

Trading Around the World

Using CME Group Metals Options as Trading Opportunities



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Using CME Group Metals Options as Trading Opportunities

**John Netto,
President One Shot One Kill Trading, LLC**

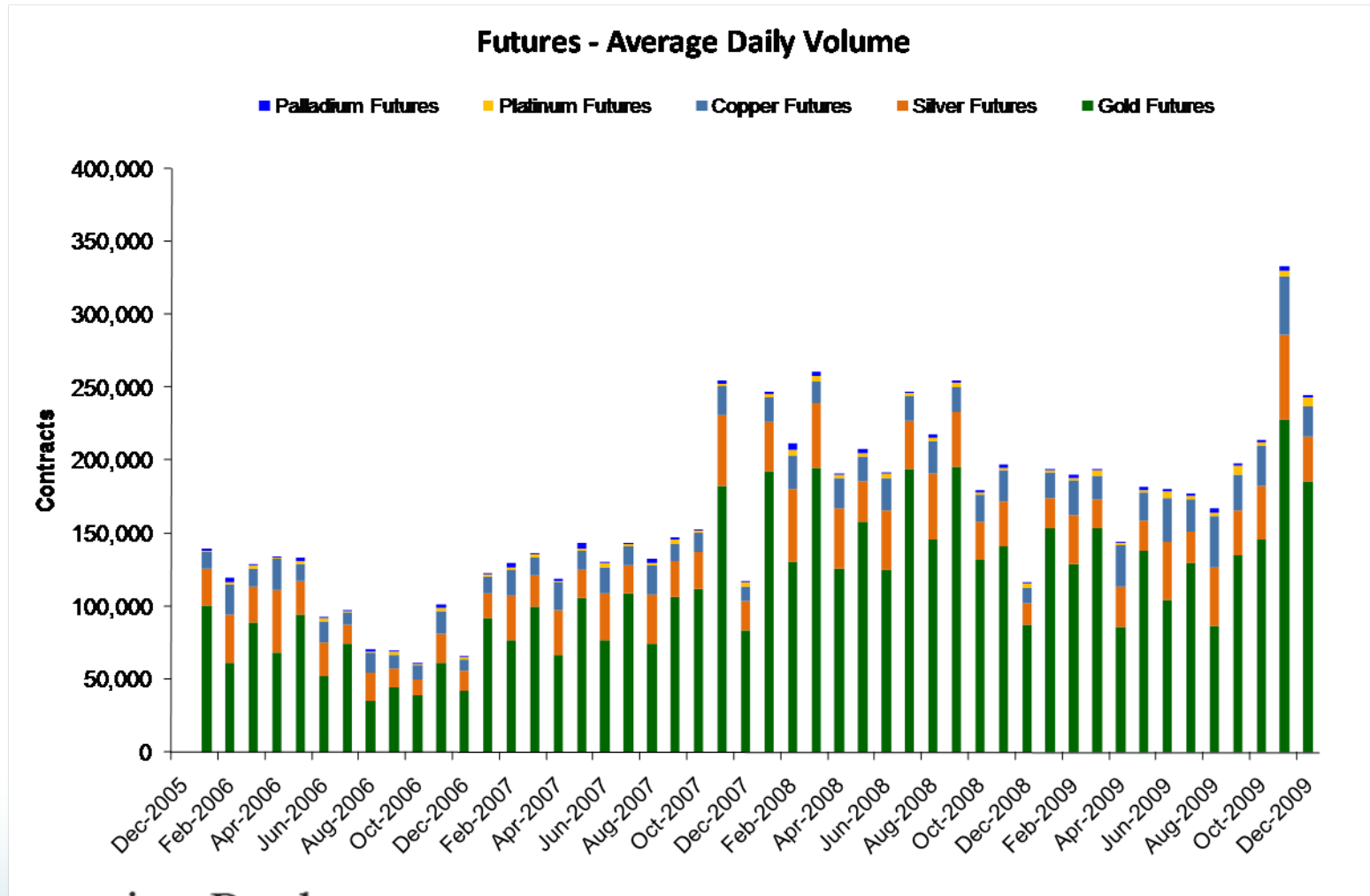
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Why Futures vs. ETFs, Stocks?

- Near-24 hour markets; no gap risk
- Fast & accurate pricing mechanism based purely on market supply & demand
- Exchange role as centralized counterparty removes counterparty risk
- Regulated marketplace
- Futures margin system ensures customer protection, provides leverage and accommodate a greater range of trading strategies at a lower cost
- Rising volumes & liquidity in benchmark products reflects global acceptance

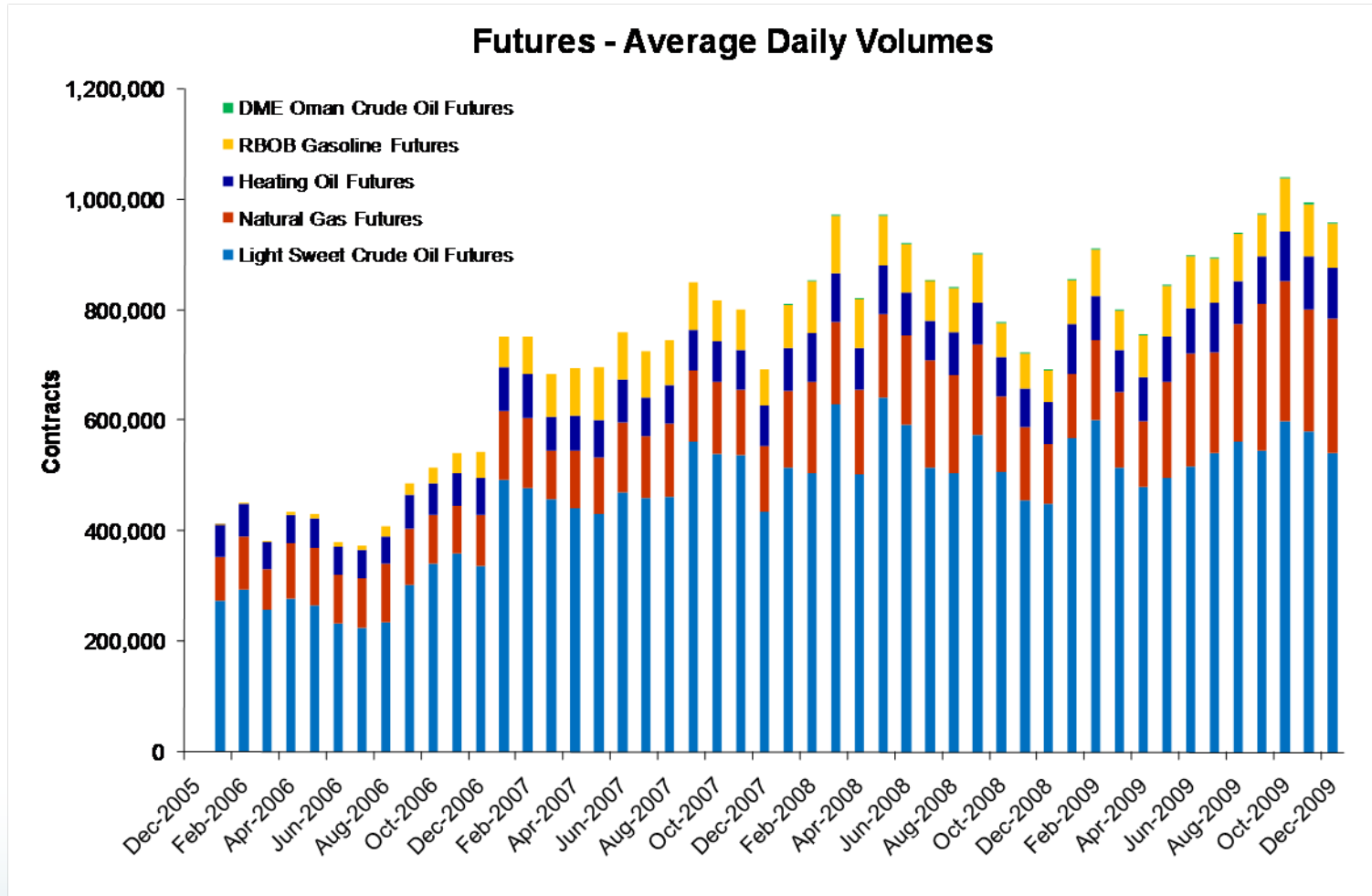
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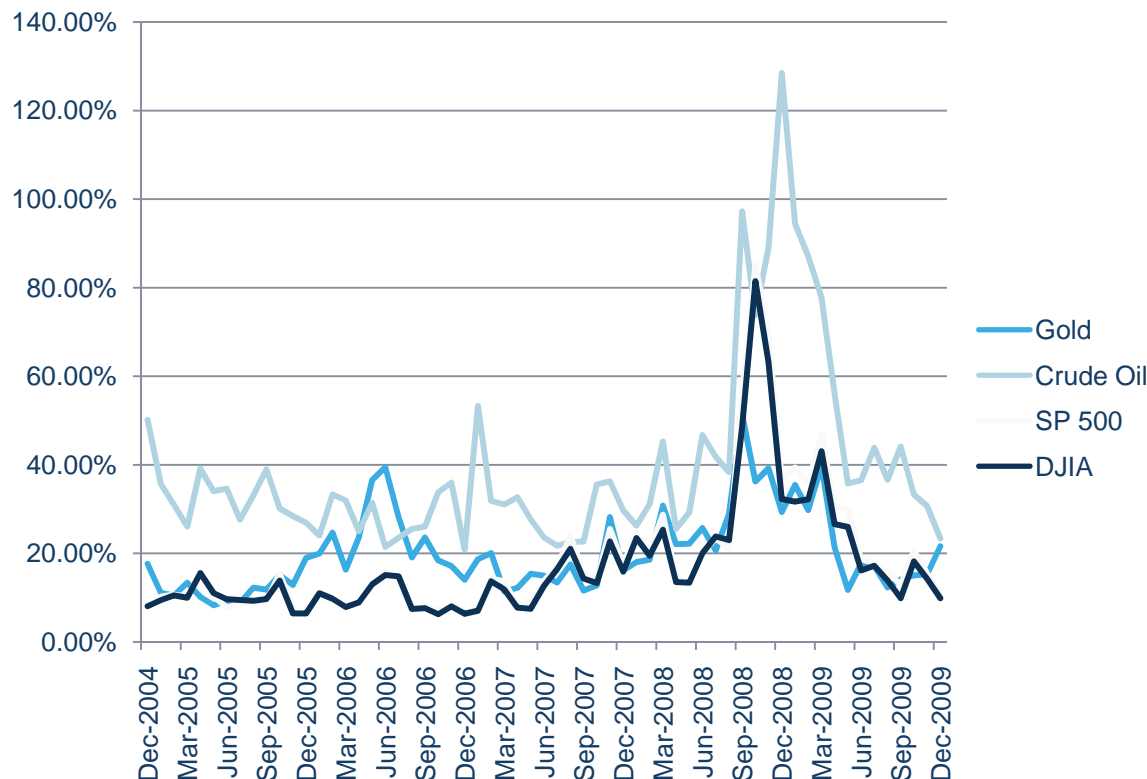


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Using CME Group Metals Options As Trading Opportunities

John Netto
President

One Shot – One Kill Trading, LLC

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Questions for the class

- ◆ How many people trade futures?
- ◆ How many people trade options?
- ◆ How many people have traded electronic options (Globex) on futures?

Class objective:

- ◆ Provide an introduction to the concepts and strategies of Gamma trading.
- ◆ Incorporate new ideas through options on Gold, Silver, and Copper futures to trade various market conditions

Background

- ◆ President of a Proprietary Trading Firm
- ◆ Former Market Maker/CTA/CPO/RIA
- ◆ Present on behalf of exchanges to CTA's/Institutions/Market Making Firms/Proprietary Traders
- ◆ Work with traders on various business development ideas in alternative investments
- ◆ Author of One Shot – One Kill Trading, LLC (McGraw-Hill, 2004)
- ◆ 9 year US Marine Corps Veteran

Outline of Presentation

- ◆ Nomenclature of CME Group Metals
- ◆ Overview of Option Basics and Background of the Greeks
- ◆ Common Strategies in Trading Options
- ◆ Options Trading Software
- ◆ Real Time Market Application

Futures Contract Description

Notes

COMEX Division gold futures and options provide an important alternative to traditional means of investing in gold such as bullion, coins, and mining stocks. Gold futures contracts are also valuable trading tools for commercial producers and users of the metal. Commercial

[25\) View All Notes](#)

Contract Specifications

Name GOLD 100 OZ FUTR Feb10
26) Ticker GCG0 COMB Comdty
27) Exchange CMX-Commodity Exchange, Inc.
Underlying
Contract Size 100 troy oz.
Value of 1.0 pt \$ 100
Tick Size 0.10
Tick Value \$ 10
28) Price 1,138.90 USD/t oz.
Contract Value \$ 113,890 @ 01/08/10

Trading Hours

	Exchange	Local
ELEC	18:00-17:15	15:00-14:15
PIT	08:20-13:30	05:20-10:30

Related Dates

First Trade Fri Mar 28, 2008
Last Trade Wed Feb 24, 2010
First Notice Fri Jan 29, 2010
First Delivery Mon Feb 1, 2010
Last Delivery Fri Feb 26, 2010

Margin Limits

	Speculator	Hedger
Initial	5,403	4,002
Secondary	4,002	4,002

Price Range

Up Limit n.a.	Life High 1,227.50
Down Limit n.a.	Life Low 717.40

Cycle - Feb - Apr - Jun - Aug - Oct - Dec

1) Future 2) Option 3) Spread 4) Generic 5) Monthly

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000

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Futures Contract Description

Notes

Silver is sought as a valuable and practical industrial commodity, and as an appealing investment. The largest industrial users of silver are the photographic, jewelry, and electronic industries. Newly mined metal provides most of the needed supply, and Mexico, the United

25) [View All Notes](#)

Contract Specifications

Name SILVER FUTURE Mar10
 26) **Ticker** SIH0 COMB Comdt
 27) **Exchange** CMX-Commodity Exchange, Inc.
Underlying
Contract Size 5,000 troy oz.
Value of 1.0 pt \$ 5,000
Tick Size 0.005
Tick Value \$ 25
 28) **Price** 18.470 USD/t oz.
Contract Value \$ 92,350 @ 01/08/10

Trading Hours

	Exchange	Local
ELEC	18:00-17:15	15:00-14:15
PIT	08:25-13:25	05:25-10:25

Related Dates

First Trade Tue Apr 29, 2008
Last Trade Mon Mar 29, 2010
First Notice Fri Feb 26, 2010
First Delivery Mon Mar 1, 2010
Last Delivery Wed Mar 31, 2010

Margin Limits

	Speculator	Hedger
Initial	5,400	5,400
Secondary	4,000	4,000

Price Range

Up Limit	n.a.	Life High 20.245
Down Limit	n.a.	Life Low 8.904

Cycle Jan - Mar - May - Jul - Sep - Dec

1) Future 2) Option 3) Spread 4) Generic 5) Monthly

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Futures Contract Description

Notes

Copper is the world's third most widely used metal, after iron and aluminum, and is primarily used in highly cyclical industries such as construction and industrial machinery manufacturing. Profitable extraction of the metal depends on cost-efficient high-volume mining techniques,

[25\) View All Notes](#)

Contract Specifications

Name	COPPER FUTURE	Mar10
26) Ticker	HGH0 COMB Comdt	
27) Exchange	CMX-Commodity Exchange, Inc.	
Underlying		
Contract Size	25,000 lbs.	
Value of 1.0 pt	\$ 250	
Tick Size	0.05	
Tick Value	\$ 12.5	
28) Price	340.05	USD/lb.
Contract Value	\$ 85,012.5	@ 01/08/10

Trading Hours

	Exchange	Local
ELEC	18:00-17:15	15:00-14:15
PIT	08:10-13:00	05:10-10:00

Related Dates

First Trade	Fri Mar 28, 2008
Last Trade	Mon Mar 29, 2010
First Notice	Fri Feb 26, 2010
First Delivery	Mon Mar 1, 2010
Last Delivery	Wed Mar 31, 2010

Margin Limits

	Speculator	Hedger
Initial	6,075	6,075
Secondary	4,500	4,500

Price Range

Up Limit	n.a.	Life High	378.75
Down Limit	n.a.	Life Low	132.75

Cycle	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1) Future												
2) Option												
3) Spread												
4) Generic												
5) Monthly												

Gamma Trading: The Concept

- ◆ The process of dynamically readjusting one's exposure to the market.
- ◆ Typically performed through the purchase or sale of the underlying futures to balance out one's option portfolio

Background of Options

- ◆ Calls
- ◆ Puts
- ◆ Strike Price
- ◆ Implied Volatility
- ◆ Expiration Month
- ◆ Intrinsic Value
- ◆ Composed of 4 Greeks
 - Delta, Gamma, Theta, Vega

Background of the Greeks

- ◆ Delta
- ◆ Gamma
- ◆ Theta
- ◆ Vega

Metals Options Strategies

- ◆ Synthetic Calls/Puts
- ◆ Straddles
- ◆ Strangles
- ◆ Calendar Spreads
- ◆ Collars
- ◆ Call Spreads and Put Spreads

Metals Options Strategies

◆ Synthetic Calls

- Long the underlying and long a put
- Long April Gold @ 1135.0, long April Gold (GC J0) 1135 Put

◆ Synthetic Puts

- Short the underlying while owning the call
- Short April Gold @ 1132.0, long April 1130 Calls

<HELP> for explanation.

ComdtyGV

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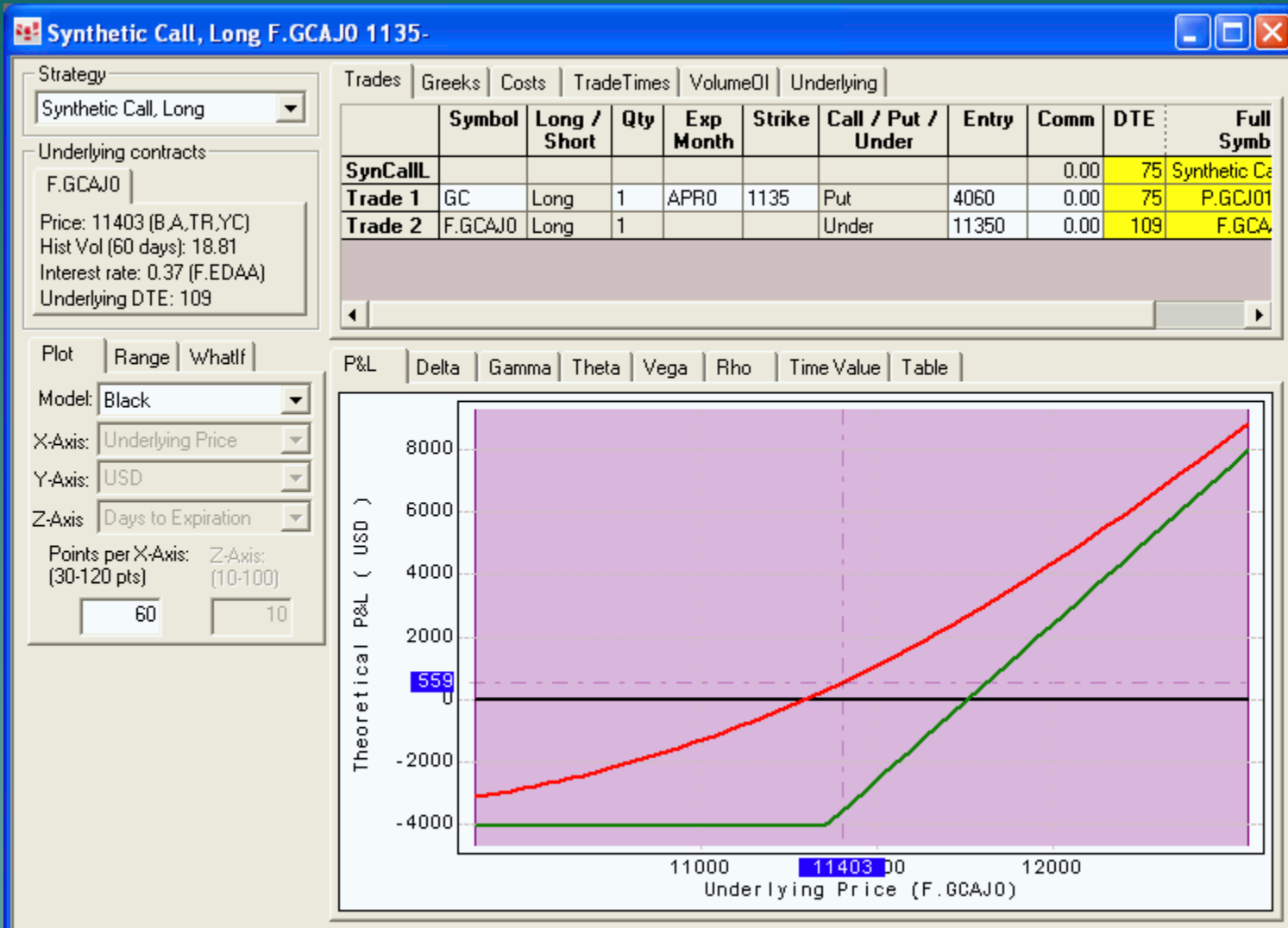
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Metals Options Strategies

◆ Straddles

- To be long a call and long a put at same strike price
- Incurs a deficit to the account if long, credit to account if short
- Believe volatility is priced too low in market if you are long, and too high if you are short
- Long March 1850 straddle for means a trader owns the 1850 puts and 1850 calls for a combined premium of \$1.60 per straddle unit.
- Every dollar is \$5,000 = \$8,000 for price of Silver Straddle

Straddle, Long F.SIEH0 1850-1850

Strategy

Straddle, Long

Underlying contracts

F.SIEH0

Price: 18470 (B,A,TR,YC)

Hist Vol (60 days): 31.77

Interest rate: 0.30 (F.EDAA)

Underlying DTE: 79

Plot

Range

WhatIf

Model: Black

X-Axis: Underlying Price

Y-Axis: USD

Z-Axis: Days to Expiration

Points per X-Axis:

(30-120 pts)

60

Z-Axis:

(10-100)

10

Trades

Greeks

Costs

TradeTimes

VolumeOI

Underlying

	Symbol	Long / Short	Qty	Exp Month	Strike	Call / Put / Under	Entry	Comm	DTE	Full Symbol
StradL								0.00	44	Straddle, Long
Trade 1	SIE	Long	1	MAR0	1850	Call	792	0.00	44	C.SIEH01850
Trade 2	SIE	Long	1	MAR0	1850	Put	822	0.00	44	P.SIEH01850

P&L

Delta

Gamma

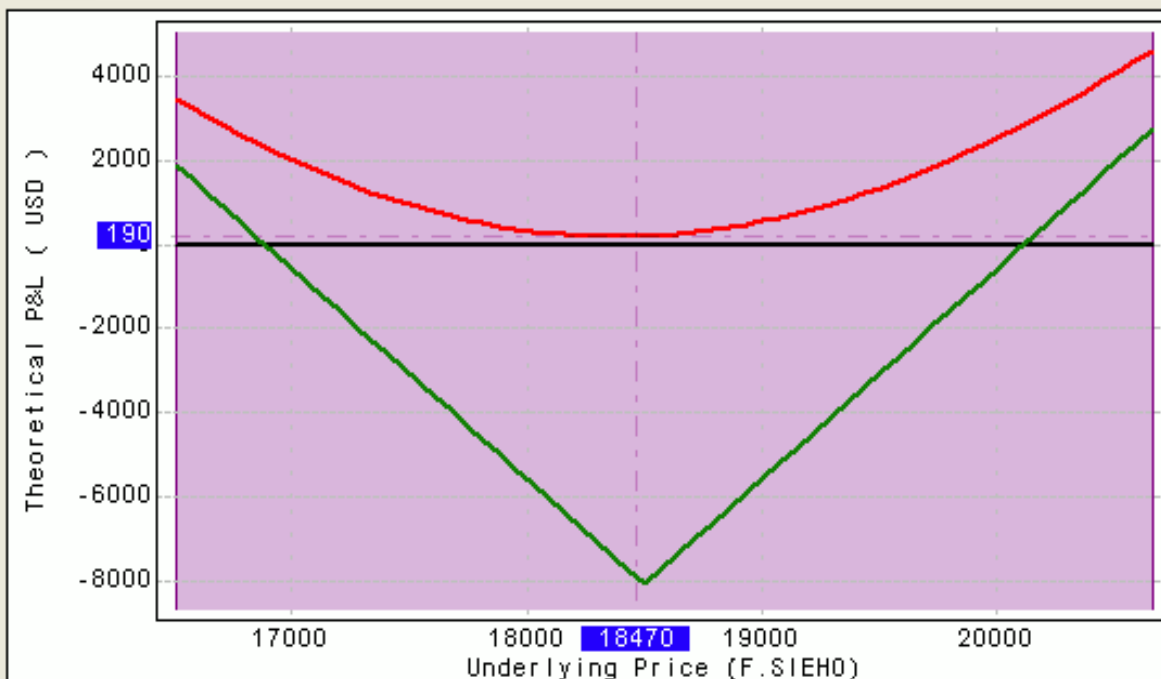
Theta

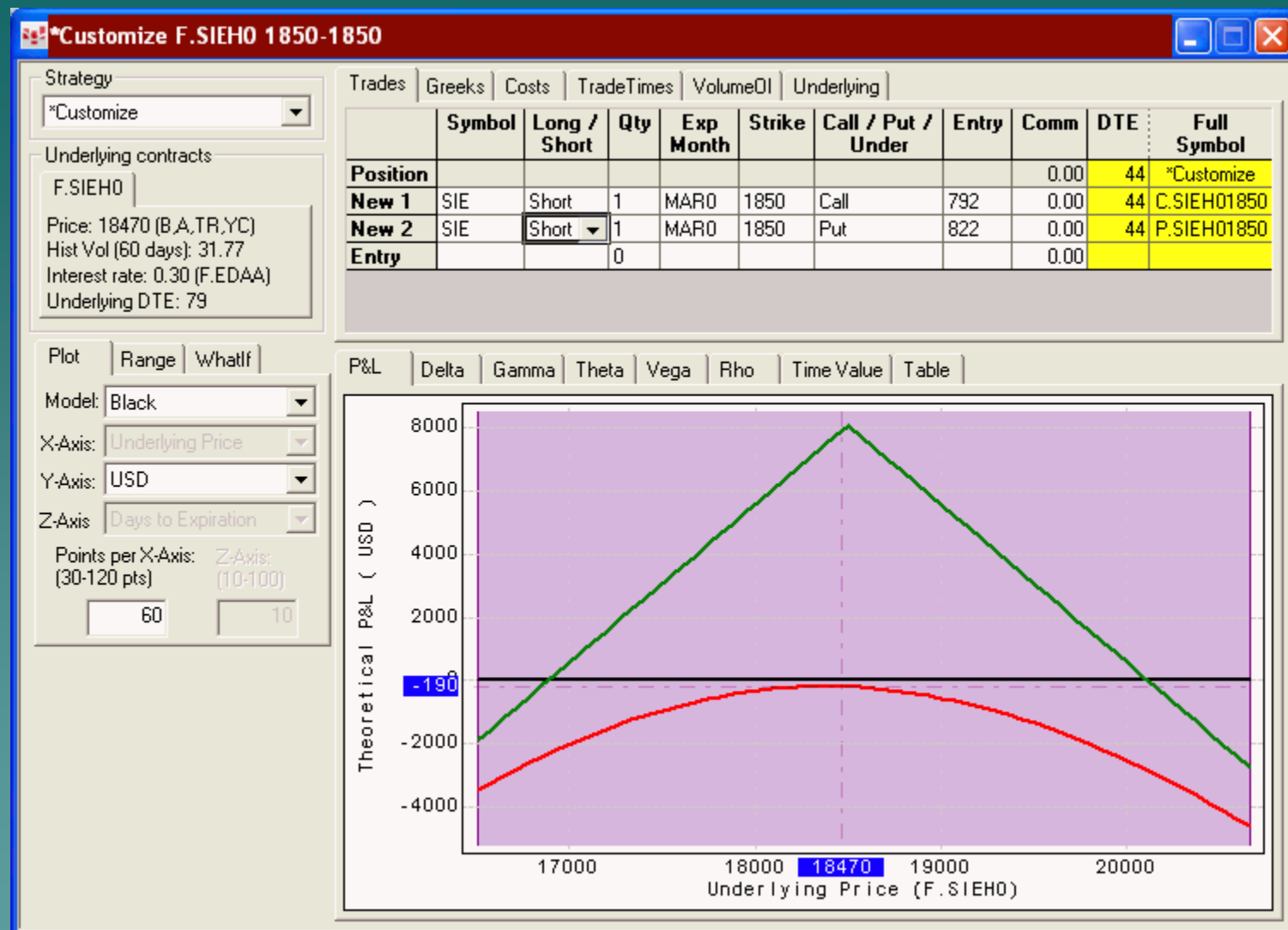
Vega

Rho

Time Value

Table





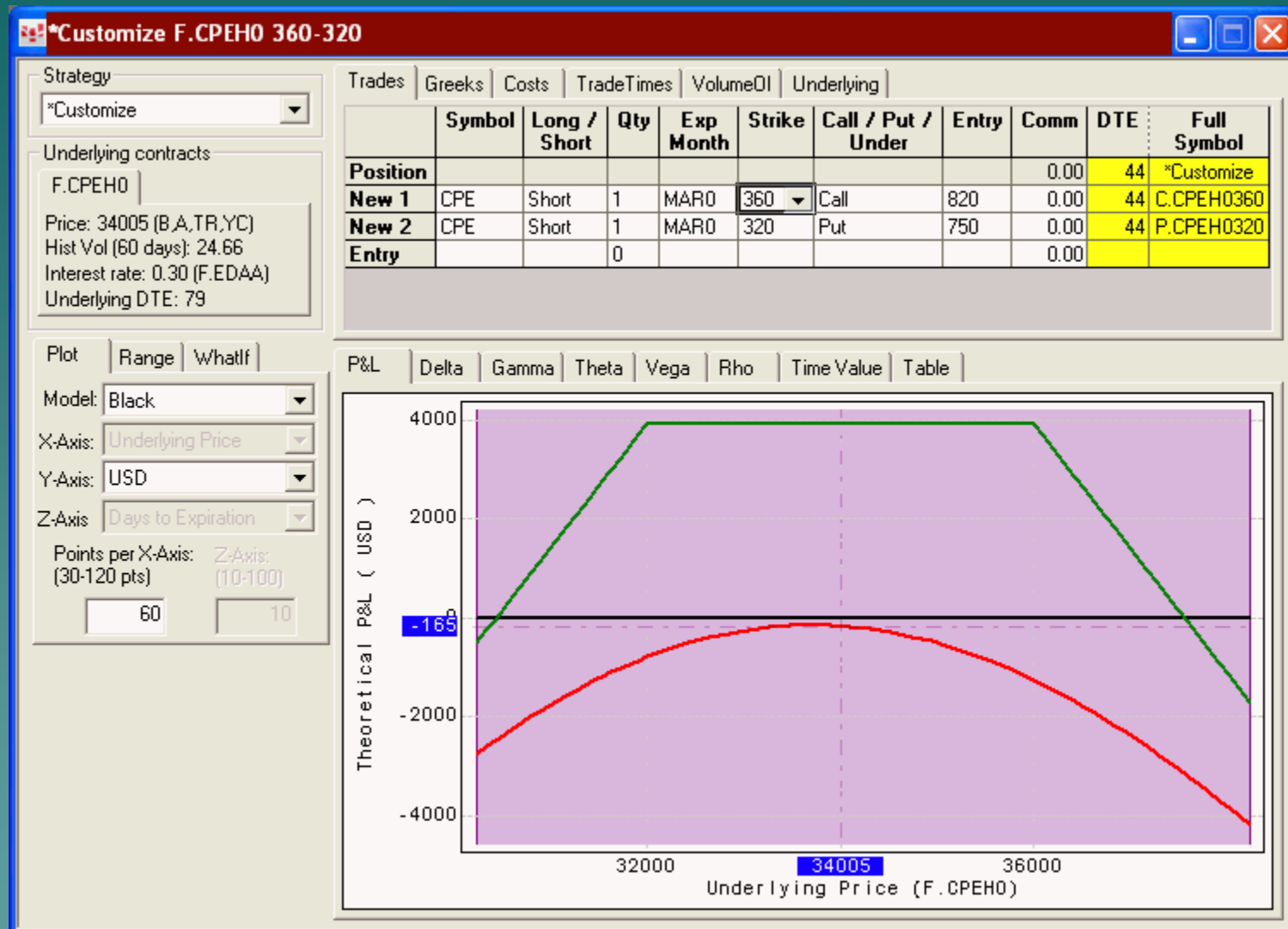
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Metals Options Strategies

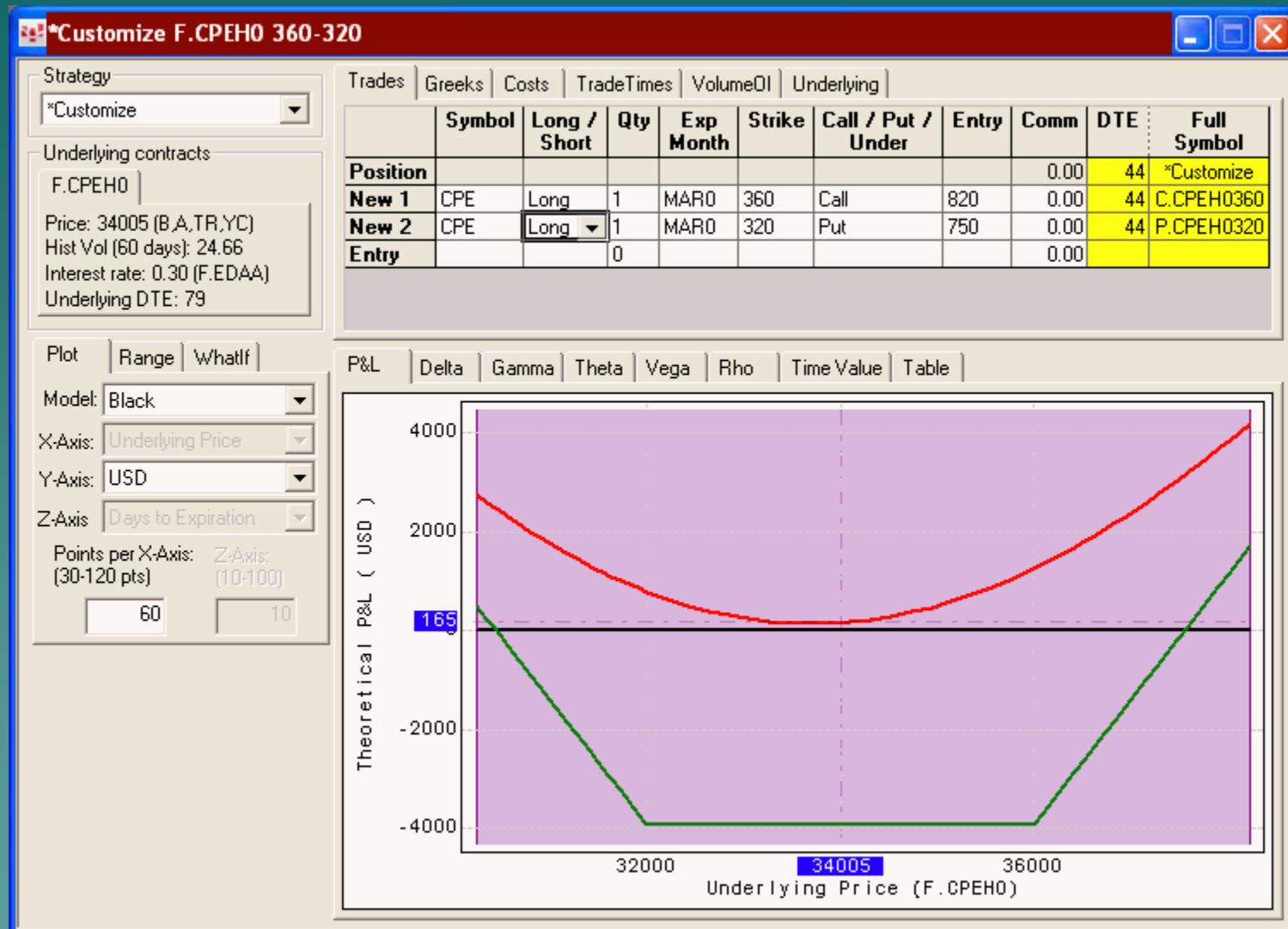
◆ Strangles

- Purchasing a call and a put at different strike prices
- Incurs a deficit to account if long, credit to account if short
- Long March 3.40 Copper Calls and Long March 3.20 Copper Puts
- Similar to straddle insofar as buyer is bullish volatility and seller is bearish



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Forex Options Strategies

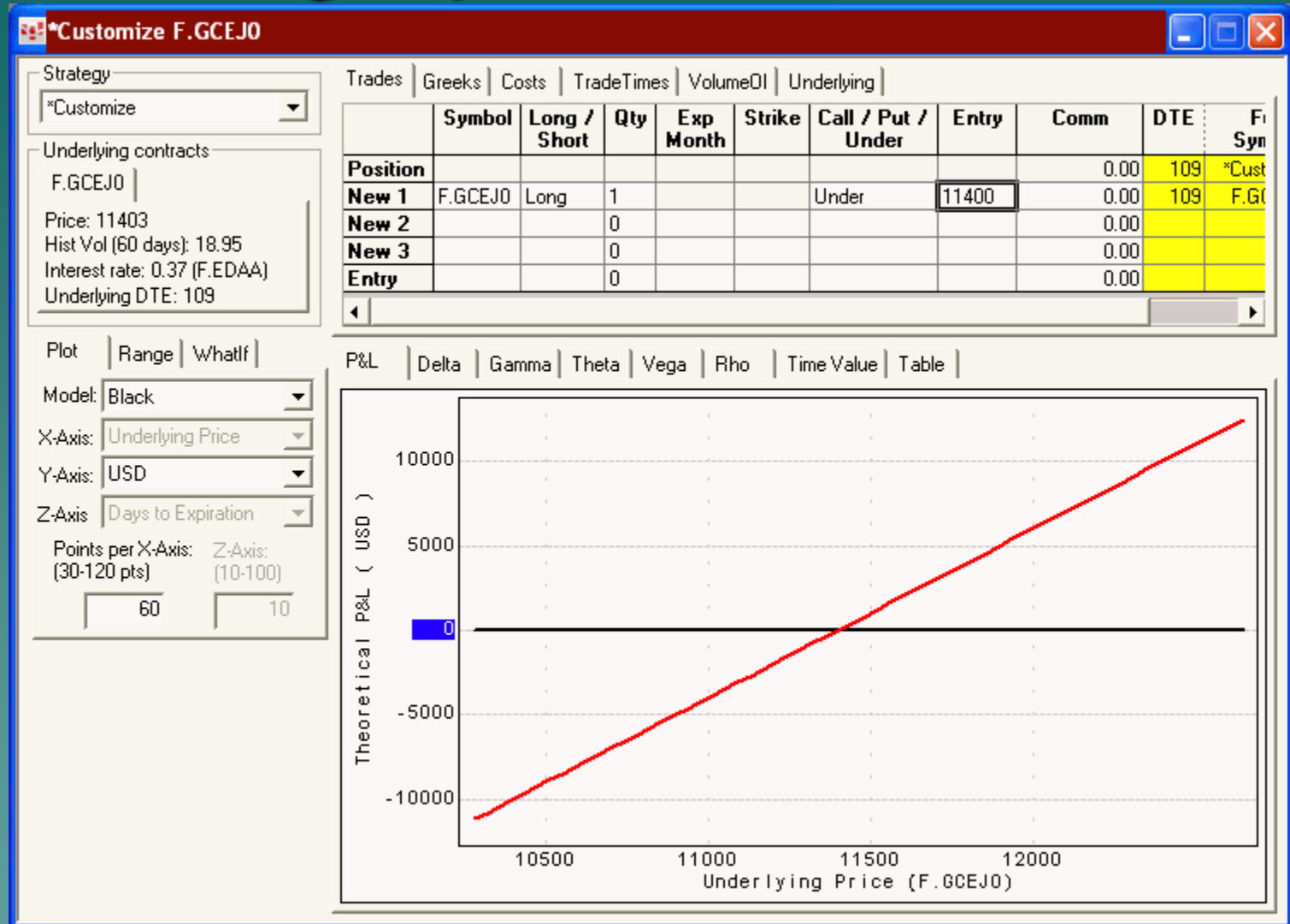
◆ Collars/Married Puts/Fences

- The process of owning the underlying, selling an OTM call to pay for a put
- Defined risk/reward parameters
- Can trade around underlying based on trading range

Collar/Married Puts

- ◆ Implementing a Collar/Married Put on Gold (Globex)
- ◆ Long April Gold at 1140
- ◆ Long April Gold 1125 Puts
- ◆ Short April Gold 1200 Calls

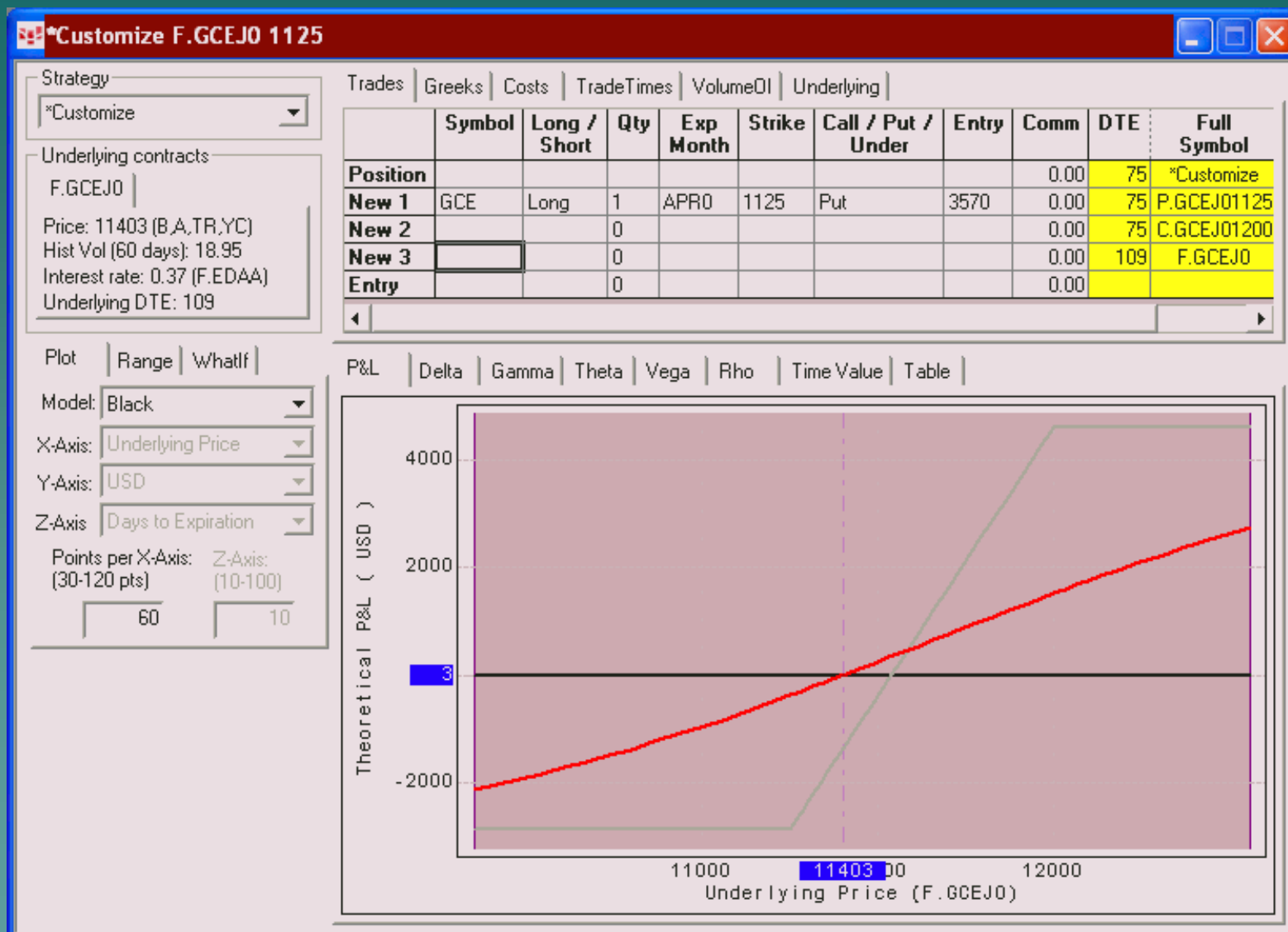
Long April Gold at 1140



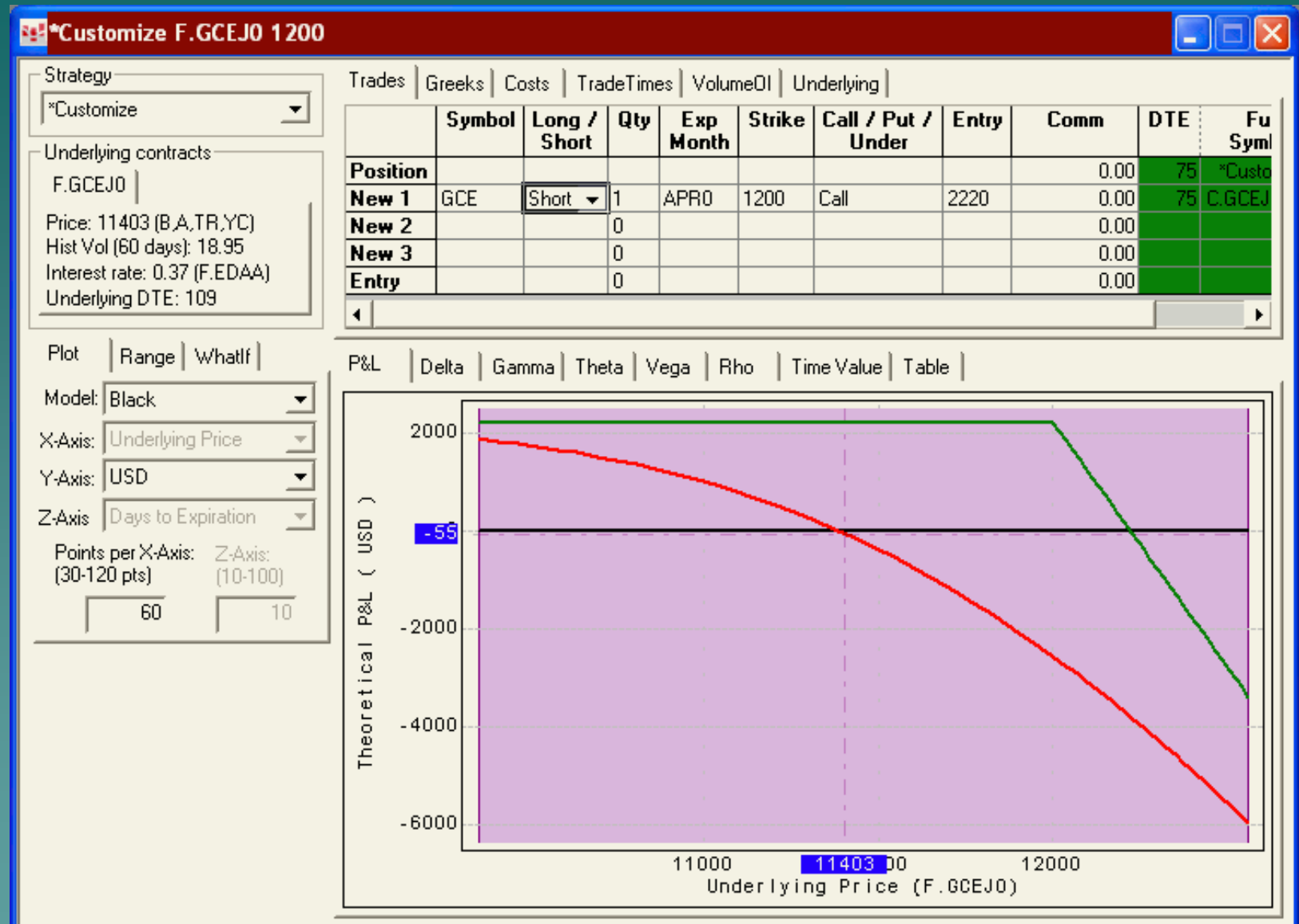
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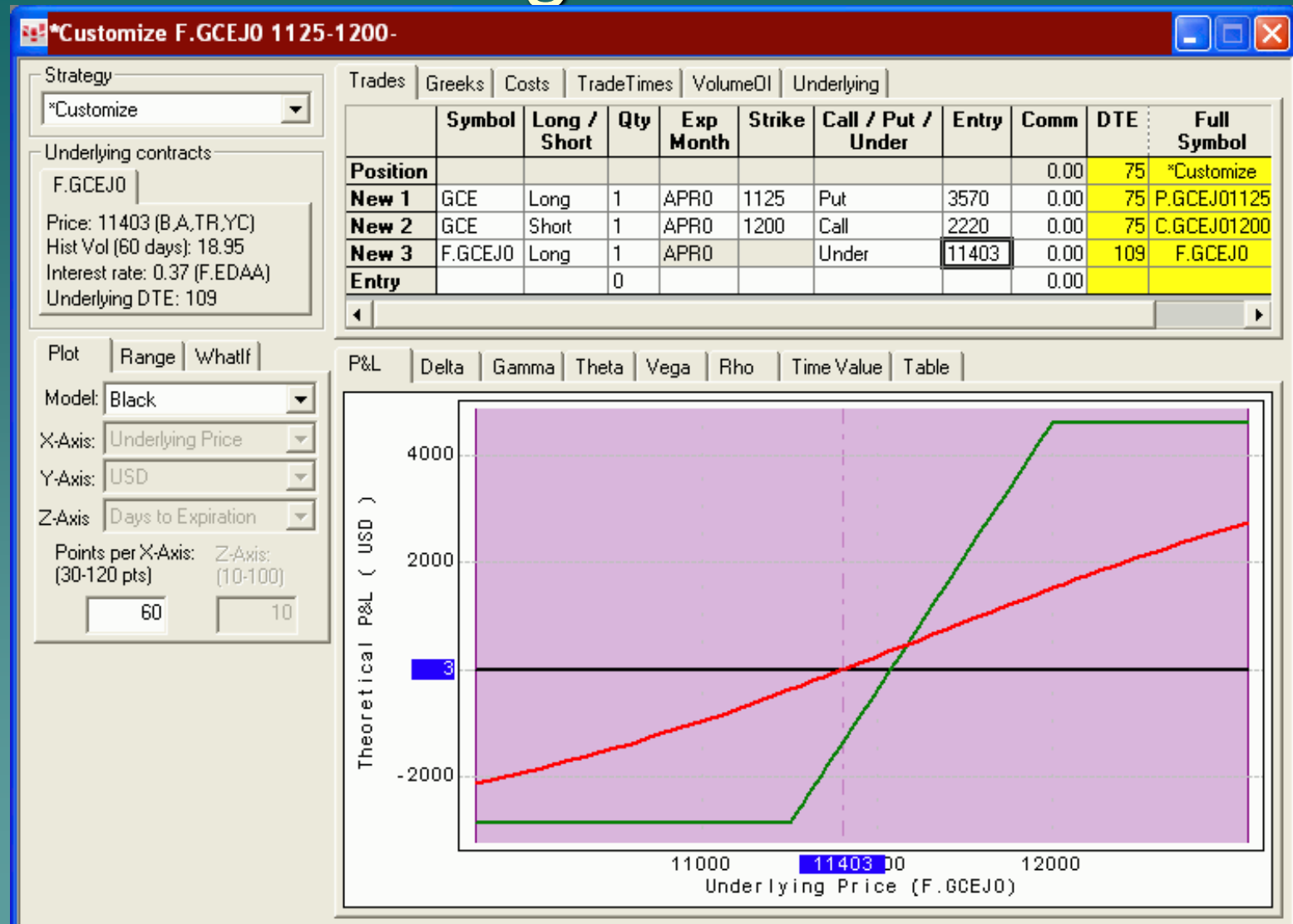
Long Gold 1125 APR Put



Short Gold 1200 APR Call



All Together Now



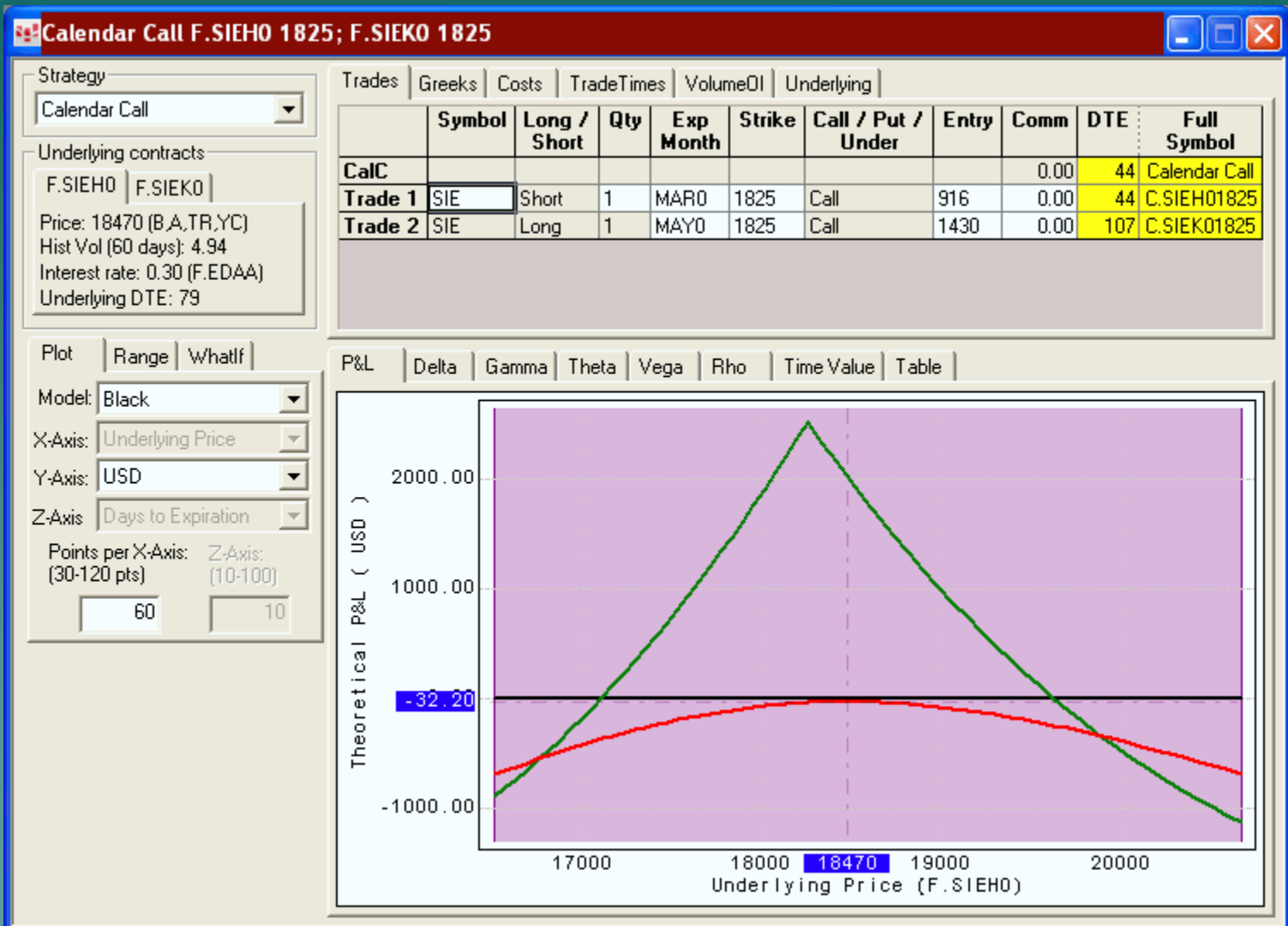
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Metals Options Strategies

◆ Calendar Spreads

- Selling an option of the same vehicle in one month while purchasing option in a more distant month
- Sell a March 1825 Silver Call for 92 cents and buying a May 1825 Silver Call for 143, or a 51 cent debit
- Different from being naked calls but gamma shifts depending on range of front month contract



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CME FX Options Strategies

◆ Call Spreads

- The simultaneous purchase and sale of a lower priced call and higher priced call
- Owner of bull call spread will buy lower priced call and sell higher priced call incurring a debit to account

◆ Put Spreads

- The simultaneous purchase and sale of a higher priced put and lower priced put
- Owner of bear put spread will buy higher priced put and sell lower priced put incurring debit in account

Software Tips on CQG, Bloomberg

◆ Bloomberg –

- MINE <GO> - Precious Metals Information
- GLCO <GO> - Global Commodity Prices and Data

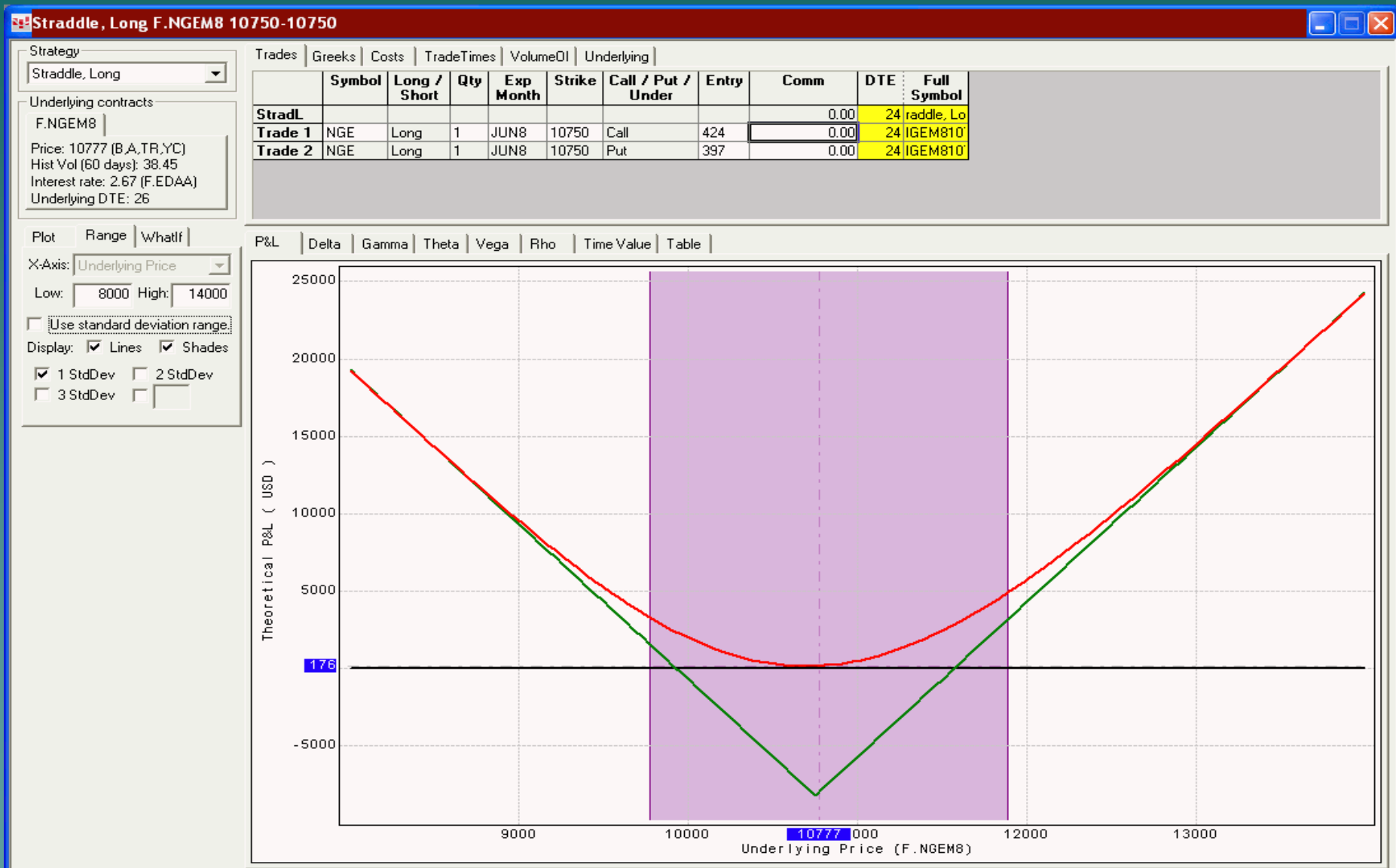
◆ CQG –

- Options - Strategy Analysis
- Options - Window
- Options – Volatility Workshop

Using CME FX Options Software

- ◆ CQG
- ◆ Trading Technologies

long gamma: positive scalps vs. paying decay



Managing Your Gamma

- ◆ Questions to ask?
 - What's my exposure?
 - Am I bullish, bearish, or neutral on price/volatility?
 - How well do I think I can trade this spread?
 - Where do I think volatility is going?
 - Is this market in rhythm?

Flexibility in Strategies

- ◆ Short Straddle serves as hedge for market lacks trend/direction
- ◆ Long Straddle serves as alternate strategy for counter-trend style
- ◆ Helps in defining risk parameters

Differences Between Options on Stocks and Options on Futures

- ◆ Exercise
- ◆ Delivery Risk
- ◆ Cash Settled
- ◆ Contract Month
- ◆ Dividends

Initiating Underlying Positions

- ◆ Two legs at once
- ◆ One Leg at A Time
- ◆ One leg at a time has market pull back to consolidation and see decline in implied volatility numbers
- ◆ Pullback in Implied Volatility
- ◆ Spike in Implied Volatility

One Shot – One Kill Trading Services
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info@osoktrading.com

- ◆ Investment/Trading Conference Schedule
 - New York Traders Expo (Feb. 14-17)
- ◆ One Shot – One Kill Trading Book (\$39.95)
- ◆ Trading Options on Futures Webinar - \$495
 - Saturday, January 30 (9 AM – 1 PM ET)
- ◆ Going Professional Webinar - Free
 - January 27, 5 PM New York Time

Outline of Going Pro

- ◆ Two most important things to being successful
- ◆ Demystifying the "game"
- ◆ 5 P's and how they help you succeed
- ◆ Diligence Process
- ◆ Guests
- ◆ Q and A

Review of Presentation

- ◆ Overview of Option Basics and Background of the Greeks
- ◆ Common Strategies in Gamma Trading Metals Options
- ◆ Real Time Market Application
- ◆ Options Trading Software
- ◆ Upcoming Webinars/Further Education

Question & Answer

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