Future Trading

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Forward contract (derivative contract) also called future contract. Two party agrees to exchange cash for good at some point in the future

Physical settlement
Cash Settlement

Risk involved:

Liquidity risk : worth won't be the same
Counter party risk:
Regularity risk:
Rigidity risk where both parties enter in agreement.

Future Contract:

- Standardised contract
- It is tradable contract
- High regulated by SEBI
- Time bound contract
- Settle with cash.

Spot Price is the price at which the asset trades in the regular market.

Lot Size

Contract Value = lot size * asset price.

Contract expires after expiry date.

Higher the leverage, higher the risk, higher the profit.

Lower the leverage, lower the risk, lower the profit.

Leverage = Contract value / margin

Future markets' regulators is SEBI.

Collect the margin
M2M: marking to market is an accounting procedure which involves adjusting the profit\loss you have made for the day.
Marking the daily profit/losses

Initial Margin is the margin that gets block

Initial margin = span margin + exposure margin

Risk Management System :

- The contract you wish to buy
- The quantity you wish to buy
- The price at which you want to buy

Nifty Future is the most widely traded instruments. It is diversified. It has lot of cash flow. Margin is very low (12 to 15%).
Hard to manipulate. Less volatile.

Future = spot price * (1+risk free rate) - dividend

Risk free rate: the profit you make In one financial year.