

Commodity Futures and Options Terminology

This guide provides basic definitions of commodity futures and options terminology.

Although the terminology of trading agricultural commodities goes far beyond the scope of this guide, this information can be used to build a knowledge base from which a broader understanding of the futures and options market can be developed.

arbitrage The simultaneous purchase and sale of a commodity in different markets to profit from unequal prices for the same asset. This can occur across geographical locations (Kansas City vs. Minnesota), time periods ([futures price](#) vs. [spot price](#)) or forms of the commodity (raw vs. processed).

at-the-money Primarily used in the [option](#) markets, refers to when an option's [strike price](#) is equal to or very close to the current [market price](#) of the underlying commodity. See also [in-the-money](#), [out-of-the-money](#) and [near-the-money](#).

backwardation A market condition in which the [futures price](#) is lower than the [spot price](#), often due to high current demand or low supply. Referred to as an inverted market in grain and oilseed markets.

basis The difference between the current [cash price](#) and the [futures price](#) of the same commodity for a given contract month. Basis equals cash price minus futures price and reflects local supply and demand conditions, transportation costs, storage availability and other regional factors.

bear market A prolonged period of declining prices, typically driven by oversupply, weakening demand, economic downturns or negative market sentiment.

bull market A sustained period of increasing prices, typically driven by strong demand, limited supply, inflationary pressures or positive market sentiment.

broker A licensed professional or firm that executes buy and sell orders for commodity contracts on behalf of clients, often earning a commission or fee for the service.

brokerage fee See [commission fee](#).

calendar spreads A strategy involving the simultaneous purchase and sale of [futures contracts](#) on the same commodity but with different delivery months. Used if the historical relationship seems wide or narrow.

call option A [derivative](#) contract that gives the holder the right, but not the obligation, to buy a commodity at a set price within a certain time, benefiting the buyer if the [market price](#) rises above the [strike price](#).

carry See [contango](#).

carrying charge The total cost of storing a commodity until a future date, including storage fees, insurance, interest on capital and sometimes transportation. Also called the cost of carry.

carryover The amount of a commodity that is left over at the end of the marketing year and carried into the next one. It is a key measure of supply availability and helps determine price trends.

cash contract See [forward contract](#).

cash market A marketplace where commodities are traded for immediate delivery, and payment is made at the current [market price](#) — known as the [spot price](#). Examples include grain elevators, livestock feeders and ethanol plants. Also called a spot market.

cash price The current price at which a physical commodity can be bought or sold for immediate delivery and payment. Also called the spot price.

CME Group A global [derivative](#) marketplace that operates some of the world's largest futures and options [exchanges](#), providing markets for trading interest rates, equity indexes, energy, agricultural commodities and metals.

commission fee A service charge paid to a broker for executing buy or sell orders in commodity markets. It is typically calculated as a flat fee per contract or a percentage of the trade value. Also called a brokerage fee.

commodity exchange An [exchange](#) that lists designated [futures contracts](#) for the trading of various types of [derivative](#) products and allows use of its facilities by traders. Most comply with rules set forth by the [Commodity Futures Trading Commission \(CFTC\)](#).

Commodity Futures Trading Commission (CFTC)

An independent federal agency created by Congress in 1974 to oversee and regulate U.S. [derivative](#) markets to ensure they are competitive; transparent; and free from fraud, manipulation and abusive practices.

commodity pool operator (CPO) An individual or firm that masses funds from a number of participants, to be aggregated and invested in commodity futures and options trades.

commodity trading advisor (CTA) An individual or firm that handles futures trades on behalf of clients but may also charge clients directly for giving advice.

contango A market condition in which [futures prices](#) are higher than the [spot price](#), typically reflecting storage costs and expectations of rising prices. Known as [carry](#) in grain and oilseed markets.

contract size The standardized quantity of the commodity represented by one [futures contract](#). Example: 5,000 bushels of corn.

convergence The process by which the [futures price](#) and the [cash price](#), or spot price, of a commodity come together as the [futures contract](#) approaches expiration.

cost of carry See [carrying charge](#).

cross-hedging The practice of using a [futures contract](#) for a related but not identical commodity to [hedge](#) the price risk of the commodity held. Example: A farmer wants to hedge grain sorghum, but there is no futures market for grain sorghum, so the farmer could trade a corn futures contract, because corn and grain sorghum prices are positively correlated.

daily trading limit The maximum price range, either up or down, that a commodity [futures contract](#) is allowed to move during a single trading session. Once the limit is reached, trading may be restricted or halted for that contract. These limits are set by the [commodity exchange](#) to help prevent excessive [volatility](#) and maintain orderly markets. Also called the price limit.

day traders Individuals or firms who open and close positions in [futures contracts](#) or [option contracts](#) within the same trading session, avoiding overnight exposure to manage risk.

delivery The process by which the seller of a [futures contract](#) provides the physical commodity to the buyer, in accordance with the terms of the contract, upon expiration.

delivery month See [near-month](#).

delta The ratio that shows how much the price of a commodity [option](#) is expected to change for every \$1 change in the price of the underlying commodity [futures contract](#). Equal to the change in premium divided by the change in [futures price](#). Example: A [call option](#) with a [delta](#) of 0.6 means the price of the

call option would increase by \$0.60 when the [futures price](#) increases by \$1.

derivative A financial contract whose value is based on, or “derived” from, the price of an underlying asset such as a commodity, interest rate, currency or index.

exchange An organized marketplace where raw materials or primary products — such as agricultural goods, metals and energy — are bought and sold, often through standardized contracts such as futures and options. Examples include the Chicago Board of Trade (CBOT), the MIAX Futures Exchange and the Intercontinental Exchange (ICE).

exercise The act of using the right granted by an [option contract](#) to buy ([call option](#)) or sell ([put option](#)) the underlying commodity [futures contract](#) at the agreed-upon [strike price](#).

exercise price See [strike price](#).

expiration date The last day on which a [futures contract](#) or [option contract](#) is valid. After this date, the contract must be settled or [exercised](#).

first notice day The first day on which a holder of a long futures position may be notified that they will be required to take delivery of the physical commodity. It signals the start of the delivery period for a [futures contract](#).

forward contract A customized over-the-counter (OTC) agreement in which a commodity producer agrees to deliver a specific quantity of a commodity to a buyer at a set price and date in the future. Also called a cash contract.

fundamental analysis A method used to anticipate future prices using supply and demand information such as production levels, weather conditions, global demand, inventories, government policies and macroeconomic trends.

futures commission merchants (FCMs) A firm set up to handle futures orders from customers and process those orders on the various futures [exchanges](#).

futures contract A legally binding agreement between two parties to buy or sell a commodity — such as corn, soybean oil or live cattle — at a set price on a specified date. These contracts are standardized and traded on [commodity exchanges](#). Futures are used for hedging against price risk or speculating on price movements.

futures price The agreed-upon price today for buying or selling a commodity or financial asset at a specified future date.

gamma A measure of how much the [delta](#) of an option changes with a \$1 change in the price of the [underlying futures contract](#). It helps assess the stability of delta.

globex An electronic trading platform operated by the [CME Group](#). It allows for the 24-hour electronic trading of futures and options on futures across a wide range of asset classes.

hedge The practice of taking an offsetting position in a related futures or options market to reduce the risk of adverse price movements in an asset. It is commonly used by producers, consumers and investors to stabilize revenues or costs.

hedger A market participant who uses [futures contracts](#) or [option contracts](#) to reduce or eliminate the risk of price fluctuations in the underlying physical commodity they produce, consume, or hold in inventory.

implied volatility The market forecast of the likely movement in the price of a commodity over the life of an [option](#), and a key concept in pricing of options on [futures contracts](#). It reflects trader sentiment and market uncertainty. Higher implied volatility means the market expects larger price swings.

in-the-money An [option contract](#) that currently has intrinsic value, meaning it would be profitable to [exercise](#) based on the current [market price](#) of the underlying commodity. A [call option](#) is in-the-money if its [strike price](#) is below the current price of the [underlying futures contract](#). A [put option](#) is in-the-money if its strike price is above the current price of the underlying futures contract. See also [at-the-money](#), [near-the-money](#) and [out-of-the-money](#).

initial margin The minimum amount of capital that a trader must deposit with a broker to open a position in a [futures contract](#). It acts as a performance bond to ensure that both parties can meet their obligations under the contract. The amount is set by the [exchange](#) and can vary based on market [volatility](#) and contract type.

intrinsic value The difference between the [market price](#) of the underlying commodity and the [strike price](#) of the [option](#), but only when the option is [in-the-money](#).

inverse market Occurs when the [spot price](#) or [near-month futures price](#) is higher than the price for delivery in later months. This typically reflects strong current demand or tight supply. Referred to [backwardation](#) in energy markets.

inverted market See [backwardation](#).

liquidate The act of exiting a position in a commodity futures or options market. This can be done by selling a [long position](#) or buying back a [short position](#).

long hedge See [purchasing hedge](#).

long position When a trader or investor buys a commodity futures or [option contract](#), giving them the right — or obligation, in the case of futures — to take delivery of the commodity at a future date.

maintenance margin The threshold below which a trader's account balance cannot fall. If the account drops below this level due to market losses, the trader will receive a [margin call](#) and must deposit additional funds to bring the account back to the [initial margin](#) level.

margin call A demand by a broker for an investor to deposit additional funds when the account falls below the [maintenance margin](#) due to losses.

market carry A market situation in which prices are higher in the succeeding delivery month than in the nearest delivery month. Referred to as [contango](#) markets in energy commodity markets.

market price The current price at which a commodity can be bought or sold. Determined by supply and demand.

mark-to-market The daily adjustment of margin accounts to reflect gains and losses based on the closing prices of [futures contracts](#).

National Futures Association (NFA) A nonprofit, independent regulatory organization authorized by the [Commodity Futures Trading Commission \(CFTC\)](#). It is responsible for registering firms or individuals involved in futures trading, monitoring compliance with industry rules and regulations, enforcing ethical standards, and conducting audits and investigations.

near-month The [futures contract](#) that is closest to expiration and is often used as a benchmark for current [market prices](#) and trends.

near-the-money An [option](#) where the [strike price](#) is near the current [market price](#) of the commodity. These options are actively traded because they offer a balance between costs and potential payoff. See also [at-the-money](#), [in-the-money](#) and [out-of-the-money](#).

offset A position means to cancel it by executing a trade that is the reverse of the original one. This is the most common way traders exit positions without taking or making physical delivery of the commodity. If a trader bought a [futures contract](#), or [long position](#), that trader could sell the same contract to offset, thus, in essence, neutralizing any potential gains or losses.

open interest The number of active contracts, either futures or options, that are open and have not been offset by a closing trade. It increases when new contracts are created (a buyer and seller enter a new position) and decreases when positions are closed ([offset](#) or [exercised](#)). High open interest indicates strong liquidity and active trading.

open position A buy or sell position (*long position* or *short position*, respectively) in a *futures contract* or *option contract* that is still active. The position remains open until a trader either *offsets*, settles or lets the position expire.

option A type of *derivative* that allows traders to *hedge* risk or *speculate* on price movements in commodities such as corn, wheat and feeder cattle. It gives the holder the right, but not the obligation, to buy or sell a *futures contract* at a certain price for a specified time.

option contract A financial agreement that gives the buyer the right, but not the obligation, to buy or sell an underlying asset at a set price within a specified time.

option premium The price paid by the buyer of an *option* to the seller for the rights conveyed by the *option contract*.

out-of-the-money An *option contract* that has no *intrinsic value*, meaning it would not be profitable to *exercise* based on the current *market price* of the underlying commodity. An *option* is out-of-the-money when a *call option's strike price* is above the current market price of the commodity, or a *put option's* strike price is below the current market price of the commodity. See also *at-the-money*, *in-the-money* and *near-the-money*.

overbought A condition in which the price of a commodity has risen too quickly or too far and is considered higher than its intrinsic or fair value.

oversold A technical opinion of a market that has fallen too low in relation to underlying fundamental factors.

position limit The maximum number of contracts a trader or entity can hold in a particular commodity to prevent manipulation.

price limit See *daily trading limit*.

purchasing hedge Involves buying *futures contracts* to lock in current prices for a commodity that will be purchased later. It helps ensure that the buyer won't have to pay more if the *market prices* increase before the actual purchase. Also called long hedge.

put option A type of contract that gives the buyer the right, but not the obligation, to sell a *futures contract* at a specified *strike price* on or before a certain *expiration date*.

retracement A partial pullback in price after a significant move up or down. It does not signal a full trend reversal, but rather a brief correction or consolidation. Traders often use retracements to identify potential entry points or support or resistance levels.

rolling a contract The process of closing out a *near-month* futures position and opening a new position in a later-month contract to maintain a *hedge* or speculative position (see *speculate*).

selling hedge Selling a *futures contract* to lock in the price of a commodity that will be sold in the future. This strategy helps ensure that the seller can secure a known price even if *market prices* decline before the actual sale. Also called short hedge.

settlement price The official price established by the *exchange* at the end of the trading day. It is used to calculate margin requirement and *market price* adjustments.

short hedge See *selling hedge*.

short position When a trader or *hedger* sells a commodity *futures contract* or *option contract* they do not currently own, anticipating a decline in price.

slippage The difference between the expected price of a trade and the actual executed price, often due to market *volatility* or low liquidity.

speculate To take a financial position based on expectations about future price movements, aiming to profit from those changes rather than from the underlying asset's use or value.

speculator A market participant who takes on risk hoping to make a financial gain from changes in commodity prices. Unlike *hedgers*, speculators do not produce or consume the underlying commodity but are focused on price speculation.

spot market See *cash market*.

spot price The current *market price* for buying or selling a commodity or asset for immediate delivery. Also called the cash price.

spread The difference in price between two *futures contracts* or *option contracts*. These contracts can differ by delivery month, commodity type, or *exchange*.

strike price The fixed price specified in an *option contract* at which the holder can buy (*call option*) or sell (*put option*) the *underlying futures contract*. It determines whether the *option* is *in-the-money*, *at-the-money* or *out-of-the-money*, depending on the current *market price* of the commodity. Also called the exercise price.

technical analysis The study of historical price movements and trading *volumes* to forecast future price behavior. It relies on charts and various statistical indicators rather than fundamental factors such as supply and demand, weather, or geopolitical events.

theta The rate at which an *option's time value* declines as it approaches expiration. Also called time decay.

time decay See *theta*.

time value The portion of an [option](#)'s premium that exceeds its [intrinsic value](#). It represents the value of the possibility that the option will become profitable before its expiration due to favorable price movements in the underlying commodity.

underlying futures contract The specific [futures contract](#) that can be bought or sold by exercising an [option](#) (see [exercise](#)).

vega Measures the sensitivity of an [option](#)'s price to changes in the [volatility](#) of the underlying commodity.

volatility The degree of variation in the price of a commodity over time. It is often expressed as a percentage and computed as the annualized standard deviation of percent change in daily price.

volume The number of [futures contracts](#) or [option contracts](#) traded in a commodity market over a given period, such as a day, week or month. It reflects the level of participation and can signal the strength or weakness of a price trend.

This glossary was adapted from the Commodity Trading Manual, published by the Chicago Board of Trade, Chicago, Ill., 1997; and [Glossary](#) (cmegroup.com/education/glossary), CME Institute, CME Group.

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