Things to know Before Trading in Nifty Futures

Nifty futures trading is a common representation of trading the market as a whole, as Nifty is quite representative of the market in particular and the economy in general. Nifty futures are essentially regarded as the futures contracts on the Nifty. The minimum lot size of the Nifty is 75 units, making the lot value just over 7.50 lakhs. You must learn about the **Nifty future strategies** before trading. Let's understand a few points to remember that will help us trade intraday and long-term Nifty futures.

Check the futures spread over the spot

Futures are normally traded at a margin over the spot price. Under normal conditions, the monthly spread over the cash price is determined by the current cost of funds. It is also called a carry cost, and futures typically trade at a premium. Do not buy Nifty futures when it has a very high premium against the spot index, as it could be a case of overpricing and optimism. Also, do not jump in to buy when Nifty futures are discounted, as it could be a signal to sell hard on futures. You need to understand the logic of the spread before trading Nifty futures.

Treat it as a leveraged position

Ingenious futures are leveraged like all futures positions. When you buy a lot of Nifty in the next month, your margin is around 10% for normal trading and 5% for MIS (intraday) trading. That means you get 10x leverage in normal trading and 20x leverage in intraday trading. This works both ways. Leverage means that your profits can multiply, but losses can also multiply. Therefore, any Nifty futures trading must be done with strict stop loss limits and profit targets.

Check the data on open interest

It is always worth doing a scientific data analysis before taking a Nifty futures position. A quick look at the open interest of Nifty futures and their accumulation trends will give you an idea of whether the open interest is building on the long side or the short side. You can have a more informed view of the Nifty address.

Avoid getting into a liquidity trap

Liquidity is never a major challenge for Nifty futures as it is one of the most liquid contracts, but there are times when Nifty futures can get into your liquidity trap. First of all, on the expiration day, you will typically find that Nifty futures volumes fade once the renewals are substantially complete. Also, in a market that is falling sharply, spreads can widen, substantially increasing your risk when trading Nifty futures.

See the multiple implications on the margins

Whether you buy Nifty futures or sell Nifty futures, it is a linear position as you can generate unlimited profit and loss on both sides. While stopping losses is a must when trading the Nifty, you also need to understand margins. First of all, there is an initial margin that you pay at the time of taking the position that includes the VAR margin and the ELM margins. Brokers are now required to collect both margins and ELM is no longer optional. Second, daily, you must pay MTM (market value) margins based on price movement. These have capital allocation implications for you.

Know the overnight risk on Nifty Futures

Even if you set stop loss during the day, these orders will not hedge your risk overnight. For example, if you are long on the Nifty Futures and due to a crash in the Dow if the Nifty collapses 200 points at the open, what can you do? Stopping losses does not work and you are exposed to risk overnight in Nifty futures.

Understand the trade

This is an interesting aspect of Nifty futures trading. When you buy Nifty futures, there is another party that is selling and the same logic applies when you sell Nifty futures. The other party could be a trader or hedger and the open data of interest will give you the necessary information.

While you are typically driven by your point of view on the Nifty, it is always worth understanding the accountant's point of view as it can give you greater clarity on your Nifty point of view. When trading Nifty futures, find the **Nifty option strategies** and remember to keep track of dividends, transaction costs, and tax implications.