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Certificate in Physical Commodity Markets

## Supply and Demand Fundamentals

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**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.

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- 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.