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VANILLA OPTIONS

FAQs

BALANCE YOUR RISK WITH OPTIONS

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WHAT ARE OPTIONS?

Options not only allow you to take advantage of the movements in the value of a currency pair, they also limit the risk you expose your account to. You can benefit from options when the currency market moves higher, lower or sideways without any risk of your deal closing before you intend it to.

WHAT TYPES OF FOREX OPTIONS CAN I TRADE WITH EASYMARKETS?

With easyMarkets, the underlying product is a currency pair and you can trade 27 pairs including Gold (XAU) and Silver (XAG).

I'M NEW TO FOREX – CAN I TRADE OPTIONS?

Discover options trading in our Learn Center section. This is where you will find a series of articles that explain currency trading and the foreign exchange market, as well as a free guide to trading options.

When you are ready, try opening a deal under the 'Vanilla Options' tab! Buy a Call(Up) if you believe the market will rise or buy a Put(Down) if you believe the market will fall.

HOW DO I TRADE EASYMARKETS VANILLA OPTIONS?

You can trade options with easyMarkets by clicking the Vanilla Options tab on the easyMarkets web platform. When you log into the easyMarkets Web Platform choose your desired pair on the left-hand side of your screen and then click on the Vanilla Options tab.

In the easyMarkets web platform, you can buy a Call(Up) or a Put(Down) with predefined characteristics depending on whether you believe the pair will move higher or lower.

Further, you can also choose the expiry date, the deal size, and the strike price.

WHAT IS A CALL(UP) AND WHAT IS A PUT(DOWN)?

Call(Up) Option: If you anticipate that the price of a currency pair will rise, you may take advantage of that movement by buying a Call(a UP option).

Put(Down) Option: If you anticipate that the price of a currency pair will fall, you may take advantage of that movement by buying a Put(Down Option).

HOW DO I BUY AN OPTION IN THE EASYMARKETS VANILLA OPTIONS PLATFORM?

1. Select the currency pair of choice. Pick the amount you wish to trade.

2. Set the strike price. You can keep the strike price unchanged if you wish to trade an at-the-money option or modify the price by typing in the field the price or by using the arrows.

3. Select the expiry date. This will set the time to expiry of your option. Remember the longer time frames carry a higher premium but you can always choose to close the option before expiry.

4. Based on these parameters the premium will be calculated and shown. When you have set all parameters, click on 'scenarios' Down or Up to view a graphical summary of your profit and loss at different spot prices at the expiration date chosen.

5. When you are happy with the parameters, click on either 'Down' or 'Up'. Remember a buyer of a "Down Option" expects the price of the underlying instrument to fall. A buyer of an "Up Option" expects the price of the underlying instrument to rise.

WHAT ARE AT-THE-MONEY, IN-THE-MONEY AND OUT OF-THE-MONEY OPTIONS?

a. An **at-the-money (ATM)** option is one where the strike price of the option is equal to the current spot market for both Put(Down) and Call(Up) options.

b. A **Call option is in-the-money (ITM)** when the spot price is above the strike price.

c. A **Put option is in-the-money (ITM)** when the spot price is below the strike price.

d. A **Call option is out of-the-money (OTM)** when the spot price is below the strike price.

e. A **Put option is out of-the-money (OTM)** when the spot price is above the strike price.

WHY DOES THE PREMIUM CHANGE ON MY OPTION?

When you open an option, you will notice the value of the premium changes over time. Many factors may influence an option; the price of the underlying currency pair, the strike price, volatility and the amount of time until expiration.

If the option is in-the-money, it will be worth more than if it is not, making the premium higher.

The higher the volatility, the higher will be the premium.

The more time until expiry the higher will be the premium.

WHAT DOES THE SENSITIVITY REPORT SHOW?

The sensitivity report shows us the option Greeks. Option Greeks represent the sensitivity of the premium to certain variables, such as time, volatility and the spot rate. They are Delta, Gamma, Vega and Theta. You can find the sensitivity report when opening a trade and when viewing your open trades.

WHAT IS THE DELTA?

The delta is also known as the hedge ratio. It tells us the amount we need to trade in the spot market in order to hedge our option.

For example, an option deal of 100,000 at-the-money, will have a delta of approximately 50,000. This means the equivalent amount needed to trade in the spot market will be 50,000 and vice versa.

WHAT IS GAMMA?

Gamma shows by how much the delta will change if the spot changes. The further away the strike is from the spot, the less the delta will change, while the closer spot is to the strike, the higher the gamma value.

WHAT IS THETA?

Theta tells you how much value your option loses every day that goes by. The longer the time period the less important theta is. Theta will increase day by day the closer we are to expiry.

For example, an overnight option will have a theta of 20, meaning it will lose 20 dollars of time value by tomorrow. A 60-day option will have a lower theta since from day 60 to day 59 it plays a minor role in your chances to profit as you still have 59 days left.

WHAT IS VEGA?

Vega tells you how much your premium will gain if volatility increases by 1%. A more volatile pair will have a higher chance of ending up profitable or the inverse because it moves more.

During major announcements for example the EURUSD volatility may jump from 7% to 12%, which is a huge Vega jump.

WHAT ARE THE MARGIN REQUIREMENTS FOR TRADING FOREX OPTIONS?

Unlike spot trading, forex option trading does not have a margin requirement. In option trading you pay a premium that is much less than the deal size. For example, for a one lot equivalent deal of 100,000 euros, it is possible to buy an overnight at-the-money option for as low as 150 dollars. If the market moves your way you will profit, and if it moves against you, your maximum loss cannot exceed this initial premium.

WHAT IS THE OPTION EXPIRY?

The expiry is the date on which the option contract will expire. easyMarkets offers expiry dates from as short as overnight to up to 6 months. This means that you can select the date you want your option to last depending on the time period you believe the market move will take place.

At expiry, options that are in-the-money (ITM) are exercised at a profit while options at-the-money (ATM) or out-of-the-money (OTM) are exercised at a loss where the maximum loss is the premium paid at open.

If you are a day trader looking to protect your positions, it is wise to match your option expiry to the length you expect to keep your trades open. Options expire daily at 14:00 GMT (10:00 New York time).

WHAT ARE THE TRADING HOURS FOR OPTIONS?

The forex options market is open from Monday at 00:00GMT until Friday at the same time that other currencies close. You can trade options at any time during those hours just like the spot forex market. Each day the options expire at 14:00 GMT (10:00 New York time).

WHAT'S THE BEST TIME TO TRADE OPTIONS?

Major releases like the US non-farm payrolls or European Central Bank press conferences can cause a lot of volatility. Options are cheaper when there is less volatility in the market, so you may want to buy an option in the expectation that volatility will increase ahead of major releases or central bank announcements. Also, as there is no risk of an option being stopped-out, a forex option may be a better product to use instead of a spot forex trade when volatility is on the horizon.

WHAT KIND OF STRATEGIES I CAN TRADE WITH EASYMARKETS?

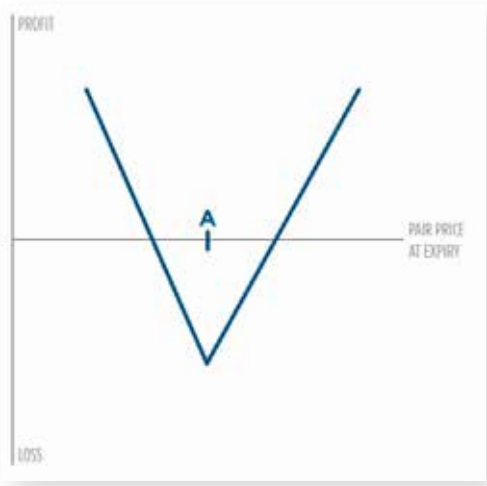
easyMarkets Vanilla Options Platform gives you the possibility to trade different strategies to protect your position in the market. Take a look at some popular option strategies below:

LONG STRADDLE

The Long Straddle strategy allows the trader to benefit from expectations regarding upcoming high volatility in a currency pair. This strategy requires the purchase of an at-the-money (ATM) Call and Put. However, the strategy involves high premium costs, so in order for the trader to be able to make a profit, the currency pair must be very volatile, which also increases risk.

WHEN TO DO IT

This strategy works best when the trader thinks that the pair will be very volatile in the near future.



THE SET-UP

- Buy an ATM Call at strike price A (spot +0)
- Buy an ATM Put at strike price A (spot +0)
- At the time of creating this strategy, the pair's price will be at A.

MAXIMUM POTENTIAL PROFIT

The maximum potential profit is **unlimited.**

MAXIMUM POTENTIAL LOSS

The maximum potential loss is **limited** to the premiums paid.

TIME IMPACT

In the Long Straddle strategy, time decay works strongly against the trader. As time goes by, the value of both options decreases in case spot price does not fluctuate away from strike price.

BEST/WORST CASE SCENARIO

The best-case scenario occurs when the pair's price increases or decreases by a huge amount.
The worst-case scenario occurs when the pair's price does not change by the amount required to start making profit.

TIPS

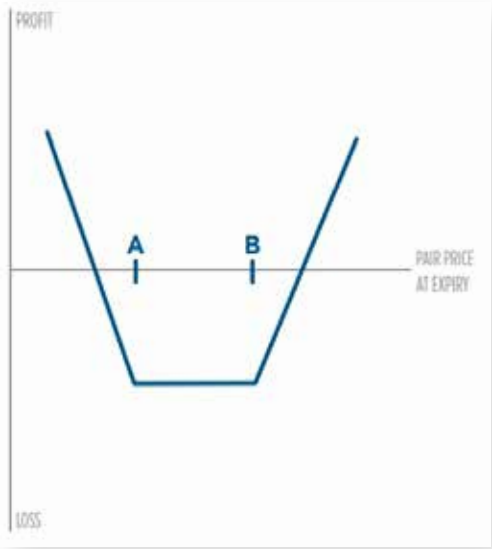
The Long Straddle works well when major events that are expected to greatly increase volatility in the near future. This anticipation enables the trader to create a Long Straddle within a limited time frame and thus cap the premium costs. Doubling the amount spent on either the Put or the Call will mean that the trader still expects high volatility but has an expectation on the direction the pair will move. Implementing this expectation to the Straddle, it changes its name to "Strip" if the expectation is bearish and "Strap" if the expectation is bullish.

LONG STRANGLE

The Long Strangle strategy allows the trader to profit from expectations regarding upcoming high volatility in a currency pair. This strategy requires the purchase of an out-of-the-money (OTM) Call and Put. The Long Strangle differs from the Long Straddle in that the purchase of the options happens at an out-of-the-money (OTM) strike price, and hence premium costs are reduced. However, in order for the trader to be able to make a profit, the currency pair must be even more volatile than that required by the Straddle.

WHEN TO DO IT

This strategy works best when the trader thinks that the pair will be extremely volatile in the near future.



THE SET-UP

• Buy an OTM Call at strike price B (spot +)

• Buy an OTM Put at strike price A (spot -)

• At the time of creating this strategy, the pair's price will be between A and B

MAXIMUM POTENTIAL PROFIT

The maximum potential profit is **unlimited.**

MAXIMUM POTENTIAL LOSS

The maximum potential loss is **limited** to the premiums paid.

TIME IMPACT

In the Long Strangle strategy, time decay works strongly against the trader. As time goes by, the value of both options decreases

BEST/WORST CASE SCENARIO

The best-case scenario occurs when the pair's price increases or decreases by a huge amount.
The worst-case scenario occurs when the pair's price does not change by the amount required to start making profit.

TIPS

The Long Strangle works well when there are major events that are expected to highly increase volatility. This anticipation enables the trader to create a Long Strangle for a longer duration than a Straddle because of the reduced premium costs. Traders can benefit if they expect the volatility to increase prior to the date of the event and so are able to prolong their options to capture that potential increase in volatility.

WHY SHOULD I TRADE OPTIONS WITH EASYMARKETS?

- Experience the simplest online options trading platform in the industry
- Protect your spot positions and hedge day trading
- There is no stop loss meaning you will never get stopped out
- There are no rolling fees
- The premium is your maximum loss
- Enjoy reliable pricing and execution Y

YOU CAN TRADE:

- A rising trend – (Call)
- A falling trend – (Put)
- Market volatility – (Strategies)

IS OPTIONS TRADING COMPLIANT WITH ISLAMIC LAWS?

Yes, options are compliant with Islamic Laws.

Jobst, an economist from the International Monetary Fund, says the following in his 2007 paper entitled 'Derivatives in Islamic Finance': Khan (1995) concedes that "some of the underlying basic concepts of (options)… are exactly the same as (the ones) laid down by the Prophet Mohammed (peace is upon him) for forward trading.

Kamali (2001) finds that "there is nothing inherently objectionable in granting an option, exercising it over a period of time or charging a fee for it, and that options trading like other varieties of trade is permissible mubah, and as such, it is simply an extension of the basic liberty that the Quran has granted".

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