The Mechanism of Callable Bull/Bear Contracts

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Abstract

This paper studies the mechanism of Callable Bull/Bear Contracts (CBBCs). We show that the newly issued CBBCs are almost equivalent to leveraged positions on their underlying assets in a low interest rate environment. Their deltas are almost equal to 1 for bull contracts (−1 for bear contracts), while their vegas are almost equal to zero. The property that their prices are insensitive to the change of volatility explains why the products became very popular in Hong Kong after financial tsunami.

Keywords: Callable Bull/Bear Contract (CBBC); Turbo warrant; R CBBC; N CBBC

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