

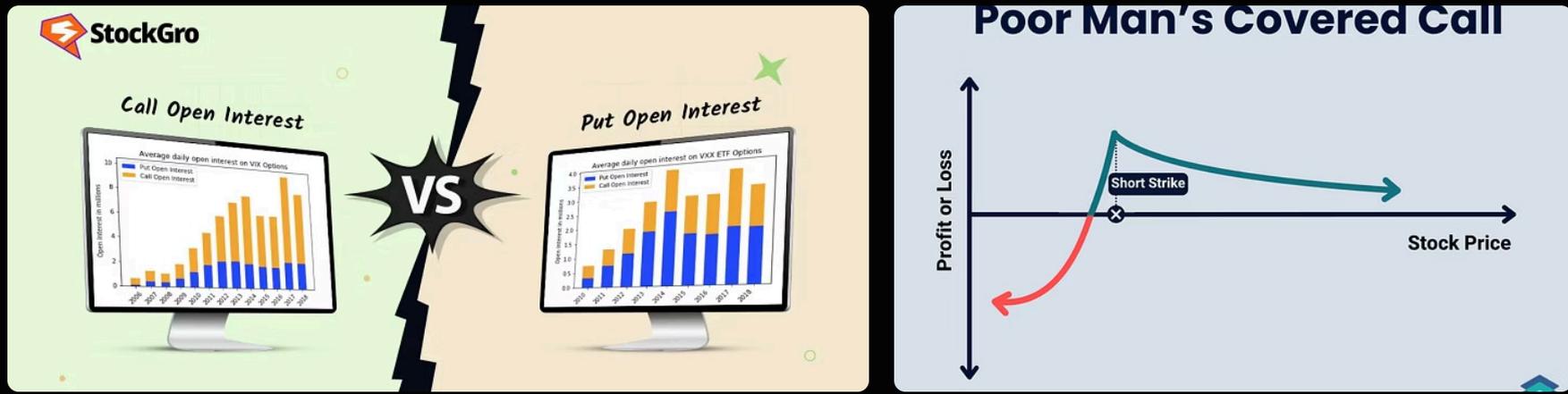
Options Open Interest (OI) – Simple Education Guide

Open Interest (OI) shows **where traders are placing their money**, not just price movement. Understanding this critical metric transforms how you read market sentiment and make trading decisions.

Price shows movement. OI shows commitment. Together, they reveal market intent. Whilst price action tells you what's happening now, Open Interest reveals the depth of conviction behind those moves. It's the difference between watching a crowd and understanding why they're moving in a particular direction.

StrikeTrade50 visualises this data so traders can **see support, resistance, and momentum** clearly. By combining price movement with Open Interest analysis, you gain a three-dimensional view of market dynamics that most retail traders miss entirely. This educational guide will equip you with the practical knowledge to interpret OI signals confidently and apply them to your active trading strategies.

CALL Side Explained



Understanding call option behaviour through Open Interest changes provides crucial insights into bullish sentiment and potential resistance levels. The interaction between call price movements and OI shifts reveals whether traders are positioning for upside or establishing barriers.



✓ Call Buying (Long Buildup)

- Call Price ↑
- Call OI ↑

Meaning: Traders expect a strong market rise

Impact: Bullish momentum

When both call prices and Open Interest rise simultaneously, it signals fresh bullish positions entering the market. This pattern represents genuine buying conviction, as traders are willing to pay higher premiums whilst simultaneously increasing the total number of outstanding contracts. It's one of the clearest signals of expected upward price movement and typically precedes sustained rallies in the underlying asset.

Call Writing (Short Buildup)

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✗ Call Writing (Short Buildup)

- Call Price ↓ or flat
- Call OI ↑

Meaning: Traders expect market to stay below this level

Impact: Strong resistance

Call writing, also known as short call buildup, occurs when Open Interest increases whilst call prices remain flat or decline. This pattern reveals that traders are actively selling call options, betting that the market will not rise above the strike price. It's a bearish or neutral stance that creates a ceiling effect on price movement.

The significance of call writing cannot be overstated. When you identify strikes with heavy call writing, you've found levels where sellers have concentrated their positions. These strikes act as **magnetic resistance zones** because as the underlying price approaches these levels, call writers have strong incentives to defend their positions through hedging activities.

Professional traders watch for clusters of call writing activity, as these areas often mark the upper boundaries of trading ranges. The market tends to stall or reverse at these strikes because the combined effect of seller hedging and psychological resistance creates substantial selling pressure. Understanding where call writing concentrates gives you a significant edge in setting realistic profit targets and avoiding low-probability trades that fight heavy resistance.

Call Unwinding

⚠️ Call Unwinding

- Call Price ↓
- Call OI ↓

Meaning: Buyers are exiting

Impact: Bullish move losing strength

Call unwinding signals that bullish traders are closing their long positions, typically because their view has changed or they're taking profits. This simultaneous decline in both price and Open Interest indicates weakening conviction in upward movement.



When you observe call unwinding, it's a warning signal that the bullish momentum which drove earlier price increases is fading. The buyers who pushed prices higher are now stepping back, removing their support from the market. This doesn't necessarily mean an immediate reversal, but it does suggest that further upside requires fresh buying interest to emerge.

The practical application of recognising call unwinding is invaluable for position management. If you're holding long positions and notice significant call unwinding at your strikes, it may be prudent to tighten stops or consider partial profit-taking. The market is telling you that other bulls are leaving, and you should have a clear reason for staying when the crowd is departing. Conversely, if you're looking to enter new bullish positions, call unwinding zones often present poor entry points unless you identify a catalyst that others are missing.

Call Short Covering



Call Short Covering

- Call Price ↑
- Call OI ↓



Meaning

Sellers are forced to exit their positions as the market moves against them



Impact

Breakout / fast upside move

Call short covering represents one of the most explosive bullish scenarios in options trading. It occurs when call prices surge whilst Open Interest simultaneously drops, indicating that traders who previously sold calls are now frantically buying them back to close their positions. This creates a feedback loop: as prices rise, more call writers face mounting losses and are forced to cover, which drives prices even higher.

The power of call short covering lies in its self-reinforcing nature. When market makers and traders who sold calls need to hedge their exposure or cut losses, they must buy the underlying asset, adding fuel to the rally. This forced buying often creates the sharp, vertical price movements that characterise breakouts. **These moves can be remarkably swift**, catching many traders off-guard and creating excellent opportunities for those positioned correctly.

Identifying call short covering early gives you a significant trading edge. When you spot heavy call writing at a particular strike followed by sudden price increases with declining OI, you're witnessing the market breaking through resistance with trapped sellers providing propulsion. These setups often mark the beginning of extended moves, as the combination of short covering and momentum traders jumping aboard creates powerful upward pressure. However, be aware that these moves can be volatile, so proper position sizing and stop placement remain essential even in these high-probability scenarios.

PUT Side Explained



SHORT BUILDUP, SHORT COVER, LONG BUILDUP AND LONG UNWINDING IN OPEN INTEREST

PRICE	VOLUME	OPEN INTEREST	OBSERVATION	INTERPRETATION
Rising	Rising	Rising	Up Trend Long Build Up	More traders are buying BULLISH
Rising	Falling	Falling	Down trend Short Covering	Buyers are squaring BULLISH
Falling	Rising	Rising	Down trend Short Build-up	Modern traders are selling BEARISH
Falling	Falling	Falling	Down trend Long Unwinding	Profit booking BEARISH

The put side of Open Interest analysis reveals bearish sentiment and support dynamics. Understanding put option behaviour helps you identify where selling pressure concentrates and where the market finds willing buyers who establish floors under pricing.

✓ Put Buying (Long Buildup)

- Put Price ↑
- Put OI ↑

Meaning: Traders expect market to fall

Impact: Bearish momentum

Put buying, characterised by rising put prices alongside increasing Open Interest, signals that traders are actively purchasing protection or speculating on downside movement. This pattern represents genuine bearish conviction, as market participants are willing to pay elevated premiums for the right to sell at specific strikes. The increase in OI confirms that these are new positions rather than existing trades being closed.

When put buying intensifies across multiple strikes, it often precedes or accompanies market declines. The combination of rising premiums (indicating increased demand) and growing OI (showing new bearish positions) creates a backdrop of negative sentiment that can become self-fulfilling. As more traders position for downside, their hedging activities and the psychological weight of bearish positioning can accelerate declining moves.

Put Writing (Short Buildup)

✗ Put Writing

(Short Buildup)

- Put Price ↓ or flat
- Put OI ↑

Market Signal

Meaning: Traders expect market to stay above this level

Impact: Strong support

Put writing creates one of the most reliable support indicators in options analysis. When OI increases whilst put prices remain stable or decline, it reveals that traders are selling put options, essentially betting that the market will not fall below those strikes.

The significance of put writing extends beyond simple directional bets. Put sellers are often institutional players, market makers, or sophisticated traders who are willing to buy the underlying asset at the strike price if assigned. This creates genuine buying interest at these levels, establishing a floor under market prices. The larger the accumulation of put writing at specific strikes, the stronger the support those levels provide.

From a practical trading perspective, identifying heavy put writing zones helps you set realistic targets for bearish trades and find optimal entry points for bullish positions. When the market approaches strikes with substantial put writing, you can expect increased buying activity as put sellers defend their positions through hedging and the psychological effect of known support kicks in. These levels often mark the lower boundaries of trading ranges and provide excellent risk-reward setups for long entries, as the probability of a sustained break below heavy put writing is relatively low unless fundamental conditions change dramatically.

Put Unwinding

Initial Position

Bearish traders hold put options expecting further downside

Market Effect

Meaning: Sellers losing confidence

Impact: Downtrend slowing



⚠ Unwinding Begins

- Put Price ↓
- Put OI ↓

Put unwinding occurs when both put prices and Open Interest decline simultaneously, signalling that bearish traders are closing their positions. This pattern indicates weakening conviction in further downside movement, as the traders who previously expected lower prices are now exiting rather than holding their positions.

The implications of put unwinding are significant for market direction. When bears close their positions, they remove selling pressure from the market. This doesn't automatically create a rally, but it does eliminate a source of downward momentum. The market often stabilises or begins to recover when put unwinding becomes pronounced, as the negative feedback loop of bearish positioning unwinds.

For active traders, recognising put unwinding provides valuable context for position management and new trade setup identification. If you're holding short positions and observe significant put unwinding, it may signal that the easy downside move has concluded and remaining bears are losing conviction. This environment often leads to choppy, range-bound trading or modest recoveries as the bearish impetus fades. Conversely, if you're considering new bearish entries, zones of put unwinding typically present suboptimal entry points unless fresh catalysts emerge to restart downward momentum.

Put Short Covering



Put Short Covering

- Put Price ↑
- Put OI ↓

Meaning: Sellers closing positions

Impact: Volatility / reversal zone

Put short covering represents a critical reversal signal that often marks significant market bottoms or volatile turning points. This pattern emerges when put prices surge whilst Open Interest simultaneously drops, indicating that traders who previously sold puts are now buying them back to close their positions, typically because the market is moving against them.

The dynamics of put short covering create intense downward pressure as put sellers who established support are forced to hedge or exit their positions. When market makers and traders who sold puts need to cover their exposure, they often must sell the underlying asset, which can accelerate declining moves. This creates a cascade effect where falling prices trigger more put covering, which drives prices lower still, creating the sharp downward spikes that characterise breakdown scenarios.

Identifying put short covering early is crucial for risk management and opportunity recognition. When you observe heavy put writing at a strike followed by sudden price declines with rising put prices and falling OI, you're witnessing support levels breaking with trapped sellers adding to downward momentum. These scenarios often mark the beginning of extended bearish moves or periods of heightened volatility. **However, they can also signal capitulation bottoms** where the final wave of forced selling exhausts itself, creating opportunities for contrarian entries. The key is watching for the deceleration of covering activity and stabilisation of OI, which suggests the forced selling has run its course.

One-Line Rule (Client Friendly)

R

High Call OI

Equals **Resistance**

S

High Put OI

Equals **Support**

The fundamental principle of Open Interest analysis distills to this simple yet powerful rule: **high Call OI creates resistance, whilst high Put OI creates support**. This framework provides immediate practical value for identifying key price levels where markets are likely to stall, reverse, or consolidate.

Understanding this rule transforms how you approach trade planning. Before entering any position, scan the OI distribution across strikes. Strikes with elevated Call OI represent zones where sellers have concentrated positions and will likely defend those levels, creating barriers to upward movement. Conversely, strikes with substantial Put OI mark areas where buyers have established positions and will support prices, creating floors under the market.

This principle works because Open Interest represents actual financial commitments from traders. Unlike mere price levels on a chart, OI-based support and resistance zones have real participants with real money at stake who have incentives to defend their positions through hedging and position management. The higher the OI concentration at a strike, the more significant the support or resistance effect, as more traders have interests aligned with defending that level. By focusing on strikes with the highest OI, you identify the battlefield where the market's most important skirmishes will occur.

Strike Selection Rules (StrikeTrade50 Logic)

The following rules represent the **exact trading logic** that powers intelligent strike selection within the StrikeTrade50 platform. These principles transform Open Interest data from abstract numbers into actionable trading decisions, guiding you towards optimal strike choices based on prevailing market conditions.

Effective strike selection separates profitable traders from those who struggle. Whilst many traders focus solely on price action or technical patterns, understanding how OI dynamics influence optimal strike positioning provides a significant competitive advantage. These rules synthesise the patterns we've explored into practical decision frameworks that account for market direction, momentum strength, and the positioning of other market participants.

Each rule addresses specific market conditions—bullish trends, bearish moves, ranging environments, and breakout scenarios. By matching the current OI characteristics to the appropriate rule, you'll consistently position yourself in strikes that offer the best probability of success whilst avoiding strikes where heavy opposing interest creates unfavourable odds. **Master these selection rules, and you'll trade with the confidence that comes from aligning your positions with dominant market forces** rather than fighting against them.

● Rule 1: Bullish Strike Selection (CALL)

Prefer CALL trades when:

- Put Writing is dominant (PUT OI ↑, price ↓)
- Call Short Covering starts (CALL price ↑, OI ↓)
- Change in OI favours PUT writers



Bullish strike selection requires identifying conditions where upward momentum has both runway and propulsion. The optimal environment emerges when put writing dominates (indicating strong support below current prices), combined with signs of call short covering (suggesting trapped sellers will fuel upward moves). When you observe PUT OI increasing with stable or declining put prices, it signals that sellers are establishing support and expect higher prices ahead.

The strike choice principles reflect the balance between capturing movement and managing risk. In standard trending conditions, selecting ATM or slightly out-of-the-money calls (ATM-1) provides good delta exposure whilst maintaining reasonable premium costs. As momentum strengthens, moving to ATM-1 or ATM-2 strikes allows you to capture explosive moves with lower capital outlay, though with higher risk if the move stalls.

The critical discipline is avoiding strikes with heavy call writing overhead. Even in bullish conditions, **positioning above zones of concentrated call OI means fighting uphill against established resistance**. These strikes may seem attractive due to lower premiums, but they face structural headwinds from sellers defending their positions. Instead, focus on strikes where the path between your entry and the next significant resistance zone is relatively clear, maximising your probability of reaching profit targets before encountering substantial opposition.

Strike Choice:

01

Trending Markets

ATM to ATM-1 in trending markets

02

Strong Momentum

ATM-1 to ATM-2 in strong momentum

03

Avoid

Strikes with **heavy Call Writing above**

Rule 2: Bearish Strike Selection (PUT)

Prefer PUT trades when:

- Call Writing is dominant (CALL OI ↑, price ↓)
- Put Short Covering starts (PUT price ↑, OI ↓)
- Change in OI favours CALL writers

Strike Choice Guidelines

ATM to ATM+1 in trending markets

ATM+1 to ATM+2 in strong momentum

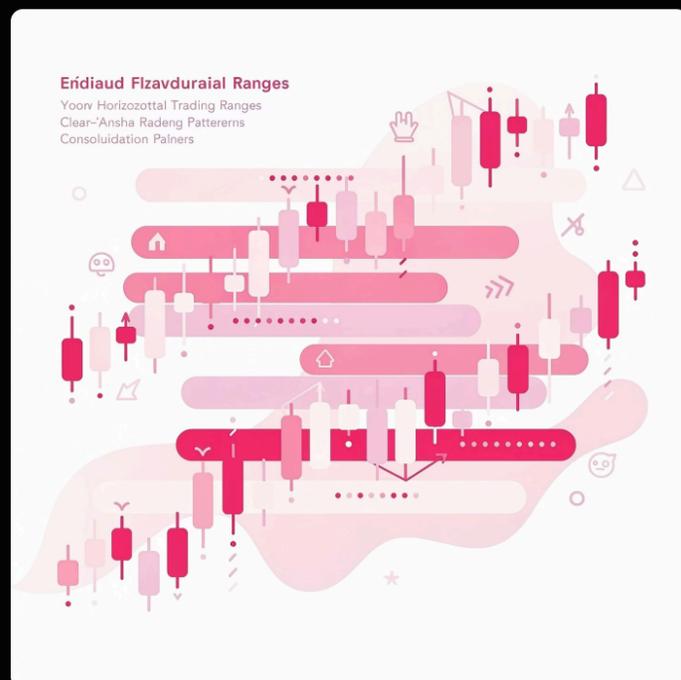
Avoid strikes with **heavy Put Writing below**

Bearish strike selection mirrors the bullish framework but inverts the signals. The ideal bearish setup emerges when call writing dominates (creating resistance overhead) and you observe signs of put short covering (indicating trapped put sellers will add to downward pressure). When CALL OI increases whilst call prices remain flat or decline, it reveals sellers establishing resistance who expect lower prices.

Strike selection for bearish trades follows similar logic to bullish positioning, adjusted for downward moves. In trending bearish conditions, ATM or slightly out-of-the-money puts (ATM+1) provide optimal delta exposure for capturing downward movement. As bearish momentum intensifies and volatility increases, selecting ATM+1 or ATM+2 strikes can dramatically improve returns, as these strikes benefit from both directional movement and expanding implied volatility that typically accompanies market declines.

The crucial discipline in bearish trading is avoiding strikes with heavy put writing below your entry. These zones represent established support where sellers have committed to buying the underlying asset, creating structural floors under prices. Whilst premiums may appear attractive at these strikes due to their proximity to support, positioning below areas of concentrated put OI means fighting against both the direct support from put sellers and the psychological effect of known demand. Instead, focus on strikes where the path downward is relatively unobstructed until reaching the next significant support zone, maximising the probability of achieving profit targets before encountering substantial buying interest.

● Rule 3: Sideways / Range Market



Conditions:

- Call Writing above + Put Writing below
- OI increasing on both sides
- Prices stable

Recommended Action

No directional trade

The market lacks clear directional bias when both call writing above and put writing below increase simultaneously with stable prices. This creates a bounded environment where upside and downside both face established resistance and support.

Optional Advanced Strategy

Premium strategies (advanced users)

Experienced traders may consider range-bound strategies such as iron condors, calendar spreads, or ratio spreads that profit from time decay and stable prices within the established range.

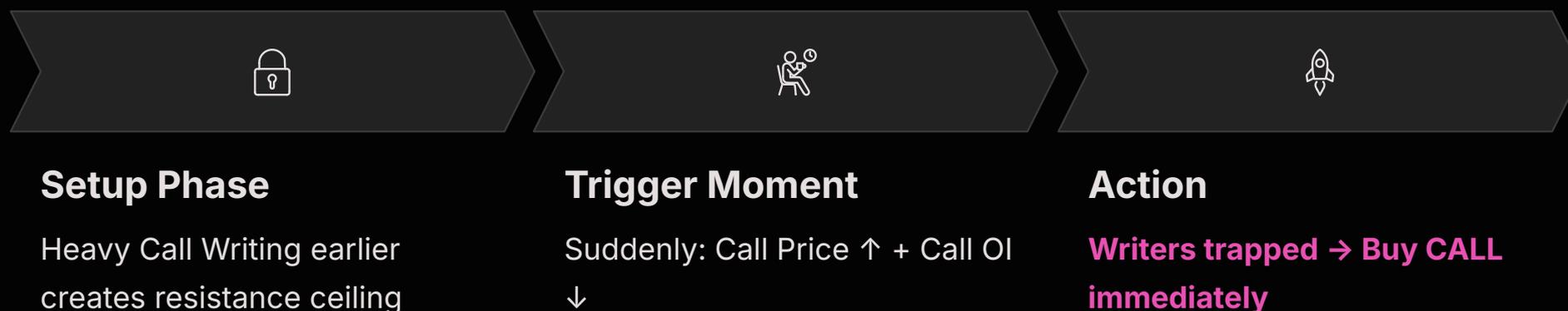
Recognising range-bound markets through OI analysis protects you from the common mistake of forcing directional trades in non-directional environments. When you observe increasing Call OI above current prices (with stable or declining call prices) combined with increasing Put OI below current prices (with stable or declining put prices), the market is effectively declaring its expected range. Traders on both sides are establishing boundaries and betting that prices will remain contained.

The disciplined response to this setup is patience. Directional trades in ranging markets face unfavourable odds, as you're fighting against established interest on both sides. **The market will likely oscillate within the defined range**, frustrating directional traders who chase breakouts that fail or attempt to pick tops and bottoms. Instead, wait for the OI dynamics to shift—watch for one side to unwind or for short covering to begin, signalling that the range may be breaking.

For traders with experience in premium strategies, range-bound environments offer opportunities to sell options and collect time decay. However, these strategies require sophisticated understanding of volatility, position management, and the risks of assignment. If you're primarily a directional trader, the best action in confirmed ranging markets is often no action at all, preserving capital and mental energy for clearer opportunities with better probability profiles.

Rule 4: Breakout Detection (Very Powerful)

Bullish Breakout:

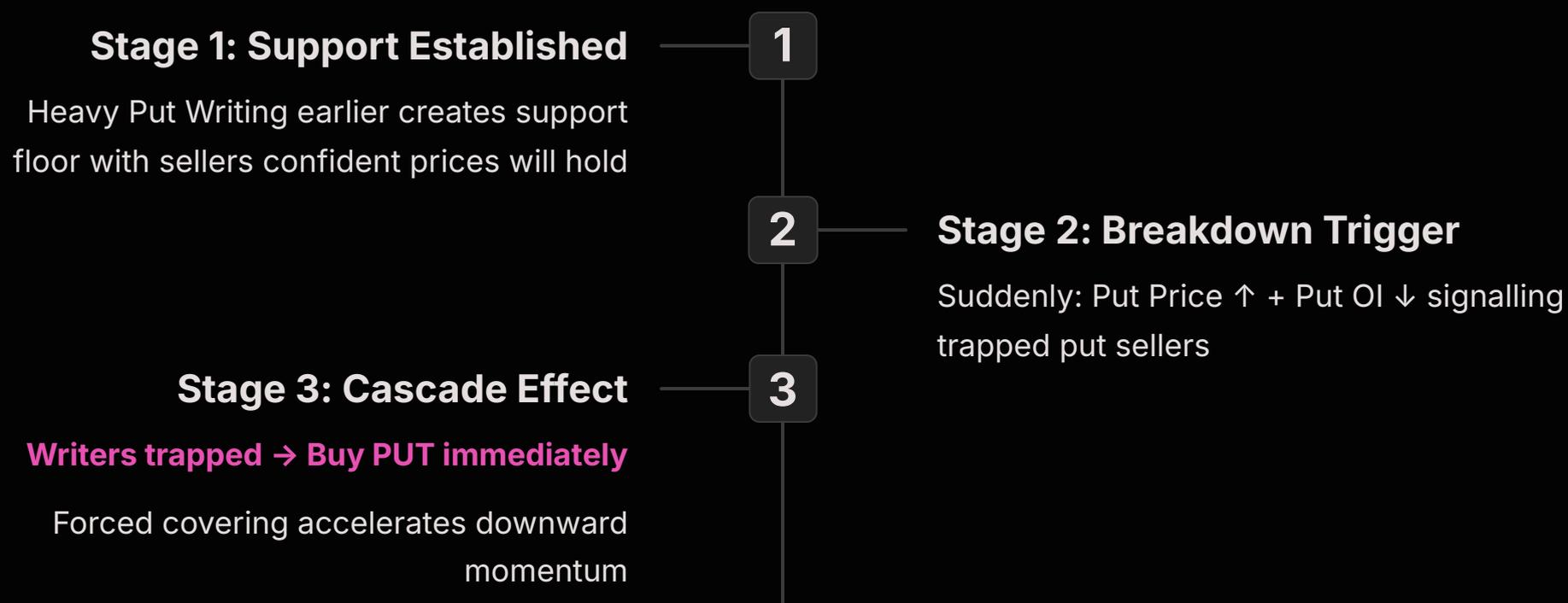


Bullish breakouts represent some of the most explosive and profitable trading opportunities in options markets. The setup begins when heavy call writing establishes resistance at specific strikes, creating a ceiling that appears difficult to penetrate. Traders who sold these calls believe the market will not reach or exceed these levels, and their collective positions create genuine selling pressure as prices approach.

The magic moment occurs when prices suddenly surge through this resistance with accompanying signals of call short covering—call prices spike whilst OI simultaneously drops. This combination reveals that the call writers who established resistance are now trapped in losing positions and are frantically buying back their calls to limit losses. Their forced covering adds fuel to the rally, as they must purchase options at rising prices, creating a feedback loop that propels prices sharply higher.

The key to capitalising on bullish breakouts is rapid recognition and decisive action. When you identify the transition from heavy call writing to call short covering, time becomes critical. Enter call positions immediately, as these moves often develop quickly and waiting for confirmation may mean missing the most explosive phase. The combination of trapped sellers covering, momentum traders jumping aboard, and the psychological effect of breaking through known resistance creates powerful upward momentum that can carry well beyond the initial breakout level. However, maintain discipline with position sizing and stops, as false breakouts do occur, and the volatility in these scenarios cuts both ways.

Bearish Breakdown



Bearish breakdowns mirror the dynamics of bullish breakouts but create downward cascades. The pattern begins when substantial put writing establishes support at specific strikes, creating a floor under prices. Put sellers are effectively stating their willingness to buy the underlying asset at these levels, and their positions create genuine buying interest that supports prices as the market approaches from above.

The critical transition occurs when prices break below this support with clear signs of put short covering—put prices surge whilst OI drops simultaneously. This reveals that put sellers who provided support are now trapped in losing positions and are buying back their puts to limit further damage. Their forced covering removes the buying support that previously existed and can actually add to selling pressure through their hedging activities, creating a self-reinforcing downward spiral.

Bearish breakdowns often prove more violent than bullish breakouts due to the asymmetric nature of fear versus greed and the tendency for volatility to spike during declining markets. When you identify heavy put writing transitioning to put short covering, **act decisively to establish bearish positions**. Purchase puts immediately, as the combination of trapped sellers covering, momentum players joining the move, and panic spreading can create sharp, extended declines. These scenarios frequently mark the beginning of significant corrections or the acceleration phase of existing downtrends. The forced nature of the covering ensures that the move will have legs, at least until the covering exhausts itself. As with bullish breakouts, maintain proper risk management, but don't let caution prevent you from acting when these high-probability setups emerge.