Module 2 –Options on Futures

Mechanics of call futures options

An investor buys a July call futures option contract on gold. The contract size is 100 ounces. The strike price is 900.

The exercise decision

The investor exercises when the July gold futures price is 940 and the most recent settlement price is 938.

The outcome

1. The investor receives a cash amount equal to $(938 - 900) \times 100 = \$3800$.
2. The investor receives a long futures contract.
3. The investor closes out the long futures contract immediately for a gain of $(940 - 938) \times 100 = \$200$.
4. Total payoff = \$4000.

Mechanics of put futures options

An investor buys a September put futures option contract on corn. The contract size is 5000 bushels. The strike price is 300 cents.

The exercise decision

The investor exercises when the September corn futures price is 280 and the most recent settlement price is 279.