



# DERIVATIVE STRATEGIES

## ELECTION 2024

**Devarsh Vakil** : Deputy Head

**Nandish Shah** : Senior Derivative Analyst

## ACT BEFORE ITS TOO LATE

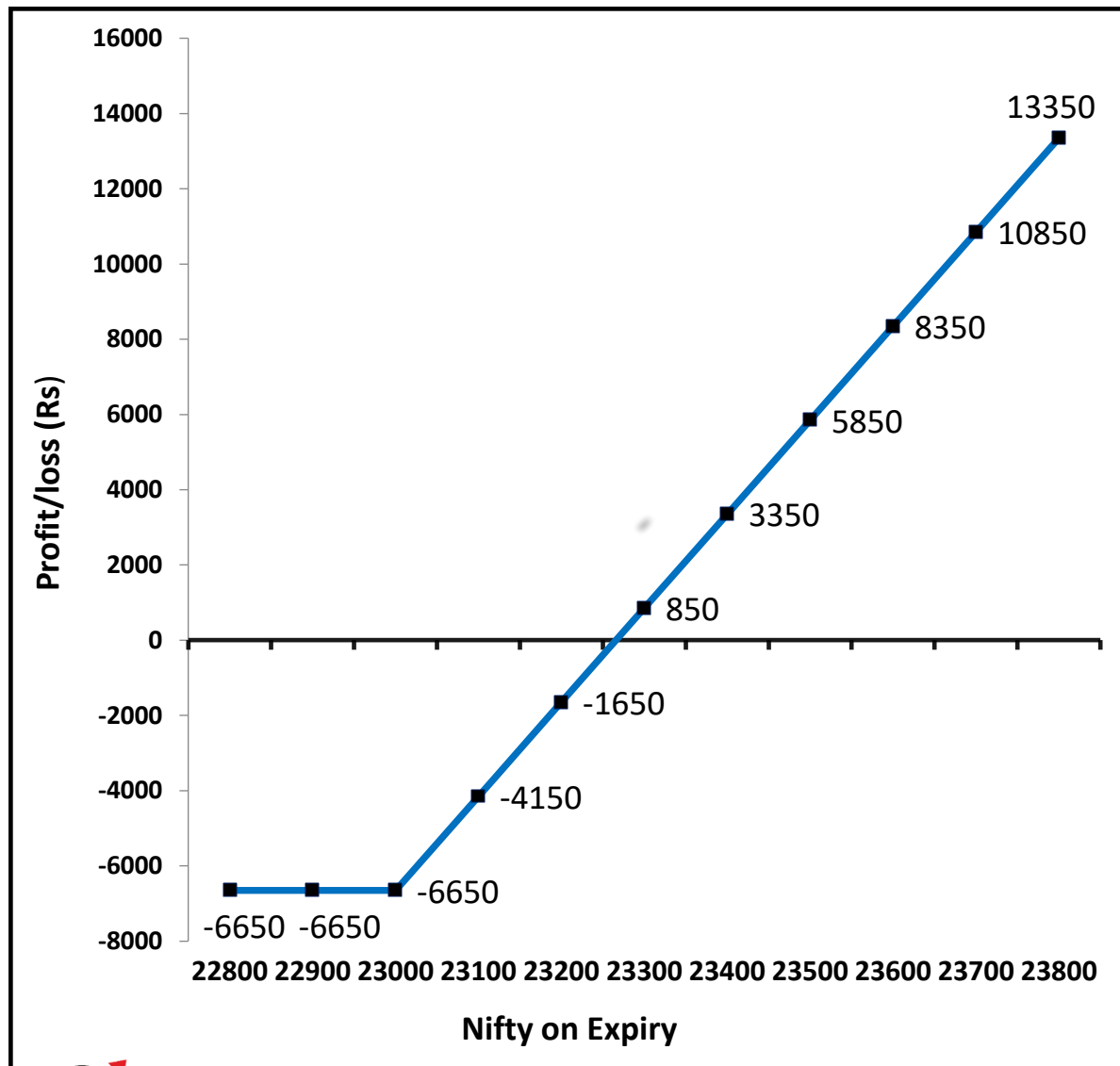
- The outcome of the 18th Lok Sabha election is set to be announced on June 4<sup>th</sup> . Exit polls are anticipated to commence on the evening of June 1<sup>st</sup> following the conclusion of the final phase of the election. Consequently, market volatility is expected to escalate from June 3<sup>rd</sup> onwards, contingent upon the results of the exit polls. Another surge of volatility is anticipated on the vote counting day, i.e. June 4<sup>th</sup> .
- Election results hold immense significance for Indian markets. We are not psephologists and do not claim to have any unique insights into how this cookie will crumble. Over the past four election (2004, 2009, 2014, 2019), the Nifty experienced considerable volatility, with fluctuations of 30%, 30%, 14%, and 8%, respectively in the election month period.
- **History does not repeat itself but rhymes!** We anticipate a similar scenario this time around. Market expectations of volatility have propelled the India VIX to levels between 20-22%. Depending on the election outcome, Nifty may swing wildly on either side. Nifty has moved up by 25% in last one year(From 28 April 2023).
- Therefore if you are a long term investor with a large portfolio and would like to remain fully invested, **its advisable to hedge the risk ahead of the binary event like general election outcome.** This can be done by buying Index Put Options. However, one should understand that hedging is like an Insurance, that comes at a cost.
- Traders who understand derivatives (Risks Vs Rewards) and would like to trade this event – **We prescribe different trading strategies that can be implemented according to three possible scenarios** – take a pick according to your choice !

## For Investors who understand derivatives and would like to hedge the portfolio before election results.

- Our markets have risen twenty five percent in last one year. Election results have been notorious in springing a surprise to market participants. Therefore, for those who hold large portfolios and are fully invested, it is advisable for them to hedge full or part of their exposure. Here, the simplest thing to do is to buy Nifty Put Options.
- **STRATEGY : BUY NIFTY 22500 PUT AT Rs 408 (06 JUNE EXPIRY). LOT SIZE 25. CONTRACT VALUE Rs. 5,62,500**
- The quantity of Put options that need to be bought will vary depending on the size and composition of the portfolio.
- **Large cap Portfolio** : A portfolio with predominantly large cap stocks are likely to move in sync with Index. (Beta around 1) Assuming the size of the portfolio is Rs 1 Cr, one need to buy 18 lots (100 lakh/5.625 lakh) of Nifty 22500 Put options(06-June-Expiry).
- The cost of hedging Rs. 1 Cr portfolio will be approximately Rs. 1. 84 lakhs (1.84% of portfolio value at Nifty 22500 levels).

## For Traders we present three possible scenarios-Take your Pick !

Number	SCENARIOS	PROBABILITY	IMPACT ON MARKETS
1	BJP led NDA gets more than 400 seats	Moderate	Market will rise Sharply. Markets are not expecting NDA to get more than 400 seats. Stocks across the board can do very well.
2	BJP led NDA gets around 320-380 seats	Higher	As expected by the market. Market will react positively as uncertainty will end. However upside will be capped. Midcaps can do well as event uncertainty is out of way.
3	NDA fails to form the Govt	Lower	Unexpected outcome for the Markets. Market will react sharply negatively on election results day.



## SCENARIO 1: IF BJP LED NDA GETS MORE THAN 400 SEATS

In such an eventuality, we expect market to shoot-up as market is not expecting NDA to get more than 400 seats.

Here the simplest thing to do is to buy a Nifty Call. Due to uncertainty of the election outcome, many traders prefer to use options to express their view. Moreover though India VIX has risen during last few days, it is still lower than 2019(26%), 2014 (31%) and 2009(49%) with seventeen days left to the election results. Therefore we suggest plain vanilla strategy of buying a call option.

### STRATEGY 1 : BUY NIFTY 23000 CALL AT Rs 266(06-June Expiry)

**Leg 1** : Buy NIFTY 06-June Expiry 23000 CALL at Rs 266

**Total cost of the Strategy** Rs 266 points(Rs 6650 per strategy)

**Breakeven Point** : 23266

**Maximum Profit** : Undefined(Unlimited on the upside)

**Maximum loss** : Rs 6650 per lot at 23000 or below Nifty level on Expiry

## SCENARIO 2: IF BJP LED NDA GETS AROUND 320-360 SEATS

This scenario is widely expected by market participants. Markets will react positively as uncertainty would be out of the way. However Market's up-move will be measured. Post the expected outcome, implied volatilities are likely to fall.

Here we are suggesting strategy of Long butterfly spread with Call option. A long butterfly spread with calls is a three-part strategy that is created by buying one call at a lower strike price, selling two calls with a higher strike price and buying one call with an even higher strike price.

### **STRATEGY 2 : LONG BUTTERFLY SPREAD STRATEGY : NIFTY (CMP 22502)**

**Leg 1 :** Buy 1 Lot NIFTY 06-June Expiry 22500 call at Rs 617

**Leg 2 :** Sell 2 Lot NIFTY 06-June Expiry 23000 call at Rs 247.

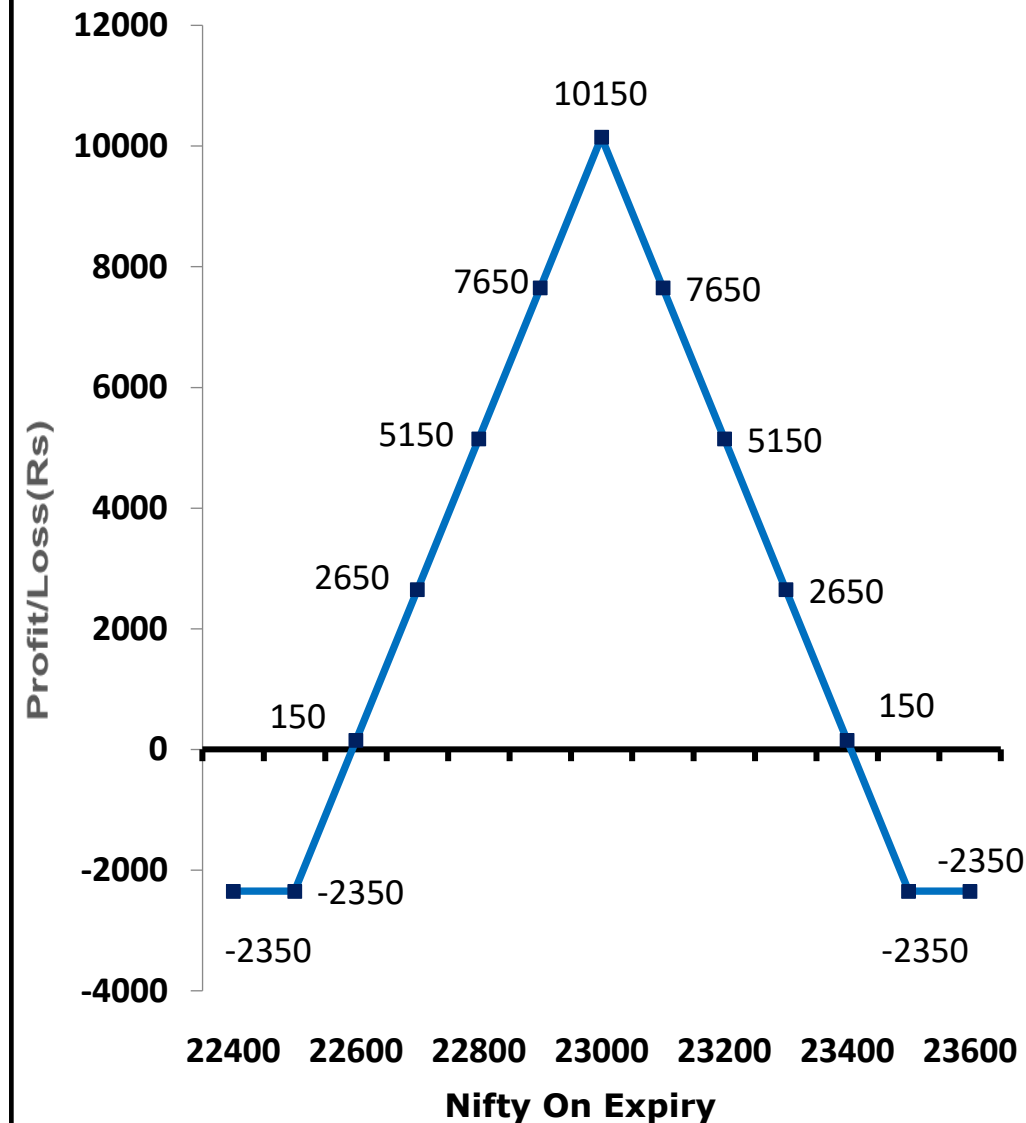
**Leg 3 :** Buy 1 Lot NIFTY 06-June Expiry 23500 call at Rs 59.

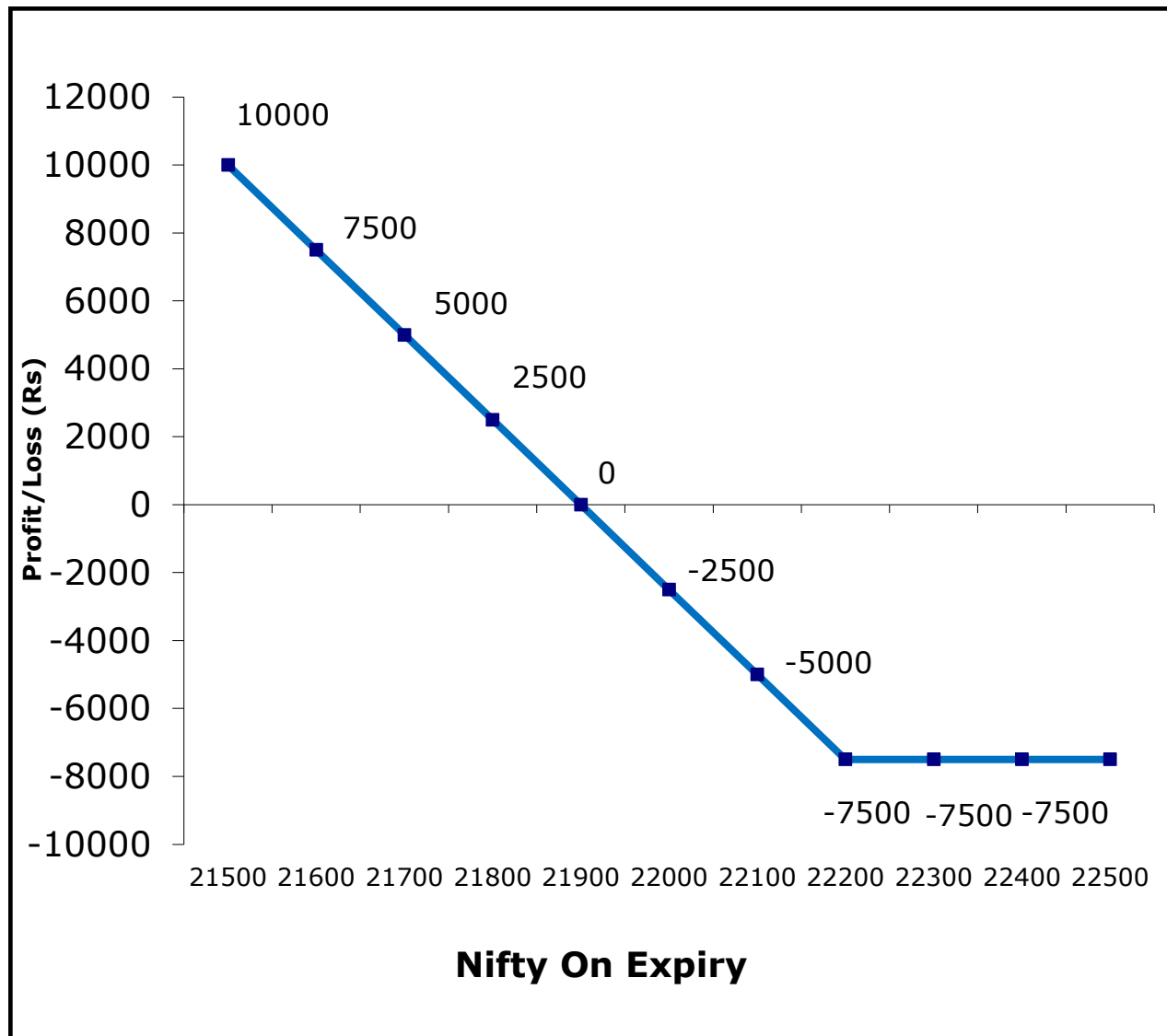
**Max Profit** Rs 10150 If Nifty closes at 23000 on 06-June Expiry.

**Maximum loss of Rs 2350** 1) If Nifty closes at or below 22500  
2) If Nifty closes at or above 23500

Breakeven point: 22594 & 23406

Risk Reward Ratio: 1 : 4.32





## SCENARIO 3: IF NDA FAILS TO FORM GOVERNMENT

Unexpected outcome for the Markets. Market will react violently and experience a severe decline. Volatilities can rise further. Here the simplest thing to do is to buy a Nifty Put.

### **STRATEGY 3 : BUY NIFTY 22200 PUT AT Rs 300**

**Leg 1 : Buy NIFTY 06-June Expiry 22200 Put at Rs 300**

**Total cost of the Strategy** Rs 300 points (Rs 7500 per strategy)

**Breakeven Point :** 21900

**Maximum Profit :** Undefined (Unlimited on the downside)

**Maximum loss :** Rs 7500 per lot, for Nifty > 21900 on 06-June expiry.

ELECTION RESULT DATE	NIFTY PREVIOUS MONTH CLOSE	HIGH OF MAY MONTH	LOW OF MAY MONTH	DIFFERENCE	VOLATILITY (%)	NIFTY MAY MONTH CLOSE	CHANGE (%)
	(A)	(B)	(C)	(D=B-C)	(F=D/A)	(G)	(H=G/A)
13-May-04	1796	1838	1292	546	30	1484	-17
16-May-09	3474	4509	3479	1030	30	4449	28
16-May-14	6696	7464	6638	826	12	7230	8
23-May-19	11748	12041	11108	933	8	11923	1
<b>AVERAGE</b>					<b>20</b>		<b>5</b>



ELECTION RESULT DATE	NIFTY CLOSE ONE DAY BEFORE ELECTION RESULT	NIFTY CLOSE ON ELECTION RESULT	CHANGE (%)	NIFTY CLOSE ONE DAY AFTER ELECTION RESULT	CHANGE (%)
13 May 2004	1711	1718	0.41	1582	-7.92
16 May 2009	3672	4323	17.73	4318	-0.12
16 May 2014	7123	7203	1.12	7264	0.85
23 May 2019	11738	11657	-0.69	11844	1.60
<b>AVERAGE</b>			<b>4.64%</b>		<b>-1.40%</b>

## **Disclaimer:**

This report has been prepared by HDFC Securities Ltd and is solely for information of the recipient only. The report must not be used as a singular basis of any investment decision. The views herein are of a general nature and do not consider the risk appetite or the particular circumstances of an individual investor; readers are requested to take professional advice before investing. Nothing in this document should be construed as investment advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in securities of the companies referred to in this document (including merits and risks) and should consult their own advisors to determine merits and risks of such investment. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete. HSL is not obliged to update this report for such changes. HSL has the right to make changes and modifications at any time.

This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction.

If this report is inadvertently sent or has reached any person in such country, especially, United States of America, the same should be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published in whole or in part, directly or indirectly, for any purposes or in any manner.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk. It should not be considered to be taken as an offer to sell or a solicitation to buy any security.

This document is not, and should not, be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. This report should not be construed as an invitation or solicitation to do business with HSL. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report. As regards the associates of HSL please refer the website.

HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

Please note that HDFC Securities has a proprietary trading desk. This desk maintains an arm's length distance with the Research team and all its activities are segregated from Research activities. The proprietary desk operates independently, potentially leading to investment decisions that may deviate from research views.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Murli V Karkera Email: [complianceofficer@hdfcsec.com](mailto:complianceofficer@hdfcsec.com) Phone: (022) 3045 3600

For grievance redressal contact Customer Care Team Email: [customercare@hdfcsec.com](mailto:customercare@hdfcsec.com) Phone: (022) 3901 9400

HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 11092018; IRDA Corporate Agent License No.: CA0062; SEBI Research Analyst Reg. No.: INH000002475; SEBI Investment Adviser Reg. No.: INA000011538; CIN - U67120MH2000PLC152193

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.

Registration granted by SEBI, membership of BASL (in case of IAs) and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.