Certificate in Physical Commodity Markets

Supply and Demand Fundamentals

Arbitrage: The simultaneous purchase and sale of a commodity in different markets to take advantage of price discrepancies.

Backwardation: A market situation where the futures price of a commodity is lower than the spot price. This can lead to increased demand for the commodity in the physical market and encourage storage of the commodity for future sale.

Basis: The difference between the cash price and the futures price of a commodity. A positive basis indicates that the futures price is higher than the cash price, while a negative basis indicates that the futures price is lower.

Commodity Futures: A standardized contract traded on a regulated exchange that obligates the buyer to purchase, and the seller to sell, a specific quantity and quality of a commodity at a predetermined price and date in the future.

Contango: A market situation where the futures price of a commodity is higher than the spot price. This can lead to decreased demand for the commodity in the physical market and encourage production of the commodity for future sale.

Crack Spread: The difference between the price of crude oil and the price of refined products such as gasoline and heating oil. A crack spread can be used as a hedge by refiners to manage the risk associated with the price difference between crude oil and refined products.

Delivery: The physical transfer of a commodity from the seller to the buyer as required by the terms of a futures contract.

Demand: The quantity of a commodity that consumers are willing and able to purchase at various prices during a specific time period.

Eligible Commodities: Commodities that are approved for delivery against a futures contract.

Exchange: A regulated marketplace where standardized contracts, including futures and options, are traded.

Futures Price: The predetermined price at which a commodity will be bought or sold in the future, as specified in a futures contract.

Hedging: The use of futures contracts to manage price risk. Producers and consumers of commodities can use futures to lock in prices and protect against price fluctuations.

Inventory: The total supply of a commodity that is held by producers, merchants, and consumers.

Market Imbalance: A situation where the demand for a commodity exceeds the available supply, or where the supply of a commodity exceeds the demand.

Option: A contract that gives the buyer the right, but not the obligation, to buy or sell a commodity at a predetermined price and date in the future.

Physical Commodity: A tangible good that is used or traded, such as grains, metals, or energy products.

Price Discovery: The process of determining the market price of a commodity through the interaction of buyers and sellers in a competitive market.

Production: The process of creating or extracting a commodity from natural resources.

Quality: The specific characteristics of a commodity, such as purity, size, or grade, that affect its value.

Regulated Market: A marketplace where trading is overseen by a government agency or other regulatory body to ensure fair and transparent practices.

Risk Management: The process of identifying, evaluating, and controlling potential risks in a business or financial context.

Spot Price: The current market price at which a commodity can be bought or sold for immediate delivery.

Speculation: The act of buying or selling a commodity with the hope of making a profit from price fluctuations, rather than for the purpose of using or delivering the commodity.

Spread: The difference between the price of two related commodities or futures contracts.

Supply: The quantity of a commodity that producers are willing and able to sell at various prices during a specific time period.

Volatility: The degree of fluctuation in the price of a commodity over time.

Warehouse Receipt: A document issued by a warehouse to the owner of a commodity that is stored in the warehouse. A warehouse receipt can be used as proof of ownership and can be traded as a commodity.