



Options on currency futures

As a leading market maker and liquidity provider in the FX market, Standard Bank: Global Foreign Exchange is able to provide hedgers and investors with innovative solutions to manage their FX exposures. Options on currency futures are one of the tools that can be used for this purpose.

What are options on currency futures (OCFs)?

These are derivative contracts that grant the purchaser the right, but not the obligation, to trade a currency futures contract at a predetermined date and at a prearranged price. Participants are able to buy and sell OCFs (note: a seller's risk profile is the opposite of a buyer's, namely sellers are potentially obligated to trade). Contracts available are the South African rand against EUR, USD, GBP, AUD and JPY.

There are two types of options — a call option and a put option. A call option provides the purchaser the right, but not the obligation, to buy the underlying currency future, while a put option provides the purchaser the right, but not the obligation, to sell the underlying currency future. A premium is payable for this right.

Key features

- Premium is a function of movements in the underlying futures price and volatility
- Premium paid over the life of the contract
- Competitive pricing
- Protection against FX volatility
- Liquid market
- Earn market-related interest on margin
- High gearing
- Minimum contract size is one contract that is 1 000 foreign currency nominal, for example USD1 000.
- Cash settled in rand
- Market integrity — the settlement of contracts is guaranteed by Yield-X exchange, once matched
- Intraday and overnight stops and orders (on the underlying) are available for deals of 250 contracts or more by prior arrangement

Why trade OCFs?

- Provides an additional hedging solution for FX risk
- To hedge traditionally non-permissible exchange control commitments, for example:
 - Currency movements during a tender process
 - Translation of balance sheet exposure
 - Dividends
- For an option purchaser, the downside is limited to the premium paid
- Investor tool used to diversify portfolios
- Investor exposure to directional play
- Travel allowance

Who should trade OCFs?

Options on currency futures can be traded by various participants, for example, companies hedging their FX commitments, individuals hedging their travel allowance or investors trading FX as an asset class. The qualifying market participants include:

- Individuals — who can trade without restriction outside of their R4 000 000 foreign capital allowance
- Pension funds — subject to their 20% foreign portfolio investment allowance
- Asset managers and registered collective investment schemes — subject to their 30% foreign allocation limit
- SA companies (including limited or unlimited, private or public, close corporations, trusts and partnerships) — which are now able to trade options on currency futures without restriction.

	OCFs	Options (OTC)
Trade	Through a regulated exchange	Over the counter (OTC) direct with Standard Bank
Contracts	Standardised	Tailor made
Settlement	Rand cash settled and marked-to-market on a daily basis	Physically settled
Liquidity	Market makers allow for easy entry and exit	Can be traded out with cash flow implications
Counterparty risk	No, guaranteed by the SAFCOM (JSE clearing house)	Yes
Limitations on companies	No SARB approval necessary	SARB regulated
Firm and ascertainable commitment	No	Yes

Currency futures contracts

To find out how to start trading options on currency futures, contact Standard Bank's Forex Relationship Centre on 08000 FOREX (36739) toll free or email forex@standardbank.co.za

Summary specifications

Name	j-Rand: currency derivatives
Contract	Currency option contracts
Underlying instrument	Currency futures contracts
Contract months	March, June, September and December
Listing programme	Near, middle and far contracts; specials on demand
Expiry dates and times	10am in New York 4pm in SA winter months; 5pm in SA summer months
Expiration valuation method	Arithmetic average of the underlying spot taken every 60 seconds (30 iterations) between 3.31pm and 4pm (SA winter months); 4.31pm and 5pm (SA summer months)
Types	Calls and puts, naked and delta options
Contract size	One currency futures contract = \$1 000 nominal
Quotations	Naked options (premium): rands per contract Delta trades: volatility to two decimal places
Strike prices	Expressed in rands per one unit of foreign currency
Strike price intervals	Strike price intervals are set at a minimum of R0,05
Option premiums	As determined by the modified Black option formula
Premium quotation	Option premiums are quoted in rands per contract
Minimum price movement	$R0,05/\$ \times \$1\ 000 \times 1/100 = R0,50$ Delta trades: R0,0001
Exercise style	European style. Options may be exercised only on the expiration contract
Exercise settlement	Cash settled in ZAR
Initial margin requirements	As determined by JSE portfolio scanning methodology
Mark-to-market	Explicit daily
Market times	As determined by Yield-X (9am to 5pm)
Automatic exercise	All options "in the money" at expiry are automatically exercised by the exchange
Exchange fees	ZAR0,57 (incl. VAT) per contract

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