

Quantify Capital

WEEKLY NEWSLETTER



NSE IMPEMENTS NEW MARGIN FRAMEWORK FOR F&O TRADES

NSE is finally going live on Monday, June 1st, 2020, with the **new margin framework** for future and options trades. The margin required for positions that hedge each other where the risk is capped drops dramatically. The potential returns for low-risk strategies will go up significantly.

India's **GDP growth slows down to 3.1 %** in Q4 which is at a **11 year low**.

There have been news of **protests in many US cities** against the death of an unarmed black man, George Floyd in police custody.

It should be interesting to watch how the market reacts to these events on Monday.

MARKET OVERVIEW

NIFTY 9580.3

Weekly % Change = 5.2%

TOP GAINERS

EICHERMOT 16.8%

INDUSINDBK 16%

AXISBANK 13.5%

TOP LOSERS

BHARTIARTL 7%

TCS 2.7%

52 W HIGH

CIPLA

BRITANNIA

52 W LOW

BAJFINANCE

SBIN

UNDERSTANDING THE NEW MARGIN FRAMEWORK

LOWER MARGINS FOR HEDGED POSITIONS

SPAN MARGIN:

It is the overnight margin of each position in a derivatives portfolio as per the worst possible one day move

EXPOSURE MARGIN

The margin over & above the span margin for settlement of MTM losses, it is applicable to any instrument which has an unlimited loss.

MARGIN CALCULATION = SPAN MARGIN+EXPOSURE MARGIN+BUY PREMIUM (if any)

Example : IRON CONDOR IN NIFTY (MARGIN DROPS BY 70%)

| Exchange | Contract | Product | Strike | Qty | Initial margin | Exposure | Total |
|--------------|--------------|---------|----------|------|----------------|----------|-----------------|
| NFO | x NIFTY20JUN | Options | 10000 CE | 75 S | 88,086 | 14,370 | 1,02,456 |
| NFO | x NIFTY20JUN | Options | 9000 PE | 75 S | 79,301 | 14,370 | 93,671 |
| NFO | x NIFTY20JUN | Options | 8800 PE | 75 B | 0 | 0 | 0 |
| NFO | x NIFTY20JUN | Options | 10200 CE | 75 B | 0 | 0 | 0 |
| Total | | | | | | | 1,96,128 |

As you can see that for strategies like Iron Condor, the **margin drops by almost 70%**.

With this, there should be a new breed of risk-averse traders in the markets.

This should significantly **increase the open interest, improve market depth, and lower impact cost for traders.**

Price scan range which is used to determine F&O margins is now changed to **6 sigma from 3.5 sigma.**

The **margin required for naked positions is up by ~20%**. But this will reduce as the volatility in the market drops.

| Combined margin requirements | |
|------------------------------|-------------------|
| Span | Rs: 13,245 |
| Exposure margin | Rs: 28,741 |
| Premium receivable ? | Rs: 5,640 |
| Total margin ? | Rs: 41,986 |
| Margin benefit | Rs: 1,54,142 |

ACTIONABLE OPTION STRATEGIES

DATA INSIGHTS

Instrument Name :

NIFTY

Trend :

NIFTY is above 20 & 50 day moving average suggesting bullish trend in medium term

Options Data :

OI data suggest

Support at 9000 (**Max Put OI**) &

Resistance at 10000 (**Max Call OI**)

Futures Data :

NIFTY was up 0.7% on Friday and the futures data was up by 3.87 %. Thus, futures data suggests long **built up**

STRATEGY DETAILS

Sell 1 Leg of JUN 10000 CE @ 80

Sell 1 Leg of JUN 9000 PE @ 125

Buy 1 Leg of JUN 10200 CE @ 43

Buy 1 Leg of JUN 8800 PE @ 85

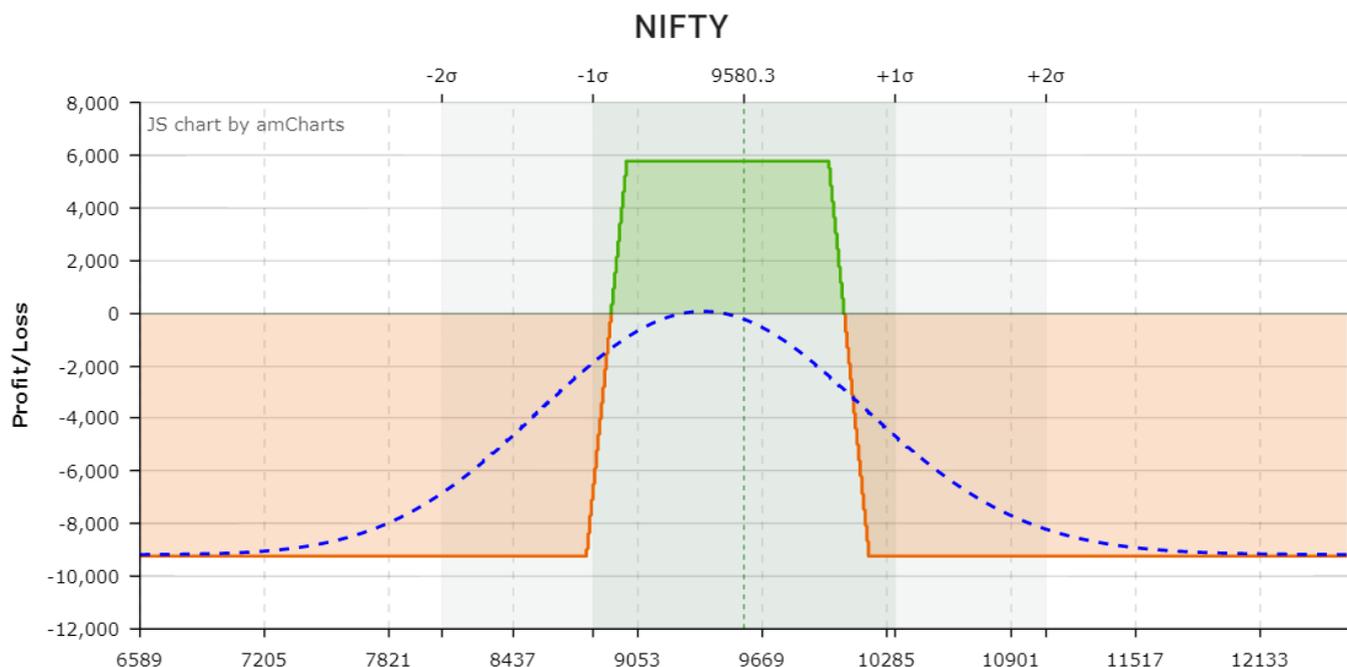
Max Profit : INR 5768

Max Loss : INR 9232

Breakeven : 8924 to 10076

Margin Required : Approx 40K

ROI : Approx 15 % on margin



With the new margin requirements, the margin required for above trade is only **around 40K**.

So, the **ROI is almost 15%** on margin deployed **but in case of a wild movement** one could lose up to 9K which is around 20% of margin deployed. So the **new margin rules increases the ROI but risk is also there** and one should keep a proper position size while creating such trades.

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This views expressed in this report is just for **educational purpose**
Investment/Trading in securities market is subject to **market risk**, past performance is not a guarantee of future performance
It is very important to do your own analysis before making any investment based on your own personal circumstances

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