

A QUICK REFERENCE GUIDE

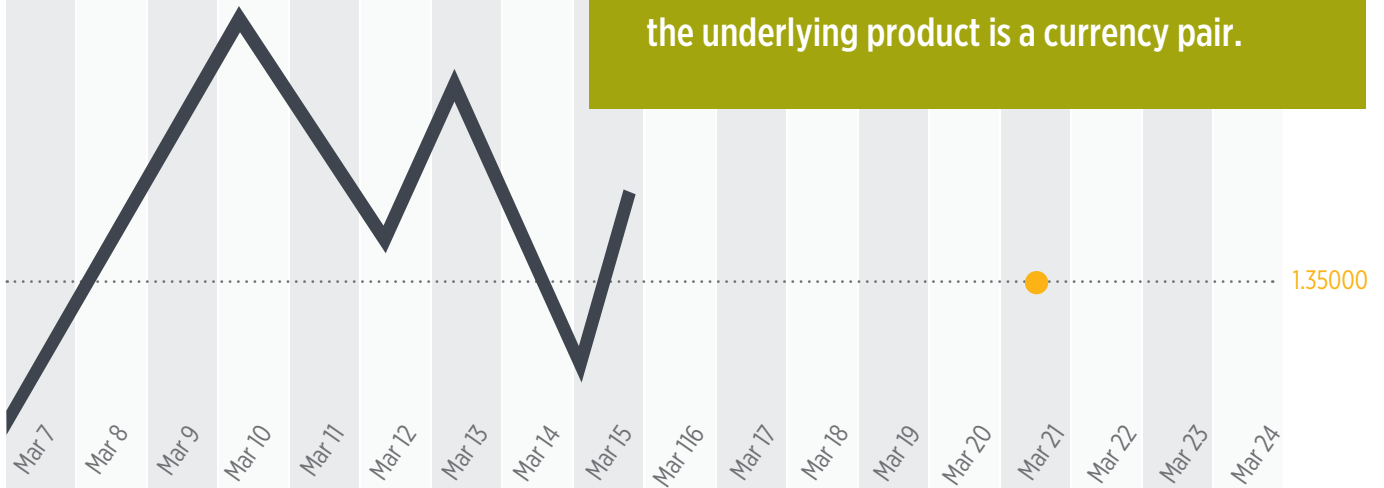
FX OPTIONS IN DEALBOOK[®] 360

Speculate on the market and hedge your positions with FX options, the latest trading product offered by GFT.

If you've traded currency pairs or other types of options before, you may see FX options as another product that suits your trading style and market outlook. In this guide, we'll introduce you to FX option trading and explore the potential benefits that this type of trading offers.

WHAT IS AN OPTION?

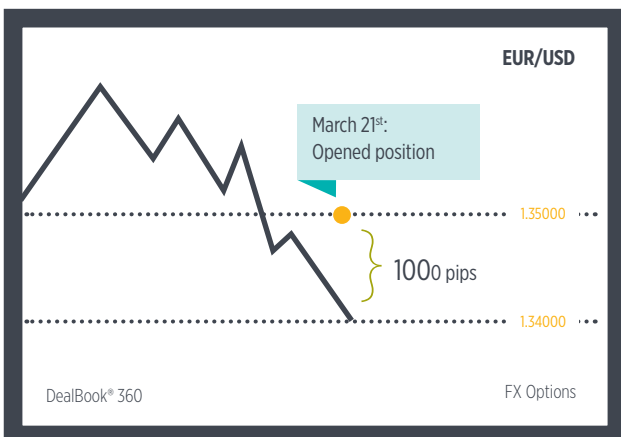
Simply put, an option is a contract between a buyer and a seller for the right to buy or sell an underlying financial product at a specific price on a particular date. With FX options, the underlying product is a currency pair.



HOW WOULD THIS WORK?

Let's say that you've done some research and believe that economic events will cause the price of the EUR/USD to drop in the next three weeks. You want to sell the EUR/USD, but you want to get in at a price that you feel is ideal. So, you view a list of available options for the EUR/USD and pay a price of 100 pips to buy an option which gives you the right to sell the currency pair at 1.35000 on March 21st.

Now, imagine that it's March 21st. The EUR/USD has dropped more than you expected and the market price of the currency pair is now at 1.34000. There's a 1000-pip difference between the market price (1.34000) and price of your option (1.35000) in your favor. Because of this DealBook[®] would exercise this option: it would automatically open a short EUR/USD position in your forex trading account at 1.35000. Your net profit on this trade would be:



● represents strike price.

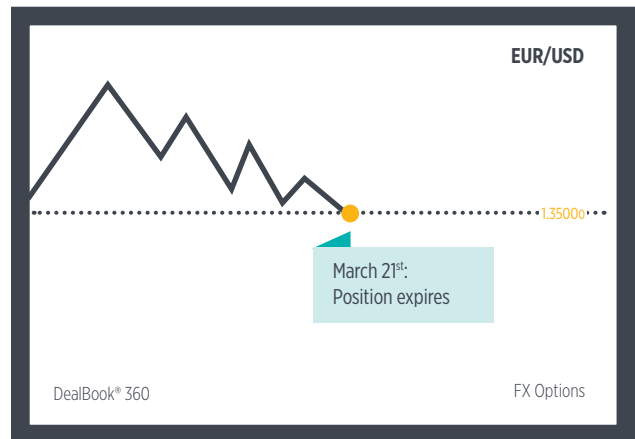
Any trading scenarios shown in this guide are for illustrative and educational purposes only. They should not be considered recommendations or advice. Most examples do not factor in fees and taxes. These costs will impact the outcome of your option transaction.

-100	Option price
+1000	Option resulting in a short EUR/USD position: 1.35000 - 1.34000 (Option Strike Price) - (Current Market Prices)
=900	Overall trade

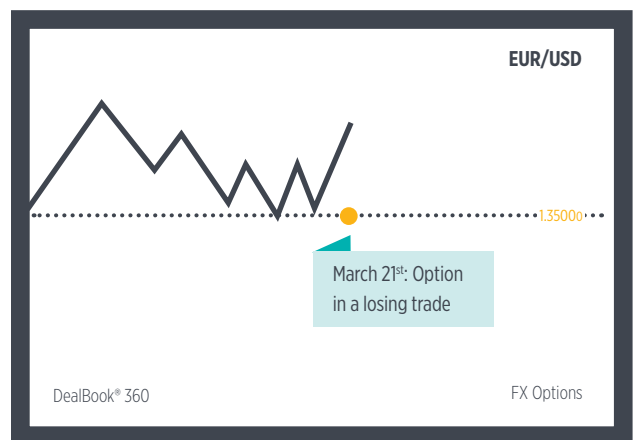
As you can see from this example, FX options are similar to trading forex. Both provide traders with an opportunity to find profit through speculation. With FX options, however, you may limit your risk to the premium you pay.

When DealBook[®] exercises an option, like the 900-pip overall trade in the first part of this example, it becomes an open position in your forex trading account. GFT does not offer any options that settle in cash.

To show you how this would work, let's imagine that the market price of the EUR/USD was 1.35000 on March 21st. The market price of the currency pair and the price on your option are the same. DealBook would not exercise your option and it would automatically expire. Your only loss is what you've paid to open the option.



Let's back up again and imagine that on March 21st the market price rose above 1.35000 at the expiration date. The market price of the currency pair is higher than the price on your option. You wouldn't want to exercise it because you would be selling EUR/USD at a lower price than the current market. Like the previous example, DealBook would not exercise your option. The option would automatically expire. Again, your only loss is what you've paid to buy the option.



BUYING A CALL OR PUT

If you've traded options or forex before, you probably noticed some similarities and a few differences between the two as you walked through our FX option example.

Like forex, you can choose a spot FX option to buy a currency pair (this is called a call option) or sell a currency pair (this is called a put option). When you buy a call or put, the buyer becomes the holder, the person who will have the right to buy or sell the currency pair at the strike price at expiration. The seller becomes the writer of your call or put and they would be required to honor the terms of your option.

You can buy calls and puts and then sell them before the expiry date. In this section, we'll discuss buying or going long with a call or put first and then discuss selling a call or put later.

Continued on next page.



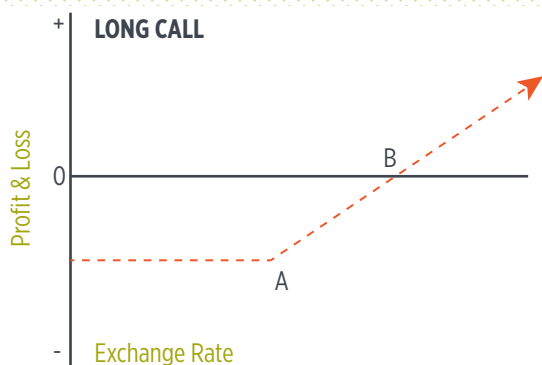
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BUYING A CALL OR PUT: PROFIT-LOSS GRAPHS

CALL

An option for the right to buy a currency pair.

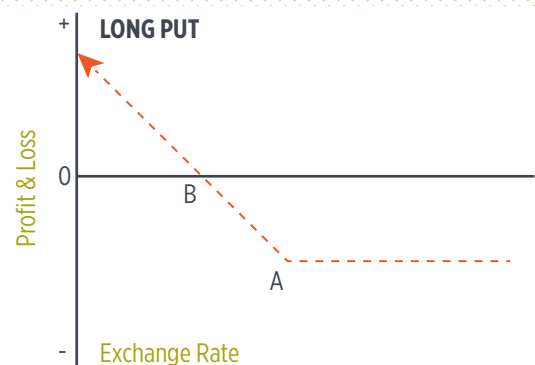
The trader anticipates that the price of a currency pair will rise and wants to take advantage of that movement.



PUT

An option for the right to sell a currency pair.

The trader anticipates that the price of a currency pair will fall and wants to take advantage of that movement.



These profit-and-loss graphs show how an option will perform. In both examples, Point A of the line shows your maximum loss. This would be called the floor of the option. This is equal to the price (also called the premium) of the option.

Point B shows the breakeven point of the underlying product, taking the premium into account.

If you need help reading the profit and loss graph, see the *Frequently Asked Questions* section.

Remember that an FX option is a contract for the right to buy or sell a currency pair at a **SPECIFIC PRICE ON A PARTICULAR DATE**. That means that after you select a currency pair and determine if you want a call or put, you'll specify:

- The **EXPIRY** or the **EXPIRATION DATE**. This is the date in the option contract when you buy or sell the currency pair at a specific price. In our EUR/USD option example, the expiry for that option was March 21st.

While you can open or close an option position at any time, GFT offers expiries ranging from one week to up to six months. The expiry at GFT will usually occur on Wednesdays at 10 a.m. ET. If Wednesday is not an eligible trade day, expirations will be moved to 10a.m. ET the first available day prior. GFT offers European-style options, so they cannot be exercised before they expire.

- The **STRIKE** or **EXERCISE PRICE**. This is the specific price in the option contract that your buy or sell forex position would be opened at on the expiry if your option had value. In our EUR/USD option example, the strike price was 1.35000.

When you want to open an option, DealBook® provides a range of fixed strike prices. The number of strikes you see will be based on a reasonable range of anticipated prices in the underlying market.

To buy the option, you'll pay a premium or the price of the option.

THE OPTION PREMIUM

When you view a list of options, you'll notice that the value of the premium varies from option to option. That's because many factors have an impact on the price of an option: the price of the underlying currency pair, interest rates, volatility, the strike price and the amount of time until expiration. These are used to calculate two components of the premium.

INTRINSIC VALUE. This is the difference between the strike price of your option and the current price of the underlying market. Dealers use three terms to describe if an option has intrinsic value.

1 IN-THE-MONEY. When an option has intrinsic value, it is said to be in-the-money. With a call, the option is in-the-money when its strike price is below the current price of the underlying currency pair. A put option is in-the-money when its strike price is above the current price of the underlying currency pair.

CALL

Strike < Current Market

PUT

Strike > Current Market

3 OUT-OF-THE-MONEY. With a call, the option is out-of-the-money when its strike price is above the current price of the underlying currency pair. A put option is out-of-the-money when its strike price is below the current price of the underlying currency pair. Out-of-the-money options also have no intrinsic value.

CALL

Strike > Current Market

PUT

Strike < Current Market

2 AT-THE-MONEY. When an option's strike price and the current price are the same, the option is considered at-the-money. At-the-money options have no intrinsic value.

Strike = Current Market

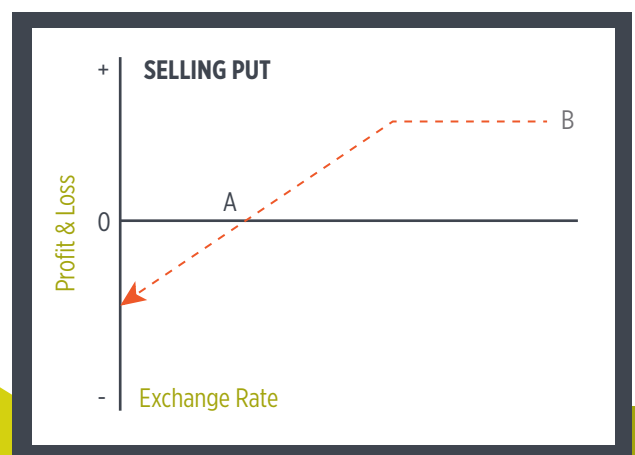
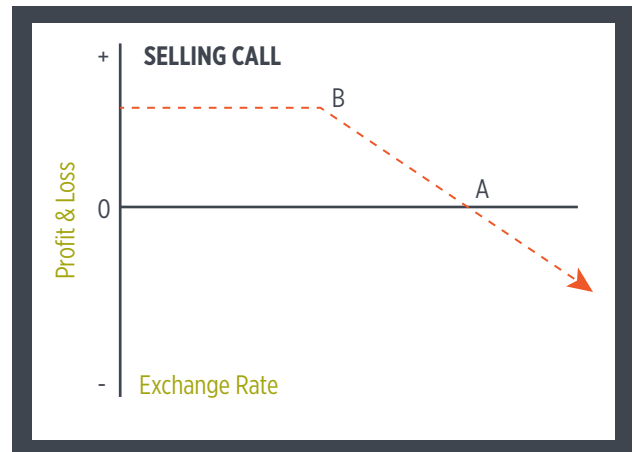
While there is an equation to manually calculate premium, GFT's DealBook® software will calculate premiums and display whether an option is in-the-money, at-the-money, or out-of-the-money in the FX Options Quoteboard.

TIME VALUE is defined as the difference between the option premium and the intrinsic value of the option.

Options with a longer time frame generally carry a higher premium since the trader has more time for the market to work in their favor. As the option gets closer to its expiry, the time value will drop because there's less time in the option. This is called **TIME DECAY**.

Changes in volatility also cause changes to the option premium. If the market price of the currency pair is rising or falling, the option may be seen to have a greater risk and potential reward, so the premium may reflect this.

Now that you know how to buy calls and puts, let's look at how you could sell a call or a put. These profit-and-loss graphs show how selling an option would work. In both examples, the line shows an unlimited loss. Point A shows the breakeven point of the option position, taking the premium into account. Point B shows the maximum profit of the option and the strike price. This would be equal to the price or premium of the option.



SELLING A CALL OR PUT

How would this work? Remember, in our EUR/USD option example, you believed that economic events would cause the price of the currency pair to drop in the next three weeks, so you bought a EUR/USD put struck at 1.3500.

As an experienced trader, you know that a lot can happen in three weeks. An economic event may cause volatility in the market, causing the premium of your EUR/USD put to rise. If you sold your put option, you would gain the difference between the new and original premium prices.

Now let's say you're considering opening another option in the EUR/USD. After doing some research, you believe that economic events will cause the price of the EUR/USD to rise in the next three weeks. Because of the nature of the market, you decide that you want to sell the put. So, from a list of available options for the EUR/USD, you select a EUR/USD put at 1.3600 on April 21st.

Because you are selling the put, the buyer is purchasing the put from you, and you receive a 100-pip premium credit. Remember, as the seller of the put, you are required to honor the terms of the option if it is exercised. As the option approaches the expiration date, you could expect one of three things to happen:

- 1 If the market price of the EUR/USD falls below 1.3600 to 1.3500, the put would be in-the-money. On April 21st, it would be exercised. You would be obligated to buy EUR/USD at 1.3600 and your account would be credited the premium for selling the put. Your overall loss on the trade would be 90 pips, 100 pips on the spot position reduced by the 10 pips received for selling the put.
- 2 If the market price of the EUR/USD stays at 1.3600, your put would be at-the-money. On April 21st, it would expire worthless and you would be credited the premium for selling the put.
- 3 If the market price of the EUR/USD rises above 1.3600, your put would be out-of-the-money. On April 21st, your option would expire worthless and your account would be credited the premium for selling the put.

As you can see from this example, selling an option has unlimited risk. But as you become familiar with FX option trading, you'll be able to sell options as part of a larger strategy more easily.

EVALUATE RISK

Many traders use a set of tools, called the Greeks, which forecast how much risk an option has over time. You can learn more about the Greeks by reading their descriptions below. As you trade FX options, you may use the Greeks individually or combine them to gauge how well your option will do.

If you're familiar with the Greek language, you may know that Vega is not a Greek letter. For our purposes, we're using the Greek letter Nu to represent Vega.



DELTA



GAMMA



RHO



THETA



VEGA



FORECASTING YOUR OPTION OUTCOME WITH THE GREEKS

Δ DELTA or the **HEDGE RATIO** gauges how the price of the option changes when the price of the underlying currency pair changes. Expressed as a percentage, Delta forecasts the likelihood that your option will expire in-the-money, based on the current state of the market. For example, an at-the-money option will have a 50% Delta as it has an equal chance of finishing in or out of the money at expiration. An out-of-the-money option will have a Delta close to 0%. An option that is deeply in-the-money will have a Delta that is close to 100%.

Γ GAMMA measures the rate that the Delta of an option changes in response to a 1% change in the underlying product. Long options will usually have a Gamma with a positive value while short options will have a negative Gamma.

ν VEGA gauges how market volatility affects the option premium.

Θ THETA measures the change the value of the option may have over time. If Theta sounds familiar, that's because it's time decay. Time decay accelerates as the option approaches the expiration date.

Ρ RHO gauges how the value of an option will change if there are changes in interest rates.

SPECULATING WITH VANILLA OPTIONS

So far, the types of options that we've talked about are called **VANILLA OPTIONS**. These have standard expiries and strike prices. The table below will show you how they work .

VANILLA OPTIONS: PROFIT-LOSS GRAPHS

CALL—An option to buy a currency pair

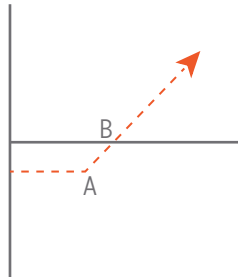
PUT—An option to sell a currency pair

LONG

Buying the option

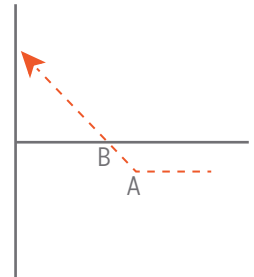
The trader anticipates that the price of a currency pair will rise and wants to take advantage of that movement.

The profit is unlimited while the loss is limited to the price of the premium.



The trader anticipates that the price of a currency pair will fall and wants to take advantage of that movement.

The profit is unlimited while the loss is limited to the price of the premium.

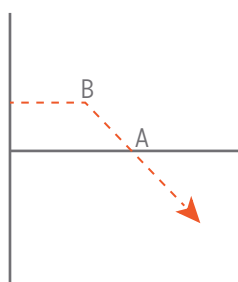


SHORT

Selling the option

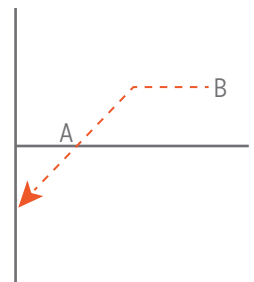
The trader anticipates that the price of a currency pair will fall. They will sell the call and collect the premium.

The profit is limited to the premium received while the loss is unlimited.



The trader anticipates that the price of a currency pair will rise. They will sell the put and collect the premium.

The profit is limited to the premium received while the loss is unlimited.



OTHER OPTION STRATEGIES

You may also want to use vanilla options in combinations with currency pair trades and even other options. You can use a number of different strategies to both protect your trade and position yourself in the market. Some of the most common are described below.

VERTICAL

With this strategy, you can open a long and a short call or put on the same currency pair. This is called a multi-leg order and each option would be considered a leg. Both option legs have the same expiry, but different strike prices. Many traders use verticals when they have an idea which way a market will swing, but they aren't sure how strong the swing will be.

STRADDLE

With a straddle, you buy both a call and a put on the same underlying currency pair with the same strike price and expiry.

When traders suspect that the market may be volatile and this may cause the price of the underlying currency pair to swing, but they aren't sure in which direction the market will go, they often consider buying a long straddle. This may provide unlimited profit potential while limiting your loss to the premiums you paid to open the straddle. When you expect a little volatility in the market, you can use a short straddle, which has a profit limited to the premiums received, but an unlimited loss potential.

STRANGLE

A strangle has a similar set up to a straddle: you open both a call and a put on the same currency pair. These must both be going either long (a long strangle) or short (a short strangle), and have the same expiry. With a strangle, however, your put has a lower strike price than the call.

RISK REVERSAL

A risk reversal is a strategy often used to protect a long or short currency pair position, but it can also be used to speculate on market volatility. With this strategy, you sell (buy) an out-of-the-money call and buy (sell) an out-of-the-money put option in the same currency pair. The options have a similar Delta value and are set up to have the same expiry and number of lots as your long (short) currency pair trade. While there is no limit on your profit potential, you also face unlimited risk if the direction of the market changes.

TRADING FX OPTIONS IN DEALBOOK® 360

DealBook® 360

File View Trades Analytic Pages Window Help

Symbol Explorer Ctrl+I
Chart ...
Show Chart Info
Quote Board Ctrl+Q
Open Positions Ctrl+P
Working Orders Ctrl+W
L2 Quotes
1 Option Board

Req (USD): 102.48 Margin % (2783030: 97,215,72% Unrealized P/L (USD): 0.00

Monitor News/Commentary Resource Center

Bid Ask Time Daily High Daily Low % Change

1.3061 2:09:36PM 1.2977 1.2947 0.0008

FX Options Quoteboard - EUR/USD.fx

Underlying Market: EUR/USD.fx 2 Filter Expiry Dates

Bid Ask Daily High Daily Low Net Changes Margin (USD) FPL (USD)

1.4943 1.4945 1.4944 1.4904 2.6738 24,211.49 0.00

CALLS					4 STRIKES	PUTS				
Delta	Imp. Vol.	Bid (Premium EUR)	Ask (Premium EUR)	5	Bid (Premium EUR)	Ask (Premium EUR)	Imp. Vol.	Delta		
				Show All						
11.20.2011 34 days left										
87,076	14.00%	0.00885	0.00909	1.2900	0.00038	0.00050	14.00%	-12,077		
73,490	14.00%	0.00570	0.00598	1.2950	0.00105	0.00261	14.00%	-26,027		
54,395	14.00%	0.00326	0.00347	1.3000	0.00242	0.00261	14.00%	-45,503		
34,103	14.00%	0.00160	0.00173	1.3050	0.00458	0.00476	14.00%	-66,188		
17,592	13.98%	0.00064	0.00076	1.3100	0.00743	0.00765	13.98%	-83,090		
11.30.2011 44 days left										
12.05.2011 50 days left										

3 11.20.2011 34 days left

3 11.30.2011 44 days left

3 12.05.2011 50 days left


Open an FX options account at GFT or add it to your existing forex or CFD account and you can monitor and trade FX options 24-hours a day, 5.5 days per week. The new FX options features in DealBook® 360 help traders choose which options best fit their trading style and market outlook.

 You need to have a positions-based account to trade FX options at GFT. If you're not sure what kind of account you have, contact GFT.

You can buy or sell options on our most popular currency pairs. To see which ones are available, visit gftuk.com.

1 When DealBook® 360 is open, you can start trading options by clicking the **VIEW** menu and selecting the **OPTION BOARD**. This displays the **FX OPTIONS QUOTE BOARD** which displays a number of strike prices and expiration dates for the selected currency pair.

2 You can select a currency pair from the **UNDERLYING MARKET** drop-down menu. Once selected, you can see the current market price for that currency pair in the **UNDERLYING** bar. Below that, you can view a list of expiry dates for that currency pair.

3 You can view the option chain for that expiry by clicking  next to the expiration date you want. The chain displays several strike prices, the implied volatility and Delta for a particular strike, and the bid and ask prices for call or put options for each strike.

4 You can use the **STRIKES** field to increase or reduce the number of strikes you see. To see all available strikes, click the **SHOW ALL** checkbox.

Continue on next page.

TRADING FX OPTIONS IN DEALBOOK® 360

Continued.

The screenshot displays the DealBook 360 software interface. In the foreground, the 'FX Options Quoteboard - EUR/USD.fx' window is open, showing market data for EUR/USD.fx. A right-click context menu is overlaid on the table, with the 'Configure' option highlighted by a yellow circle with the number '5'. To the right, the 'Configure Option Quote Board' dialog box is open, showing a list of columns to be selected for the underlying symbol. The 'Underlying' tab is active, and the 'Select column for Underlying Symbol' section contains a list of columns with checkboxes. The 'Apply' button is highlighted.

FX Options Quoteboard - EUR/USD.fx

Underlying Market: EUR/USD.fx

Bid	Ask	Daily High	Daily Low	Net Changes	Margin (USD)	FPL (USD)
↓ 1.4943	↓ 1.4945	1.4944	1.4904	2.6738	24,211.49	0.00

Configure Option Quote Board

Select column for Underlying Symbol

- Bid
- Ask
- FPL
- Spot Bid/Ask Time
- Deviation
- Daily High
- Daily Low
- 52 Wk High
- 52 Wk Low
- Net Change
- % Change
- Open
- Close
- Pip/Point P/L
- Description

Buttons: Select all, Select none, Apply, Cancel

- 5 You can customize the appearance of the FX Option Quote Board by right-clicking on it and selecting **CONFIGURE...** from the drop-down menu. You can then use the Configure Option Quote Board window to display additional columns in the Underlying Markets row or Option Board, change the colors or font styles or select the pricing convention you want to see in the window.

Continue on next page.

TRADING FX OPTIONS IN DEALBOOK® 360

Continued.

The screenshot displays the DealBook 360 interface. The main window shows the 'FX Options Quoteboard - EUR/USD.fx' with various tabs and data. A dialog box titled 'Option Board Filter' is open, showing a list of expiration dates and a 'Select format' section.

Option Board Filter - Choose Expirations ...

- 05.05.2011
- 06.05.2011
- 19.05.2011
- 16.06.2011
- 21.07.2011

Select format ...

- DD.MM.YYYY
- MM.DD.YYYY
- Add days left

Buttons: Select all, Select none, Apply, Cancel

6 You can also click **FILTER EXPIRY DATES** to open the Option Board Filter. In this window, you can click on one of the tabs to narrow down the options by expiry date or strike price.

Continue on next page.

TRADING FX OPTIONS IN DEALBOOK® 360

Continued.

The screenshot displays the DealBook 360 interface. On the left, the 'FX Options Quoteboard - EUR/USD.fx' window shows a table of call options. The table has columns for Delta, Imp. Vol., Bid (Premium EUR), and Ask (Premium EUR). The first row shows a bid of 1.4943 and an ask of 1.4945. The table is filtered for 'CALLS' and shows options with various expirations and deltas. A yellow circle with the number 7 is placed over the 'Ask' price of 0.00909 in the first row.

On the right, the 'New Order 1 - Single Vanilla' window is open. It shows the order type as 'Single Vanilla' and the underlying as 'EUR/USD.fx'. The current market price is 804/823 with a red arrow pointing down. The strategy bid is 284.7 and the strategy ask is 298.9. A yellow circle with the number 8 is placed over the 'Order' dropdown menu. Below this, the 'FX Option Strategy: Single Vanilla' section shows the account as 'XXXX (USD)', symbol as 'EUR/USD.fx', order type as 'Market', operation as 'Buy', order price as 0.02320, and premium price as 2,320.0 EUR. A yellow circle with the number 10 is placed over this section. The 'Strategy Settings' section shows 'Legs' as 'Leg 1', 'Operation' as 'Buy', 'Lots' as 1, 'Date' as 11/20/2011, 'Strike' as 1.26000, 'Option Type' as 'EUR CALL', and 'Exp. days left' as 7 days left. The 'Pricing Details' section shows 'Price Details' for 'Leg 1' with values in EUR (0.02320), in % EUR (2.32%), in Pips (USD) (298.9), in USD (0.02989), and in Volatility, % (15.33%). The 'Hedge' section shows 'Hedge Type' as 'Spot', 'Total Delta Spot / Frwd' as 0.0000, 'Order Type' as 'Market', 'Operation' as 'Buy', 'Lots' as 1, 'Price' as 1.26000, and 'Duration' as 'GTC'. The 'Order Form Settings' section shows a 'Waiting...' field and a 'Submit' button.

- 7 Double-clicking on a **BID** or **ASK** price under the Call or Put section opens the **NEW ORDER** window so you can place a single-vanilla option order at the current market price.
- 8 You can also select one of the available option order strategies (**VERTICAL**, **STRADDLE**, **STRANGLE**, **RISK REVERSAL** or **SINGLE VANILLA**) from the **ORDER** drop-down menu.
- 9 If you want to place one of the available option order strategies quickly, you can also right-click on a Bid or Ask price under the Call or Put section and select **VERTICAL**, **STRADDLE**, **STRANGLE**, **RISK REVERSAL** or **SINGLE VANILLA**. This opens the New Order window with the strategy set up.
- 10 In the Option Strategy section, you can select the account you want, the currency pair, the order type and whether the option order is a buy or sell. DealBook will automatically set the premium. You can set your own price for Stop and Limit orders in the **ORDER PRICE** field.

STRATEGY SETTINGS

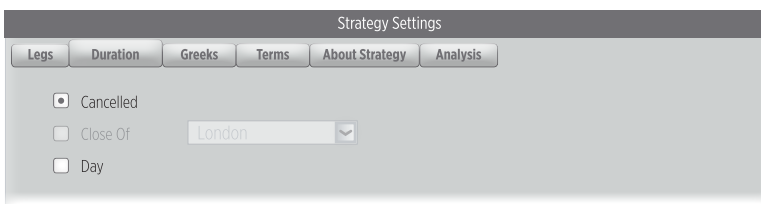
The Strategy Settings section contains six tabs.

The **LEGS** tab displays the number of legs required to execute the selected strategy. You can specify the number of lots, the expiration date and the option type for each leg, depending on the strategy. You can view pricing information for each leg in the pricing details section. If you would like to Delta hedge your option trade, you can click the **HEDGE** checkbox. When this is checked, DealBook® 360 will issue a spot FX market order to buy or sell the currency pair in the amount that offsets the Delta exposure from the option order.



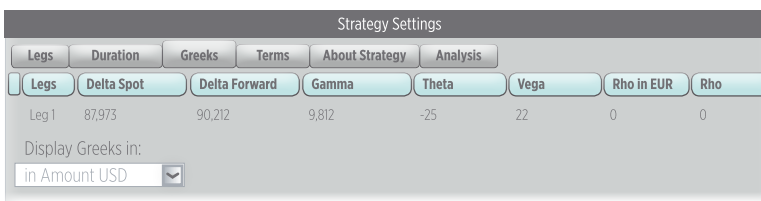
Note that this function will round your hedge order to the nearest lot, so it is possible that the option Deltas are not offset exactly by the hedge Deltas.

The **DURATION** tab displays how long your order will be working. All option orders will be considered **GOOD TILL CANCELLED**; this means your order will remain working until you decide to cancel it or it is filled.



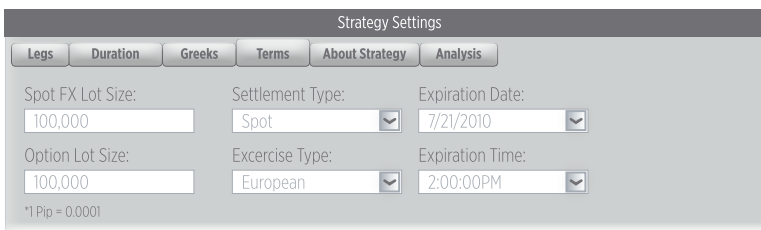
Options for Close Of and Day orders will be available at a later date.

The **GREEKS** tab shows the values for the Greeks (Delta, Gamma, Theta, Vega and Rho). You can choose to display Greek values by the base or terms currency or in a percentage of the base currency.



The **TERMS** tab displays the lot size, settlement type, and expiration date and time for the trade.

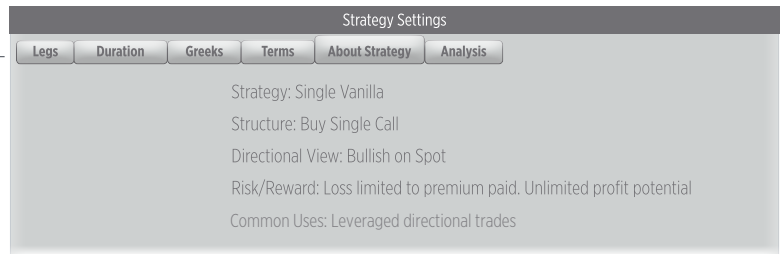
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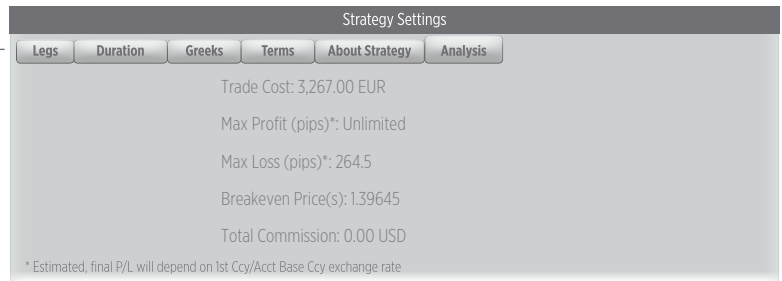
STRATEGY SETTINGS

Continued.

The **ABOUT STRATEGY** tab displays information about the type of strategy you selected. You can view how it's structured, its directional view and the possible risk/reward.



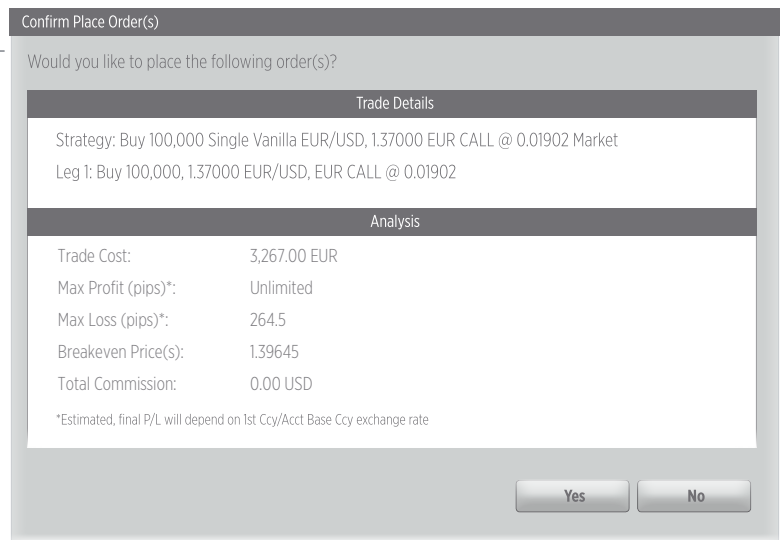
The **ANALYSIS** tab summarizes the cost, the maximum profit and loss and what the breakeven price would be for your option.



When done, click **SUBMIT** to place your option order. A confirmation window will appear that displays the details of your trade and analysis information.

Once you click **YES**, your option orders will appear in the **WORKING ORDERS** window or as an option position in the **OPEN POSITIONS** window in DealBook® 360. You can also view option positions in the Open Positions window of DealBook® WEB.

On the option expiry, your in-the-money options are exercised automatically by DealBook® and become regular forex positions in the Open Positions window. Any options that were at-the-money or out-of-the-money will expire. You'll also see your new positions and expired options in the reports and statements in DealBook.



GFT applies an FXO Portfolio Margin requirement whenever traders hold a short option position. DealBook automatically calculates this using the Delta and Vega values of all option and spot positions. For more information on how this margin requirement works and how it may affect your balance, contact GFT.

LEARN MORE ABOUT FX OPTIONS

If you're ready to see FX options in action, our GFT account executives are happy to help you set up your account. Learn more by using one of the following methods to contact us.

gftuk.com / **0800 358 0864** / **+44 (0) 20 7170 0770**
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CHAT 24/7



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GLOSSARY

At-the-money (ATM) / When the option strike price and current market price of the underlying are the same. If your option was at-the-money and the exercise date was today, the option would expire worthless.

Call / An option to buy a currency pair at a specified price and time.

Chain / A table that displays the related strike price, expiry and bid and ask prices for a call or put option on a currency pair. You can display the option chain in the FX Options Quoteboard.

Delta / This gauges how the price of the option changes when the price of the underlying currency pair changes. Often expressed as a percentage, Delta roughly represents the likelihood your option will finish in-the-money, based on the current state of the market.

Exercise / The act of opening the underlying position in your option on the expiration.

Exercise price / See **STRIKE PRICE**.

Expiry / This is the date when the option contract expires and you buy or sell the currency pair at a specific price if it's in-the-money. GFT offers European-style options, so the option cannot be exercised before it expires.

Gamma / This measures the rate that the Delta of an option changes in response to a 1% change in the underlying product. Long options will usually have a Gamma with a positive value while short options will have a negative Gamma.

Greeks / A set of tools that help you determine the amount of risk behind your option. In DealBook®, you can view five Greeks (Delta, Gamma, Rho, Theta and Vega).

Hedge ratio / See **DELTA**.

Holder / The person who buys the call or put option.

In-the-money (ITM) / When an option has positive intrinsic value. If your option was in-the-money and the expiry was today, the option would be exercised.

Intrinsic value / The value of the option if it were exercised today. This could also be called the amount by which an option is in the money.

Leg / One option in a strategy that uses multiple options.

Obligation / A requirement that the seller of an option must honor the terms of the option contract.

Out-of-the-money (OTM) / When an option has no intrinsic value. Call options are out-of-the-money when the strike price is greater than the current market price. Puts are out-of-the-money when the strike price is lower than the current market price.

Premium / The price you pay if you are the buyer or receive if you are the seller of the option contract.

Put / An option to sell a currency pair at a specified price and time.

Rho / This gauges how the value of an option will change if there is a change in the interest rate.

Risk Reversal / An option strategy composed of selling (buying) a call and buying (selling) a put option in the same currency pair. The options have a similar Delta value and are set up to have the same expiry and number of lots.

Straddle / An option strategy where you open both a call and a put on the same currency pair. These must both be going long (a long straddle) or short (a short straddle) and have the same strike price and expiry.

Strangle / An option strategy where you open both a call and a put on the same currency pair. These must both be going either long (a long strangle) or short (a short strangle), and have the same expiry. Usually the put has a lower strike price than the call.

Strike price / This is the specific price in the option contract that your currency pair position would be opened at if it expired in-the-money. Also called **EXERCISE PRICE**.

Theta / This measures the change the value of the option may have over time.

Time decay / The rate at which an option's premium will drop as the option gets closer to its exercise date. Also called **THETA**.

Time value / This is the difference between the option premium and the intrinsic value. Also called **TIME PREMIUM**, this amount varies with the time to expiration and volatility.

Underlying / The financial product that the option is based on. In the case of FX options, the underlying financial product is a currency pair.

Vanilla / A standard call or put.

Vega / This gauges how market volatility affects the option premium. Like Delta, this is often displayed as a percentage.

Vertical / An option strategy where you buy one option and sell another. Both have the same expiry, but different strike prices. Many traders use verticals when they have an idea which way a market will swing, but they don't know how strong the swing will be.

Volatility / This measures the fluctuations in the current market price of the underlying currency pair. It is used to calculate the time value of an option, which in turn is used to calculate the premium.

GFT'S FREQUENTLY ASKED QUESTIONS ON FX OPTIONS

Our trade desk gets a lot of questions about FX options. Some of the most commonly asked questions and their answers are listed below.

Q/ What is an FX option?

An option is a contract between a buyer and a seller for the right to buy or sell an underlying financial product at a specific price on a particular date. With FX options, the underlying product is a currency pair.

Q/ What's a call and what's a put?

A call is an option for the right to buy a currency pair. If the trader anticipates that the price of a currency pair will rise, they may take advantage of that movement by buying a call.

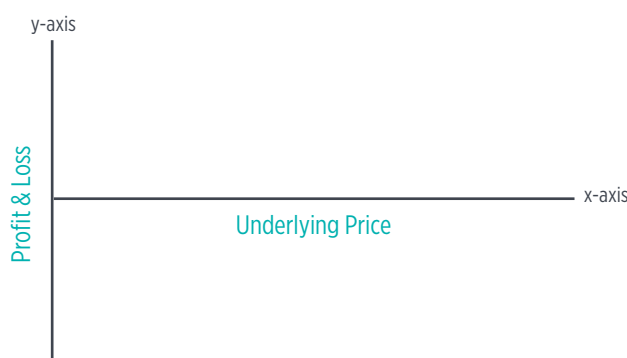
A put is an option for the right to sell a currency pair. If the trader anticipates that the price of a currency pair will fall, they may take advantage of that movement by buying a put.

In both of these scenarios, the trader becomes the holder, the person who will have the right to buy or sell the currency pair. The seller becomes the writer of your call or put and they would be required to honor the terms of your option.

Q/ But I can also sell a call or put, right?

That's correct. In the scenarios in the previous question, you are buying or going long on a call or put. If you are going long a call or a put, you can close out of your position before expiry by selling your call or put.

	PUT	CALL
BUYER	Right to Sell	Right to Buy
SELLER	Obligation to Buy	Obligation to Sell



Q/ Why do the graphs in this guide look different than the usual price graphs?

In this guide, we use profit-and-loss graphs to illustrate how an option may generate a profit (or a loss).

Q/ When can I trade an FX option?

The FX option markets open on Sunday at 5:30 p.m. ET and close on Friday at 5 p.m. ET. You can trade options at any time during those hours.

Q/ What is the option expiry?

The **EXPIRY** or the expiration date is the date in the option contract when the option expires.

GFT offers weekly expirations to up to six months. Normally, options will expire on a Wednesday at 10 a.m. ET. (with one- to six-month options, the expiry usually falls on the third Wednesday of the month).

On the expiry, FX options that are in-the-money are exercised while at-the-money or out-of-the-money options expire worthless.

Q/ Can I exercise an option before the expiry?

GFT uses European-style options, which can only be exercised at expiry. At any time during trading hours, however, you can buy or sell the identical option to exit the option position.

Q / What is the strike of an option?

The strike or exercise price is the specific price in the option contract that your buy or sell forex position would be opened at on the expiry if your option was in-the-money.

Q / Can I pick any strike price?

GFT will offer a number of fixed strikes for each currency pair available. Strikes are selected at convenient intervals within the likely range of the underlying.

Q / Why does the premium change on my option?

When you open an option, you'll notice the value of the premium changes over time. Many factors may have an impact on the price of an option: the price of the underlying currency pair, interest rates, the strike price, volatility and the amount of time until expiration.

Q / Why does the expiry date have an impact on premium?

Time value is one of two components in an option's premium. When an option has a lot of time before it expires, it is considered to have a greater chance of ending up in-the-money. That's why options with a lot of time have a higher time value. As the option gets closer to its expiry, the time value of the premium will drop because there's less time in the option.

Q / What happens to my option on expiry?

On the option expiry, your in-the-money options are exercised automatically by DealBook and become spot FX positions in the Open Positions window. At-the-money or out-of-the-money options expire worthless. You'll see your new positions and expired options in reports and statements you generate.



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