

May 16, 2017

Global Derivatives

Nifty likely to test 9600. Major support for series at 9300...

Sell option recommendations...

Underlying	Action	Option Type	Strike	Initiation Range	Stoploss	Delta	Gamma
Petronet LNG	Sell	Put	430	3.40-3.70	5.95	0.16	-0.0032
REC Ltd	Sell	Put	210	1.80-1.90	3.7	0.18	-0.0488
JSW Steel	Sell	Put	185	2.20-2.40	4.3	0.21	-0.0476
Zee Entertainment	Sell	Call	550	3.50-3.80	7.1	0.17	-0.0737

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Sell option recommendations

- **Petronet LNG (PETLNG)**

Sell Petronet LNG May 430 Put at ₹ 3.00-3.50 Target: ₹ 0.10; Stop loss ₹ 5.95

Rationale

Petronet LNG has moved above its October highs last month. Since then, it has been consolidating above these levels. At the same time, significant Put writing was seen in the stock in near the money strikes. We believe the stock is on the verge of fresh upside momentum and may trade with a positive bias in days to come. Hence, we recommend selling Put option of the stock.

- **REC Ltd (RURELE)**

Sell REC Ltd May 210 Put at ₹ 1.80-1.90; Target: ₹ 0.10; Stop loss ₹ 3.70

Rationale

The power space is witnessing continued frenzy and has seen increased buying interest. REC Ltd has moved to its life-time high levels amid increased delivery based buying. The stock is unlikely to witness a move below its crucial breakout level of ₹ 206. Hence, we believe downsides are limited in the stock and Put options can be written as the May settlement is approaching.

- **JSW Steel (JSWSTE)**

Sell JSW Steel May 185 Put at ₹ 2.20-2.40 Target: ₹ 0.10; Stop loss ₹ 4.30

Rationale

Metal stocks have taken a beating after almost 20% correction seen in the most commodity markets. However, domestic steel companies have bucked the trend and stocks like JSW Steel have moved to their life-time high levels once again. We believe limited downsides are there in the ongoing series and stuck up short positions are likely to provide cushion on every decline. We believe Put options of the stock can be written with the view of limited downsides.

- **Zee Entertainment (ZEEENT)**

Sell Zee Entertainment May 550 Call at ₹ 3.50-3.80; Target: ₹ 0.10; Stop loss ₹ 7.10

Rationale

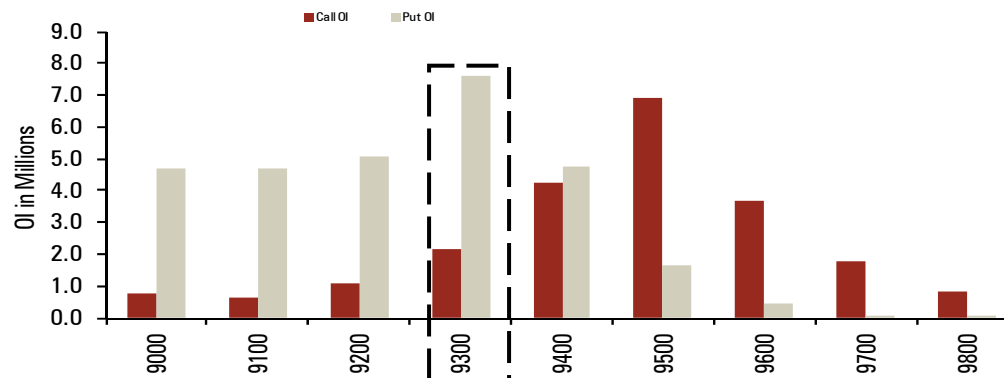
Zee Entertainment has witnessed continued selling pressure near ₹ 550 in the last couple of months. After witnessing sharp upsides from sub 500 levels post quarterly results, the stock failed to surpass these levels once again. With highest Call base placed at 550 strike, it seems Zee Entertainment will find it difficult to surpass these levels in the current series. Thus, we recommend writing Call option of the stock to gain from the eroding time value.

Note: Recommendations have been released on iClick2Gain on Petronet LNG (May 15, 2017), REC Ltd (May 15, 2017), Zee Entertainment (May 15, 2017) and JSW Steel (May 15, 2017)

Nifty: Likely to move towards 9600 with important support at 9300 in current series...

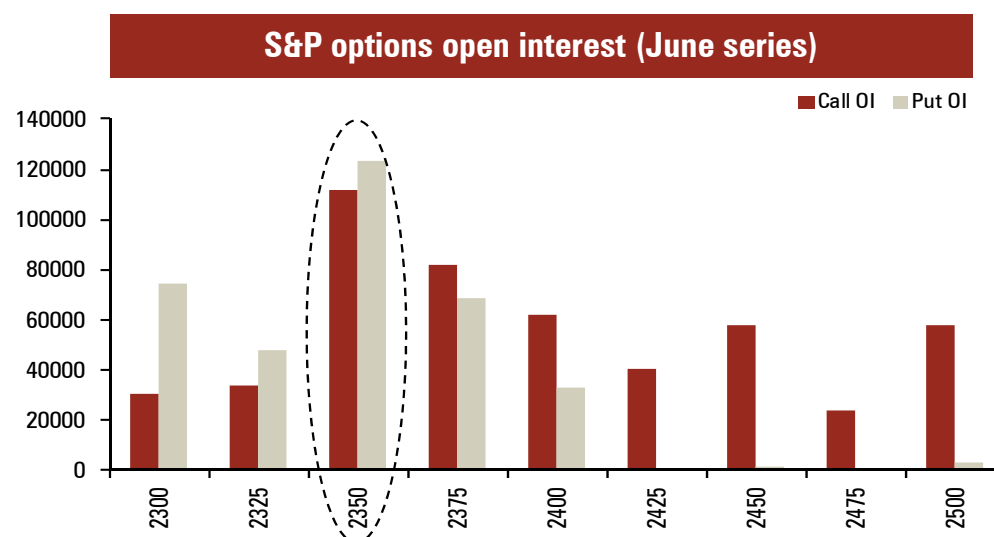
- The Nifty continued its upward momentum even in the May series and moved above 9400 after spending some time consolidating around 9200 in the April series. The Nifty has not moved much below its April settlement level of 9350. In days to come, we believe the consolidation with a positive bias may continue and the Nifty may move towards 9600
- Nifty futures have witnessed significant closure of open interest since the March series. Despite a marginal increase in the last few sessions, the open interest in the Nifty is still lower by almost 20% since the March series. Closure of stuck short positions had kept downsides limited for the index
- On the options front, since the inception of the May series the highest Put base was placed at the 9200 strike, which has gradually moved higher to 9300 Put strike. The current open interest in 9300 Put is higher than any of the Call open interest, which makes it a crucial support for the Nifty in the near term. On the higher side, Call option position seems vulnerable at 9500 strike. It may be breached if the Nifty sustains above 9400. Thus, closure of these short Call positions may move the Nifty towards 9600
- The volatility index continues to trade lower and is currently hovering near one of its lowest levels despite intermediate profit bookings and ongoing quarterly results. It also indicates towards limited downside expectations in the market

Nifty options build-up for May series...



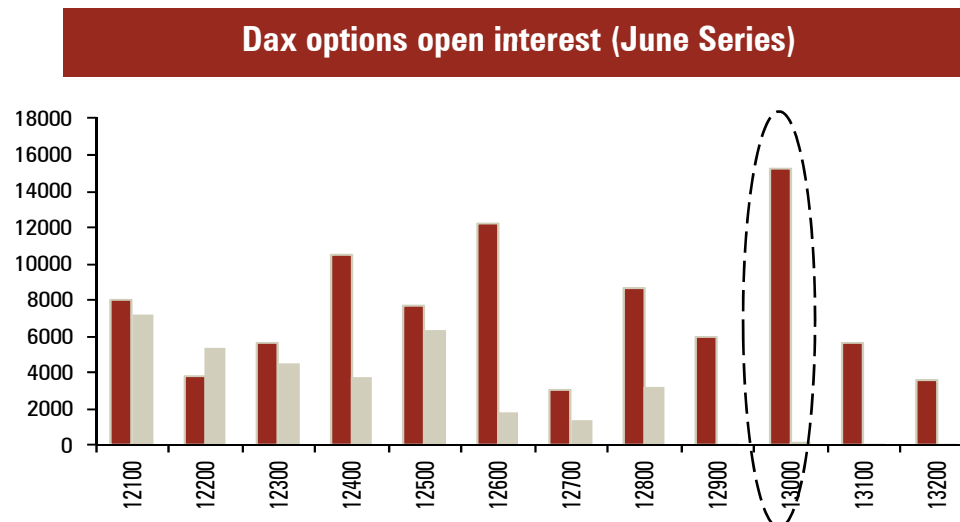
S&P 500: Sustainability above 2360 important in short-term for upside target of 2450...

- The S&P had seen some profit taking in the April series but recovered swiftly towards 2400 once again. It spent the first half of the May series consolidating in the narrow range of 2380-2400. We expect the index to extend its gains towards 2450 in the near term with major support placed at 2360
- Increased volatility in currency markets has led to movement towards safe assets before French elections. However post elections, movement has emerged in equities and both stocks, bonds saw fresh buying momentum. US 10-year yield started reverting from 2.40 levels once again despite almost another rate hike certain in June
- On the data front, the highest Put option base for June series is placed at Put 2350 strike. It is likely to act as an important support level for the index. Thus, any extended decline should be considered only if it moves below these levels. At the same time, with no major Call base present among Call strikes, upsides may open towards 2450 in the near month
- Despite a recent fall in most commodities, macroeconomic data continues to improve for the US. As of now, another two rate hikes are expected during the current calendar year



Dax: Positive bias to continue; likely to trade above major support of 11800...

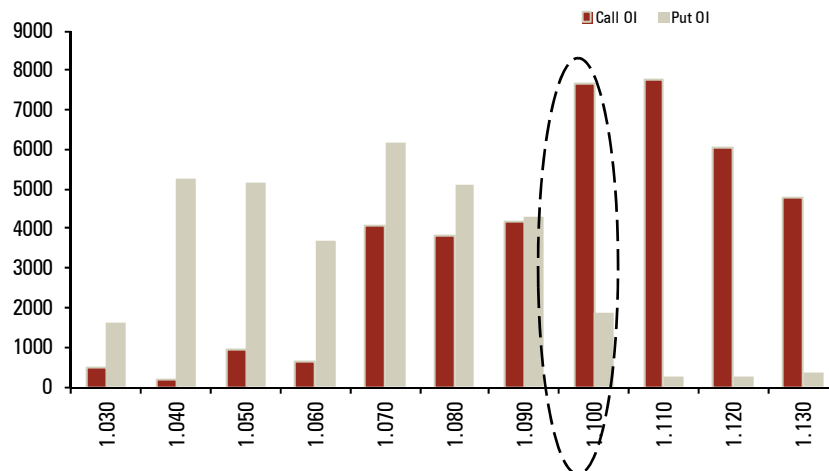
- Unlike the S&P, Dax has witnessed a sharp upside momentum post the French election results and moved to its life-time high levels. However, European markets have significantly underperformed the rest of the global peers. The S&P has moved up almost 15% from its 2015 highs whereas Dax has gained just 3% from respective levels suggesting significant upsides are still left in the index
- We believe the uptrend may continue in the German index despite 25% gains seen since November 2016. The recent breakout level of 12300 is likely to act as an important support for the index. Positive bias should be maintained till it trades above these levels. Thus, extended upsides towards 13300 can be expected in coming sessions
- The Euro has surpassed its critical resistance of 1.08 levels post the French election results. Sustainability above these levels suggests pro-euro sentiments are gaining momentum. At the same time, improving growth forecasts for Europe are also providing a cushion to the Euro, which, in turn, is likely to benefit equities
- In the options space, the highest Call option concentration is at the 13000 strike for the June series. As the Dax is trading near these levels only, further upsides can be expected due to closure of positions



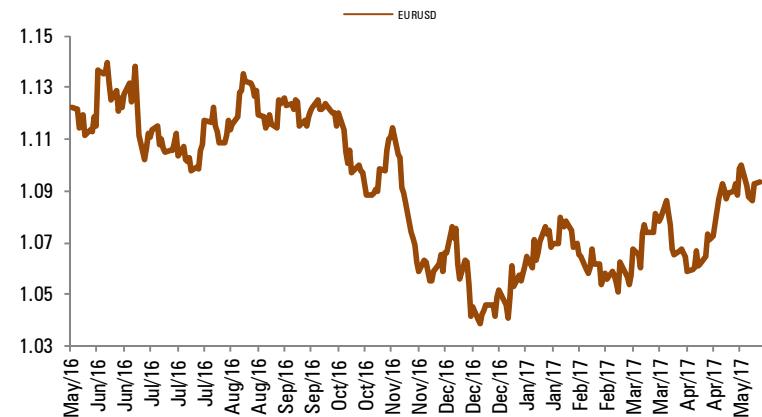
Euro: Likely to move towards 1.12 if it sustains above 1.08...

- The Euro has finally moved above its crucial hurdle of 1.08 levels post the French election outcome. The current gains in the Euro despite almost certain rate hike by US Fed in June clearly suggests expectations of renewed growth from Eurozone as well
- For Euro, we believe 1.08 level is crucial for further upsides. We do not expect it to move lower from these levels. Thus, after some consolidation, another round of appreciation may be seen in the Euro where it may move towards its previous highs of 1.12 levels once again
- On the data front, the Call base for Euro is significantly high at 1.10 strike which seems to be an immediate hurdle for the currency pair in the short-term. At the same time, Put open interest is primarily concentrated at 1.08 strike. Thus, sustainability above 1.08 is important for Euro to resume its uptrend
- Some change is expected in ECB policy as ECB has pointed towards a broad and solid recovery in the April meet. It is expected that in the June meet, ECB will guide towards slower pace of quantitative easing which will provide further cushion towards an appreciating currency

Euro options open interest (June series)



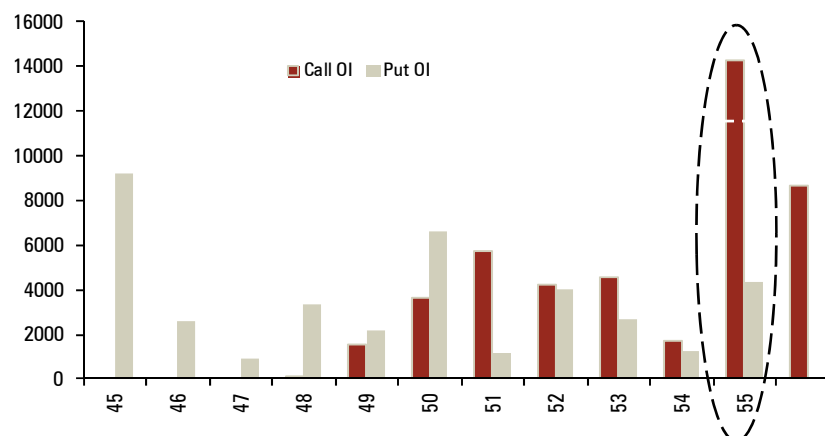
EURUS\$ - 1.08 levels to remain crucial support



Brent crude: Likely to consolidate below \$55 with negative bias...

- Crude has breached its much coveted levels of \$50 last month but recovered once again above these levels in the last couple of sessions. Talks on an extended production cut by Opec countries have led the current recovery in Brent. Another round of escalation by North Korea has also triggered some upsides in the Brent. However, sustainability of these levels is unlikely in the days to come. We expect Brent to move lower once again
- On the data front, nothing has improved as the highest Call option base is still placed at 55 strike. A move above these levels is unlikely in the short term. As suggested earlier also, despite almost full compliance on production cut from main Opec nations and intentions on carrying it in future also, Brent was unable to exhibit any major strength. On the other hand, the highest Put base remains at 45 strike, which may be tested if it breaches the \$50 mark once again
- Recently released CFTC data indicates further liquidation of long positions last week. Current net long positions in Brent are the lowest in 2017 indicating prevailing scepticism in the Brent. We believe crude may remain under pressure till we see any fresh long build-up
- The producer's hedge has increased sharply to almost full from near 55% seen last month suggesting developing scepticism in crude. We believe any negative news flow may put significant downside pressure in the days to come

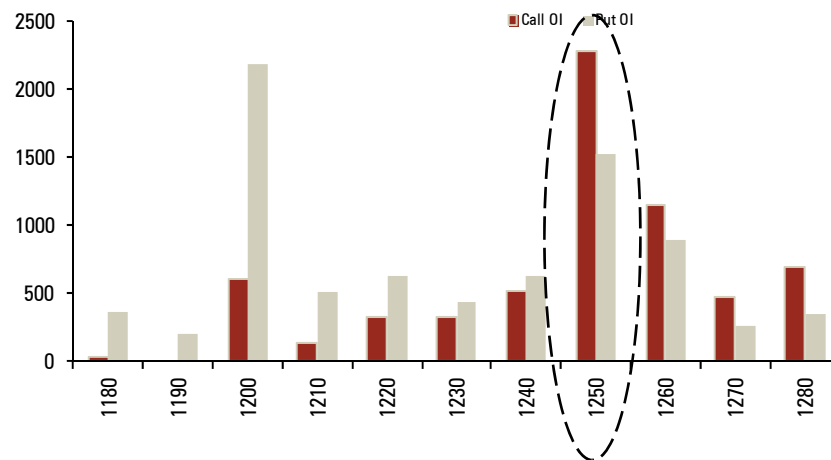
Brent options open interest (June Series)



Gold: Likely to consolidate in range of \$1200-1270 in near term...

- As expected, gold was unable to surpass \$1300 as risk sentiments subsided post the French elections. The current decline in gold is the sharpest seen in the current year after gaining almost 15% since December 2016. The pause in the strengthening dollar has also caused a breather in the precious metal
- From a data perspective, the major option concentration is placed at 1300 Call strike. Thus, gold is unlikely to move above these levels in the short-term. At the same time, major option concentration placed at Put 1200 strike and Call 1250 strike. Thus, a consolidated move in the range of \$1200-1270 can be expected in gold. Only a fresh escalation in the geo-political space will be required to prompt gold to move out of the range
- As mentioned earlier also, fresh longs have started building up in the precious metal and current net long positions are at 0.16 million contracts against 0.4 million contracts seen in 2016. Thus, a negative bias in gold is not visible. CFTC data also shows positive sentiment in gold as hedged for commercial positions has increased to 60% as per the latest data. However, we believe a move above \$1270 may take a while for gold. It may remain range bound in days to come

Gold options open interest (May Series)

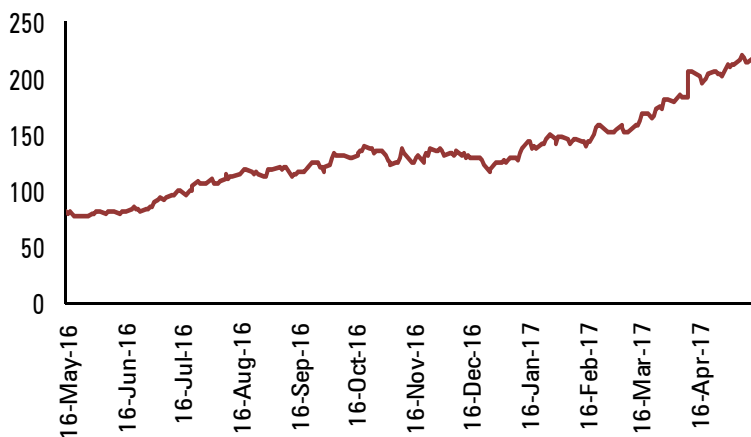


Dollar index

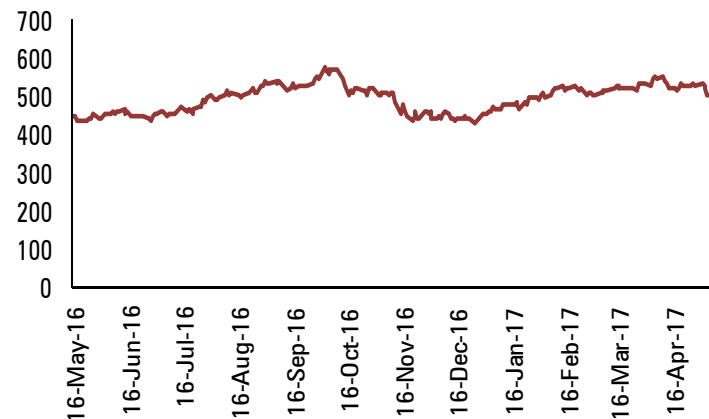


12 Month trailing price performance...

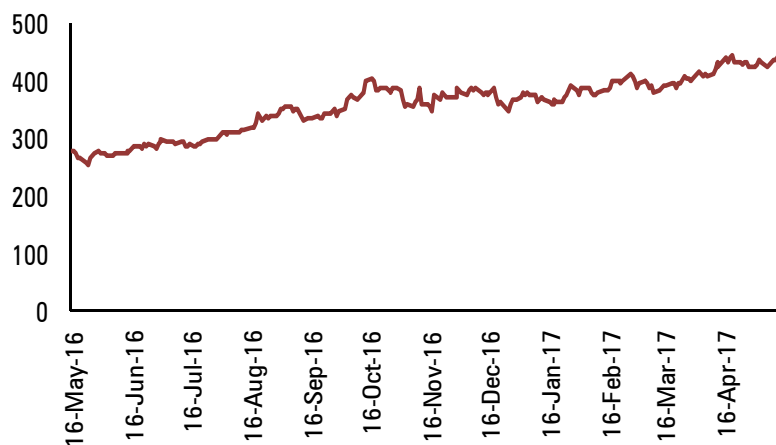
REC Ltd



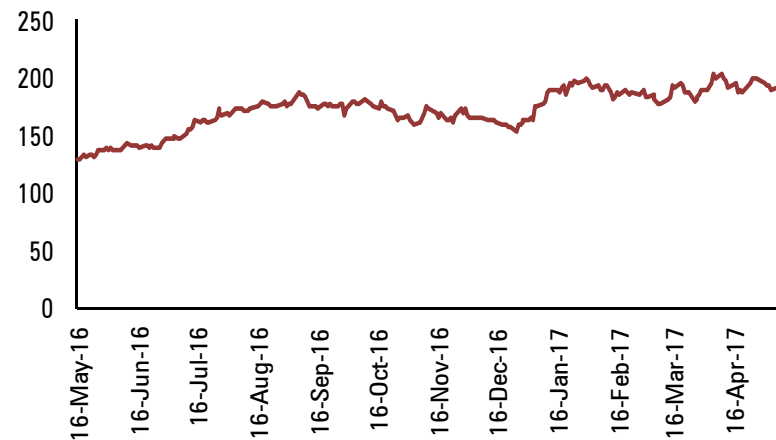
Zee Entertainment



Petronet LNG



JSW Steel



Portfolio allocation in Derivatives Products...

- It is recommended to spread out the trading corpus in a proportionate manner between the various derivatives research products
- Please avoid allocating the entire trading corpus to a single stock or a single product segment
- Within each product segment, it is advisable to allocate equal amount to each recommendation.
- For example: The 'Daily Derivatives' product carries two intraday recommendations. It is advisable to allocate equal amount to each recommendation
- Quant picks recommendations should be considered in cash segment and stoploss on closing basis. Time frame for these recommendations is 3 month.

Products	Allocation		Number of Calls	Return Objective		
	Product wise allocation	Max allocation per stock		Frontline Stocks	Mid-cap stocks	Duration
Daily Derivatives	5%	2-3%	2 Stocks	1%	2-3%	Intraday
Weekly Derivatives	10%	3-5%	2 Stocks	3-5%	5-7%	1 Week
High OI stock	5%	2-3%	2-3 Stocks	5-7%	7-10%	1-2 Weeks
Monthly Derivatives	15%	3-5%	4-7 Stocks	7-10%	10-15%	1 Month
Global Derivatives	5%	2-3%	1-2 index strategy	-	-	1 Month
Quant Picks	20%	2-3%	2-3 Stocks	7-10%	10-15%	3 Months
Alpha Trader	10%	2-3%	2-3 Alpha strategy	5%	-	3 Months
Volatility Insights	5%	2-3%	1-2 Strategy	8-10%	10-15%	1-2 Month
Arbitrage Opportunity	5%	2-3%	2-3 Stocks	> 2.5%	>2.5%	Event Based
Positional / Daily Futures	5%	2-3%	8-12 Stocks	1-3%	2-5%	1-14 days
Index option & Strategy	5%	3-4%	2-5 Nifty	2-3%	-	1-14 days
Stock option & Strategy	5%	3-4%	2-8 Stocks	-	3-5%	1-14 days
Currency Futures	5%	3-4%	3-5 Calls	-	-	Intraday



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