

FX Touch Option

A touch option is the sort of option that promises a payout once the price of an underlying asset reaches or passes a predetermined level. Touch options allow investors to choose the target price, time to expiration, and the premium to be received when the target price is reached.

A touch option is a transaction with one or two barriers. The buyer of the option will get a cash amount either if the barrier is touch or not touched. Touch options are becoming increasingly popular because they pay much higher yields compared to high/low options.

There are only two possible outcomes. If the barrier is broken a trader will receive the agreed full payout. If the barrier isn't broken, the trader will lose the premium paid to the broker. Unlike vanilla calls and puts, touch options allow investors to profit from a simplified yes-or-no market forecast. Like regular call and put options, most touch option trades can be closed before expiration for a profit or a loss depending on how close the underlying market or asset is to the target price.

This type of option is popular with traders who believe the price of an underlying asset will pass a certain level in the future, and for those who aren't sure whether the higher price level is a sustainable one. Speculative market participants like to use touch options as bets on a rising or falling exchange rate.

Clients, who prefer to hedge, trade touch options as a rebate in order to secure themselves compensation in case their strategy doesn't work out. Touch options are also often integrated into structured products to increase returns on forward and interest rates. They become especially useful during times of market volatility when prices might be uncertain.

An investor who chooses no touch option type is trading on the assumption that the price of their selected asset will fail to reach a specific level before the end of the expiry period. The investor may trade touch options, if he believes that the price of their selected asset will reach a specific level before the end of the expiry period.

Reference:

<https://finpricing.com/lib/EqBarrier.html>