Disclaimer

The views and opinions expressed in this presentation reflect those of the individual authors/presenters only and do not represent in any way Bourse de Montréal Inc.'s (the "Bourse") opinion or any of its affiliates. The presentation is not endorsed by the Bourse or its affiliates. The information provided in this presentation, including financial and economic data, quotes and any analysis or interpretation thereof, is provided solely on an information basis and shall not be interpreted in any jurisdiction as an advice or a recommendation with respect to the purchase or sale of any derivative instrument, underlying security or any other financial instrument or as a legal, accounting, tax, financial or investment advice. The Bourse and its affiliates do not endorse or recommend any securities referenced in this presentation. The Bourse recommends that you consult your own advisors in accordance with your needs. Although care has been taken in the preparation of these articles, the Bourse and/or its affiliates do not guarantee the completeness of the information contained in this presentation, and are not responsible for any errors or omissions in or your use of, or reliance on, the information. The Bourse reserves the right to amend, review or delete, at any time and without prior notice, the content of this presentation. The Bourse, its affiliates, directors, officers, employees and agents will not be liable for damages, losses or costs incurred as a result of the use of any information appearing in this presentation.

TMX | Montréal Exchange

TMX Montréal Exchange

TMX | Montréal Exchange

Directional Trading using Currency Options

What is a Currency Option?

- Based on a currency pair value.
- Reflects an “exchange rate”.
- USX reflects USD/CAD.
- The value of US$1.00 in Canadian dollars.
- U.S. dollar is considered the base currency.

Directional Trading

- Buying calls or puts
- Shorting or writing calls or puts

Currency Options Strategies

STRATEGIES	Forecasted Future USD/CAD Exchange Rate	
	Higher (↑ USD)	Lower (↓ USD)
	Buy calls	Buy puts
	Write puts	Write calls

Bullish on the USD – Buy Calls

- The USD/CAD spot market quote is 1.0250
- The at-the-money, USX Call option would be listed at 102.50.
- Investor believes the USD will strengthen.
- Two month, 102.50 call option premium is trading at $2.35
- 10 call options = $2,350.00. (2.35 X 100 X 10)

TMX Montréal Exchange

Long Call

BoC noon rate at expiration	Option Value at Expiration
107.00	$4,500.00
106.50	$4,000.00
106.00	$3,500.00
105.50	$3,000.00
104.85	Break Even
102.50	-$2,350.00
101.00	-$2,350.00
100.00	-$2,350.00

TMX Montréal Exchange

Bullish on the USD – Buy Calls

- Assume the USD/CAD is at 1.0550 on expiration
- Credit received: $3,000.00 CAN
  - (105.50 - 102.50) x 100 x 10 contracts
- Net profit: $650
  - $3,000.00 - $2,350.00
- ROI: 27.5%
  - $650.00 / $2,350.00

TMX Montréal Exchange

Bullish on the USD – Write Puts

- Investor may be bullish to neutral on the USD/CAD.
- Sell USX put options to collect the premium.
- If the USD/CAD rate is at or above the sold strike price at expiration, the option expires and profit is realized.
- Limited profit, unidentifiable risk.

Bullish on the USD – Write Puts

- The USD/CAD spot market quote is 1.0200
- The at-the-money, USX put option would be listed at 102.00.
- Investor believes the USD will strengthen or stay the same.
- One month, 102.00 put option premium is trading at $1.75
- 10 put options = $1,750.00. (1.75 X 100 X 10)

Short Put

BoC noon rate at expiration	Option Value at Expiration
108.50	$1,750.00
102.50	$1,750.00
102.00	$1,750.00
101.50	$1,250.00
100.25	Break Even
100.00	-$250.00
99.50	-$750.00
99.00	-$1,250.00

Bullish on the USD – Write Puts

- Maximum profit is realized when the USD/CAD is at or above the sold strike price.
- If the USD/CAD is below the breakeven point, a loss is incurred.
- The investor’s account will be debited the difference between the strike price sold and the settlement value at expiration.

Bearish on the USD – Buy Puts

- The USD/CAD spot market quote is 1.0350
- The at-the-money, put option would be listed at 103.50.
- Investor believes the USD will weaken.
- Two month, 103.50 put option premium is trading at $2.50
- 10 call options = $2,500.00. (2.50 X 100 X 10)

Long Put

BoC noon rate at expiration	Option Value at Expiration
104.50	-$2,500.00
104.00	-$2,500.00
103.50	-$2,500.00
102.00	-$1,000.00
101.00	Break Even
100.50	$3,000.00
100.00	$3,500.00
99.50	$4,000.00

Bearish on the USD – Buy Puts

- Assume the USD/CAD is at 1.0050 on expiration
- Credit received: $3,000.00 CAN
  - (103.50 - 100.50) x 100 x 10 contracts
- Net profit: $500
  - $3,000.00 - $2,500.00
- ROI: 20%
  - $500.00 / $2,500.00

TMX Montréal Exchange

Bearish on the USD – Write Calls

- Investor may be bearish to neutral on the USD/CAD.

- Sell USX call options to collect the premium.

- If the USD/CAD is at or below the sold strike price at expiration, the option expires and profit is realized.

- Limited profit, unidentifiable risk.

Bearish on the USD – Write Calls

- The USD/CAD spot market quote is 1.0400
- The at-the-money, call option will be listed at 104.00.
- Investor believes the USD will weaken or stay the same.
- One month, 104.00 call option premium is trading at $1.70
- 10 put options = $1,700.00. (1.70 X 100 X 10)

Short Call

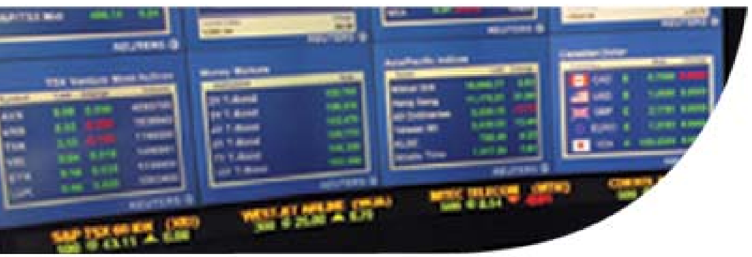
BoC noon rate at expiration	Option Value at Expiration
108.00	-$1,500.00
107.50	-$1,000.00
106.00	-$500.00
105.70	Break Even
104.00	$1,700.00
103.50	$1,700.00
100.00	$1,700.00
99.50	$1,700.00

Bearish on the USD – Write Calls

- Maximum profit is realized when the USD/CAD is at or below the sold strike price.

- If the USD/CAD is above the breakeven point, a loss is incurred.

- The investor's account will be debited the difference between the settlement value and the strike price sold at expiration.



TMX Montréal Exchange