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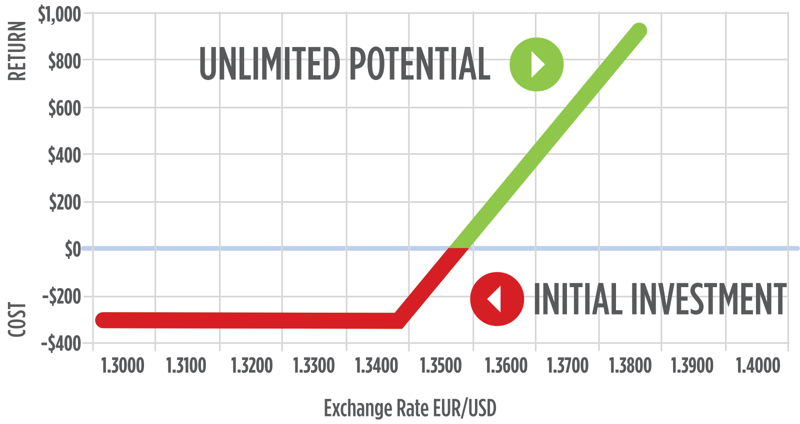
VANILLA OPTIONS

FAQs



BALANCE YOUR RISK WITH OPTIONS

Content

What are Options?

Options give you exactly what their name suggests: an option to enter a trade! Options not only allow you to take advantage of the movements in value of a currency pair, they also limit the risk you expose your account to. You can make money with 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 easy-forex?

With easy-forex, the underlying product is a currency pair and you can trade the 20 major currency pairs as well as Gold (XAU) and Silver (XAG).

I'm new to forex – can I trade options?

Discover options trading in our Learn 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 in 'new mode'! Buy a Call if you believe the market will rise, or buy a Put if you believe the market will fall.

How do I trade easy-forex options?

You can trade options with easy-forex via the options tab on the web based platform. The options trading zone has three modes depending on user experience; the new mode, the basic mode and the advanced mode.

In the new mode, you can buy a Call or a Put with predefined characteristics depending whether you believe the pair will move higher or lower.

In the basic mode, you can buy a Put or Call and now you can also choose the expiry date (up to six months ahead), the deal size and the strike price.

In the advanced mode, you can buy and now also sell options and create strategies where you buy or sell more than one option simultaneously.

What is a Call and what is a Put?

A Call is an option for the right to buy a currency pair but not the obligation. If you anticipate that the price of a currency pair will rise, you may take advantage of that movement by buying a Call.

A Put is an option for the right to sell a currency pair but not the obligation. If you anticipate that the price of a currency pair will fall, you may take advantage of that movement by buying a Put.

How do I buy an option in the basic mode?

1. Select the currency pair of choice.
2. Pick the option type you wish to trade, either a Put or a Call. Remember a Call gives you the right to buy while the Put gives the right to sell the underlying currency pair.
3. Set the strike price. You can type in the price directly or the percentage above or below the current spot price. For example, type in +0 for an at-the-money option, +1 for a 1% higher strike price from spot, or -1 for a 1% lower strike price.
4. 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.
5. Lastly select the amount, which is the deal size.
6. When you are happy with the parameters, click on 'trade now'.

What are at-the-money, in-the-money and out of-the-money options?

- 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 and Call options.
- A Call option is in-the-money (ITM) when the spot price is above the strike price.
- A Put option is in-the-money (ITM) when the spot price is below the strike price.
- A Call option is out of-the-money (OTM) when the spot price is below the strike price.
- 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 will delta 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 by how much your premium will gain if volatility increases by 1%. A more volatile pair will have a higher chance of ending up profitable because it moves more.

At 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.

Margin requirements may be implemented when selling uncovered options.

What is the option expiry?

The expiry is the date on which the option contract will expire. easy-forex 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 Sunday at 09:00 GMT until Friday at 9:00 GMT. 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.

Can I sell options with easy-forex?

You can sell options in the advanced mode of the easy-forex platform if they are combined with buying an option. You cannot sell options on their own (uncovered). This is because when you buy an option you have unlimited gains and capped losses, but when you sell an option you cap your gains and have unlimited losses. The easy-forex platform does not allow you to trade with the possibility of an unlimited loss; so by buying an option at the same time as selling allows you to control your maximum loss.

What kind of strategies I can trade with easy-forex?

You can trade any strategy that will keep your downside protected. There are strategies to take advantage of bullish and bearish markets as well as volatility. Visit our website or contact us for help in creating a strategy that suits your trading. Or see our strategies guide for more information.

When will more products be available?

easy-forex will soon be releasing more pairs and other products on the options platform. Our aim is to provide our clients with trading products that are at the cutting edge of development yet easy to use.

Why should I trade options with easy-forex?

- 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

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".

ARE YOU READY TO TRADE EASY-FOREX OPTIONS?

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www.easyMarkets.com/contact-us

www.easymarkets.com/trade/vanilla-options

Risk warning: Forward Rate Agreements, Options and CFDs (OTC Trading) are leveraged products that carry a substantial risk of loss up to your invested capital and may not be suitable for everyone. Please ensure that you understand fully the risks involved and do not invest money you cannot afford to lose. The information provided can under no circumstances be considered as a recommendation to engage in any trade. Our group of companies through its subsidiaries is licensed by the Cyprus Securities & Exchange Commission (Easy Forex Trading Ltd- CySEC, License Number 079/07), which has been passported in the European Union Through the MiFID Directive and in Australia by ASIC (Easy Forex Pty Ltd -AFS license No. 246566).