

**Headline:** Lower Premium and lesser time decay make Bank Nifty's weekly Options a hit

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# INDEX VOLUMES RISE almost four-fold in one year; HNIs and proprietary desk most active

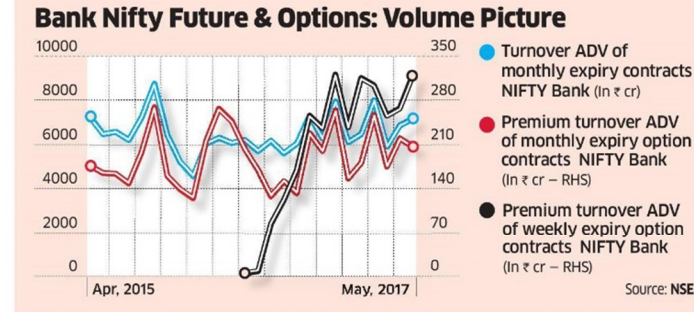
## Lower Premium and Lesser Time Decay Make Bank Nifty's Weekly Options a Hit

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**ET Intelligence Group:** The volumes in weekly options on the Bank Nifty index have risen nearly four-fold in the past one year. In addition, their average daily traded volumes (ADV) have surpassed the total volumes of the monthly options due to increased interest from the high-networth individuals (HNIs) and proprietary desk. Lower premium for monthly options and relatively lesser time decay, or theta in technical parlance, make weekly options popular.

Weekly options in India are available only for the Bank Nifty index. They are used to either hedge an event risk which is too close, making a monthly option inappropriate, or to take advantage of price mismatch between the current and fair values of options reflected by theta.

ADV of the weekly options rose to ₹318 crore in May 2017 compared with ₹81 crore



in June 2016, according to NSE. Also, it was 55% higher than the monthly contracts in May 2017. The contract of weekly options are introduced each Thursday, and they expire on the next Thursday with adjustments for holidays.

Neeraj Agarwal, vice-president at IDFC securities, said, "The major participants in weekly options are HNIs and proprietary desk in India while the participation of the institutions is not very encouraging." There are a couple of reasons why vol-

umes in weekly options are picking up. First, a trader can buy weekly option to hedge the portfolio when event risk is the closest by paying the option premium for just one week rather than for an entire month in case of monthly options. The premium cost of weekly options is nearly half of the monthly options. Second, weekly options can be used for speculative gains on theta. Theta measures the rate of decline in the value of options due to the passage of time. Any difference between the prices based on the time decay adjusted value and the current price increase trading interest.

Nilesh Dedhia, director at NTD trading, said, "Weekly options are turning into an attractive avenue for option writers to lower their hedging cost and receive put or call premium at a favourable price."

However, there is a flip side to the weekly options. Due to short duration and rapid time decay, traders rarely have time to recoup losses, if any.