

Long Strangle on NIFTY

Price	No. of Trades	Action (Buy/Sell)	Strike Price	Option Type	Premium	Contract Size	Imp. Vol
Future: 10460	Option Trade 1	Buy	10800	CE	130-135	75	19.54
Spot: 10501	Option Trade 2	Buy	10200	PE	190-195	75	29.30

Strategy

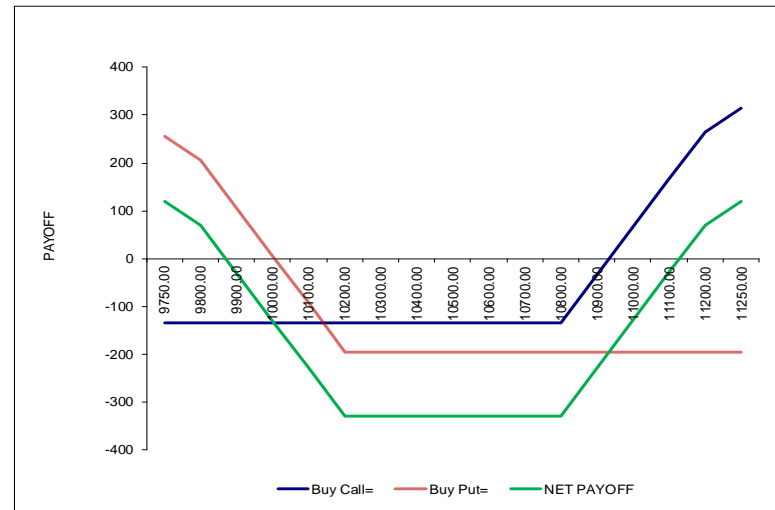
Expiry Date: 30 July 2020

A long strangle position is developed by purchasing both a put and a call with different strike prices with the same expiration. The 3 Month 100% Moneyness IV (Implied Volatility) for Nifty options has been trading in the range of 21.24% to 25.40% over the past seven trading sessions. This indicates sharp swing/reversal can be expected and/or it is likely to revert back to its mean. Hence, we suggest, buying strangle on NIFTY which consists of one lot of 10800 Call Option @ 130-135 along with one lot of 10200 Put Option @ 190-195. Hold it till expiry.

Risk & Reward Analysis

Index Price at Expiration	Long Call	Long Put	Net Pay-Off
9750	-135	255	120
9800	-135	205	70
9850	-135	155	20
9860	-135	145	10
9870	-135	135	0
9880	-135	125	-10
9890	-135	115	-20
9900	-135	105	-30
9950	-135	55	-80
10000	-135	5	-130
10050	-135	-45	-180
10100	-135	-95	-230
10150	-135	-145	-280
10200	-135	-195	-330
10300	-135	-195	-330
10400	-135	-195	-330
10500	-135	-195	-330
10600	-135	-195	-330
10700	-135	-195	-330
10800	-135	-195	-330
10900	-35	-195	-230
11000	65	-195	-130
11050	115	-195	-80
11100	165	-195	-30
11150	215	-195	20
11200	265	-195	70
11250	315	-195	120

Pay-Off



If NIFTY moves above the Upper BEP (Break Even Point) (11130) or below the Lower BEP (9870), the profit opportunities are Unlimited. On the other hand, if NIFTY closes between the two BEPs on the day of expiry, the maximum loss is limited to the total premium paid. (I.e. $330 * 75 = \text{Rs. } 24750$)

Technical View

NIFTY finally broken its key resistance level of 10536 and formed bullish candlestick pattern on daily chart and also the NIFTY has been trading above its major short term moving averages over the past ten days trading sessions and it suggesting that the short term trend on NIFTY continues to remain positive in the consolidation zone of 10190 and 10690 levels. The adjacent graph of Nifty shows a bullish price channel on the daily chart suggesting Decisive closing above the key resistance level of 10536 may take up the Nifty towards the level of 10670/10830 levels in near run. On the other hand, if Nifty once again breaks below 10240, sellers would like to initiate fresh short positions and then NIFTY can test at 10190/9930 levels.

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