Commodity Trading

A commodity is a physical good or raw material that run our daily lives. They are the hidden elements that provide us with myriad of applications from powering our electronics, homes to giving us food.

Manufacturers produce these commodities and industries consume them for producing finished goods. Commodities are usually traded in bulk quantities. They are tangible assets and their prices are market driven.
Hence, commodity trading is a volatile market requiring robust risk management.

There are four general categories of commodities:

1. Energy
Crude Oil, Natural Gas

2. Metals
Nickel, Copper, Gold, Silver, etc

3. Agriculture
Wheat, Corn, Cotton, Rice, etc

4. Livestock and Meat
Cattle, Egg, etc

Commodities are traded through various mediums. The most common is: Commodity Exchanges.
One can invest in commodities through futures, stocks and specific types of funds. Futures are derivative financial contracts obligating the buyer to purchase an asset or the seller to sell an asset at a predetermined future date and set price. This allows an investor to speculate on the direction of the commodity's price.

Contango or Backwardation are crucial factors influencing the price of commodities.

Contango is a situation where the futures price of a commodity is higher than the spot price. This refers to a bullish market. Backwardation is when the current price of an underlying asset is higher than prices trading in the futures market. This refers to a bearish market.

For any commodity, there are various aspects that determine its price. These factors include political, economic, supply-demand, geographic and commodity market trends.

Commodity traders smoothen this process for producers and consumers of the commodity. They bridge the gap between producer of a commodity and consumer of that particular commodity, employ sophisticated risk management practices and ensure a seamless trade cycle covering all the relevant parameters.