

FX OPTIONS

FX Primer

- Currency market is the largest market in the world; 1.5 Trillion USD changes hands.
- 4 major currencies are USD/JPY, EUR/USD, USD/CHF & GBP/USD.
- There are two markets; a) spot inter bank market and b) exchange traded futures market, with options on both.
- Small investors have excess to both spot and futures markets; but in options, right now, only on the exchanges.

Drivers of the FX market

- Economic Data of the different countries.
- Flows, speculative attacks.
- Safe haven plays.
- Commodity plays.
- Governmental manipulation and intervention.

Similarities between FX options and equity options

- Strategies are the same, puts, calls, spreads, achieving the same results.
- Directional plays, volatility plays possible.

Differences between FX options and equity options

- Pricing model; modified Black-Scholes called Garmen-Kolhagen, takes into account interest rate differential, like a continuous dividend payment.
- Put on USD means call on currency and vice versa.

Where to Execute Trades

- www.findbrokers.com gives a list of brokers to choose from. Futures and options on futures contracts are bought and sold through brokerage firms, just like stocks. All brokers in the U.S. must pass qualifying examinations and receive a government license before they are permitted to handle customer orders. You can check on the registration status of your broker, or "associated person," by calling the National Futures Association at 312-781-1410.
- FX options are traded on the CME, www.cme.com
- Currency pairs traded are USD/JPY, EUR/USD, USD/CHF, STG/USD, USD/CAD, AUD/USD, NZD/USD, USD/RUB, USD/MXN, USD/BRL & USD/ZAR.

CONTRACT	CONTRACT SIZE	TICK SIZE	TICK VALUE
USD/JPY	JPY 12,500,000	0.000001	\$12.50
EUR/USD	EUR 125,000	0.0001	\$12.50
CHF/USD	CHF 125,000	0.0001	\$12.50
STG/USD	STG 62,500	0.0002	\$12.50
USD/CAD	CAD 100,000	0.0001	\$10.00
AUD/USD	A\$ 100,000	0.0001	\$10.00
NZD/USD	NZD\$ 100,000	0.0001	\$10.00
USD/RUB	RUB 500,000	0.000025	\$12.50
USD/MXN	MXN 500,000	0.000025	\$12.50
USD/BRL	BRL 100,000	0.0001	\$10.00
USD/ZAR	ZAR 500,000	0.000025	\$12.50

- The minimum price movement of a currency futures or options contract is called a "tick". The value of a tick is determined by multiplying the minimum tick size by the size of the contract. In the case of the Swiss Franc, the minimum tick size is \$0.0001 so the value of the minimum tick is 125,000 Swiss Francs multiplied by \$0.0001 or \$12.50.
- CME currency products are available for trading virtually 24 hours a day. Pit trading on the CME trading floor begins at 7:20 a.m. and runs until 2:00 p.m. (Chicago time) Monday through Friday. Once these open outcry trading hours end, trading resumes at 2:30 p.m. on GLOBEX. GLOBEX is the CME's automated order-entry and matching system, available worldwide. The GLOBEX trading session ends at 7:25 a.m. the following business day. (You can even trade currencies on Sundays on GLOBEX, beginning at 5:30 p.m.)