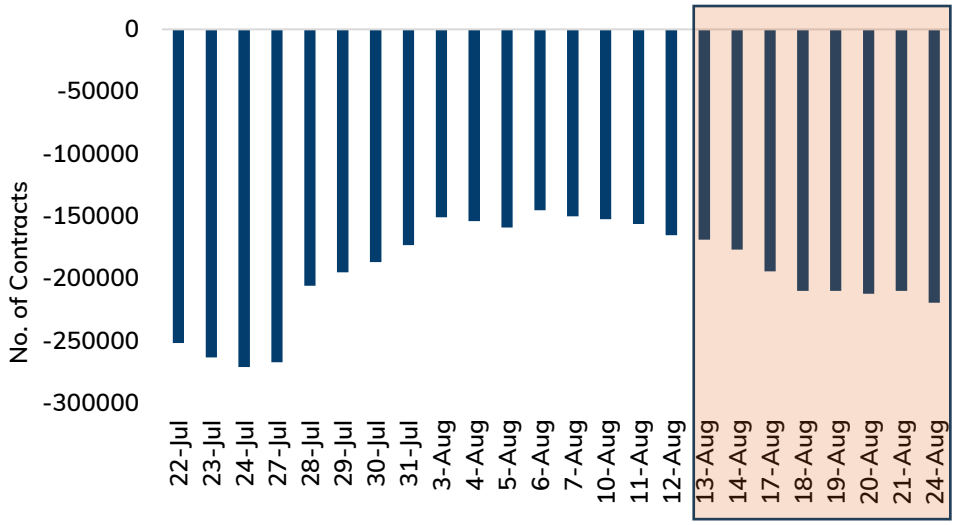
Moreover, expected inflows due to MSCI rebalancing may also help Nifty to move higher in the coming sessions. Thus, we suggest a positive strategy for the coming weekly settlement.

NIFTY

Expiry Month	Open	Close	% Change
May-26	23995.7	23913.7	-0.34%
Jun-26	23913.7	23865.8	-0.20%
Jul-26	23865.8	23985.4	0.50%
Aug-26	23985.4	* 24150	~0.60%

* Approximate closing

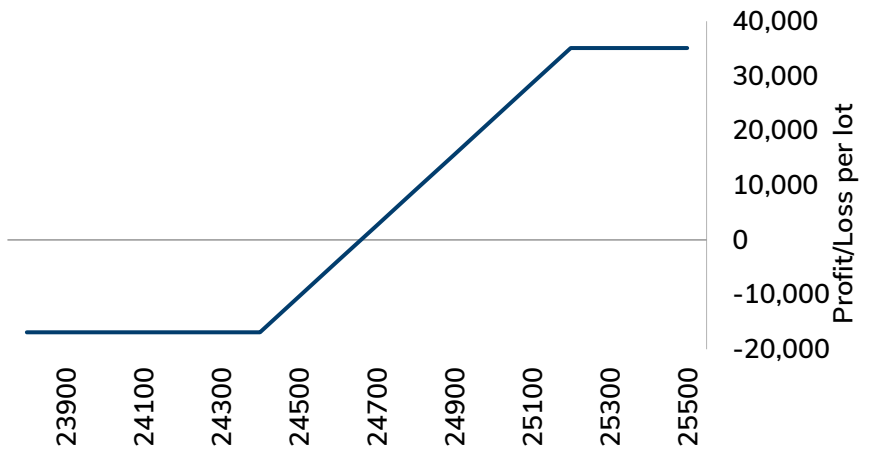
FIIs Net Index Shorts:



Nifty Historical Performance

Start Period	End Period	No of Expiries	Start Level	End Level	Return during the Period	Returns post consolidation		
						1Week (%)	1 Month (%)	3 Months (%)
26-03-2015	30-07-2015	5	8342.15	8421.8	0.95	1.98	-5.35	-4.23
28-07-2016	27-10-2016	4	8666.3	8615.25	-0.59	-1.51	-5.67	0.3
29-11-2018	28-02-2019	4	10858.7	10792.5	-0.61	2.46	7.2	10.53
28-04-2026	28-07-2026	5	23995.7	24335	1.41			
					Average Returns % (in either direction)	1.98	6.07	5.02

Nifty Collar Strategy



- Buy Nifty September Futures @ 24440-24450 and Buy Nifty 24400 Put at 255-260 and Sell Nifty 25200 Call at 42-45; Target: 25200. Timeframe: Till 29th September Expiry)
- A collar option strategy protects an existing stock or Index position by simultaneously buying an out-of-the-money put option for a floor and selling an out-of-the-money call option for a ceiling.

Source: NSE, BSE, Bloomberg *ICICI Direct Research*

A glossary of terms is provided at the end of this report

Glossary

- OI- Open interest: Open Interest measures the number of open Contracts which are there in the market. This measures the level of activity for the contract held by you and help assess if the contract is being actively bought or sold
- Basis: It is the difference between the spot price (current price) of an underlying asset and the price of its futures contract
- PCR: It is an indicator used to gauge market sentiment by comparing the volume of put options (rights to sell) to call options (rights to buy). A high PCR suggests bearish sentiment, while a low PCR indicates a bullish outlook
- Call Base: It refers to a high number of open call option contracts at a specific strike price. A strike price with an unusually large number of open calls (open interest) is often considered a significant resistance
- Put Base: It refers to a high number of open put option contracts at a specific strike price. A strike price with an unusually large number of open puts (open interest) is often considered a significant support
- Bull Call Spread: A Bull Call Spread, is an options strategy for moderately bullish market conditions where you simultaneously buy one call option and sell another call option of the same underlying asset and expiration date, but with different strike prices
- Bear Put Spread: A Bear Put spread is an options strategy that profits from a moderate decline in an underlying asset's price by buying a put option at a higher strike price and simultaneously selling another put option at a lower strike price with the same expiration date
- Ratio Spread: A ratio spread is an options strategy using unequal long and short positions, like a 2:1 ratio (buy one, sell two), to profit from minimal price movement, though specific types like ratio backspreads profit from large moves.
- Covered Call: A Covered Call strategy involves selling a call option while simultaneously owning the underlying stock/ futures, generating premium income and providing some downside protection, but also limiting profit potential
- Protective Put/ Call: A protective call/put strategy involves buying a call/put option to protect a short/long stock position from adverse price movements
- F&O Ban: F&O ban are regulatory measures to prevent excessive speculation and maintain market stability. A stock is banned when its open interest (outstanding futures and options contracts) exceeds 95% of the Market-Wide Position Limit.

Source: NSE, Bloomberg *ICICI Direct Research*

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Source: NSE, Bloomberg *ICICI Direct Research*

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