

Rollover of futures market positions

In the short term, the equity markets are volatile – up one day and probably down the next. However, there are some definite trends that last over a couple of months which an investor can benefit from. Now, if equity futures mature in one to three months, how can these be used to hedge against longer equity market trends or benefit from a view on a medium term trend? The simple answer is through rolling them over to the next settlement period. To understand what exactly this entails, read on...

Futures maturities The National Stock Exchange (NSE) at any given point of time offers three derivative series, which are the 'near' month, 'next' month and the 'far' month. All series expire on the last Thursday of every month. Taking a current example, the derivatives series expiring on the last Thursday of this month (February) is a 'near' month series, the one expiring on the last Thursday of March is the 'next' month series and the series expiring on the last Thursday of April would be the 'far' month series. In the current month of February, you can take a position in a derivatives contract falling in any of the aforementioned series – near, next or far- depending on your hedging needs or your anticipation of future price movements.

What are rollovers? All derivatives contracts standing in open interest would automatically get squared off / executed on the basis of the relative spot market price prevailing on the last Thursday of the month of their maturity. When the expiry of a derivative series approaches, on the last Thursday of a month; you have the option to rollover your positions. A rollover simply means that the current month's open positions are carried forward to the next month's series. Rollovers do not necessarily take place on the last day of the series. They could begin right from a week ahead of the expiry of the current month contracts or even before that.

When are rollovers useful? To speculate on a market trend: To understand "rollovers" we take the example of Rajesh Kumar, who has sold one lot of Reliance Industries futures in the January series at Rs 3000. As the market was in a corrective mode, Rajesh wanted to continue with his short position into February. So, in the last week of January, he squared off his short position by buying Reliance futures at the prevailing price, i.e. Rs 2500, and in the process he booked a profit of Rs 500 per share. Then he took a fresh short position by selling Reliance futures in the February series at Rs 2490. By doing so, he has rolled over his short position to the next maturity series of futures.

To hedge the value of a portfolio: There are investors who constantly rollover their futures positions month after month in order to hedge their cash market positions. Let's once again take an example of Rajesh Kumar. He owns 1000 shares of State Bank of India (SBI) in the cash market. The market value of these shares is Rs 20 lakh. He plans to buy a house two months from now, for which he would be liquidating his SBI shares. He doesn't want to sell his holdings right now and keep his money idle. But given the uncertainty and volatility currently prevailing in the market, he fears that the value of his portfolio might diminish in case there is a sizable correction in the share price of SBI. To hedge against such a risk he sells futures of equivalent shares as his cash market holding in order to lock in his realizable value of Rs 20 lakh till the end of February. But what after February? His hedge position would expire on the last Thursday of February while he plans to buy the house two months from now. What he can do is rollover his futures position to the March series by selling SBI futures again and continue hedging his cash market position in this manner.

Costs involved The costs that you will incur towards rolling over your position are brokerage fees on the transaction. Trading losses incurred on a position should not be attributed to rollover expenses. If Rajesh Kumar incurred a loss in the earlier mentioned January series futures short position that he has taken, then he might have paid the marked to market margin on the loss making position. He can rollover such position to February series and the loss booked until now should not be considered a rollover related expense. For all kind of derivative trading and derivatives strategies you may visit the website [Derivatives Trading](#)

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