



Facts That One Should Know Before Buying Bank Nifty Options

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Introduction:

An index gives us information about the movement of price of financial instruments or any other markets. A stock market index tells us the overall trend of equity markets. Basically a stock market index represents the whole market or a particular sector or segment from which stocks are selected to form that particular index. For example, Bank Nifty Index comprises of banking stocks only because it is a sectoral index.

Background of Bank Nifty:

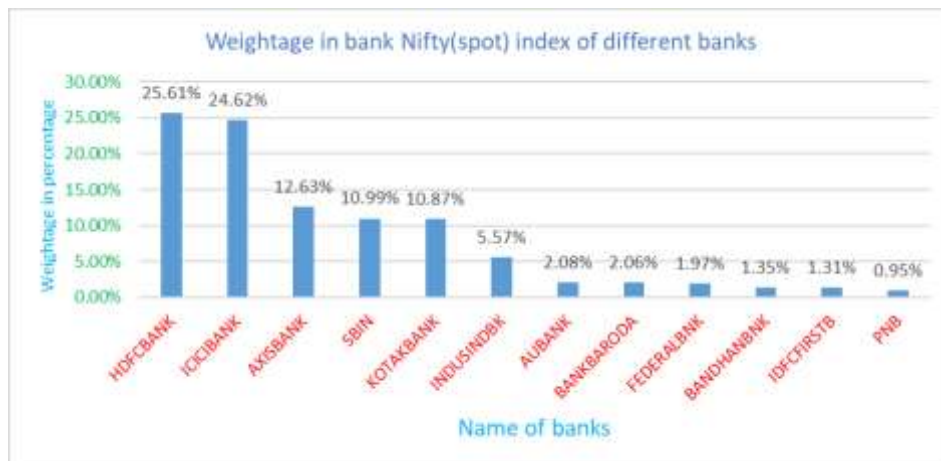
Bank Nifty, a sectoral index, comprises of most liquid and large capitalized Public Sector Undertakings (PSU) banks and private sector banks. Presently bank nifty includes 12 public and private sector banks having different weightage according to their free float market capitalization. It has strike price interval of 100 units. For Example, 41500, 41600, 41700 etc.

Launching Date of Bank Nifty: 15th September, 2003.

Base Year of Bank Nifty: 1st January, 2000

Base Value of Bank Nifty: 1,000.

Bank Nifty Index is reshuffled after every six months and you can get its value on real time basis during trading hours, which is 9:15 AM to 3:30PM except Trading Holidays of National Stock Exchange (NSE).



What is Bank Nifty Options: Basically options are derivatives which derive its value from an underlying asset. So Bank Nifty Options derive its value from Bank Nifty (Spot) Index. It means if Bank Nifty goes up or down, the prices of options will also go up or down.

Types of Options: Basically, there are two types of options. American options and European Options. In India, we trade in European options which are exercised at the date of expiry. Options are further classified into following two categories:

CE (Call European): Call European popularly known as Call Options are bought when one expects that market will go up at a certain level before expiry (there are two types of expiry- weekly expiry and monthly expiry).

PE (Put European): Put European popularly known as Put Options are bought when you expects that market will go down at a particular level before expiry.

Option Premium: Option premium is nothing but the current trading price of an option. Option premium consists of two things namely intrinsic value and time value. So,

Option Premium = Intrinsic Value + Time Value

Intrinsic Value: Intrinsic value is nothing but how much the option is “In The Money (ITM)”. Intrinsic value=Current strike price – (minus) strike price you have bought. **Intrinsic Value can be Zero (0) but it cannot be Negative.**

Time Value: Time value is how much the option is “Out of The Money (OTM)”. Time value =Premium- (minus) intrinsic value.

ATM (At The Money): ATM is the current trading price of any option/index. **ATM and OTM have no intrinsic value. ATM has the maximum time value.** The concepts of intrinsic value and time value have been explained in the following table with example of Bank Nifty options.

Bank Nifty Index currently trading at 41700 (ATM) @ Rs. 270

Strike Price	41400	41500	41600	41700	41800
Premium	462	392	327	270	218
Intrinsic Value	300	200	100	0	0
Time value	162	192	227	270	218

Open Interest (OI): Open interest is the number of contracts currently opened or active between buyers and sellers.

Option Chain: Option chain or OI chain is the combination of active-contracts. It is easily available on <https://www.nseindia.com/option-chain> website. In the following table, there are four parts (quadrants). The areas in grey colour background are called in the money (ITM) and areas in white background are called out of the money (OTM).

Table-1: Screenshot of Option Chain.

Source: <https://www.nseindia.com/option-chain>

OI	CHNG IN CI	CALLS								PUTS								CHNG IN CI	OI	
		VOLUME	IV	LTP	CHNG	BID QTY	BID	ASK	ASK QTY	STRIKE	BID QTY	BID	ASK	ASK QTY	CHNG	LTP	IV			VOLUME
5,306	-1,117	16,945	22.91	982.00	327.70	50	976.60	982.00	75	40,800.00	75	22.45	23.15	25	-130.80	23.55	17.49	8,39,728	17,123	42,197
2,838	-1,140	23,953	21.96	889.15	304.50	200	881.20	890.00	100	40,900.00	125	29.00	30.80	100	-133.55	30.60	17.15	7,40,532	12,163	22,684
10,661	-23,880	2,82,025	20.57	793.00	275.10	50	795.00	797.85	1,625	41,000.00	300	38.10	39.85	50	-182.10	37.80	16.58	2,003,182	-3,205	67,760
4,506	-9,133	1,25,016	20.33	710.00	253.70	50	705.10	710.00	675	41,100.00	150	50.00	52.15	50	-209.80	50.15	16.37	9,02,633	11,961	33,355
10,554	-24,116	3,97,250	19.65	625.05	224.70	175	625.05	626.00	75	41,200.00	25	66.00	67.90	50	-233.40	67.60	16.33	13,27,248	4,696	36,859
13,623	-42,308	7,90,857	18.89	542.00	191.70	475	540.00	543.30	25	41,300.00	50	83.65	86.60	475	-263.25	83.65	15.79	14,56,227	341	34,889
16,219	-33,776	14,39,400	18.12	462.10	158.10	75	462.10	467.60	50	41,400.00	75	106.50	108.60	225	-290.50	108.60	15.64	18,36,838	20,308	35,974
74,886	-32,907	35,04,814	17.77	392.00	133.35	575	392.00	395.00	4,975	41,500.00	850	135.00	136.40	25	-321.30	135.00	15.20	33,69,117	43,611	1,00,47
37,202	8,089	20,59,649	17.42	327.05	107.75	75	327.35	332.00	25	41,600.00	750	170.00	171.95	75	-342.55	171.95	15.10	19,91,525	30,380	34,708
50,131	33,478	22,55,477	17.21	270.00	86.40	225	270.00	272.00	300	41,700.00	75	210.35	214.00	5,425	-370.40	210.30	14.64	18,29,792	28,399	32,159
39,478	15,670	18,28,432	16.93	218.00	66.55	725	218.00	220.00	3,075	41,800.00	250	258.65	261.00	75	-387.45	258.65	14.37	10,47,509	13,911	16,579
25,220	9,930	11,22,390	16.76	173.85	49.50	725	171.00	173.85	25	41,900.00	300	310.00	314.70	50	-414.35	310.00	13.80	3,88,102	4,814	6,463
77,672	-3,041	23,38,796	16.24	151.00	30.80	7,250	131.00	132.50	475	42,000.00	25	368.70	375.00	850	-426.55	375.00	13.64	4,88,950	10,049	15,436
25,074	6,031	9,24,837	16.11	100.00	18.30	25	98.00	100.00	1,500	42,100.00	25	439.00	442.00	150	-426.85	441.10	12.96	63,099	2,503	3,325
35,081	14,128	10,74,120	15.66	71.00	5.95	100	71.00	74.25	200	42,200.00	50	509.15	515.00	50	-436.60	511.20	11.77	60,068	2,154	3,289
30,162	8,078	9,86,054	15.50	51.00	-0.15	500	51.00	52.80	25	42,300.00	50	587.75	597.75	125	-443.00	588.45	9.84	20,029	473	1,152
26,455	5,469	7,67,847	15.59	37.50	-1.95	25	35.90	37.50	225	42,400.00	50	672.80	682.70	50	-438.95	678.70	6.51	7,618	272	605
66,271	6,002	13,40,746	15.70	27.25	-5.55	425	25.25	27.25	50	42,500.00	25	766.00	769.90	100	-464.90	765.25	-	39,144	468	2,259
21,545	1,389	5,82,764	15.40	17.50	-8.35	50	17.40	18.80	550	42,600.00	25	858.00	878.80	25	-471.25	857.30	-	3,168	94	337
19,029	1,639	5,47,466	15.70	13.00	-8.10	125	12.15	13.00	775	42,700.00	50	948.05	957.20	25	-477.65	951.40	-	883	137	262

Types of Market: Depending upon the trend of the market, we can divide it (market) into three categories.

1. Bull Market: When market (Index like Nifty50, Bank Nifty etc.) goes up, it is called bull market or market is in uptrend.

2. Bear Market: When market goes down, it is called bear market or market is in down trend.

3. Sideways Market: When market trades within a certain range, it called sideways market.

Option Greeks: The Greeks or Option Greeks are the key factors which have great influence on the price of option. Option Greeks are denoted by Greek Alphabets. Followings are the crucial option Greeks:

Table-2: Screenshot of Options Greeks

Source: <https://gocharting.com/optionsdesk?underlying=NSE%3ABANKNIFTY>

Rho	Theta	Vega	Gamma	Δ Delta	Strike	Δ Delta	Gamma	Vega	Theta	Rho
2.8596	-27.8109	5.8825	0.0003	0.9112	40,900	-0.1101	0.0003	6.8843	-21.4548	-0.3563
2.7927	-30.2294	6.9634	0.0003	0.8881	41,000	-0.1378	0.0003	8.0534	-24.6347	-0.4459
2.7313	-31.3261	7.8736	0.0004	0.8667	41,100	-0.1709	0.0004	9.2889	-27.8919	-0.5533
2.5793	-36.5233	9.6845	0.0005	0.8174	41,200	-0.211	0.0004	10.5713	-31.3027	-0.6833
2.4122	-41.048	11.2786	0.0005	0.7636	41,300	-0.2562	0.0005	11.7748	-34.2599	-0.8301
2.2437	-43.8097	12.5356	0.0006	0.7093	41,400	-0.307	0.0005	12.8501	-36.7054	-0.9952
2.0498	-46.3553	13.5869	0.0006	0.6473	41,500	-0.3629	0.0006	13.7221	-38.4514	-1.177
1.8455	-47.7826	14.2821	0.0007	0.5822	41,600	-0.4229	0.0006	14.3192	-39.4082	-1.3725
					₹41,686.70					
1.6351	-48.2798	14.582	0.0007	0.5154	41,700	-0.485	0.0006	14.5826	-38.6987	-1.5752
1.4252	-47.0818	14.4726	0.0007	0.4488	41,800	-0.549	0.0006	14.4826	-37.3668	-1.7845
1.2175	-44.6233	13.9617	0.0006	0.3831	41,900	-0.612	0.0006	14.0137	-35.0848	-1.9912
1.0106	-40.5155	13.0414	0.0006	0.3177	42,000	-0.6742	0.0006	13.1792	-31.3176	-2.1954
0.8178	-35.8705	11.7918	0.0006	0.2569	42,100	-0.734	0.0005	12.0049	-26.5149	-2.3926
0.6473	-31.023	10.3388	0.0005	0.2032	42,200	-0.7893	0.0005	10.5626	-21.1164	-2.5758
0.4992	-26.0295	8.7771	0.0004	0.1566	42,300	-0.8305	0.0004	9.2403	-17.253	-2.7144
0.3784	-21.4078	7.2607	0.0003	0.1187	42,400	-0.8638	0.0004	7.9916	-13.6976	-2.8081

Delta: Delta indicates the change in option's price/premium if there is one unit change in Index (Spot) price. The value of Delta lies between -1 to +1. Value of ATM option is around 0.5 (-0.5) and deep in the money (ITM) option is 1 (-1).

Gamma: Gamma measures the change in Delta if there is a change in Index (Spot) price.

Vega: Vega measures the change in the premium of option due to change in volatility in the index/ underlying assets.

Theta: The most dangerous option Greeks for option buyers is Theta. Theta measures how much the price of an option will decline owing to the time passage of time. **So theta indicates value of time decay.**

Rho: Rho measures the change in the premium of option for per percentage change in interest rate.

Conclusion:

Stock market is like a deep ocean. There are so many things that an investor or a trader should know before jumping into the market. There are fundamental analysis, technical analysis and many more. But if you want to be an option buyer you should know the basic things that influence the price of options. There is a saying "look before you leap". So give time to yourself and try to watch the live market and take small trade to practice. After all, practice makes a man perfect. Wait for your right set up to form and do not do over trading. Try to trade when there is momentum in the market because if you take trade in sideways market premium of your option will decrease rapidly due to theta effects (i.e. time decay). Last but not the least, do not trade by taking loans and do not put your lifetime savings into stock market.

Websites' References:

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