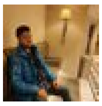
Twitter Thread by ARJUN BHATIA



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Learning Thread On Open Interest
From the book "The new Trading for a living"
A long thread please read and retweet if you find useful.

Open interest is the number of contracts held by buyers or owed by short sellers in any derivative market, such as futures or options

1/n

Stock market shares are traded for as long as the company that listed them stays in business as an independent unit.

2/n

Most shares are held as long positions, with only a
small percentage of shorts. In futures and options, on the other hand, the total size of
long and short positions is always identical, due to the fact that they are contracts for
future delivery.

3/n

When someone wants to buy a contract, someone else has to sell it to them, i.e., go short. If you want to buy a call option for 100 shares of Google, another trader has to sell you that option; in order for you to be long, someone else has to
be short.

4/n

Open interest equals the total long or the total short positions
Futures and options contracts are designed to last for only a set period of time.

5/n

A futures or options buyer who wants to accept delivery and a seller who wants to deliver have to wait until the first delivery day. This waiting period ensures that the numbers of contracts held long and short are always equal.

6/n

In any case, very few futures and options traders plan to deliver or accept delivery. Most traders close out their positions early, settling in cash long before the first notice day.

7/n

Open interest rises when new positions are being created and falls when positions are being closed.

8/n

For example, if open interest in Reliance futures is 20,000 contracts, it means that bulls are long and bears short 20,000 contracts. If open interest rises to 20,200, it means that the net of 200 new contracts have been created: both bought and sold short.

9/n

Open interest falls when a bull who is long sells to a bear who is short but wants to cover his short position. As both of them get out, open interest falls by the size of their trade, since one or more contracts disappear from that market.

10/n

If a new bull buys from an old bull that is getting out of his long position, open interest remains unchanged. Nor does the open interest change when a new bear sells to an old bear who wants to buy to cover his short position.

11/n

In summary, open interest rises when “fresh blood” enters that market and falls as current bulls and bears start leaving that market, as illustrated in the table below:

12/n

Buyer	**Seller**	**Open Interest**
New buyer	New seller	Increases
New buyer	Former buyer sells	Unchanged
Former seller buys to cover	New seller	Unchanged
Former seller buys to cover	Former buyer sells	Decreases

Open interest in any market varies from season to season because of massive hedging by industrial users and producers at different stages of the annual production cycle.
Open interest gives important messages when it deviates from its seasonal norm.
13/n

The End