Open Interest and Volume





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Objectives

In the previous video, you have understood the option-chain where you have seen the OI (Open interest) and Volume column. You must be wondering what these two terms are? After reading this document, you will be able to answer:

- 1. What is open interest?
- 2. How is it different from volume?
- 3. How to interpret volume and open interest data?

Open interest and Volume

Open Interest

Open interest tells the number of options and futures contracts that are active or open in the market.

Volume

The volume is the number of contracts that are traded.

Example

In any options/futures contract, both the option buyer and seller are involved. For each buyer, there must be a seller. Let's say the seller sells 1 contract to the buyer. The buyer is long on the contract, and the seller is short on the same contract. Open interest, in this case, is 1. And the volume is also 1.

Assume there are 3 traders in the market with the names Vibhu, Ishan, and Akshay. Vibhu buys 10 contracts while Ishan sells 10 contracts. After this transaction, there are 10 contracts on the long side and 10 contracts on the sell side. Hence the open interest is 10 and volume is 10.

Trader	Buy	Sell	Contracts held
Vibhu	10L		10L
Ishan		10\$	10S
Akshay			

Open Interest = 10

Volume = 10

On the next day, Ishan wants to get rid of his 5 out of 10 contracts. Akshay comes into the market and takes 5 of his shares. In this transaction, no new contracts were created in the market. Hence the OI will not change and still stand at 10. But volume will increase by 5.

Trader	Buy	Sell	Contracts held
Vibhu	10L		10L
Ishan	5L	10S	5S
Akshay		5\$	5S

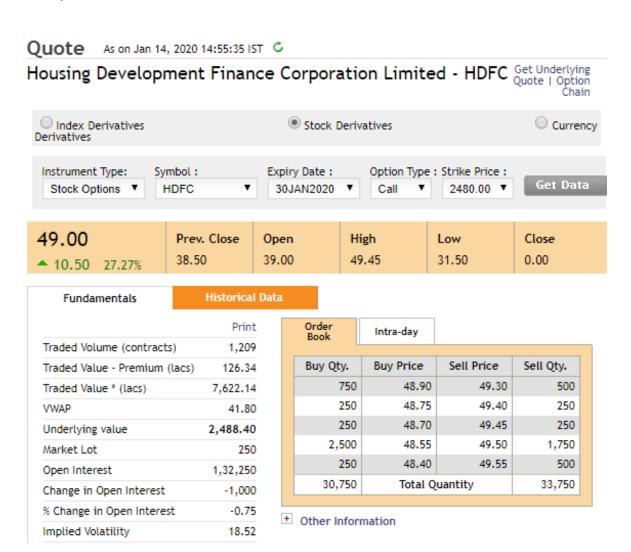
Change in open interest = 0

Open interest = 10

Day's volume = 5

Total volume = 15

Interpretation of Volume and OI data



The Open interest on HDFC options is roughly 1.32 lakhs as on 14 Jan. It means that there are 1.32 lakhs long open positions and 1.32 lakhs short open positions on HDFC 2480 strike call options. Change in open interest is -1000, which means that 1000 options positions have been closed today. Traded volume is 1209, which means that 1209 HDFC option contracts traded on 14 Jan.