



20 MARCH, 2020

**OPTION STRATEGY FOR EXPORTERS
(RISK REVERSAL)- APRIL 2020 EXPIRY**

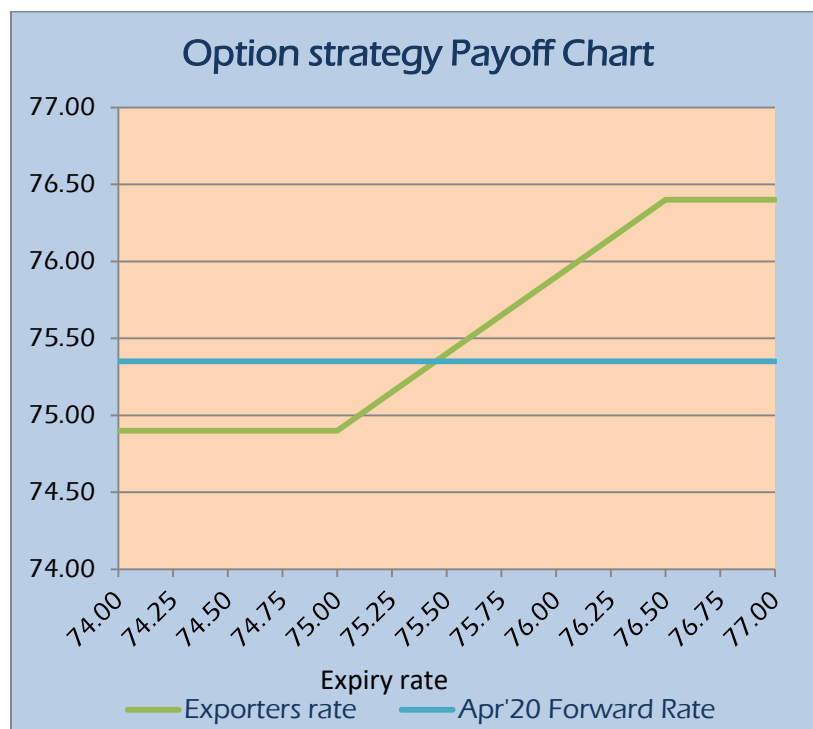
Option	Strike Price	Action	Premium
Put	75	Buy	0.70
Call	76.50	Sell	0.60
Net Premium			-0.10

The given strategy is beneficial for the exporters who want to lock downside risk while at the same time want to have upside participation. Hence, it is recommended to buy a Put option of 75.00 strike and sell a call option of 76.50 strike. Premium to be paid is 10 paise.

PAYOFF TABLE

Market Price	Sell Call 76.50 @0.60	Buy 75.00 Put @0.70	Exporters rate	Apr'20 Forward Rate
73.75	0.60	0.55	74.90	75.35
74.00	0.60	0.30	74.90	75.35
74.25	0.60	0.05	74.90	75.35
74.50	0.60	-0.20	74.90	75.35
74.75	0.60	-0.45	74.90	75.35
75.00	0.60	-0.70	74.90	75.35
75.25	0.60	-0.70	75.15	75.35
75.50	0.60	-0.70	75.40	75.35
75.75	0.60	-0.70	75.65	75.35
76.00	0.60	-0.70	75.90	75.35
76.25	0.60	-0.70	76.15	75.35
76.50	0.60	-0.70	76.40	75.35
76.75	0.35	-0.70	76.40	75.35
77.00	0.10	-0.70	76.40	75.35

PAYOFF CHART



SCENARIO ANALYSIS

Below are the different scenarios for the April 2020 expiry.

Case I: IF the USDINR pair expires below 75.00 on maturity, then the downside rate for the exporters will be locked at 74.90.

Case II: IF the USDINR pair expires between 75.00 - 76.50 on maturity, then the net realization rate will be at the spot rate minus net premium paid. i.e. If the pair expires at 76.00 on maturity, the net realization rate would $76.00 - 0.10$ (premium paid) = 75.90

Case III: IF the USDINR pair expires above 76.50 on maturity, then the upside rate for the exporters will be locked at 76.40 which is far better than current forward rate (75.35)

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