Volume and open interest

> **OPEN INTEREST**
>
> The number of futures contracts currently in existence - positions opened and not yet closed or delivered. Volume counts the day's transactions; open interest counts the standing commitments left at the end of it. Because every contract has exactly one long and one short, open interest measures how much risk the market is actually carrying, and its changes say what today's trading did to that.

FX gave you no volume worth the name, and index volume needed a paragraph of caveats. Commodities hand you something better than either, and it is not volume. It is the other column: open interest.

Two different questions

Volume asks: how much changed hands today? Open interest asks: how many promises are outstanding tonight? A futures contract is created when a new buyer meets a new seller, and destroyed when both sides close. So the same trade can raise open interest, lower it, or leave it flat - and that difference is what the number is for.

The four combinations

Price up, open interest up: new money is building longs. The move is being funded.Price up, open interest down: shorts are closing. The rally is an evacuation, and it ends when the evacuating are done.Price down, open interest up: new shorts are being established - conviction, not liquidation.Price down, open interest down: longs are giving up and leaving.

Treat these as a reading aid, not a signal machine: each says who was acting, not what happens next. But 'this rally is new positioning' and 'this rally is a short squeeze' are different events, and open interest is the only public number that routinely tells them apart.

What else it shows you

The roll, live: as expiry approaches, open interest drains out of the front month and fills the next - lesson 2's migration, counted contract by contract. And the market's total size over time: a price move on rising open interest carries more of the market with it than the same move on a shrinking one.

One habit to close on: open interest updates once daily and settles a day in arrears, so it is an evening reading, not a tick-by-tick one. It rewards exactly the kind of trader this track is trying to build - one who reads the market's books, not just its mood.

Check your understanding

1. A commodity rallies hard for three days while open interest falls steadily. What kind of rally is it?

a. New buyers are entering with conviction
b. Shorts are closing - the rally is powered by exits, and stops when they are done
c. Hedgers are locking in higher prices

Answer: b. Falling open interest means contracts are being destroyed: both sides leaving. A rising price on shrinking commitments is a short squeeze reading, not new demand - the move and its fuel are different things.

2. How does open interest differ from volume?

a. Open interest is volume averaged over a month
b. Volume counts the day's trades; open interest counts the positions still standing after them
c. They are the same figure reported by different exchanges

Answer: b. A day of heavy trading can leave open interest unchanged if it was all position-passing. Volume is turnover; open interest is the market's outstanding risk.

3. Why is open interest an evening tool rather than an intraday one?

a. It is only calculated weekly
b. It is published once daily, in arrears, after settlement
c. Exchanges restrict it to professional subscribers

Answer: b. The figure is compiled from cleared positions after the session. It answers 'what did today's trading do to the market's commitments' - a review question, which suits what it is best at.