FX BARRIER OPTIONS

VALUE PROPOSITION
Saxo Bank’s proposition to the FX options trader is truly unique given the quality of the analytics provided, the depth of the product offering, and the level of service available. Saxo Bank provides access to a superior grade of trading capabilities that affords the client maximum flexibility to implement trading strategies and market views.

Saxo Bank’s FX Barrier option offering provides the possibility to buy single Knock-In and Knock-Out options (no short positions are currently offered), giving clients the opportunity to express a directional view by utilising the volatility of the underlying currency pair.

EXAMPLE:
Knock-in: Spot EURUSD is trading at 1.1150. Will EURUSD trade below 1.0800 within 2 months, and will it be volatile?

Yes → Buy a 1.0800 Put option for expiry in 2 months with a knock-in at 1.1300. The option will only be triggered once EURUSD touches 1.1300 at any time up to expiry.

Why do this?
→ Buying a 1.0800 Vanilla Put option for expiry in 2 months will cost 55 USD pips
→ Buying a 1.0800 Put option for expiry in 2 months with a knock-in at 1.1300 will cost 19 USD pips

Knock-out: Spot EURUSD is trading at 1.1150. Will EURUSD trade below 1.0800, but not reach 1.1300 within 2 months?

Yes → Buy a 1.0800 Put option for expiry in 2 months with a knock-out at 1.1300. If spot touches 1.1300 at any time up to expiry, it will be knocked-out and cease to exist.

Why do this?
→ Buying a 1.0800 Vanilla Put option for expiry in 2 months will cost 55 USD pips
→ Buying a 1.0800 Put option for expiry in 2 months with a knock-out at 1.1300 will cost 43 USD pips
CHARACTERISTICS & TRADING CAPABILITIES

**Crosses**: Available for trading in 44 currency pairs, depending on market liquidity.

**Type**: Single Knock-In (KI) and Knock-Out (KO) options are available. Possible KI and KO option combinations are up-and-in (UI), up-and-out (UO), down-and-in (DI) and down-and-out (DO). FX Barrier options are American-style options, meaning that they can be triggered any time up to expiry. The underlying Vanilla option is a European-style option.

**Buy (Hold)**: Since Saxo Bank only offers the ability to buy Barrier options, the holder pays a premium representing the maximum loss.

**Amount**: Minimum trade size of USD 3,000,000 equivalent.

**Maturity**: Tradable tenors from 1 day to 12 months.

**Barrier**: The trigger level at which the Barrier option is knocked-in or knocked-out.

**Price (premium)**: Determined by the value of the underlying currency and market volatility.

**Trigger**: Occurs when the spot price touches the pre-defined barrier at any time up to expiry

**Exercise/Expiry**: A Barrier option is path-dependent, where the payoff depends on whether the underlying spot price has touched the pre-defined barrier (trigger) at any time up to expiry. If a KI option barrier is touched up to expiry, the underlying vanilla option is activated. If a KO option barrier is not touched up to expiry, then it ceases to exist. If a KO option barrier is not touched up to expiry, and the underlying vanilla option is in-the-money, the option is exercised.

**Venue**: Clients can only trade Barrier options offline, via voice execution. Clients are able to see positions in SaxoTrader (open positions view under exotic options) and SaxoTrader GO (shown under other instruments), as well as an indicative P/L. Pre-authorisation is required from Saxo Bank’s Global Sales Trading (GST) team to enable trading of this product.

**Spread**: Defined as the distance between the bid/ask price, which can vary depending on market liquidity and conditions.

**P/L**: The close price seen in the platform is an indicative price.

**No Margin**: The FX option margin calculation does not apply.

**Orders**: Not available. Trading is only available offline.

**Opening Hours**: Open for trading 24/6 (like FX Spot and Vanilla options)

MAIN BENEFITS OF BARRIER OPTIONS WITH SAXO BANK

- Full pre-trade transparency of potential profit and loss
- Limited risk in that the Barrier option cannot lose more than the respective premium amount
- Automatic continuous monitoring of market-trigger events
- Can be bought or closed until maturity

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