Open interest and volume

> **OPEN INTEREST AND VOLUME**
>
> Two liquidity-and-activity measures the chain carries: volume, the number of contracts traded in a session, and open interest, the number of contracts currently outstanding. Together they read a cell's liquidity and whether activity is opening or closing positions - and unusually high option volume relative to open interest is genuine information about where attention is flowing, one of the few honest reads the options market offers.

The chain's cells carry two numbers beyond the premium: volume and open interest. They read liquidity - can you trade this cell without a punishing spread - and they read activity, and one of their patterns is a rare piece of genuine options information.

The two measures

Volume: contracts traded in the session - the flow through a cell, and a read on how liquid it is right now; low volume means a wide spread and hard fills, per lesson 2.Open interest: contracts currently outstanding - positions opened and not yet closed; it measures how much is committed to a cell, and grows when new positions open and shrinks when they close.Together: high volume on rising open interest is new positioning; high volume on falling open interest is positions closing - the same opening-versus-closing read the futures track used, on the option chain.

The read worth having

Unusual option volume relative to a cell's open interest is genuine information: a sudden surge of trading in a particular strike and expiry - especially far from the money - can signal that participants are positioning for a move, and because options require a directional and timing commitment, that positioning carries more information than undirected share volume. It is watched for exactly this reason. But the read is noisy and much abused: 'unusual options activity' is sold as a signal service (the pattern-selling industry, in options costume), and much apparent positioning is hedging, spreads, or market-maker flow with no directional view - so the honest read is careful and sceptical, per the platform's standing volume discipline.

The liquidity gate

Beyond information, open interest and volume are the liquidity gate: a cell with little of either is illiquid - wide spread, hard to enter and worse to exit - and trading it means accepting the spread cost of lesson 2 at its worst. The practical discipline reads both before trading any cell: enough volume and open interest to trade it cleanly, and an eye on unusual activity as a noisy, abused, occasionally genuine read on positioning. The chain's two activity numbers are its liquidity map and its one honest information source - read together, carefully, as the reading module's tools for navigating the grid.

Check your understanding

1. What is the difference between volume and open interest?

a. They are the same measure

b. Volume is contracts traded in a session; open interest is contracts currently outstanding - together they read liquidity and whether activity is opening or closing positions

c. Volume is for calls, open interest for puts

Answer: b. Volume is the session's flow; open interest is the standing commitment. High volume on rising open interest is new positioning - the futures opening-versus-closing read, on the chain.

2. Why is unusual option volume potentially informative?

a. It always predicts direction

b. Options require a directional and timing commitment, so a surge in a particular strike can signal positioning - though it is noisy, much abused as a sold signal, and often just hedging

c. It sets the premium

Answer: b. Directional-and-timing positioning carries more information than undirected share volume - but it is noisy and sold as a pattern service. The honest read is careful and sceptical.