

Module 12 · Printable reference

Futures Trading

Key concepts, worked examples and risk reminders. Use alongside the full free course.

145 Futures contracts

A futures contract creates an obligation under standardized exchange terms.

Example: A price move of 10 with multiplier 50 changes value by 500.

Check: A long contract rises 10 points with multiplier 50: gross change?

Answer: 500 currency units.

Caution: Contract specifications differ and can change.

146 Notional exposure

Notional is futures price multiplied by contract multiplier and number of contracts.

Example: Price 20,000 and multiplier 50 imply 1,000,000 notional.

Check: Two contracts at 20,000 with multiplier 50: notional?

Answer: 2,000,000.

Caution: Margin is not the maximum amount at risk.

147 Margin and leverage

Margin is collateral required to support positions.

Example: A hypothetical 100,000 margin supports 1,000,000 notional, tenfold exposure.

Check: A 1% adverse move on 1,000,000 notional: loss?

Answer: 10,000 before costs.

Caution: Losses may exceed deposited margin.

148 Mark to market

Futures gains and losses are settled according to clearing rules.

Example: Long at 100 settles at 103 with multiplier 50, gain 150.

Check: Prior settlement 103, next 99, multiplier 50, long one contract: change?

Answer: −200.

Caution: Adverse movements can require additional collateral.

149 Basis

Basis is a defined difference between futures and spot prices.

Example: Futures 102 and spot 100 give futures-minus-spot basis 2.

Check: Futures 98, spot 100: basis under this convention?

Answer: −2.

Caution: Conventions differ; state the sign.

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150 Expiry and rollover

Contracts terminate under expiry rules; rolling closes one and opens another.

Example: Close near-month at 102 and open next-month at 104.

Check: Does rolling remove market exposure?

Answer: No; it transfers exposure into another contract.

Caution: Rolling incurs spread, costs and basis effects.

151 Futures hedging

An opposing futures position may offset some portfolio exposure.

Example: A long equity portfolio shorts a suitably sized index future.

Check: Portfolio 2,000,000, beta 0.8, contract notional 800,000: approximate hedge?

Answer: Two short contracts for a long portfolio, before other constraints.

Caution: Basis and imperfect correlation leave residual risk.

152 Futures risk scenarios

Stress-test leverage under unfavorable price changes.

Example: A 2% decline on 1,000,000 notional loses 20,000 for a long.

Check: A 3% decline on 1,000,000 notional: long loss?

Answer: 30,000 before costs.

Caution: Gaps and margin calls can force liquidation.

Further reading

SEBI investor education: investor.sebi.gov.in · NSE: nseindia.com. References for background only; no endorsement or independent validation is implied.

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