Understanding the fundamentals of Commodity Futures Trading

If we carefully look at the present business scenario then we could easily see that in recent time futures trading are gaining its world-wide popularity. In fact it is the most common trading found on many markets these days. As per the latest definitions- it is more like a trading of contracts called futures contracts, which facilitates the owner with power to trade the basic commodity at somewhere in the future for a fixed rate. Moreover, like stocks and options trading, futures trades are done in precise centralized futures commodity trading markets. However, depending upon the type of futures contracts, it can be broadly classified as commodity futures contracts and financial futures contracts.

In commodity futures contracts, trading of contracts end with a physical delivery. They may include agricultural commodity futures like sugar, oats, wheat, rice etc OR energy commodity futures such as crude oil, natural gas, etc; metals & stones like gold, silver, diamond etc. This means that if a trader is holding a futures contract and the time come when it expires, the appropriate payment will be made by the buyer, and the basic commodity (agricultural or energy) will be delivered by the seller. Whereas in financial futures contracts, trading of contracts end with a cash settlement and it include futures for treasury notes, bonds, mutual funds etc.

The futures contract trading can be executed electronically on electronic trading platforms linked to the major commodity exchanges or by the traditional open outcry method on the floor of the exchange. However, the basic form of futures contract is that it must state a location and date for physical delivery of the particular commodity. There are times when delivery arrangements are also specified by the exchange. This is particularly important for commodities that require high transportation costs, which in turn may affect the delivery place.

All those who are involved in commodity future trading must understand that for most commodity futures contracts, daily price movement limits are specified by the exchange. A limit movement is nothing but a move of price that can shift in either direction equal to the daily price limit. If the price moves down by an amount equal to the daily price limit, the contract is said to be limit down. And if the price moves up by the limit then it is said to be limit up. Price limits and positions limits generally aim to avoid large price movements deriving from excessive speculation. However, at times they act as an artificial barrier to trading when the price of the underlying commodity increases or decreases swiftly.

Overall, trading with commodity futures is definitely a good way to make handsome money but there are some essential factors that one has to take care. It is highly volatile in nature and more likely to remain unpredictable mainly because of several factors like geopolitical concerns, contracted demand-supply fundamentals, growth and inflation pressures that put pressure on the global commodity market. It is a most interesting market environment but also a dangerous one as many wars have been fought and many nations & leading companies compete for scarce natural resources and food supplies.

About the Author

STIFX, forex trading broker provides forex trading along with commodities trading, gold silver oil trading, foreign exchange trading, equities trading, money transfer & exchange, CFD trading and stock trading with same forex trading platform. Open live account with us and get free forex analysis, education and more tips for trading.

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