

KEDIA | CAPITAL

Trusted Wealth Partner

KEDIA CAPITAL SERVICES PVT. LTD.

CRUDE PORTFOLIO HEDGING STRATEGY

Why Crude?

- Represent the World Economy
- Low Volatility v/s Stocks
- Low Risk v/s Stocks
- Easily Liquid
- Easy to Track
- Monthly Options Available
- Contract Size 100 ($100 \times 7,940 = 7,94,000$)



Crude Oil (MCX) 9 Years Monthly Returns

CRUDE OIL PRICE MOVEMENT SINCE 2014

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	Growth
2014	6169	6371	6119	6015	6106	6337	6006	5831	5673	4931	4210	3369	-2753.00
	0.77	3.27	-3.96	-1.70	1.51	3.78	-5.22	-2.91	-2.71	-13.08	-14.62	-19.98	-44.97
2015	2855	3064	3025	3790	3869	3776	3038	3230	2979	3068	2798	2493	-876.00
	-15.26	7.32	-1.27	25.29	2.08	-2.40	-19.54	6.32	-7.77	2.99	-8.80	-10.90	-26.00
2016	2286	2321	2572	3035	3333	3304	2782	3003	3212	3153	3377	3541	1048.00
	-8.30	1.53	10.81	18.00	9.82	-0.87	-15.80	7.94	6.96	-1.84	7.10	4.86	42.04
2017	3614	3566	3284	3174	3127	2968	3183	3038	3373	3528	3687	3850	309.00
	2.06	-1.33	-7.91	-3.35	-1.48	-5.08	7.24	-4.56	11.03	4.60	4.51	4.42	8.73
2018	4112	4093	4234	4583	4517	5086	4734	4959	5335	4892	3576	3170	-680.00
	6.81	-0.46	3.44	8.24	-1.44	12.60	-6.92	4.75	7.58	-8.30	-26.90	-11.35	-17.66
2019	3869	4090	4185	4467	3775	4095	4032	3958	3880	3853	3980	4386	1216.00
	22.05	5.71	2.32	6.74	-15.49	8.48	-1.54	-1.84	-1.97	-0.70	3.30	10.20	38.36
2020	3683	3263	1689	1315	2564	3015	3023	3145	2934	2642	3326	3524	-862.00
	-16.03	-11.40	-48.24	-22.14	94.98	17.59	0.27	4.04	-6.71	-9.95	25.89	5.95	-19.65
2021	3820	4604	4384	4723	4870	5492	5517	5026	5571	6264	4896	5625	2101.00
	8.40	20.52	-4.78	7.73	3.11	12.77	0.46	-8.90	10.84	12.44	-21.84	14.89	59.62
2022	6561	7291	7766	8117	9026	8387							2762.00
	16.64	11.13	6.51	4.52	11.20	-7.08							49.10
Average	1.90	4.03	-4.78	4.81	11.59	4.42	-5.13	0.61	2.16	-1.73	-3.92	-0.24	Average

Crude Outcomes (Monthly)

Conditions	Downside	No of times	Upside	No of times
1	Below 5 %	19	Less than 5 %	21
2	5-10%	12	5-10%	17
3	10% and above	15	10% and above	18

Total Observations: 102

Probability for Gold remaining in the range of 0-5% below or above – **39.22%**

Probability for Gold remaining in the range of 5-10% below or above – **28.43%**

Probability for Gold remaining around 10% below or above – **32.35%**

Note:

Out of the 0-5% range we saw the upside was **52.50%**

Out of the 5-10% range we saw the upside was **58.62%**

Out of the 10% range we saw the upside was **54.54%**



Investor's Appetite

CRUDE CMP: 7,940

Returns Estimated	What to do?
2-4%	5% below the strike price that is 7,550
4-6%	4% below the strike price that is 7,600
6-7%	3% below the strike price that is 7,700
7-8%	2% below the strike price that is 7,750

NOTE: Returns and Risk are directly correlated.





Option Chain

CALLS										PUTS									
OI (Lots)	Chng in OI	Volume	LTP	Abs. Chng	Bid Qty	Bid Price	Ask Price	Ask Qty	Strike Price	Bid Qty	Bid Price	Ask Price	Ask Qty	Abs. Chng	LTP	Volume	Chng in OI	OI (Lots)	
1	-	-	-	-	3	908.20	941.30	3	7200.00	2	190.20	192.00	1	12.70	193.00	32	-2	337	
-	-	-	-	-	-	-	-	-	7250.00	-	-	-	-	-	-	-	-	-	
2	-	-	-	-	3	832.50	867.80	3	7300.00	3	215.90	218.30	3	17.90	218.00	36	1	201	
-	-	-	-	-	-	-	1650.50	1	7350.00	-	-	-	-	-	-	-	-	-	
18	-	-	-	-	3	778.70	790.90	3	7400.00	4	245.50	248.40	2	15.50	249.00	57	4	324	
-	-	-	-	-	-	-	-	-	7450.00	-	-	-	-	-	-	-	-	-	
259	-1	4	715.00	-57.20	1	712.90	720.30	3	7500.00	4	279.90	281.40	1	14.50	280.00	645	-24	1406	
-	-	-	-	-	-	-	-	-	7550.00	-	-	-	-	-	-	-	-	-	
97	-	-	-	-	3	645.60	660.20	3	7600.00	4	314.10	316.70	4	15.40	313.10	119	-2	319	
-	-	-	-	-	-	-	-	-	7650.00	-	-	-	-	-	-	-	-	-	
218	2	4	590.00	-56.90	3	586.30	600.20	3	7700.00	4	354.00	356.40	1	15.90	353.50	156	20	522	
1	-	-	-	-	5	555.20	585.20	3	7750.00	3	361.50	388.30	3	-	-	-	-	-	
312	3	22	539.00	-26.70	2	534.40	537.80	5	7800.00	2	397.00	399.40	4	18.20	395.60	261	-50	697	
-	-	-	-	-	5	499.70	527.80	5	7850.00	3	407.80	436.10	3	-	-	-	-	-	
278	63	223	484.00	-42.70	1	482.00	483.80	1	7900.00	2	444.20	446.30	1	23.40	444.30	357	68	467	
3	-2	2	452.80	-31.40	5	450.90	473.00	5	7950.00	1	436.10	489.10	3	-	-	-	-	2	
1421	89	706	435.80	-38.40	2	435.30	436.70	3	8000.00	4	497.60	499.40	3	29.70	497.50	516	33	809	
-	-	-	-	-	3	402.80	427.00	5	8050.00	3	514.20	545.10	3	-	-	-	-	-	
292	44	148	383.60	-43.40	3	390.70	393.30	3	8100.00	4	551.40	555.00	3	32.10	552.00	38	10	106	
-	-	-	-	-	5	357.10	381.50	5	8150.00	3	570.90	602.80	3	-	-	-	-	-	
439	4	101	352.00	-30.90	4	347.20	349.80	4	8200.00	5	607.20	610.50	1	39.50	614.00	6	-	92	
-	-	-	-	-	-	-	-	-	8250.00	-	-	-	-	-	-	-	-	-	





View: Bearish to Neutral

As we saw above, chances of Crude staying above and below 5% is almost 39.22%.
Assuming Crude is at 7,940, and its 4% is 7,600 level

Crude CMP	7,940
Crude Lot Size	100
What to do?	Sell 7,600 Put @ 313.10
Margin Required	Approx 2,50,000
Returns in Amount	$(313.10 * 100) = \text{Rs. } 31,310. (\text{Monthly})$
Returns in %	$31,310 / 2,50,000 = 12.52\% (\text{Monthly})$



CASE 1



Considering view: Bullish

STEPS:

- Buy futures @7950 and sell call (CE) option @7950
- $452.80 * 100 = 45,280$ (Rs 452.80 is the premium and 100 is the lot size of Crude)
- Return in % = 18.11% ($45,280 / 2,50,000$) - (2,50,000 is the margin required)
- Max profit = 45,280 (the premium received)
- Risk = Delivery



What to do if the delivery comes?

CASE 1

If the delivery comes it will come of the same option strike which we have sold.

CASE 2

The delivery will come to us at the future price we have bought.

In both the above cases: $\text{Cost of Delivery} = \text{Purchase} - \text{Premium Received}$

Calculations:

Cost of delivery = $7940 * 100$ (Lot size)

= Rs. 7,94,000

Premium Received = Rs. 45,280

Returns = $45,280 / 7,94,000$

= 5.70% (Monthly)



21st July 2022

Cost of Purchase

CASE 1

Delivery at 7,287

(7,600 PE premium was 313.10 on monthly basis, so $7600 - 313.10$)

CASE 2

Delivery at 7,498

(7,950 CE premium was 452.80, so $7,950 - 452 = 7,498$) - (worst case scenario)

CE Strike Price	Premium Monthly
7,500	715
7,700	590
7,800	539
7,900	484
8,000	435

Indicative Premium rates





21st July 2022

Process

Note: IN CASE 1

Assuming you sold Crude 7600 PE and its cost of purchase becomes
 = 7,600-313.10(monthly premium)

So, 7,600-313.10= 7,287 **(Taking delivery at 7,287)**

Crude at 7,250	Will sell 7,300 CE and received premium of 550= 7300-550, = 6750(Cost of Purchase)
Crude at 7,050	Will sell 7,250 CE and received premium of 550= 7250-550, = 6700(Cost of Purchase)
Crude at 6,900	Will sell 7,050 CE and received premium of 550= 7050-550, = 6500(Cost of Purchase)
Crude at 6,750	Will sell 6,900 CE and received premium of 550= 6900-550, = 6350(Cost of Purchase)

Assumptive Premium rates

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THANK YOU

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