Understanding of Price–Volume–Open Interest in futures market
Introduction

* Price, Volume and Open interest are the most important market determinants in futures market.
* Among these, price is more important.
* Any changes in volume and open interest with respect to price which decide changes in trend in underlying commodities.
Volume

- Volume is amount of trading activity or contracts traded on a particular period of time or a day.
- The greater the amount of trading during a market session, the higher the trading volume.
- It measure the pressure behind a price trend.
- Generally, volume precedes price and any substantial increase or decrease in volume could bring an rise or fall in prices.
Open interest

- It is total number of outstanding position that are not closed or delivered at the end of the day.
- It measures the cash flow into the futures market.
- For each buyer there must be a seller and combining the both creates an open interest.
Open interest...

* An increase in open interest means, new money is flowing in to the assets, resulting a new trend or continuation of the trend.
* Likewise, decrease in open interest implies traders are liquidating and the current trend is coming to an end.
* A flattening of open interest with sustained advance in prices warns that end of a bull market.
Effect of Price, Volume and Open interest with the trend

A general thumb rule is for PVO analysis is as follows..

<table>
<thead>
<tr>
<th>Price</th>
<th>Volume</th>
<th>Open Interest</th>
<th>Market behaving</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rising</td>
<td>Up</td>
<td>Up</td>
<td>Strong Market</td>
</tr>
<tr>
<td>Rising</td>
<td>Down</td>
<td>Down</td>
<td>Weak Market</td>
</tr>
<tr>
<td>Declining</td>
<td>Up</td>
<td>Up</td>
<td>Weak Market</td>
</tr>
<tr>
<td>Declining</td>
<td>Down</td>
<td>Down</td>
<td>Strong Market</td>
</tr>
</tbody>
</table>

- On the situation 1, price is increasing along with volume and OI is on rise considered bullish, as new money entering into the market.
- Situation 2, prices is rising but volume and OI are on decline trend, suggests short sellers are covering their positions, the reason for the uptrend. Money is leaving from the market.
- Situation 3, Prices are declining but both volume and OI is on rise, suggests aggressive new short selling and new money is coming to market, bearish or continuation of downtrend.
- Situation 4, if price, volume and OI are in a declining mode, signals that long position holders are winding off their short positions and likely be the end of downtrend when all sellers sold their positions.
Effect of Price and Open interest with the trend

<table>
<thead>
<tr>
<th>Market behavior</th>
<th>Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price is rising along with increase in OI</td>
<td>Bullish</td>
</tr>
<tr>
<td>Price is rising but decrease in OI</td>
<td>Bearish</td>
</tr>
<tr>
<td>Price is falling but increase in OI</td>
<td>Bearish</td>
</tr>
<tr>
<td>Price is falling along with decrease in OI</td>
<td>Bullish</td>
</tr>
</tbody>
</table>

Note: Suppose at the market top, if OI is high and prices are falling, a trend reversal may be seen and considered bearish outlook.>> Panic selling

Courtesy: www.investopedia.com
How it benefits

* It is precursor to study price, volume and open interest before understanding the technical charts and the patterns.
* By experience, it is most simple way to judge the price reversal or continuation of the trend.
* It is forerunner of trend reversals. Hence, knowledge of these tools would able to cut down the positions by the trader before it reflects in the charts.
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Thank you..