

## WHS FX options guide

**Predict the trend in currency markets or hedge your positions with FX options.**

**Refine your trading style and your market outlook.**

**Learn how FX options work on the WHS trading environment.**



## **Global overview on FX Options**

## **Different strategies using FX Options**

*Single Vanilla*

*Vertical*

*Strangle*

*Straddle*

*Risk Reversal*

## **Trading FX Options in WHSProStation**

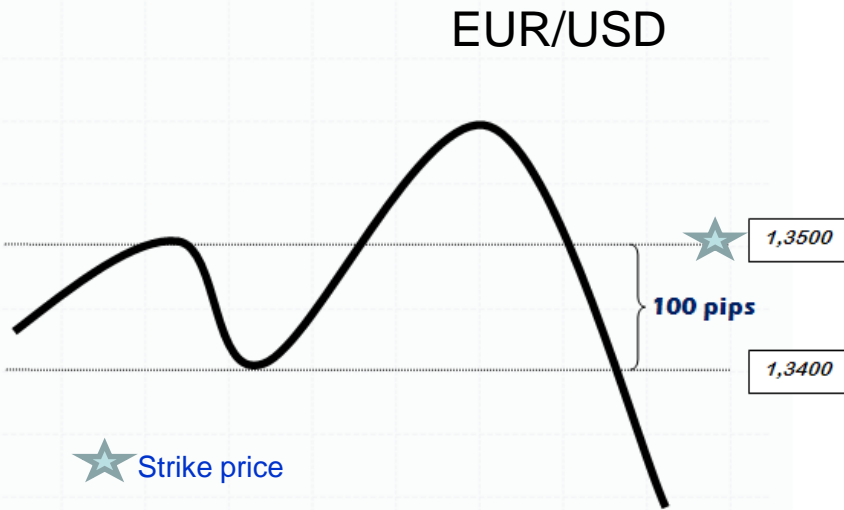
## **Strategy settings**

## **Rules and Disclaimers**

## **FAQ**

What is an FX option?

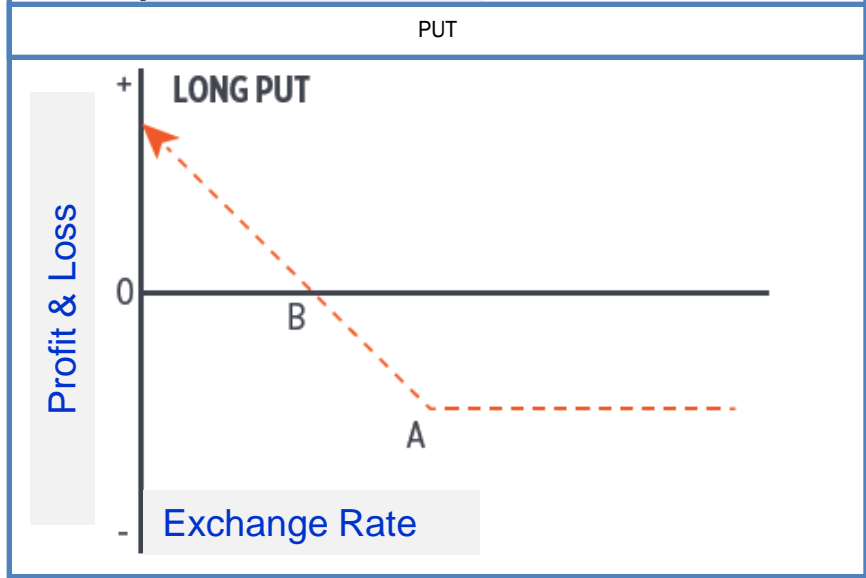
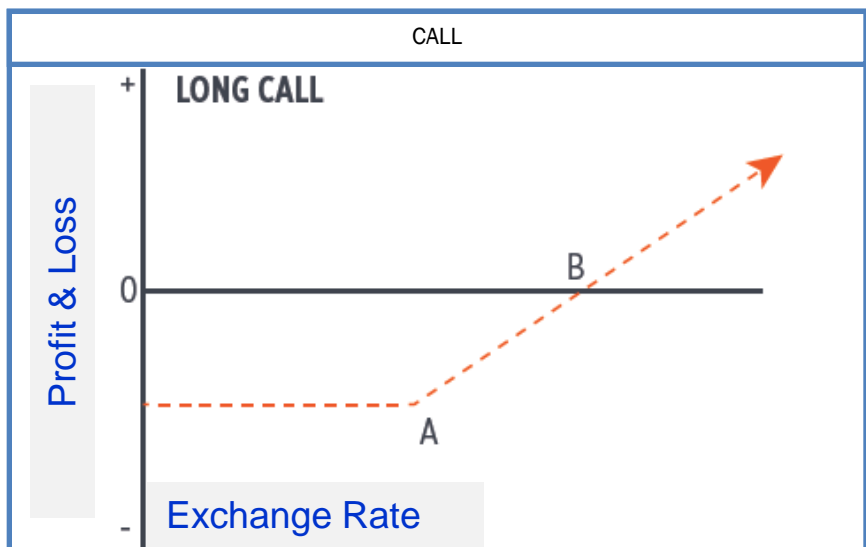
An FX option is a contract between a buyer and a seller for the right to buy or sell an underlying currency pair at a specific price on a particular date.



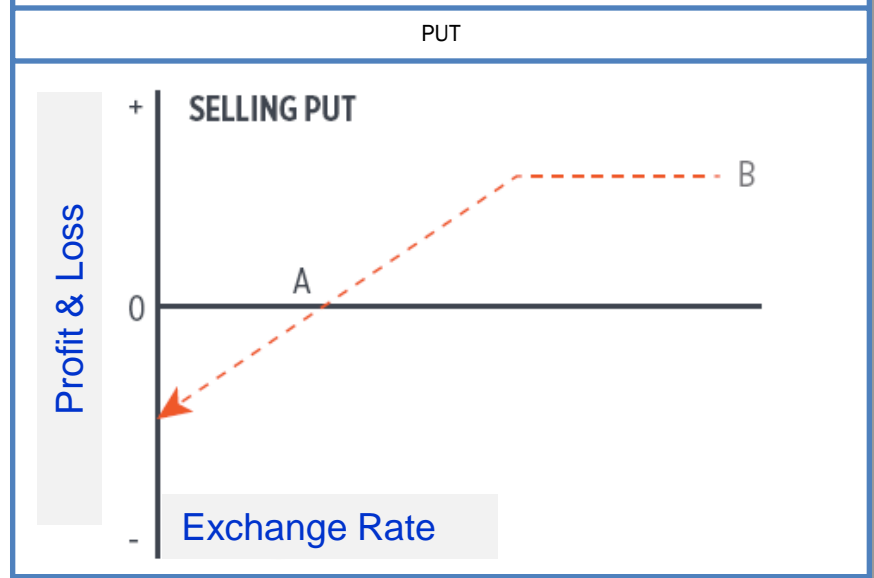
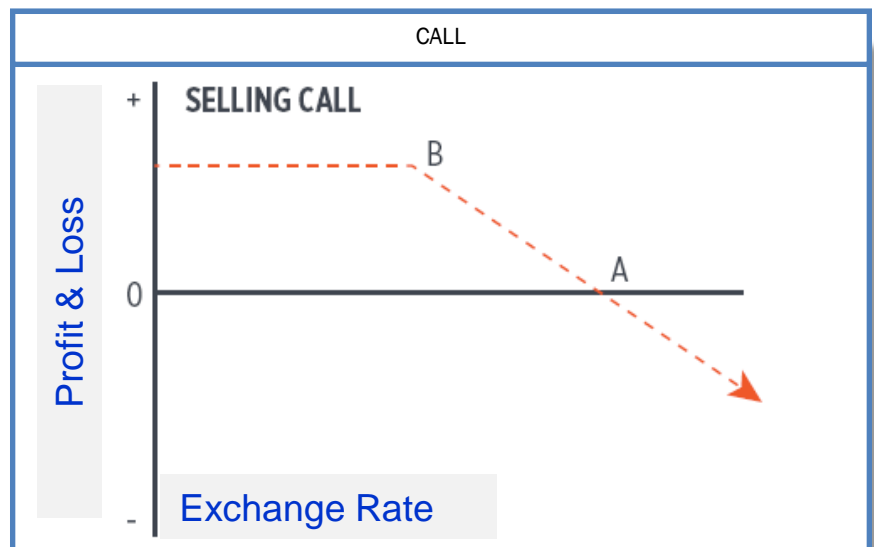
-10	Option Premium
+100	Option resulting in a short position 1.3500 - 1.3400 PUT Strike Price – Current Market Price
+90	Overall trade

You believe EUR/USD will drop in the weeks to come. FX options allow you to trade this scenario by buying the right to sell at a certain price level or so called strike price. This right is called a PUT option. The price to obtain this right is called the premium.

Evolution of profit/loss after **BUYING** a Call or a Put



Evolution of profit/loss after **SELLING** a Call or a Put



**New order 4 - Vertical**

Order: Single Vanilla

Order Types

- FX Options
  - Single Vanilla
  - Vertical
  - Strangle
  - Straddle
  - Risk Reversal

Strategy Ask in EUR: 0.00102

Price: Prem/Lot: 102.0 EUR

**Strategy Settings**

Legs | Duration | Greeks | Terms | About Strategy\* | Analysis

Legs	Operation	Lots	Date	Strike	Option Type	Exp. Days left
Leg 1	Buy	1	09/11/2011	1.36000	EUR CALL	<1 day left
Leg 2	Sell	1	09/11/2011	1.36500	EUR CALL	<1 day left

**Pricing Details**

Price Details	in EUR	in % EUR	in Pips (USD)	in EUR	in Volatility, %
Total	0.00102	0.102%	13.9	0.00102	
Leg 1	0.00102	0.102%	13.9	0.00102	8.95%
Leg 2	0.00000	0%	0.0	0.00000	11.89%

Hedge

Hedge Type	Total Delta to Hedge	Order Type	Operation	Lots	Price	Duration
Spot	0	Market				GTC

Order Form Settings

Waiting...

**Submit**

## Choosing your strategy in the order window

On top in the order window you can choose the strategy you would like to trade.

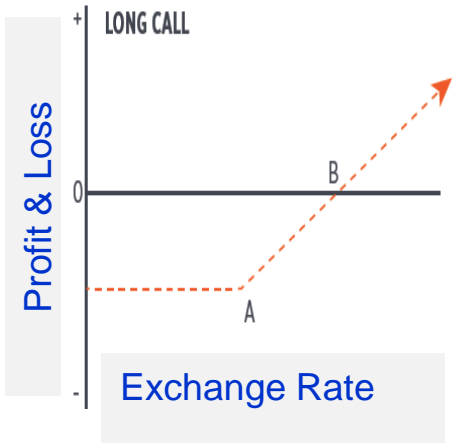
Possibilities are:

- Single Vanilla
- Vertical
- Strangle
- Straddle
- Risk Reversal

On the next pages, each strategy will be explained in more detail.

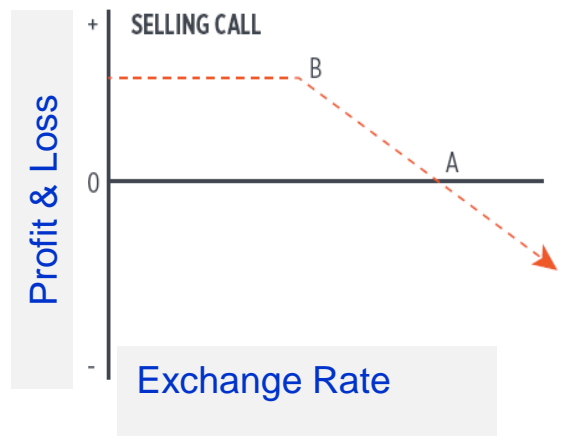
### BUYING a CALL option

The trader anticipates that the price of a currency pair will rise and wants to take advantage of that movement. The profit is unlimited while the loss is limited to the price of the premium.



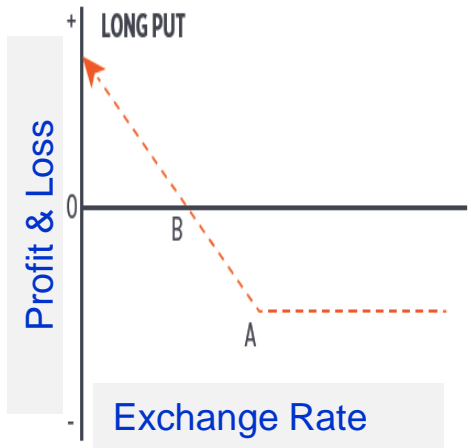
### SELLING a CALL option

The trader anticipates that the price of a currency pair will fall. They will sell the call and collect the premium. The profit is limited to the premium received while the loss is unlimited.



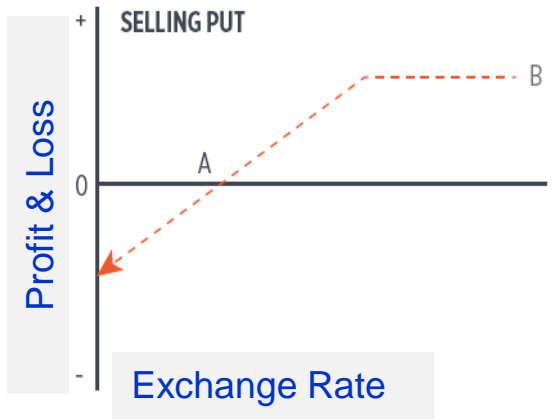
### BUYING a PUT option

The trader anticipates that the price of a currency pair will fall and wants to take advantage of that movement. The profit is unlimited while the loss is limited to the price of the premium.



### SELLING a PUT option

The trader anticipates that the price of a currency pair will rise. They will sell the put and collect the premium. The profit is limited to the premium received while the loss is unlimited.



## Single vanilla options

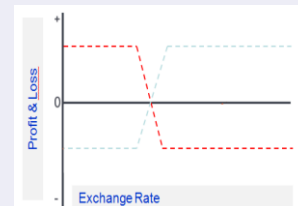
It's a one-side only CALL or PUT position. Either you BUY the right and you pay the premium or you SELL the right and collect the premium.

When you buy, the risk is limited to the premium you have paid initially. When you sell, the risk is potentially unlimited if you don't hold the underlying in your account.

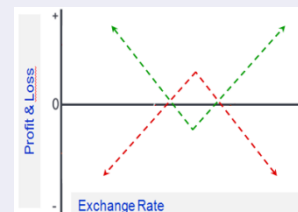
This strategy is also referred to as a 'directional' trade, because you can only benefit from it when the market trends in one direction.

Strategy	General	Structure	Use	Risk/Reward	Evolution
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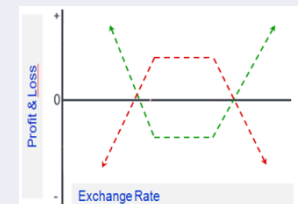
Vertical	<p>This is a two-side or 'legs' strategy on the same currency pair.</p> <p>A simultaneous buy and sell of two different strike prices is referred to as a spread. Vertical means that the spread is build using options with the same expirations.</p>	<p><b>BULL SPREAD:</b> Buy low strike and sell high strike. Same expiration and quantity.</p>	Moderately bullish	Loss limited to the premium paid. Profit is capped at the number of pips between strikes minus pips paid.
		<p><b>BEAR SPREAD:</b> Sell low strike and buy high strike.</p>	Moderately bearish	Loss limited to the number of pips between strikes minus pips received. Profit is capped at the premium collected.
		<p>Same expiration and quantity.</p>	Directional trade with less exposure to volatility than a plain vanilla structure.	



Straddle	<p>With a straddle, you buy both a call and a put on the same underlying currency pair with the same strike price and expiry.</p>	<p><b>BUY</b> at the money CALL, <b>BUY</b> at the money PUT</p>	Neutral	Loss is limited to the premium paid and profits are potentially unlimited.
		<p><b>SELL</b> at the money CALL, <b>SELL</b> at the money PUT</p>	Neutral	Loss is potentially unlimited while profits are capped at the premium collected.
		<p>Same strike, quantity and expiration.</p>	Stable market expected	Generate income in flat market, volatility expected to decrease.



Strangle	<p>A strangle has a similar set up to a straddle: you open both a call and a put on the same currency pair. These must both be going either long (a long strangle) or short (a short strangle), and have the same expiry. With a strangle, however, your put has a lower strike price than the call.</p>	<p><b>BUY</b> out the money CALL, <b>BUY</b> out the money PUT</p>	Neutral	Loss is limited to the premium paid and profits are potentially unlimited.
		<p><b>SELL</b> out the money CALL, <b>SELL</b> out the money PUT</p>	Neutral	Loss is potentially unlimited while profits are capped at the premium collected.
		<p>Similar Delta, same quantity and expiration.</p>	Stable market expected	Generate income in flat market, volatility is expected to decrease.



Risk Reversal	<p>A risk reversal is a strategy often used to protect a long or short currency pair position, but it can also be used to speculate on market volatility.</p>	<p><b>BUY</b> CALL, <b>SELL</b> PUT of the same quantity and expiration for any strike.</p>	Bullish Synthetic Long position when strikes are equal.	Similar as a net LONG position, depending on the strikes.
		<p><b>SELL</b> CALL, <b>BUY</b> PUT of the same quantity and expiration for any strike.</p>	Bearish Synthetic Short position when strikes are equal.	Similar as a net SHORT position, depending on the strikes.
			Hedging purposes	Call/Put volatility skew.

When WHS Prostation is open, you can start trading options by clicking the VIEW menu and selecting the OPTION BOARD. This displays the FX OPTIONS QUOTE BOARD which displays a number of strike prices and expiration dates for the selected currency pair.

You can select a currency pair from the UNDERLYING MARKET drop-down menu. Once selected, you can see the current market price for that currency pair in the UNDERLYING bar. Below that, you can view a list of expiry dates for that currency pair.

You can use the STRIKES field to increase or reduce the number of strikes you see. To see all available strikes, click the SHOW ALL checkbox.

You can view the option chain for that expiry by clicking next to the expiration date you want. The chain displays several strike prices, the implied volatility and Delta for a particular strike, and the bid and ask prices for call or put options for each strike.

Underlying Market:	Bid	Ask	FPL (EUR)	Delta	52 Wk High	52 Wk Low	Net Change	% Change	Open	Close	Pip/Point	Desc
EUR/USD.fx - Euro/US Dollar Spot	1.36753	1.36774	0.00		1.49390	1.28730	-0.01477	-1.0681	1.38240	1.38240	0.00	Eur
<b>Strikes</b>												
<b>PUTS</b>												
5												
<input type="checkbox"/> Show All	Bid	Ask	Imp. Vol.	Delta								
	Amount EUR	Amount EUR										
1.36000					1.36500							
1.37000	0.00987	0.01058	12.77%		1.37500	0.00979	0.01038	13.79%				-61,757
1.38000	0.01208	0.01288	12.39%		1.37000	0.01148	0.01210	13.58%				-69,776
1.36000	0.00820	0.00881	13.89%		1.36500	0.00750	0.00815	13.27%				-41,917
1.36500	0.00979	0.01038	13.79%		1.37000	0.01148	0.01210	13.58%				-47,200
1.37000	0.01148	0.01210	13.58%		1.37500	0.01328	0.01396	13.27%				-58,210
1.37500	0.01328	0.01396	13.27%		1.38000	0.01523	0.01598	12.88%				-63,964
1.38000	0.01523	0.01598	12.88%		1.35500	0.01743	0.01801	13.54%				-38,868
1.35500	0.01743	0.01801	13.54%		1.36000	0.01511	0.01569	13.32%				-43,166
1.36000	0.01511	0.01569	13.32%		1.36500	0.01295	0.01353	13.10%				-47,681
1.36500	0.01295	0.01353	13.10%		1.37000	0.01096	0.01154	12.89%				-52,360
1.37000	0.01096	0.01154	12.89%									

The screenshot displays the WHS ProStation interface. A 'Configure Option Quote Board' window is open, showing a list of columns to be displayed in the quote board. The 'Selected columns' section includes Ask, Bid, Imp. Vol., and Delta. The 'Display Greeks in' dropdown is set to 'in Amount EUR'. The main window shows a table of PUTS options with columns for Bid, Ask, Imp. Vol., and Delta.

**Configure Option Quote Board - Selected columns:**

- Ask
- Bid
- Imp. Vol.
- Delta
- Delta Fwd
- Gamma
- Vega
- Theta
- Rho Foreign
- Rho Domestic

**Display Greeks in:** in Amount EUR

**Table of PUTS Options:**

Strikes	Bid	Ask	Imp. Vol.	Delta	
5	0.00475	0.00539	13.48%	-38,273	
	0.00632	0.00692	13.47%	-45,855	
	<b>0.00801</b>	<b>0.00864</b>	<b>13.22%</b>	<b>-53,651</b>	
	0.00987	0.01058	12.77%	-61,757	
	0.01208	0.01288	12.39%	-69,776	
	0.00820	0.00881	13.89%	-41,917	
	0.00979	0.01038	13.79%	-47,200	
	<b>0.01148</b>	<b>0.01210</b>	<b>13.58%</b>	<b>-52,620</b>	
	0.01328	0.01396	13.27%	-58,210	
	0.01523	0.01598	12.88%	-63,964	
	1.35500	0.00882	0.00937	13.54%	-38,868
	1.36000	0.01015	0.01071	13.32%	-43,166
	1.36500	<b>0.01164</b>	<b>0.01222</b>	<b>13.10%</b>	<b>-47,681</b>
	1.37000	0.01330	0.01389	12.89%	-52,360

You can also click FILTER EXPIRY DATES to open the Option Board Filter. In this window, you can click on one of the tabs to narrow down the options by expiry date or strike price.

You can customize the appearance of the FX Option Quote Board by right-clicking on it and selecting CONFIGURE... from the drop-down menu. You can then use the Configure Option Quote Board window to display additional columns in the Underlying Markets row or Option Board, change the colors or font styles or select the pricing convention you want to see in the window.

The screenshot displays the WHS ProStation interface. On the left is a menu with options like 'Symbol Explorer', 'Chart...', 'Quote Board', and 'Option Board'. The main area shows a table of market data for EUR/USD.fx. A 'New Order' window is open, showing a 'Single Vanilla' strategy for EUR/USD.fx with a bid of 1.3672 and an ask of 1.3674. The window includes sections for 'Strategy Settings', 'Legs', 'Pricing Details', and 'Hedge'.

Wk High	52 Wk Low	Net Change	% Change	Open
9390	1.28730	-0.01477	-1.0681	1.38240

Account	Symbol	Order Type	Operation
3492312 (EUR)	EUR/USD.fx	Market	Buy

Legs	Operation	Lots	Date	Strike	Option Type	Exp. Days left
Leg 1	Buy	1	09/11/2011	1.35000	EUR CALL	<1 day left

Price Details	in EUR	in % EUR	in Pips (USD)	in EUR	in Volatility, %
Leg 1	0.01304	1.304%	178.3	0.01304	17.30%

You can also select one of the available option order strategies (VERTICAL, STRADDLE, STRANGLE, RISK REVERSAL or SINGLE VANILLA) from the ORDER drop-down menu.

In the Option Strategy section, you can select the account you want, the currency pair, the order type and whether the option order is a buy or sell. The system will automatically set the premium. You can set you own price for Stop and Limit orders in the ORDER PRICE field.

If you want to place one of the available option order strategies quickly, you can also right-click on a Bid or Ask price under the Call or Put section and select VERTICAL, STRADDLE, STRANGLE, RISK REVERSAL or SINGLE VANILLA. This opens the New Order window with the strategy set up.

Double-clicking on a BID or ASK price under the Call or Put section opens the NEW ORDER window so you can place a single-vanilla option order at the current market price.

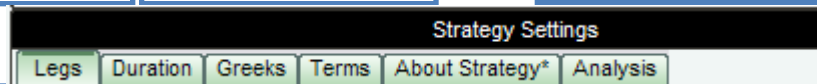
The DURATION tab displays how long your order will be working. All option orders will be considered GOOD TILL CANCELLED; this means your order will remain working until you decide to cancel it or it is filled.

The TERMS tab displays the lot size, settlement type, and expiration date and time for the trade.

The ANALYSIS tab summarizes the cost, the maximum profit and loss and what the breakeven price would be for your option.

When done, click SUBMIT to place your option order. A confirmation window will appear that displays the details of your trade and analysis information.

Once you click YES, your option orders will appear in the WORKING ORDERS window or as an option position in the OPEN POSITIONS window.

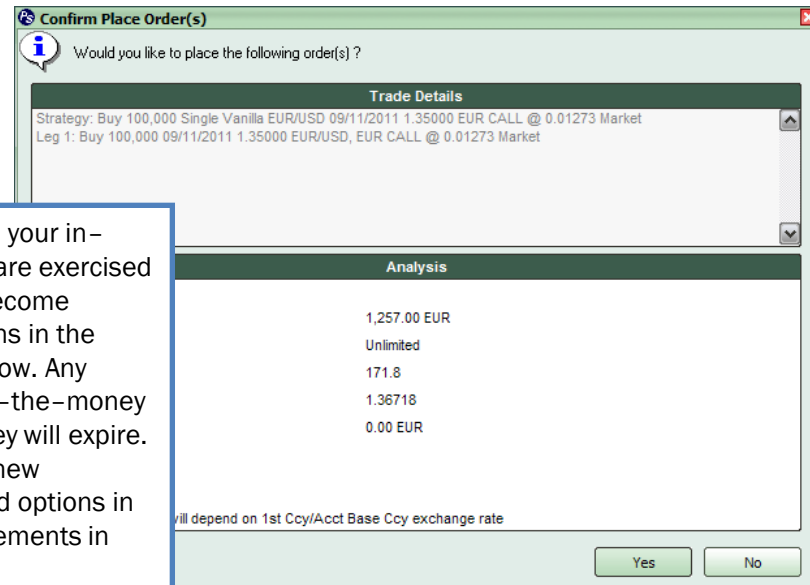


The LEGS tab displays the number of legs required to execute the selected strategy. You can specify the number of lots, the expiration date and the option type for each leg, depending on the strategy. You can view pricing information for each leg in the pricing details section. If you would like to Delta hedge your option trade, you can click the HEDGE checkbox. When this is checked, platform will issue a spot FX market order to buy or sell the currency pair in the amount that offsets the Delta exposure from the option order.

The GREEKS tab shows the values for the Greeks (Delta, Gamma, Theta, Vega and Rho). You can choose to display Greek values by the base or terms currency or in a percentage of the base currency.

The ABOUT STRATEGY tab displays information about the type of strategy you selected. You can view how it's structured, its directional view and the possible risk/reward.

On the option expiry, your in-the-money options are exercised automatically and become regular forex positions in the Open Positions window. Any options that were at-the-money or out-of-the-money will expire. You'll also see your new positions and expired options in the reports and statements in the platform.



All FX options will expire on the date indicated in the platform at 10.00 EST. If this date is not a valid trade day it will be the last available trade day before.

FX options are available at 100.000 and 10.000 lot size.

All in-the-money options will be exercised automatically.

FX options margin rules: Trading FX options with WHSelfInvest introduces some important considerations for the measures of Total/Available Equity and Margin.

Unlike other forms of spot forex and CFD trades that normally have a margin requirement associated with each individual position, WHSelfInvest calculates margin differently when you trade FX options. When you sell an FX option, any position-based forex and FX option positions are combined and the margin is calculated on the overall spot forex portfolio. CFD positions will continue to have a separate margin for each position.

When you open an FX option position, your Total Equity is calculated as the lesser of:

Cash + Floating P/L

Cash - Premium for Long FX Options

#### ORDER SIZE

FX options exists in all the conventional order sizes from 100K down to 1K per lot.

#### PHONE ORDER RESTRICTION

Existing positions can be closed by phoning our support desk.

Working orders can be modified.

**ANY ORDER TO OPEN A NEW FX OPTION POSITION WILL NOT BE SUPPORTED BY PHONE ORDER.**

## Q / What is an FX option?

An option is a contract between a buyer and a seller for the right to buy or sell an underlying financial product at a specific price on a particular date. With FX options, the underlying product is a currency pair.

## Q / What's a call and what's a put?

A call is an option for the right to buy a currency pair.

If the trader anticipates that the price of a currency pair will rise, they may take advantage of that movement by buying a call.

A put is an option for the right to sell a currency pair.

If the trader anticipates that the price of a currency pair will fall, they may take advantage of that movement by buying a put.

In both of these scenarios, the trader becomes the holder, the person who will have the right to buy or sell the currency pair.

The seller becomes the writer of your call or put and they would be required to honor the terms of your option.

## Q / But I can also sell a call or put, right?

That's correct. In the scenarios in the previous question, you are buying or going long on a call or put.

If you are going long a call or a put, you can close out of your position before expiry by selling your call or put.

	PUT	CALL
BUYER	Right to Sell	Right to Buy
SELLER	Obligation to Buy	Obligation to Sell

## Q / When can I trade an FX option?

The FX option markets open on Sunday at 5:30 p.m. ET and close on Friday at 5 p.m. ET. You can trade options at any time during those hours.

## Q / What is the option expiry?

The EXPIRY or the expiration date is the date in the option contract when the option expires.

WHS offers weekly expirations to up to six months. Normally, options will expire on a Wednesday at 10 a.m. ET.

(with one- to six-month options, the expiry usually falls on the third Wednesday of the month).

On the expiry, FX options that are in-the-money are exercised while at-the-money or out-of-the-money options expire worthless.

## Q / Can I exercise an option before the expiry?

WHS uses European-style options, which can only be exercised at expiry. At any time during trading hours, however, you can buy or sell the identical option to exit the option position.

## Q / What is the strike of an option?

The strike price is the specific price in the option contract that your buy or sell forex position would be opened at on the expiry if your option was in-the-money.

## Q / Can I pick any strike price?

WHS will offer a number of fixed strikes for each currency pair available. Strikes are selected at convenient intervals within the likely range of the underlying.

## Q / Why does the premium change on my option?

When you open an option, you'll notice the value of the premium changes over time.

Many factors may have an impact on the price of an option: the price of the underlying currency pair, interest rates, the strike price, volatility and the amount of time until expiration.

## Q / Why does the expiry date have an impact on premium?

Time value is one of two components in an option's premium. When an option has a lot of time before it expires, it is considered to have a greater chance of ending up in-the-money.

That's why options with a lot of time have a higher time value. As the option gets closer to its expiry, the time value of the premium will drop because there's less time in the option.

## Q / What happens to my option on expiry?

On the option expiry, your in-the-money options are exercised automatically and become spot FX positions in the Open Positions window.

At-the-money or out-of-the-money options expire worthless. You'll see your new positions and expired options in reports and statements you generate.