

and perspective. You may take a short term trading view (a day or hour or even a few minutes), or a medium term trading view (several days to several weeks) or long term trading approach. Once you have taken an open position, you may

- i Exit from the position before contract expiration by taking an equal but opposite futures position (selling if you have bought, buying, if you have sold);
- ii Make cash settlement at expiration;

How can I profit from trading Nifty futures?

If you own a stock portfolio you can protect your portfolio by using futures contract. For example, if you own a portfolio of securities you may sell equivalent value of Nifty futures. Assume the market falls because of which your portfolio suffers a loss. On expiration date of the futures contract, you can close both your positions (cash and futures) and the loss you have made in the cash market will get off-set by the profits made in the futures market.

If you have a profit motive and you have a view on the market you can take a position in the futures. For example, if you think the market will be going up you may establish a 'long' (buy) position in Nifty futures. Similarly, if you think the market will go down, you may initiate a 'short' (sell) position. This way, the buying / selling of individual securities and the company specific price risks associated with it can be avoided.

What determines the fair price of an index futures product?

The pricing of index futures depends upon the spot index, the cost of carry, and expected dividends. For simplicity, suppose no dividends are expected, Nifty is at 1000 and suppose the one-month interest rate is 1.5%. Then the fair price of an index futures contract that expires in a month is 1015. The difference between the spot and the futures price is called the basis. When a Nifty futures trades at 1015 and the spot Nifty is at 1000, "the basis" is said to be Rs. 15 or 1.5%.

How an arbitrageur can make profits by trading in index futures?

An arbitrageur is a person who takes advantage of the price difference between two markets and buys at the cheaper market and sells at the higher market thereby making a profit due to the price differences between the two markets. An arbitrageur can, in principle, capture the mispricing of the futures. If the index futures are mispriced at a higher level compared to the cash market, he would (a) buy the spot Nifty, (b) sell the futures, and (c) hold till expiration. This strategy is equivalent to risklessly lending money to the market.

If the index futures are mispriced at a lower level compared to the spot, an arbitrageur can, in principle, capture the mispricing using a series of transactions. He would (a) sell the spot Nifty, (b) buy the futures, and (c) hold till expiration. This is equivalent to borrowing money from the market, using (Nifty) shares as collateral, without bearing any risk.

But how does one buy all the 50 Nifty scrips at a time, if he wants to do arbitrage?

A facility is provided on the trading screen to buy or sell the entire Nifty portfolio at one go, which makes arbitrage transactions easy to execute.

S&P CNX Nifty Futures

Contract Specifications

Underlying Index	: S&P CNX Nifty
Exchange of Trading	: National Stock Exchange of India Limited
Security descriptor	: N FUTIDX NIFTY
Contract Size	: Permitted lot size shall be 50 and multiples thereof
Price Steps	: Re 0.05
Price Bands	: Not applicable
Trading cycle	: The futures contracts will have a maximum of three month trading cycle - the near month (one), the next month (two) and the far month (three). New contract will be introduced on the next trading day following the expiry of near month contract
Expiry day	: The last Thursday of the expiry month or the previous trading day if the last Thursday is a trading holiday.
Settlement basis	: Mark to Market and final settlement will be cash settled on a T + 1 basis.
Settlement price	: Daily settlement price will be the closing price of the futures contracts for the trading day and the final settlement price shall be the closing price of the underlying index on the last trading day.

**For more information,
please contact NSEIL at**

Tel : 022-2659 8100,6641 8100

Fax : 022-2659 8120

You may visit our web site www.nseindia.com

NIFTY 50
Stock of the nation

S&P CNXNIFTY

Index Futures Market

 **NATIONAL STOCK EXCHANGE
OF INDIA LIMITED**

Questions & Answers

What are "derivatives"?

A derivative is a financial instrument, which derives its value from some other financial price. This "other financial price" is called the underlying. In the case of Nifty futures, Nifty index is the underlying.

What is a futures contract?

A futures contract is a forward contract, which trades on an exchange. S&P CNX Nifty futures are traded on National Stock Exchange. This provides them transparency, liquidity, anonymity of trades, and also eliminates the counter party risks due to the guarantee provided by National Securities Clearing Corporation Limited.

How do futures trade?

In the cash market, the issuers issue securities, and investors trade in those securities. However, with futures, there is no issuer company, and hence, there is no fixed issue size. Buyers and sellers determine the quantity of future contracts available in the market. A contract (trade) takes place when a buy order and sell order matches on the screen. The total number of net open contracts that exist at a point is called open interest.

Why should I trade in Nifty Futures?

Futures trading will be of interest to those who wish to :-

- 1) Invest - take a view of the market and buy or sell Nifty futures accordingly. Instead of investing in a particular stock and thereby taking on the risks associated with the price movements in that stock, they can trade the entire market by buying or selling the index.
- 2) Hedge - reduce risks associated with market exposure by taking a counter position in the futures market, i.e. buy stock, sell Nifty futures.
- 3) Arbitrage - take advantage of the price difference between the futures market and the cash market.

How do I start trading Nifty futures?

S&P CNX Nifty futures can be bought and sold through the trading members of National Stock Exchange.

You may contact NSE members before deciding on the member through whom you would like to commence trading.

To open an account with the trading member you will be required to complete the formalities which includes signing of member - constituent agreement, constituent registration form and a risk disclosure document. The trading member will allot you a unique client identification number.

To begin trading, you must deposit cash or collateral, with your trading member as may be stipulated by him.

What happens on the expiry of a contract?

Upon expiry, the futures contract will be cash settled by a cash amount equal to the difference between the previous day's settlement price of the contract and final settlement price as on the last trading day. Please note that there is no physical delivery of the individual stocks.

Do I need to have the securities that comprises Nifty, if I sell futures?

S & P CNX Nifty constituent comprise 50 highly liquid stocks. However in order to buy or sell Nifty futures, you need not own any of those securities.

How long should I hold on to a position?

The period upto which you should hold on to a position in Nifty futures would depend on your personal preference

Trade the *Futures* Index, Trade *Nifty*.

National Stock Exchange (NSE) which brought transparency, transformation and state-of-the-art technology to the Indian Capital markets, brings you trading in derivatives by introducing Nifty futures. The VSAT based, order driven, screen based trading system with more than 30000 trading terminals across the country in about 341 towns and cities can provide you the most cost effective trading platform and an affordable and flexible way to trade and hedge your favourite securities.

The Nifty futures are based on the popular market benchmark S&P CNX Nifty. S&P CNX Nifty is owned and maintained by India Index Services & Products Ltd. (IISL), which is a joint venture of NSE and CRISIL. IISL has a consulting and licensing agreement with Standard & Poor's (S&P), who are world leaders in index services. The complete listing of Nifty constituent stocks is available at www.nseindia.com/indices/indmajorniftyindex.htm

Several issues play a role in making Nifty the index ideally suited for futures trading.

Diversification

Well diversified 50 stock index.

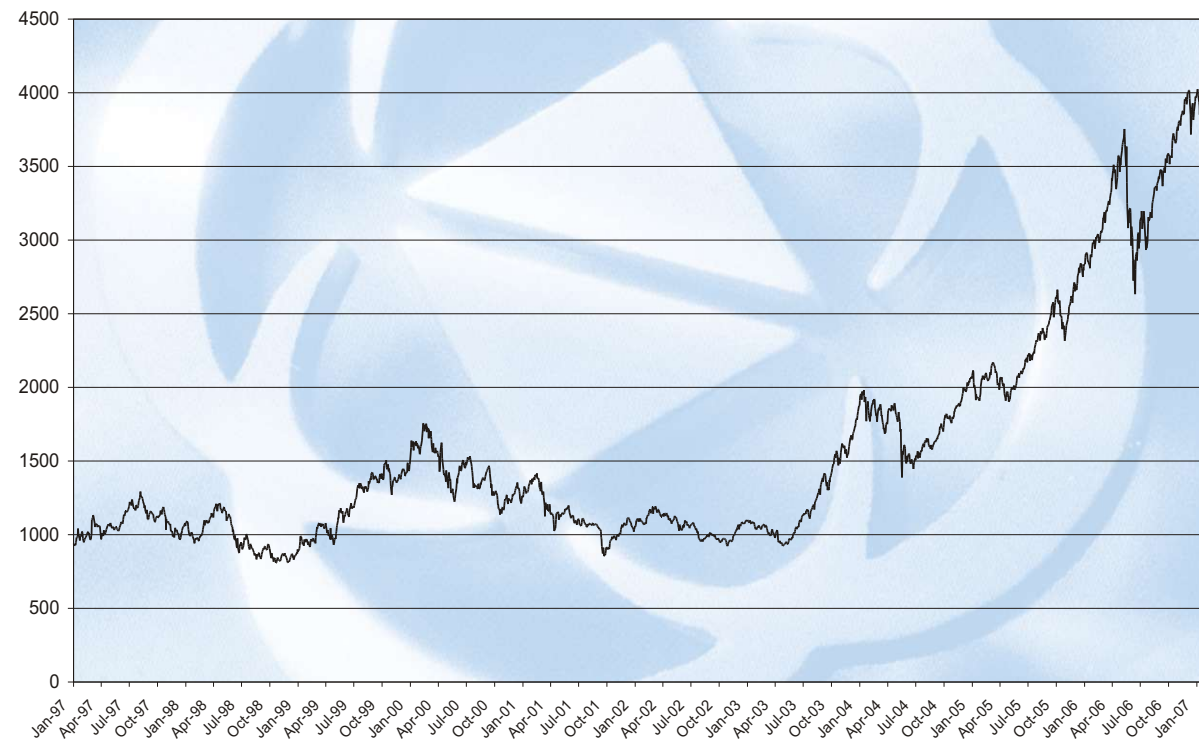
Liquidity of the index

Highly liquid companies like Reliance, ITC, Infosys, etc. form part of the index.

Liquidity of the market

Index traders have a strong incentive to trade on the market which supplies the prices used for index calculations. This market should feature high liquidity and be well designed in terms of operational conveniences to suit the needs of index traders. NSE is such a market.

S&P CNX Nifty Daily Close



Operational issues

The index should be professionally maintained, with a steady evolution of securities in the index, to keep pace with changes in the economy. The calculations involved in the index should be accurate and reliable.

Nifty is maintained in a transparent and professional manner by IISL. A number of index funds, passively managed funds, are now based on the Nifty.

The Nifty index comprises of 50 stocks and represent around 23 sectors of the economy. Household names such as Reliance, ITC, Infosys, Satyam, etc. are represented in the index making it an ideal benchmark of the Indian markets. The Software sector has the highest weightage in the index of around 19% followed by the Refineries sector at 11%. A list of companies in the Nifty index is given herewith :

Security Symbol Weightage %

RELIANCE	10.08%
ONGC	9.02%
BHARTIARTL	7.29%
TCS	6.25%
INFOSYSTCH	6.20%
RCOM	4.46%
WIPRO	4.34%
ICICIBANK	3.97%
ITC	3.45%
SBIN	2.93%
BHEL	2.86%
SAIL	2.40%
LT	2.24%
HINDLEVER	2.08%
HDFC	2.02%
TATAMOTORS	1.61%
SUZLON	1.60%
HDFCBANK	1.58%
SATYAMCOMP	1.46%
BAJAJAUTO	1.42%

TATASTEEL	1.37%
MARUTI	1.30%
GAIL	1.28%
GRASIM	1.08%
M&M	1.06%
HCLTECH	1.05%
SIEMENS	0.99%
CIPLA	0.96%
SUNPHARMA	0.95%
GUJAMBCEM	0.94%
ACC	0.90%
HINDALCO	0.86%
ABB	0.82%
HEROHONDA	0.72%
NATIONALUM	0.72%
PNB	0.72%
RANBAXY	0.67%
DRREDDY	0.61%
BPCL	0.60%
REL	0.59%
TATAPOWER	0.57%
VSNL	0.56%
ZEEL	0.55%
GLAXO	0.53%
HINDPETRO	0.49%
DABUR	0.45%
MTNL	0.45%
IPCL	0.42%
JETAIRWAYS	0.28%
ORIENTBANK	0.24%

Disclaimer

Market conditions can lead to substantial profit or loss. Investors are advised to seek adequate product and market knowledge as well as proper investment advice before trading futures.

The material provided here is for general information purposes only. While care has been taken to ensure accuracy, the information furnished to reader with no warranty as to the accuracy or completeness of its contents and on condition that any changes, omissions or errors shall not be made the basis for any claim, demand or cause for action.

"Standard & Poor's" and "S&P" are trademarks of The McGraw-Hill Companies, Inc. and have been licensed for use by India Index Services & Products Limited, which has sublicensed such marks to NSE. The S&P CNX Nifty Index is not compiled, calculated or distributed by Standard & Poor's and Standard & Poor's makes no representation regarding the advisability of investing in the products that utilise any such Index as a component.