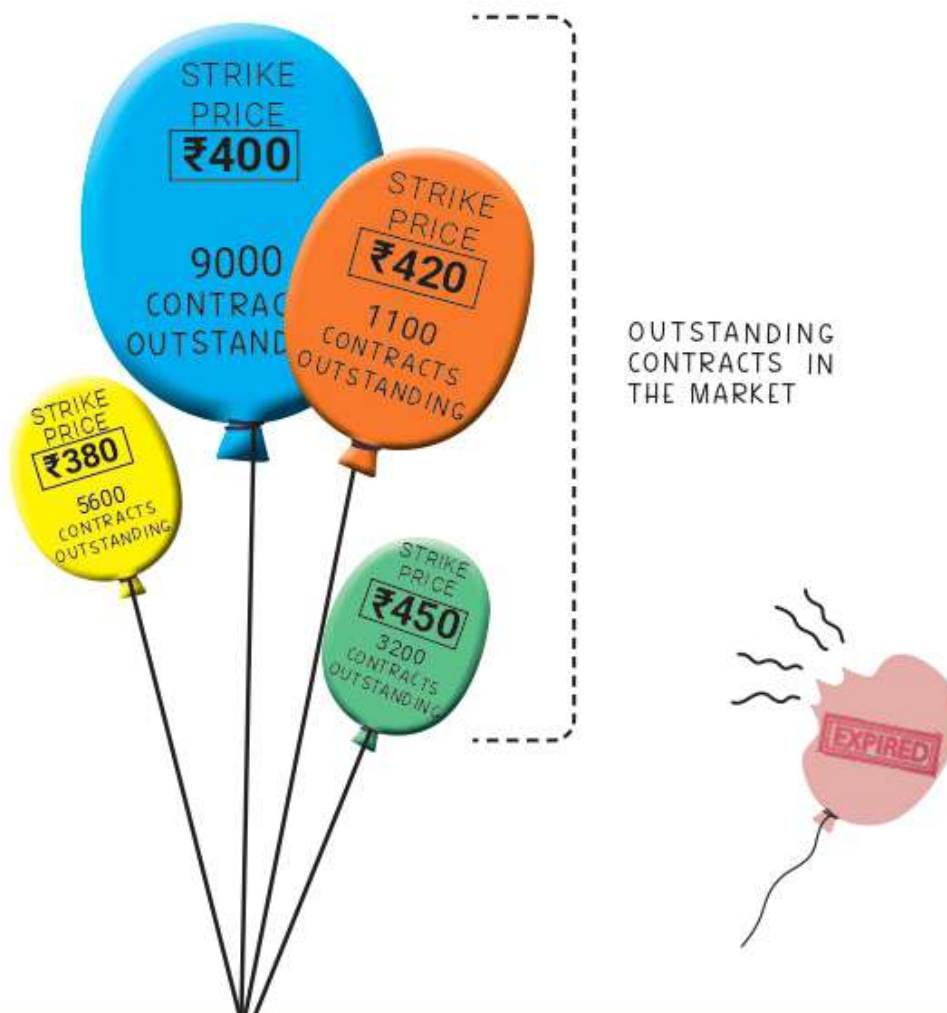


CHAPTER 8

OPEN INTEREST AND VOLUME

- 8.1 Introduction
- 8.2 How does Open Interest help us identify Support and Resistance Zones?
- 8.3 What is an Option Chain?
- 8.4 How to trade through Option Chain?

8.1 INTRODUCTION



“

OPEN INTEREST MEANS THE TOTAL NUMBER OF CONTRACTS OUTSTANDING IN THE MARKETS AT DIFFERENT STRIKE PRICES. IT ACCOUNTS FOR ALL EXISTING CONTRACTS, WHETHER IT WAS MADE 5 DAYS AGO, 15 DAYS AGO, OR YESTERDAY, IT DOES NOT MATTER.

”



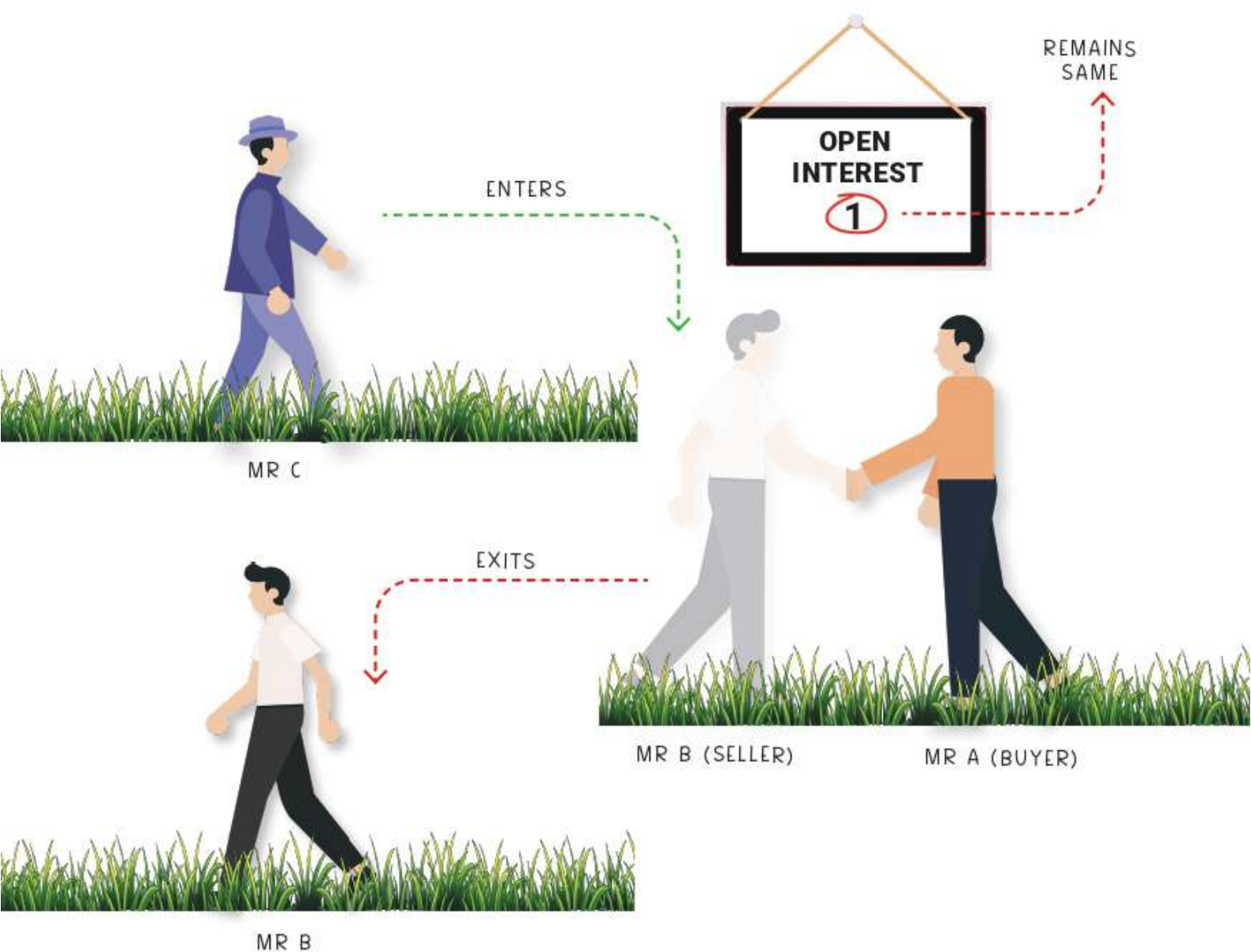
Whenever two people enter into a contract, the open interest goes up by +1.



And whenever two people square off existing positions or on expiry, the open interest goes down by 1.

However, if the existing contract positions are bought or sold, the Open Interest does not change.

For instance, the seller of a put option Mr B decides to get out of the contract. So, Mr B can sell the contract to Mr C (say) on the exchange, after meeting the obligations to date and then Mr C will replace his position in the contract. This buying and selling of the existing contracts would not affect the Open Interest.



Volume, on the other hand, would account for such secondary buying and selling of option contracts. So, if the same option is bought and sold 5 times, open interest will remain the same but the volume will be 5.

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VOLUME MEANS THE TOTAL NUMBER OF CONTRACTS BOUGHT OR SOLD FOR A SPECIFIC OPTION DURING A SPECIFIC TIME PERIOD.

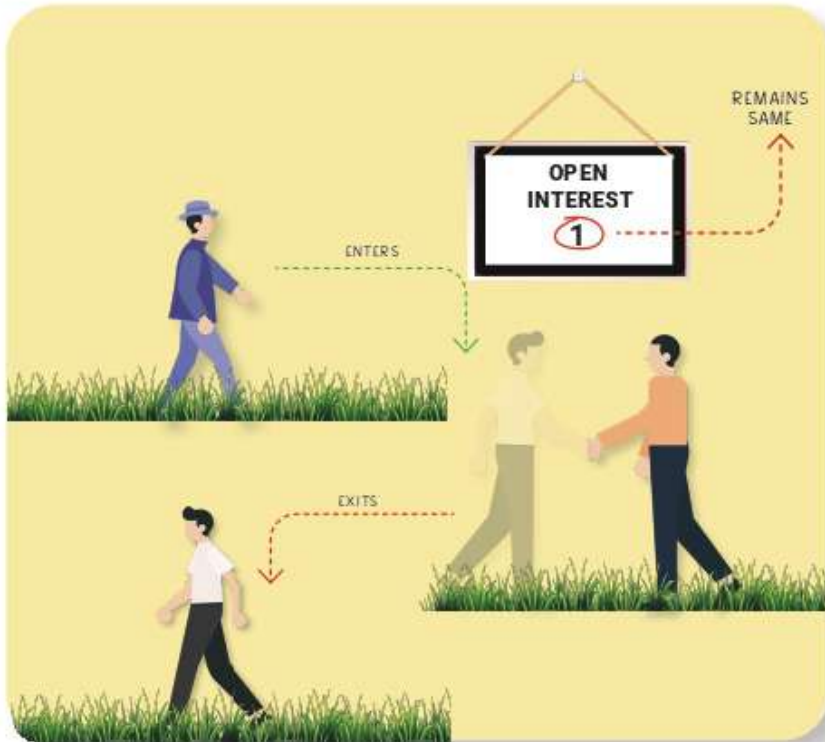
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For instance, a contract entered by two people would mean Open Interest = 1. While internally the two parties might have sold the contract to some one else who might have sold it to other parties too. Here, the open interest will remain to be 1, but the trading volume will be much higher.



THIS IS HOW OPEN INTEREST AND VOLUME ARE DIFFERENT.

OPEN INTEREST TELLS US
THE NUMBER OF CONTRACTS OUTSTANDING



VOLUME TELLS US THE NUMBER OF
CONTRACTS TRADED.

