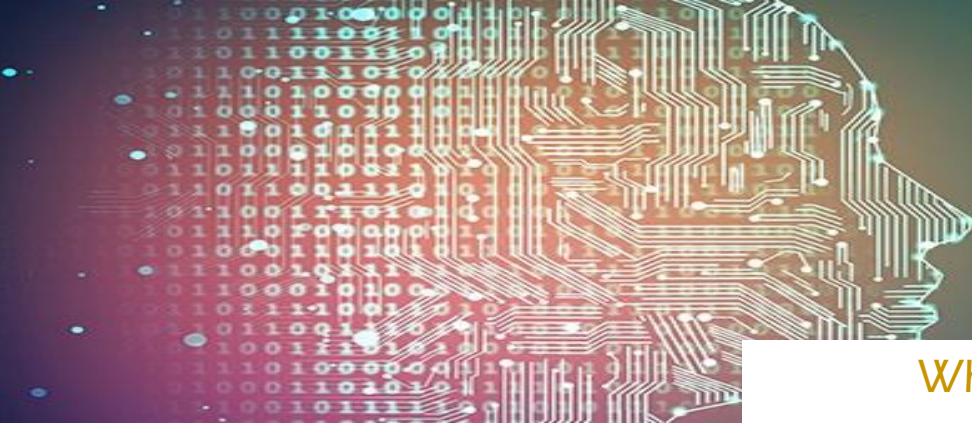




FX Partner You Can Trust

CLASSROOM REPORT

23 October 2019



What is Open Interest?

What is open interest?

Open Interest is the total number of outstanding contracts that are held by market participants and applies primarily to the exchange market. The basic rule is, for each buyer of a contract there must be a seller. From the time the buyer or seller opens the contract until the counter-party closes it, that contract is considered 'open'. In the case of USDINR, one can track the Open Interest on NSE Currency Futures or MCX Currency Futures Platforms.

The Calculation:

Day	Trading Activity	Open Interest
Day 1	Mr. A buys 10 lots of USDINR from Mr. B	10
Day 2	Mr. C buys 05 lots of USDINR from Mr. D	15
Day 3	Mr. A sells 05 lots of USDINR to Mr. D	10
Day 4	Mr. A sells 05 lots of USDINR to Mr. E	10

#1 lot=1000 USD

To understand, how the Open Interest is calculated, let us have a look at the above demonstration. On day one, Mr. A buys 10 lots from Mr. B and the Open Interest of the underlying becomes 10. The next day, Mr. C buys 5 lots from Mr. D and the Open Interest rises to 15. On Day 3, Mr. A unwinds his position by selling 5 lots to Mr. D, who already had a sell position earlier. Thus the Open Interest falls to 10 lots. On Day 4, Mr. A unwinds another 5 lots by selling the same to Mr. E, a new entrant, and so the Open Interest remains unchanged. The net positions at the end of day 4 will be as follows:

Net Positions	Mr. A	00
End of Day 4	Mr. B (Net Seller)	-10
	Mr. C (Net Buyer)	05
	Mr. D	00
	Mr. E (Net Buyer)	05

Asset Price vs. Open Interest:

Scenario	Price	Open Interest	Interpretation
1	Rising	Rising	long build up
2	Falling	Rising	Short build up
3	Falling	Falling	Short covering
4	Rising	Falling	long unwinding

Scenario 1: The Scenario is an example of fresh long position by the market players. If in the uptrend, the prices are rising along with a rise in open interest, it is interpreted as new money coming into the market and the same is considered to be bullish.

Scenario 2: This scenario is an example of fresh short position by the market players. If in the downtrend, the prices are falling along with the rise in open interest, it is interpreted as that new money is coming into the market, showing aggressive new short selling.

Scenario 3: The Scenario is an example of long unwinding by the market players. Now if the total open interest is falling and prices are declining, the price decline is likely being caused by profit booking in the long position holders. This suggests short term top is in place which could be a reversal in the trend or short term consolidation in the asset prices

Scenario 4: The Scenario is an example of short covering by the market players. Lastly, if the price action is rising and the open interest is on the decline, short sellers are covering their positions, causing the rally. This suggests short term bottom is in place which could be a reversal in the trend or short term consolidation in the asset prices.

Conclusion:

It is important to understand that studying price action movements alone would not be providing complete information. By monitoring the Open Interest, one is able to better gauge the buying or the selling pressure behind the movement. This information can then be used to confirm a price move or warn that a price move is not to be trusted.

Headquarters:-

India Forex Advisors Pvt. Ltd.

CST Road Junction, Bandra Kurla Complex Annexe, Kurla West,
Mumbai-400070

Research & Analytics Desk: +91 8879390076 | Technology & Support Desk: +91 8879630572 |
Treasury Audit & Bank Negotiation Desk: +91 8879630572 | FX & Treasury Advisory Desk: +91 8879600618 |
FX Trading & Options Desk: +91 8291983820

Email Us: info@ifaglobal.net

You can also visit our website: www.ifaglobal.net

To know more about Treasury Elite, visit www.treasuryelite.com

Blog: www.abhishekgoenka.com



IMPORTANT NOTICE AND DISCLAIMER

While every effort has been made to ensure that the data quoted and used for the research behind this document is reliable, there is no guarantee that it is correct, and IFA Global can accept no liability whatsoever in respect of any errors or omissions, or regarding the accuracy, completeness or reliability of the information contained herein. This document does not constitute a recommendation to sell and/or buy any financial products and is not to be considered as a solicitation and/or an offer to enter into any transaction. This document is a piece of economic research and is not intended to constitute investment advice, nor to solicit dealing in securities or in any other kind of investments. Although every investment involves some degree of risk, the risk of loss trading off-exchange forex contracts can be substantial. Therefore if you are considering trading in this market, you should be aware of the risks associated with this product so you can make an informed decision prior to investing. The material presented here is not to be construed as trading advice or strategy. IFA Global makes a strong effort to use reliable, expansive information, but we make no representation that it is accurate or complete. In addition, we have no obligation to notify you when opinions or data in this material change. Any prices stated in this report are for information purposes only and do not represent valuations for individual securities or other instruments.