

COMMODITY

Chapter 1:

Please go through the basics of Derivatives provided in the Derivative Research Section which includes:

Introduction to Derivatives:

- What is Derivatives?
- Meaning of Forwards, Futures, Options and Swaps
- Difference between Spot and Futures Markets
- Difference between Futures and Forward contracts
- Products, participants and functions
- Methods of arriving at futures price

Chapter 2:

Once the basic of Derivatives is clear one must then move towards understanding the basics of Commodity Market provided in the commodity research section which includes the following:

Introduction to Commodity Market:

- Commodity Markets in India
- Meaning and Objective of Commodity Futures
- Types of Commodity Markets
- Investment and Consumption Commodities
- Meaning of Basis and Spreads

Chapter 3:

Understand the various Commodity Exchanges functioning all over the country and the area they specialize in, provided in the research matter

World's major Commodity Exchanges:

- New York Mercantile Exchange
- London Metal Exchange
- Chicago Board of Trade
- Tokyo Commodity Exchange
- Chicago Mercantile Exchange

Chapter 4:

Understand the various trading aspects of commodity futures provided in the research matter.

Trading in MCX & NCDEX Commodity Futures:

- Trading Days
- Trading Hours

Note: any trades passed after the market shuts, those trades will be treated as pending transaction and will be executed on the next trading day at the price at which the market opens.

Chapter 5:

Understand the various concepts of Commodity Futures Trading. This information is available in the commodity research section and in the commodity quotes section and also be viewed in the detailed watch list.

Trading System:

- Base Price
- Closing Price
- Life of a Futures Contract
- Expiry Date

Chapter 6:

(a) Understand the specification of the Commodity futures. This information is available in the Commodity research and commodity quote section.

Specifications of Commodity Futures:

- Tick Size
- Lot Size

Note: On the commodity trading page take special notice of the lot size and tick size. You will notice that only multiples of lot size can be traded.

(b) Understand the types of margin the participant must deposit into his margin account at the time he places an order to buy or sell a futures contract. This Information is provided in the Commodity quotes section.

Types of Margin Requirements

- Initial Margin
- Special Margin

Chapter 7:

Understand the types of orders that can be passed. To understand the concept of the various orders please have a look at the Glossary.

Types of Orders:

- Market Order
- Limit Order
- Stop Loss Orders
- Modification and Cancellation of Orders

Note: Multiples of tick size prices can be input if limit or stop-loss order. The trades showing as pending transactions can be modified or cancelled.

Chapter 8:

Understand who are the various participants in the Commodity Derivatives, provided in the Commodity research matter.

Participants in Commodity Derivatives:

- Hedgers
- Speculators
- Arbitraders

Chapter 9:

Once the commodity trading specifications are clear, before trading one must try to track a commodity (Probably in agro, bullion, metals or energy). One must look out for the following aspects provided in the research and quote section:

- See the amount of price movement that takes place in that commodity on a daily basis (volatility)
- Notice the tick size of the commodity
- See amount of margin that gets locked in while trading a commodity.
- Notice the day's open, high, low and close price on a daily basis.
- Understand the lot size for a particular commodity.

Chapter 10:

After tracking one commodity later try to track another commodity (probably from another sector) and compare the two commodities in terms of it's:

- Volatility
- Lot size
- Tick size
- Margin
- Volume

Chapter 11:

Understand how the producers, consumers, speculators, etc. use various strategies to neutralize their risk or make fast money by anticipating futures price movement. This information will be provided in the Commodity research matter.

Advanced Concepts in Commodity Futures:

- **Hedging**
 - What is Hedging?
 - Buying Hedge Strategy
 - Selling Hedge Strategy
- **Speculation**
 - What is Speculation?
 - Long Position in Futures
 - Short Position in Futures
 - Meaning of Spread Trading
 - Buying a Spread
 - Selling a Spread
 - The role of speculation in Futures Markets

- **Arbitrage**
 - What is Arbitrage?

Chapter 12:

After understanding how the commodity moves one can then start trading on the simulator by passing market, limit or stop loss orders. On portfolio notice that margin has gone up and that in gain/loss you can see the movement of price. Notice the marked to market the next morning or at the end of the day. Notice how investment in that commodity affects your portfolio for a week. If you want you can invest in more than one commodity.

Surveillance

- Mark to Market Loss Monitoring
- Maximum Allowable Open Position
- Circular Trading, concentration, price rigging, price manipulation and other market abuses
- Daily settlement price
- Final settlement price

