Open Interest

May 30, 2025 • vajiramandravi.com

Open Interest Latest News

SEBI recently announced a sweeping overhaul of its equity F&O framework, introducing a new Future Equivalent (FutEq) method to assess open interest more accurately.

About Open Interest

- It is a term **commonly used in Futures and Options (F&O) trading**, **where** the number of **open contracts changes on a daily basis.**
    - In simple terms, every trade has two sides: a buyer and a seller. **Whenever** an **F&O contract is traded**, it is **considered open until one of the parties closes their position** through offsetting.
- **Open Interest** is the **total number of active** options and futures **contracts** that have **not yet been settled against an asset at a given time** in the trading arena.
- It is primarily used as an **indicator to identify market positions of securities** that have **not yet been closed** for an unknown reason.
- To summarise, it is referred to as a **measure of liquidity in conjunction with market activity.**

- Like any other security traded in the market, it is **subject to market changes.**
- **When new contracts are created** or opened, **it rises.** A rise in the number of them **indicates** that there are **more buyers and sellers** for a specific security.
- It **decreases when positions** in existing contracts **are closed out** by buyers (or holders) and sellers.
- **Investors** might **make conclusions about the day's market activity by monitoring** changes in the **open interest** at the end of each trading day.
- **Importance of Open Interest in Stock Market:**
    - Open interest plays a significant role in **helping options traders understand the liquidity of an option.**
    - It is a **measure of market activity.** It **indicates if a market will trendor be range-bound, often known as choppy.**
    - **An increase in open interest** indicates that the number of new positions is increasing. This **suggests** that the **market is being traded actively** and is more likely to trend, while **decreasing open interest indicates money flowing out** of the market.
    - After a sustained price gain, a **levelling off of Open Interest** is usually an **early indicator of the end of a bull market phase.**
    - To summarise, this type of indicator can be a significant piece of information when **evaluating a possible investment.**

What are Futures and Options (F&O)?

- F&O are the major **types of stock derivatives trading** in a share market.
- These are **contracts signed** by two parties **for trading a stock asset at a predetermined price on a later date.**
- Such contracts **try to hedge market risks** involved in stock market trading by **locking in the price beforehand.**
- F&O are **contracts** which **derive their price from an underlying asset** (known as underlying), such as shares, stock market indices, commodities, ETFs, and more.
- **Futures contracts obligate the buyer to purchase an underlying asset**, while the **seller must deliver it** at a **predetermined price and date.**
- I**n options contracts**, the **buyer has the right, but not the obligation**, to buy or sell the underlying asset at a predetermined price and date, while the **seller must honour the contract if the buyer chooses to exercise their option.**
- F&O basics allows individuals to reduce future risk with their investment through pre-determined prices.
- However, **since a direction of price movements cannot be predicted,** it **can cause substantial profits or losses** if a market prediction is inaccurate.
- Typically, individuals well versed with the operations of a stock market primarily participate in such trades.

Open Interest FAQs

Q1: What does "Open Interest" (OI) represent in Futures & Options trading?

Ans: The total number of active contracts not yet settled.

Q2: When does Open Interest increase?

Ans: When new contracts are created or opened.

Q3: A leveling off of Open Interest after a sustained price gain typically signals what?

Ans: The end of the bull market phase.

Source: NIE
