WealthCE

Contract Structure

Futures contracts inform you of all of their expectations. These expectations have been standardized by the futures market to decrease trading difficulty and increase liquidity. Forwards contracts which are not standardized can be customized from OTC dealers, usually corporations and companies trying to hedge in either long or short positions. Note that this list is in alphabetical order. This list does not include all the potential aspects of a futures contract, only the major focus points.

Commodity Quality

Contracts will state the required quality level of goods delivered. Only commodities which trade in grades will have this requirement. Some quality levels may not be substituted unless explicitly stated in the contract. If a substitution is made for a lower grade good, a reduction from the delivery price will be paid. Commodities without quality grades and financial futures don't suffer from this issue.

Commodity Quantity

The delivery amount specifies the quantity of underlying assets that must be delivered. There are multiple ways this may be stated. Contracts usually state the quantity amount in units. For certain commodities they may alternatively state the amount in weight.

Delivery Date

The delivery date is the day parties are obligated to deliver their side of the deal. The contract specifies the date, month, and year of delivery. The long position must deliver the currency payment on the delivery date. The short party must deliver the commodities themselves.

Expiration

Futures contracts will cease to trade after the Expiry date. The final price of the contract is also set on this day. The expiration date after the current expiry becomes the nearest date. Traders will begin to trade with the new date in mind. If you're long on the contract you may have a few options after this occurs. You can take the profit or loss in cash, take direct delivery of the commodities, or roll the contract over by purchasing another contract expiring at the new expiration date.

Position Limits

Limitations to future positions typically occur in one of two ways, and a position limit is one of them. An exchange can limit the amount of contracts held in a position within a single day. If you're a buyer, you won't be able to hold futures contracts above this number. This number exists to prevent speculators from buying or selling so many contracts that they can monopolize or control the market.

Price Limits

The second of the two limitations is price limits. Price limitations create a maximum and minimum movement to daily price values. If trading prices hit the upper or lower limit, the contract's price movement is halted. This stops the market from crashing or rising too far, forcibly calming the market. The next day, or after a period of days, trading on the contract will resume. As futures approach their expiration date, price limits may be lifted. Speculators may simply stop trading the contract after price limits occur, waiting for prices to rise or fall to the natural level.

Settlement Requirements

Settlement requirements specify how, when, and where underlying commodities must be delivered to fulfill a contract's requirements. If a cash settlement can be delivered to satisfy contract requirements, the amount will be stated here. If alternative commodity quality grades can be substituted to satisfy requirements, those amounts will be stated here.