UNIVERSITY OF MARYLAND

What are Futures Markets?

In a nutshell, futures markets are nothing more than auction markets for forward contracts, futures markets they are called futures contracts. We are all familiar with forward contracts agreement between a buyer and a seller to exchange a product at a later date and at a prede price. In most cases, the "seller" of the forward contract is the farmers while the "buyer" is elevator or merchandiser.

A futures contract is similar except that the size and delivery date of a futures contract is st that no one can change the contract specifications. In fact, the only thing that is negotiated The terms of the futures contract dictate what commodity will be exchanged (e.g., corn), th the commodity that will be exchanged (e.g., 5,000 bushels) and the date when the exchange often called the contract month (e.g., May).

The Futures Exchange

Futures exchanges are government licensed markets for the trading of futures contracts. Th numerous futures exchanges not only in the U.S. but also around the world. For agriculture primary futures exchanges are the:

- Chicago Board of Trade (CBT) where grain and oilseed futures contracts are traded;

- Chicago Mercantile Exchange (CME) which trades livestock and dairy products;

- Mid-American Exchange of Chicago trades smaller sized contracts of agricultural produc

The exchanges provide space (called pits) where traders meet during a specified time perio futures contracts. At the CBT, grain and oilseed contracts trade from 9:30 a.m. (Central St to 1:20 p.m.. Individuals who trade contracts in the pits are exchange members and may tra accounts or take orders from brokers or businesses outside of the exchange.

Who Trades Futures Contracts?

People who trade futures contracts are either speculators or hedgers. Hedgers, who are als as commercial users, protect their financial position in the cash market by using futures con protect against adverse price moves. A grain elevator who signs a forward contract with a l will utilize futures contracts to remove the risk of price changes. Farmers and other busines risk of loss from adverse price moves can also use futures.

The other group of traders is speculators. Speculators do not have a business connection to agricultural commodity, but are simply trying to predict price direction and profit from such Some suspect that speculators control the futures market by either making prices too high However, because there are so many individuals trading in futures markets—both hedgers speculators—it is impossible for any one person or group of individuals to control the price may not always like the prices offered on futures contracts, they are still the best indication fair-value for the commodity in the future. Granted, futures prices may and do often change but this is a consequence of new supply or demand information, which changes the fundam

Being a good marketer will allow you to profit from such changes through a forward pricin arrangement.

Next Topic

Intro to Futures Hedging with Futures Using Opt
Fundamental Analysis Technical Analysis Glossar

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