COMMODITY TRADING TERMS

Basis: The difference between the cash price and the futures price of the same commodity for a given contract month.

Bear/bull market: A bear market is a period of declining market prices; a bull market is a period of rising prices.

Call option: An option that gives the buyer the right, but not the obligation, to purchase ("go long") the underlying futures contract at the strike price on or before the expiration date of the option.

Daily limit: Maximum daily price change for a contract as set by the exchange.

Forward (cash) contract: A cash contract in which a seller agrees to deliver a specific commodity to a buyer at a specific time in the future.

Futures contract: A legally binding agreement to buy or sell a commodity in the future. The only variable is price, determined on the exchange trading floor.

Hedger: An individual or company owning a commodity and concerned that the costs of the commodity may change before it can be sold in the cash market. A hedger purchases futures contracts of the same commodity and later offsets that position by selling contracts of the same quantity.

Put option: An option that gives the buyer the right, but not the obligation, to sell ("go short") the underlying futures contract at the strike price on or before the expiration date of the option.

Short position: Describes one who has sold futures contracts or plans to sell a cash commodity. Selling futures contracts or initiating a cash forward contract sale without offsetting a particular market position.

Speculator: Someone who tries to profit from buying and selling futures and option contracts by anticipating future price movements. Speculators assume price risk and add liquidity and capital to the futures markets.

SOURCE: CHICAGO BOARD OF TRADE