Walk the Walk
Trade the Trade
and
Talk the Talk

a complete glossary
of
Futures Industry Terminology

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Abandon: The act of an option holder in electing not to exercise or offset an option.

Accommodation Trading: Non-competitive trading entered into by a trader, usually to assist another with illegal trades.

Actuals: The physical or cash commodity, as distinguished from a commodity futures contract. Also see Cash and Spot Commodity.

Aggregation: The principle under which all futures positions owned or controlled by one trader (or group of traders acting in concert) are combined to determine reporting status and compliance with speculative limits.

Allowances: The discounts (premiums) allowed for grades or locations of a commodity lower (higher) than the par (or basis) grade or location specified in the futures contract. See Differentials.

Approved Delivery Facility: Any bank, stockyard, mill, storehouse, plant, elevator or other depository that is authorized by an exchange for the delivery of commodities tendered on futures contracts.

Arbitrage: Simultaneous purchase of cash commodities or futures in one market against the sale of cash commodities or futures in the same or a different market to profit from a discrepancy in prices. Also includes some aspects of hedging. See Spread, Switch.

Asian Option: An option whose payoff depends on the average price of the underlying asset during some portion of the life of the option.

Assignable Contract: One which allows the holder to convey his rights to a third party. Exchange-traded contracts are not assignable.

Associated Person: A person associated with any futures commission merchant, introducing broker, commodity trading advisor, commodity pool operator, or leverage transaction merchant as a partner, officer, employee, consultant, or agent. Also, any person occupying a similar status or performing similar functions, in any capacity that involves: (a) the solicitation or acceptance of customers' orders, discretionary accounts, or participation in a commodity pool (other than in a clerical capacity); or (b) the supervision of any person or persons so engaged.

At-the-Market: An order to buy or sell a futures contract at whatever price is obtainable when the order reaches the trading floor. Also called a Market Order.

At-the-Money: When an option's exercise price is the same as the current trading price of the underlying commodity, the option is at-the-money.

Audit Trail: The record of trading information identifying, for example, the brokers participating in each transaction, the firms clearing the trade, the terms and time of the trade, and, ultimately, and when applicable, the customers involved.

Back Months: Those futures delivery months with expiration or delivery dates furthest into the future; futures delivery months other than the spot or nearby delivery month.

Backpricing: Fixing the price of a commodity for which the commitment to purchase has been made in advance. The buyer can fix the price relative to any monthly or periodic delivery using the futures markets.

Backwardation: Market situation in which futures prices are progressively lower in the distant delivery months. For instance, if the gold quotation for February is $160.00 per ounce and that for June is $155.00 per ounce, the backwardation for four months against January is $5.00 per ounce. (Backwardation is the opposite of contango). See Inverted Market.

Banker's Acceptance: A draft or bill of exchange accepted by a bank where the accepting institution guarantees payment. Used extensively in foreign trade transactions.

Basis: The difference between the spot or cash price of a commodity and the price of the nearest futures contract for the same or a related commodity. Basis is usually computed in relation to the futures contract next to expire and may reflect different time periods, product forms, qualities, or locations.

Basis Grade: The grade of a commodity used as the standard or par grade of a futures contract.

Basis Point: The measurement of a change in the yield of a debt security. One basis point equals 1/100 of one percent.

Basis Quote: Offer or sale of a cash commodity in terms of the difference above or below a futures price (e.g., 10 cents over December corn).

Basis Risk: The risk associated with an unexpected widening or narrowing of basis between the time a hedge position is established and the time that it is lifted.

Bear: One who expects a decline in prices. The opposite of a "bull." A news item is considered bearish if it is expected to result in lower prices.

Bear Market: A market in which prices are declining.

Bear Spread: The simultaneous purchase and sale of two futures contracts in the same or related commodities with the intention of profiting from a decline in prices but at the same time limiting the potential loss if this expectation does not materialize. In agricultural products, this is accomplished by selling a nearby delivery and buying a deferred delivery.

Bear Vertical Spread: A strategy employed when an investor expects a decline in a commodity price but at the same time seeks to limit the potential loss if this expectation is not realized. This spread requires the simultaneous purchase and sale of options of the same class and expiration date but different strike prices. For example, if call options are spread, the purchased option must have a higher exercise price than option that is sold.

Beta (Beta Coefficient): A measure of the variability of rate of return or value of a stock or portfolio compared to that of the overall market.

Bid: An offer to buy a specific quantity of a commodity at a stated price.

Blackboard Trading: The practice of selling commodities from a blackboard on a wall of a commodity exchange.

Black-Scholes Model: An option pricing formula initially developed by F. Black and M. Scholes for securities options and later refined by Black for options on futures.

Board Broker System: A system of trading in which an individual member of an exchange (or a nominee of the member) is designated as a Board Broker for a particular commodity with the responsibility of executing orders left with him by other members on the floor, providing price quotations, and maintaining orderliness in the trading crowd. A Board Broker may not trade for his own account or the account of an affiliated organization. Also See Free Crowd Systems and Specialist System.

Board Order: See Market-if-Touched Order.

Board of Trade: Any exchange or association, whether incorporated or unincorporated, of persons who are engaged in the business of buying or selling any commodity or receiving the same for sale on consignment.

Boiler Room: An enterprise which often is operated out of inexpensive, low-rent quarters (hence the term "boiler room") that uses high pressure sales tactics (generally over the telephone) and possibly false or misleading information to solicit generally unsophisticated investors.

Booking the Basis: A forward pricing sales arrangement in which the cash price is determined either by the buyer or seller within a specified time. At that time, the previously-agreed basis is applied to the then-current futures quotation.

Book Transfer: A series of accounting or bookkeeping entries used to settle a series of cash market transactions.

Box Transaction: An option position in which the holder establishes a long call and a short put at one strike price and a short call and a long put at another strike price, all of which are in the same contract month in the same commodity.

Break: A rapid and sharp price decline.

Broker: A person paid a fee or commission for executing buy or sell orders for a customer. In commodity futures trading, the term may refer to: (1) Floor Broker—a person who actually executes orders on the trading floor of an exchange; (2) Account Executive, Associated Person, registered Commodity Representative or Customer's Man—the person who deals with customers in the offices of futures commission merchants; or (3) the Futures Commission Merchant.

Broker Association: Two or more exchange members who (1) share responsibility for executing customer orders; (2) have access to each other's unfilled customer orders as a result of common employment or other types of relationships; or (3) share profits or losses associated with their brokerage or trading activity.

Bucketing: Directly or indirectly taking the opposite side of a customer's order into a broker's own account or into an account in which a broker has an interest, without open and competitive execution of the order on an exchange.

Bucket Shop: A brokerage enterprise which "books" (i.e., takes the opposite side of) a customer's order without actually having it executed on an exchange.

Bulge: A rapid advance in prices.

Bull: One who expects a rise in prices. The opposite of "bear." A news item is considered bullish if it portends higher prices.

Bullion: Bars or ingots of precious metals, usually cast in standardized sizes.

Bull Market: A market in which prices are rising.

Bull Spread: The simultaneous purchase and sale of two futures contracts in the same or related commodities with the intention of profiting from a rise in prices but at the same time limiting the potential loss if this expectation is wrong. In agricultural commodities, this is accomplished by buying the nearby delivery and selling the deferred.

Bull Vertical Spread: A strategy used when an investor expects that the price of a commodity will go up but at the same time seeks to limit the potential loss should this judgment be in error. This strategy involves the simultaneous purchase and sale of options of the same class and expiration date but different strike prices. For example, if call options are spread, the purchased option must have a lower exercise or strike price than the sold option.

Buoyant: A market in which prices have a tendency to rise easily with a considerable show of strength.

Butterfly Spread: A three-legged spread in futures or options. In the option spread, the options have the same expiration date but differ in strike prices. For example, a butterfly spread in soybean call options might consist of two short calls at a $6.00 strike price, one long call at a $6.50 strike price, and one long call at a $5.50 strike price.

Buyer: A market participant who takes a long futures position or buys an option. An option buyer is also called a taker, holder, or owner.

Buyer's Call: See Call.

Buyer's Market: A condition of the market in which there is an abundance of goods available and hence buyers can afford to be selective and may be able to buy at less than the price that previously prevailed. See Seller's Market.

Buying Hedge (or Long Hedge): Hedging transaction in which futures contracts are bought to protect against possible increases in the cost of commodities. SeeHedging.

Buy (or Sell) On Close: To buy (or sell) at the end of the trading session within the closing price range.

Buy (or Sell) On Opening: To buy (or sell) at the beginning of a trading session within the open price range.

C & F: "Cost and Freight" paid to a point of destination and included in the price quoted. Same as C.A.F.

Call: (1) A period at the opening and the close of some futures markets in which the price for each futures contract is established by auction; (2) Buyer's Call generally applies to cotton, also called "call sale." A purchase of a specified quantity of a specific grade of a commodity at a fixed number of points above or below a specified delivery month futures price with the buyer allowed a period of time to fix the price either by purchasing a future for the account of the seller or telling the seller when he wishes to fix the price; (3) Seller's Call, also called "call purchase," is the same as the buyer's call except that the seller has the right to determine the time to fix the price; (4) option contract giving the buyer the right but not the obligation to purchase the commodity or to enter into a long futures position; and (5) the requirement that a financial instrument be returned to the issuer prior to maturity, with principal and accrued interest paid off upon return.

Call Cotton: Cotton bought or sold on call. See Call.

Called: Another term for "exercised" when the option is a call. The writer of a call must deliver the indicated underlying commodity when the option is exercised or called.

Call Option: A contract that entitles the buyer/taker to buy a fixed quantity of commodity at a stipulated basis or striking price at any time up to the expiration of the option. The buyer pays a premium to the seller/grantor for this contract. A call option is bought with the expectation of a rise in prices. See Put Option.

Call Rule: An exchange regulation under which an official bid price for a cash commodity is competitively established at the close of each day's trading. It holds until the next opening of the exchange.

Capping: Effecting commodity or security transactions shortly prior to an option's expiration date depressing or preventing a rise in the price of the commodity or security so that previously written call options will expire worthless and the premium the writer received will be protected.

Carrying Broker: A member of a commodity exchange, usually a futures commission merchant, through whom another broker or customer elects to clear all or part of its trades.

Carrying Charges: Cost of storing a physical commodity or holding a financial instrument over a period of time. Includes insurance, storage, and interest on the invested funds as well as other incidental costs. It is a carrying charge market when there are higher futures prices for each successive contract maturity. If the carrying charge is adequate to reimburse the holder, it is called a "full charge." Also see Negative Carry, Positive Carry and Contango.

Cash Commodity: The physical or actual commodity as distinguished from the futures contract. Sometimes called Spot Commodity or Actuals.

Cash Forward Sale: See Forward Contracting.

Cash Market: The market for the cash commodity (as contrasted to a futures contract), taking the form of: (1) an organized, self-regulated central market (e.g., a commodity exchange); (2) a decentralized over-the-counter market; or (3) a local organization, such as a grain elevator or meat processor, which provides a market for a small region.

Cash Price: The price in the marketplace for actual cash or spot commodities to be delivered via customary market channels.

Cash Settlement: A method of settling certain futures or option contracts whereby the seller (or short) pays the buyer (or long) the cash value of the commodity traded according to a procedure specified in the contract.

CCC: See Commodity Credit Corporation.

CD: See Certificate of Deposit.

CEA: See Commodity Exchange Authority.

Certificate of Deposit (CD): A time deposit with a specific maturity evidenced by a certificate. Large-denomination CDS are typically negotiable.

CFTC: See Commodity Futures Trading Commission.

CFO: Cancel Former Order.

Certificated or Certified Stocks: Stocks of a commodity that have been inspected and found to be of a quality deliverable against futures contracts, stored at the delivery points designated as regular or acceptable for delivery by a commodity exchange. In grain, called “stocks in deliverable position.” See Deliverable Stocks.

Changer: A clearing member of both the Mid-America Commodity Exchange (MCE) and another futures exchange who, for a fee, will assume the opposite side of a transaction on the MCE by taking a spread position between the MCE and another futures exchange which trades an identical, but larger, contract. Through this service, the changer provides liquidity for the MCE and an economical mechanism for arbitrage between the two markets.

Charting: The use of graphs and charts in the technical analysis of futures markets to plot trends of price movements, average movements of price, volume of trading and open interest. See Technical Analysis.

Chartist: Technical trader who reacts to signals derived from graphs of price movements.

Cheapest-to-Deliver: Usually refers to the selection of bonds deliverable against an expiring bond futures contract.

Chooser Option: An option which is transacted in the present but which at some prespecified future date is chosen to be either a put or a call option.

Churning: Excessive trading of an account by a broker with control of the account for the purpose of generating commissions while disregarding the interests of the customer.

Circuit Breakers: A system of trading halts and price limits on equities and derivative markets designed to provide a cooling-off period during large, intraday market movements. The first known use of the term circuit breaker in this context was in the Report of the Presidential Task Force on Market Mechanisms (January 1988), which recommended that circuit breakers be adopted following the market break of October 1987.

C.I.F.: Cost, insurance and freight paid to a point of destination and included in the price quoted.

Class (of options): Options of the same type (i.e., either puts or calls, but not both) covering the same underlying futures contract or physical commodity (e.g., a March call with a strike price of 62 and a May call with a strike price of 58).

Clearing: The procedure through which the clearing house or association becomes the buyer to each seller of a futures contract, and the seller to each buyer, and assumes responsibility for protecting buyers and sellers from financial loss by assuring performance on each contract.

Clearing House: An adjunct to, or division of, a commodity exchange through which transactions executed on the floor of the exchange are settled. Also charged with assuring the proper conduct of the exchange's delivery procedures and the adequate financing of the trading.

Clearing Member: A member of the Clearing House or Association. All trades of a non-clearing member must be registered and eventually settled through a clearing member.

Clearing Price: See Settlement Price.

Close, The: The period at the end of the trading session, officially designated by the exchange, during which all transactions are considered made "at the close." Also see Call.

Closing-Out: Liquidating an existing long or short futures or option position with an equal and opposite transaction. Also known as Offset.

Closing Price (or Range): The price (or price range) recorded during trading that takes place in the final moments of a day's activity that is officially designated as the "close."

Combination: Puts and calls held either long or short with different strike prices and expirations.

Commercial: An entity involved in the production, processing, or merchandising of a commodity.

Commercial Grain Stocks: Domestic grain in store in public and private elevators at important markets and grain afloat in vessels or barges in lake and seaboard ports.

Commercial Paper: Short-term promissory notes issued in bearer form by large corporations, with maturities ranging from 5 to 270 days. Since the notes are unsecured, the commercial papers market generally is dominated by large corporations with impeccable credit ratings.

Commission: (1) The charge made by a commission house for buying and selling commodities; (2) the CFTC.

Commitments: See Open Interest.

Commodity Credit Corporation: A government-owned corporation established in 1933 to assist American agriculture. Major operations include price support programs, foreign sales, and export credit programs for agricultural commodities.

Commodity Exchange Authority: A regulatory agency of the U.S. Department of Agriculture established to administer the Commodity Exchange Act prior to 1975; the predecessor of the Commodity Futures Trading Commission.

Commodity Exchange Commission: A commission consisting of the Secretary of Agriculture, Secretary of Commerce, and the Attorney General, responsible for administering the Commodity Exchange Act prior to 1975.

Commodity Futures Trading Commission (CFTC): The Federal regulatory agency established by the CFTC Act of 1974 to administer the Commodity Exchange Act.

Commodity-Linked Bond: A bond in which payment to the investor is dependent on the price level of such commodities as crude oil, gold, or silver at maturity.

Commodity Option: See Option, Puts and Calls.

Commodity Pool: An investment trust, syndicate or similar form of enterprise operated for the purpose of trading commodity futures or option contracts.

Commodity Pool Operator (CPO): Individuals or firms in businesses similar to investment trusts or syndicates that solicit or accept funds, securities or property for the purpose of trading commodity futures contracts or commodity options.

Commodity Price Index: Index or average, which may be weighted, of selected commodity prices, intended to be representative of the markets in general or a specific subset of commodities (for example, grains or livestock).

Commodity Trading Advisor (CTA): Individuals or firms that, for pay, issue analyses or reports concerning commodities, including the advisability of trading in commodity futures or options.

Congestion: (1) A market situation in which shorts attempting to cover their positions are unable to find an adequate supply of contracts provided by longs willing to liquidate or by new sellers willing to enter the market, except at sharply higher prices; (2) in technical analysis, a period of time characterized by repetitious and limited price fluctuations.

Consignment: A shipment made by a producer or dealer to an agent elsewhere with the understanding that the commodities in question will be cared for or sold at the highest obtainable price. Title to the merchandise shipped on consignment rests with the shipper until the goods are disposed of according to agreement.

Contango: Market situation in which prices in succeeding delivery months are progressively higher than in the nearest delivery month; the opposite of "backwardation."

Contract: (1) A term of reference describing a unit of trading for a commodity future or option; (2) An agreement to buy or sell a specified commodity, detailing the amount and grade of the product and the date onwhich the contract will mature and become deliverable.

Contract Grades: Those grades of a commodity which have been officially approved by an exchange as deliverable in settlement of a futures contract.

Contract Market: (1) A board of trade or exchange designated by the Commodity Futures Trading Commission to trade futures or options under the Commodity Exchange Act; (2) Sometimes the futures contract itself (e.g., corn is a contract market).

Contract Month: See Delivery Month.

Contract Unit: The actual amount of a commodity represented in a contract.

Controlled Account: Any account for which trading is directed by someone other than the owner. Also called a Managed Account or a Discretionary Account.

Convergence: The tendency for prices of physicals and futures to approach one another, usually during the delivery month. Also called a "narrowing of the basis."

Conversion: When trading options on futures contracts, a position created by selling a call option, buying a put option, and buying the underlying futures contract, where the options have the same strike price and the same expiration.

Corner: (1) Securing such relative control of a commodity or security that its price can be manipulated; (2) In the extreme situation, obtaining contracts requiring the delivery of more commodities or securities than are available for delivery.

Corn-Hog Ratio: See Feed Ratio.

Cost of Tender: Total of various charges incurred when a commodity is certified and delivered on a futures contract.

Counter-Trend Trading: In technical analysis, the method by which a trader takes a position contrary to the current market direction in anticipation of a change in that direction.

Coupon (Coupon Rate): A fixed dollar amount of interest payable per annum, stated as a percentage of principal value, usually payable in semiannual installments.

Cover: (1) Purchasing futures to offset a short position. Same as Short Covering. See Offset, Liquidation; (2) To have in hand the physical commodity when a short futures or leverage sale is made, or to acquire the commodity that might be deliverable on a short sale.

Covered Option: A short call or put option position which is covered by the sale or purchase of the underlying futures contract or physical commodity. For example, in the case of options on futures contracts, a covered call is a short call position combined with a long futures position. A covered put is a short put position combined with a short futures position.

Cox-Ross-Rubinstein Option Pricing Model: An option pricing logarithm developed by J. Cox, S. Ross and M. Rubinstein which can be adopted to include effects not included in the Black-Scholes model (e.g., early exercise and price supports).

CPO: See Commodity Pool Operator.

Crack: In energy futures, the simultaneous purchase of crude oil futures and the sale of petroleum product futures to establish a refining margin. See Gross Processing Margin.

Crop Year: The time period from one harvest to the next, varying according to the commodity (i.e., July 1 to June 30 for wheat; September 1 to August 31 for soybeans).

Cross-Hedge: Hedging a cash market position in a futures contract for a different but price-related commodity.

Cross-Margining: A procedure for margining related securities, options, and fu tures contracts jointly when different clearing houses clear each side of the posi tion.

Cross-Rate: In foreign exchange, the price of one currency in terms of another currency in the market of a third country. For example, a London dollar cross-rate could be the price of one U.S. dollar in terms of deutsche marks on the London market.

Cross Trading: Offsetting or noncompetitive match of the buy order of one customer against the sell order of another, a practice that is permissible only when executed in accordance with the Commodity Exchange Act, CFTC regulations, and rules of the contract market.

Crush Spread: In the soybean futures market, the simultaneous purchase of soybean futures and the sale of soybean meal and soybean oil futures to establish a processing margin. See Gross Processing Margin.

CTA: See Commodity Trading Advisor.

CTI Codes: Customer Type Indicator codes. These consist of four identifiers which describe transactions by the type of customer for which a trade is effected.. The four codes are: (1) trading for the member's own account; (2) trading for a proprietary account of the clearing member's firm; (3) trading for another member who is currently present on the trading floor or for an account controlled by such other member; and (4) trading for any other type of customer. Transaction data classified by the above codes are included in the trade register report produced by a clearing organization.

Curb Trading: Trading by telephone or by other means that takes place after the official market has closed. Originally it took place in the street on the curb outside the market. Under CFTC rules, curb trading is illegal. Also known as kerb trading.

Current Delivery Month: The futures contract which matures and becomes deliverable during the present month. Also called Spot Month.

Daily Price Limits: See Limit (Up or Down).

Day Order: An order that expires automatically at the end of each day's trading session. There may be a day order with time contingency. For example, an "off at a specific time" order is an order that remains in force until the specified time during the session is reached. At such time, the order is automatically canceled.

Day Traders: Commodity traders, generally members of the exchange on the trading floor, who take positions in commodities and then offset them prior to the close of trading on the same trading day.

Day Trading: Establishing and offsetting the same futures market position within one day.

Dealer Option: A put or call on a physical commodity, not originating on or subject to the rules of an exchange, in which the obligation for performance rests with the writer of the option. Dealer options are normally written by firms handling the underlying commodity and offered to public customers, although the reverse may also be true.

Deck: The orders for purchase or sale of futures and option contracts held by a floor broker.

Declaration Date: See Expiration Date.

Declaration (of Options): See Exercise.

Default: Failure to perform on a futures contract as required by exchange rules, such as failure to meet a margin call, or to make or take delivery.

Deferred Futures: The futures contracts that expire during the most distant months. Also called Back Months. See Forward Purchase or Sale.

Deliverable Grades: See Contract Grades.

Deliverable Stocks: Stocks of commodities located in exchange approved storage, for which receipts may be used in making delivery on futures contracts. In the cotton trade, the term refers to cotton certified for delivery. Also see Certificated Stocks.

Delivery: The tender and receipt of the actual commodity, the cash value of the commodity, or of a delivery instrument covering the commodity (e.g., warehouse receipts or shipping certificates), used to settle a futures contract. See Notice of Delivery.

Delivery, Current: Deliveries being made during a present month. Sometimes current delivery is used as a synonym for nearby delivery.

Delivery Date: The date on which the commodity or instrument of delivery must be delivered to fulfill the terms of a contract.

Delivery Instrument: A document used to effect delivery on a futures contract, such as a warehouse receipt or shipping certificate.

Delivery Month: The specified month within which a futures contract matures and can be settled by delivery.

Delivery, Nearby: The nearest traded month. In plural form, one of the nearer trading months.

Delivery Notice: The written notice given by the seller of his intention to make delivery against an open short futures position on a particular date. This notice, delivered through the clearing house, is separate and distinct from the warehouse receipt or other instrument that will be used to transfer title.

Delivery Option: A provision of a futures contract which provides the short with flexibility in regard to timing, location, quantity, or quality in the delivery process.

Delivery Points: Those locations designated by commodity exchanges where stocks of a commodity represented by a futures contract may be delivered in fulfillment of the contract.

Delivery Price: The price fixed by the clearing house at which deliveries on futures are invoiced—generally the price at which the futures contract is settled when deliveries are made.

Delta: See Delta Value.

Delta Margining: An option margining system used by some exchanges for exchange members and/or floor traders which equates the changes in option premiums with the changes in the price of the underlying futures contract to determine risk factors on which to base the margin requirements.

Delta Value: The expected change in an option's price given a one-unit change in the price of the underlying futures contract or physical commodity.

Deposit: The initial outlay required by a broker of a client to open a futures position, returnable upon liquidation of that position.

Depository Receipt: See Vault Receipt.

Derivative: A financial instrument, traded on or off an exchange, the price of which is directly dependent upon (i.e., "derived from") the value of one or more underlying securities, equity indices, debt instruments, commodities, other derivative instruments, or any agreed upon pricing index or arrangement (e.g., the movement over time of the Consumer Price Index or freight rates). Derivatives involve the trading of rights or obligations based on the underlying product, but do not directly transfer property. They are used to hedge risk or to exchange a floating rate of return for fixed rate of return.

Designated Self Regulatory Organization (DSRO): Self regulatory organizations (i.e., the commodity exchanges and the National Futures Association) must enforce minimum financial and reporting requirements for their members, among other responsibilities outlined in the CFTC's regulations. When a futures commission merchant (FCM) is a member of more than one SRO, the SROs may decide among themselves which of them will be responsible for assuming these regulatory duties and, upon approval of the plan by the Commission, be appointed the "designated self regulatory organization" for that FCM.

Diagonal Spread: A spread between two call options or two put options with different strike prices and different expiration dates.

Differentials: The discount (premium) allowed for grades or locations of a commodity lower (higher) than the par of basis grade or location specified in the futures contact. See Allowances.

Discount: (1) The amount a price would be reduced to purchase a commodity of lesser grade; (2) sometimes used to refer to the price differences between futures of different delivery months, as in the phrase “July at a discount to May,” indicating that the price for the July futures is lower than that of May.

Discount Basis: Method of quoting securities where the price is expressed as a annualized discount from maturity value.

Discount Bond: A bond selling below par. See Par.

Discretionary Account: An arrangement by which the holder of an account gives written power of attorney to someone else, often a broker, to buy and sell without prior approval of the holder; often referred to as a “managed account” or “controlled account.” See Controlled Account.

Distant or Deferred Delivery: Usually means one of the more distant months in which futures trading is taking place.

Dominant Future: That future having the largest number of open contracts.

Double Hedging: As used by the CFTC, it implies a situation where a trader holds a long position in the futures market in excess of the speculative limit as an offset to a fixed price sale even though the trader has an ample supply of the commodity on hand to fill all sales commitments.

DSRO: See Designated Self Regulatory Organization.

Dual Trading: Dual trading occurs when: (1) a floor broker executes customer orders and, on the same day, trades for his own account or an account in which he has an interest; or (2) an FCM carries customer accounts and also trades or permits its employees to trade in accounts in which it has a proprietary interest, also on the same trading day.

Duration: A measure of a bond’s price sensitivity to changes in interest rates.

Ease Off: A minor and/or slow decline in the price of a market.

ECU: See European Currency Unit.

Efficient Market: A market in which new information is immediately available to all investors and potential investors. A market in which all information is instantaneously assimilated and therefore has no distortions.

EFP: Exchange for Physical. See Exchange of Futures for Cash.

Elliot Wave: (1) A theory named after Ralph Elliot, who contended that the stock market tends to move in discernible and predictable patterns reflecting the basic harmony of nature; (2) in technical analysis, a charting method based on the belief that all prices act as wavers, rising and falling rhythmically.

Equity: The residual dollar value of a futures, option, or leverage trading account, assuming it was liquidated at current prices.
Eurocurrency: Certificates of Deposit (CDS), bonds, deposits, or any capital market instrument issued outside of the national boundaries of the currency in which the instrument is denominated (for example, Euro-Swiss francs, Euro-Deutsche marks, eurodollars, eurodollar bonds, or eurodollar CDS).

Eurodollar: U.S. dollar deposits placed with banks outside the U.S. Holders may include individuals, companies, banks and central banks.

Eurodollar Bonds: Bonds issued in Europe by corporate or government interests outside the boundary of the national capital market, denominated in dollars.

Eurodollar CDS: Dollar-denominated certificates of deposit issued by a bank outside of the United States, either a foreign bank or U.S. bank subsidiary.

European Currency Unit: The official unit of account of the European Monetary System. It is a combination or basket of the currencies from the twelve European Community countries: the Deutsche mark, French franc, British pound sterling, Irish pound, Italian lira, Belgian franc, Dutch guilder, Luxembourg franc, Greek drachma, Spanish peseta, Portuguese escudo, and the Danish krona.

Even Lot: A unit of trading in a commodity established by an exchange to which official price quotations apply. See Round Lot.

Exchange of Futures for Cash: A transaction in which the buyer of a cash commodity transfers to the seller a corresponding amount of long futures contracts, or receives from the seller a corresponding amount of short futures, at a price difference mutually agreed upon. In this way the opposite hedges in futures of both parties are closed out simultaneously. Also called EFP (Exchange for Physical), AA (Against Actuals) or Ex-Pit transactions.

Exchange Rate: The price of one currency stated in terms of another currency.

Exchange Risk Factor: The delta value of an option as computed daily by the exchange on which it is traded.

Exercise: To elect to buy or sell, taking advantage of the right (but not the obligation) conferred by an option contract.

Exercise (or Strike) Price: The price specified in the option contract at which the buyer of a call can purchase the commodity during the life of the option, and the price specified in the option contract at which the buyer of a put can sell the commodity during the life of the option.

Exotic Options: Any of a wide variety of options with non-standard payout structures, including Asian options and Lookback options. Exotic options are mostly traded in the over-the-counter market.

Expiration Date: The date on which an option contract automatically expires; the last day an option can be exercised.

Extrinsic Value: See Time Value.

Ex-Pit: See Transfer Trades and Exchange of Futures for Cash.

FAB Spread: Five Against Bond. A futures spread trade involving the buying (selling) of a five-year Treasury bond futures contract and the selling (buying) of a long-term (15-30 year) Treasury bond futures contract.

Fannie Mae: See Federal National Mortgage Association.

FAN Spread: Five Against Note. A futures spread trade involving the buying (selling) of a five-year Treasury note futures contract and the selling (buying) of a ten-year Treasury bond futures contract.

Fast Tape: Transactions in the pit or ring take place in such volume and with such rapidity that price reporters are behind with price quotations, so insert “FAST” and show a range of prices.

Federal National Mortgage Association (FNMA): A corporation created by Congress to support the secondary mortgage market; it purchases and sells residential mortgages insured by the Federal Home Administration (FHA) or guaranteed by the Veteran’s Administration (VA).

Feed Ratio: The relationship of the cost of feed, expressed as a ratio to the sale price of animals, such as the corn-hog ratio. These serve as indicators of the profit margin or lack of profit in feeding animals to market weight.

FIA: See Futures Industry Association.

Fictitious Trading: Wash trading, bucketing, cross trading, or other schemes which give the appearance of trading. Actually, no bona fide, competitive trade has occurred.

Fill or Kill Order: An order which demands immediate execution or cancellation.

Financial Instruments: As used by the CFTC, this term generally refers to any futures or option contract that is not based on an agricultural commodity or a natural resource. It includes currencies, securities, mortgages, commercial paper, and indices of various kinds.

First Notice Day: The first day on which notices of intent to deliver actual commodities against futures market positions can be received. First notice day may vary with each commodity and exchange.

Fix, Fixing: See Gold Fixing.

Fixed Income Security: A security whose nominal (or current dollar) yield is fixed or determined with certainty at the time of purchase.

Floor Broker: Any person who, in any pit, ring, post or other place provided by a contract market for the meeting of persons similarly engaged, executes for another person any orders for the purchase or sale of any commodity for future delivery.

Floor Trader: An exchange member who executes his own trades by being personally present in the pit for futures trading. See Local.

F.O.B. (Free On Board): Indicates that all delivery, inspection and elevation or loading costs involved in putting commodities on board a carrier have been paid.

Forced Liquidation: The situation in which a customer's account is liquidated (open positions are offset) by the brokerage firm holding the account, usually after notification that the account is undercapitalized (margin calls).

Force Majeure: A clause in a supply contract which permits either party not to fulfill the contractual commitments due to events beyond their control. These events may range from strikes to export delays in producing countries.

Foreign Exchange: Foreign Currency. On the foreign exchange market, foreign currency is bought and sold for immediate or future delivery.

Forward: In the future.

Forwardation: See Contango.

Forward Contracting: A cash transaction common in many industries, including commodity merchandising, in which a commercial buyer and seller agree upon delivery of a specified quality and quantity of goods at a specified future date. A price may be agreed upon in advance, or there may be agreement that the price will be determined at the time of delivery.

Forward Market: Refers to informal (non-exchange) trading of commodities to be delivered at a future date. Contracts for forward delivery are "personalized" (i.e., delivery time and amount are as determined between seller and customer).

Forward Months: Futures contracts, currently trading, calling for later or distant delivery. See Deferred Futures.

Forward Purchase or Sale: A purchase or sale between commercial parties of an actual commodity for deferred delivery.

Free Crowd System: A system of trading, common to most U.S. commodity exchanges, where all floor members may bid and offer simultaneously either for their own accounts or for the accounts of customers, and transactions may take place simultaneously at different places in the trading ring. Also see Board Broker System and Specialist System.

Frontrunning: With respect to commodity futures and options, taking a futures or option position based upon non-public information regarding an impending transaction by another person in the same or related future or option.

Full Carrying Charge, Full Carry: See Carrying Charges.

Fundamental Analysis: Study of basic, underlying factors which will affect the supply and demand of the commodity being traded in futures contracts. See Technical Analysis.

Fungibility: The characteristic of interchangeability. Futures contracts for the same commodity and delivery month are fungible due to their standardized specifications for quality, quantity, delivery date and delivery locations.

Futures: See Futures Contract.

Futures Commission Merchant (FCM): Individuals, associations, partnerships, corporations and trusts that solicit or accept orders for the purchase or sale of any commodity for future delivery on or subject to the rules of any contract market and that accept payment from or extend credit to those whose orders are accepted.

Futures Contract: An agreement to purchase or sell a commodity for delivery in the future: (1) at a price that is determined at initiation of the contract; (2) which obligates each party to the contract to fulfill the contract at the specified price; (3) which is used to assume or shift price risk; and (4) which may be satisfied by delivery or offset.

Futures-equivalent: A term frequently used with reference to speculative position limits for options on futures contracts. The futures-equivalent of an option position is the number of options multiplied by the previous day's risk factor or delta for the option series. For example, 10 deep out-of-money options with a risk factor of 0.20 would be considered 2 futures-equivalent contracts. The delta or risk factor used for this purpose is the same as that used in delta-based margining and risk analysis systems.

Futures Industry Association (FIA): A membership organization for futures commission merchants (FCMs) which, among other activities, offers education courses on the futures markets, disburses information and lobbies on behalf of its members.

Futures Price: (1) Commonly held to mean the price of a commodity for future delivery that is traded on a futures exchange. (2) The price of any futures contract.

Ginnie Mae: Pass-through mortgage-backed certificates guaranteed by the Government National Mortgage Association (GNMA or Ginnie Mae). The certificates are backed by pools of FHA insured and/or VA guaranteed residential mortgages, with the mortgage and not held in safekeeping by a custodial financial institution. Also called G.N.M.A.s or G.N.M.A. certificates.

Ginzy Trading: A trade practice in which a floor broker, in executing an order — particularly a large order — will fill a portion of the order at one price and the remainder of the order at another price to avoid an exchange's rule against trading at fractional increments or "split ticks." In In re Murphy, [1984-86 Transfer Binder] Comm. Fut L. Rep. (CCH) at pp. 31,353-4 (Sept. 25, 1985), the Commission found that ginzy trading was a noncompetitive trading practice in violation of section 4c(a)(B) of the Commodity Exchange Act and CFTC regulation 1.38(a).

Give Up: A contract executed by one broker for the client of another broker that the client orders to be turned over to the second broker. The broker accepting the order from the customer collects a wire toll from the carrying broker for the use of the facilities. Often used to consolidate many small orders or to disperse large ones.

Globex: An international electronic trading system for futures and options that allows participating exchanges to list their products for trading after the close of the exchanges' open outcry trading hours. Developed by Reuters Limited for use by the Chicago Mercantile Exchange (CME), Globex was launched on June 25, 1992, for certain CME contracts. Various MATIF (Marche a Terme International de France) contracts began trading on the system on March 15, 1993.

G.N.M.A.: The Government National Mortgage Association; a government agency within the Department of Housing and Urban Development that, among other things, guarantees payment on mortgage-backed certificates. (See Ginnie Mae).

Gold Certificate: A certificate attesting to a person's ownership of a specific amount of gold bullion.

Gold Fixing (Gold Fix): The setting of the gold price at 10:30 AM (first fixing) and 3:00 PM (second fixing) in London by five representatives of the London Gold Market. See London Gold Market.

Gold/Silver Ratio: The number of ounces of silver required to buy one ounce of gold at current spot prices.

Good This Week Order (GTW): Order which is valid only for the week in which it is placed.

Good 'Til Canceled Order (GTC): Order which is valid at any time during market hours until executed or canceled. See Open Order.

GPM: See Gross Processing Margin.

Grades: Various qualities of a commodity.

Grading Certificates: A formal document setting forth the quality of a commodity as determined by authorized inspectors or graders.

Grain Futures Act: Federal statute which regulated trading in grain futures, effective June 22, 1923; administered by the U.S. Department of Agriculture; amended in 1936 by the Commodity Exchange Act.

Grantor: The maker, writer, or issuer of an option contract who, in return for the premium paid for the option, stands ready to purchase the underlying commodity (or futures contract) in the case of a put option or to sell the underlying commodity (or futures contract) in the case of a call option.

Gross Processing Margin (GPM): Refers to the difference between the cost of a commodity and the combined sales income of the finished products which result from processing the commodity. Various industries have formulas to express the relationship of raw material costs to sales income from finished products. See Crack and Crush.

GTC: See Good 'Til Canceled order.

GTW: See Good This Week order.

Haircut: (1) In determining whether assets meet capital requirements, a percentage reduction in the stated value of assets. (2) In computing the worth of assets deposited as collateral or margin, a reduction from market value.

Hardening: (1) Describes a price which is gradually stabilizing; (2) a term indicating a slowly advancing market.

Heavy: A market in which prices are demonstrating either an inability to advance or a slight tendency to decline.

Hedge Ratio: Ratio of the value of futures contracts purchased or sold to the value of the cash commodity being hedged, a computation necessary to minimize basis risk.

Hedging: Taking a position in a futures market opposite to a position held in the cash market to minimize the risk of finanical loss from an adverse price change; a purchase or sale of futures as a temporary substitute for a cash transaction that will occur later.
Hog-Corn Ratio: See Feed Ratio.

Hybrid-Instruments: Financial instruments that possess, in varying combinations, characteristics of forward contracts, futures contracts, option contracts, debt instruments, bank depository interests, and other interests. Certain hybrid instruments are exempt from CFTC regulation.

IB: See Introducing Broker.

Index Arbitrage: The simultaneous purchase (sale) of stock index futures and the sale (purchase) of some or all of the component stocks which make up the particular stock index to profit from sufficiently large intermarket spreads between the futures contract and the index itself.

Initial Deposit: See Initial Margin.

Initial Margin: Customers' funds put up as security for a guarantee of contract fulfillment at the time a futures market position is established. See Original Margin.

In Sight: The amount of a particular commodity that arrives at terminal or central locations is or near producing areas. When a commodity is "in sight," it is inferred that reasonably prompt delivery can be made; the quantity and quality also become known factors rather than estimates.

Intercommodity Spread: A spread in which the long and short legs are in two different but generally related commodity markets. Also called an intermarket spread. See Spread.

Interdelivery Spread: A spread involving two different months of the same commodity. Also called an intracommodity spread. See Spread.

Interest Rate Futures: Futures contracts traded on fixed income securities such as G.N.M.A.s, U.S. Treasury issues, or CDS. Currency is excluded from this category, even though interest rates are a factor in currency values.

Intermarket Spread: See Spread and Intercommodity Spread.

International Commodities Clearinghouse (ICCH): An independent organization that serves as a clearinghouse for most futures markets in London, Bermuda, Singapore, Australia, and New Zealand.

In-The-Money: A term used to describe an option contract that has a positive value if exercised. A call at $400 on gold trading at $10 is in-the-money 10 dollars.

Intracommodity Spread: See Spread and Interdelivery Spread.

Intrinsic Value: A measure of the value of an option or a warrant if immediately exercised. The amount by which the current price for the underlying commodity or futures contract is above the strike price of a call option or below the strike price of a put option for the commodity or futures contract.

Introducing Broker (or IB): Any person (other than a person registered as an "associated person" of a futures commission merchant) who is engaged in soliciting or in accepting orders for the purchase or sale of any commodity for future delivery on an exchange who does not accept any money, securities, or property to margin, guarantee, or secure any trades or contracts that result therefrom.

Inverted Market: A futures market in which the nearer months are selling at prices higher than the more distant months; a market displaying "inverse carrying charges," characteristic of markets with supply shortages. See Backwardation.

Invisible Supply: Uncounted stocks of a commodity in the hands of wholesalers, manufacturers and producers which cannot be identified accurately; stocks outside commercial channels but theoretically available to the market.

ISDA: The International Swap Dealers Association, Inc., a New York-based group of major international swap dealers, which has published the Code of Standard Wording, Assumptions and Provisions for Swaps, or Swaps Code, for U.S. dollar interest rate swaps as well as standard master interest rate and currency swap agreements and definitions for use in connection with the creation and trading of swaps.

Job Lot: A form of contract having a smaller unit of trading than is featured in a regular contract.

Kerb Trading or Dealing: See Curb Trading.

Large Order Execution (LOX) Procedures: Rules in place at the Chicago Mercantile Exchange that authorize a member firm which receives a large order from an initiating party to solicit counterparty interest off the exchange floor prior to open execution of the order in the pit and that provide for special surveillance procedures. The parties determine a maximum quantity and an "intended execution price." Subsequently, the initiating party's order quantity is exposed to the pit; any bids (or offers) up to and including those at the intended execution price are hit (acceptable). The unexecuted balance is then crossed with the contraside trader found using the LOX procedures.

Large Traders: A large trader is one who holds or controls a position in any one future or in any one option expiration series of a commodity on any one contract market equaling or exceeding the exchange or CFTC-specified reporting level.

Last Notice Day: The final day on which notices of intent to deliver on futures contracts may be issued.

Last Trading Day: Day on which trading ceases for the maturing (current) delivery month.

Leaps: Long-dated, exchange-traded options.

Leverage Contract: A contract, standardized as to terms and conditions, for the long-term (ten years or longer) purchase (long leverage contract) or sale (short leverage contract) by a leverage customer of leverage commodity which provides for: (1) participation by the leverage transaction merchant as a principal in each leverage transaction; (2) initial and maintenance margin payments by the leverage customer; (3) periodic payment by the leverage customer or accrual by the leverage transaction merchant to the leverage customer of a variable carrying charge or fee on the initial value of the contract plus any margin deposits made by the leverage customer in connection with a short leverage contract; (4) delivery of a commodity in an amount and form which can be readily purchased and sold in normal commercial or retail channels; (5) delivery of the leverage commodity after satisfication of the balance due on the contract; and (6) determination of the contractpurchase and repurchase, or sale and resale, prices by the leverage transaction merchant.

Leverage Dealer: See Leverage Transaction Merchant

Leverage Transaction Merchant: Any individual, association, partnership, corporation, or trust that is engaged in the business of offering to enter into, entering into, or confirming the execution of leverage contracts, or soliciting or accepting orders for leverage contracts, and who accepts leverage customer funds or extends credit in lieu of those funds.

Licensed Warehouse: A warehouse approved by exchange from which a commodity may be delivered on a futures contract. See Regular Warehouse.

Life of Contact: Period between the beginning of trading in a particular futures contract and the expiration of trading. In some cases this phrase denotes the period already passed in which trading has already occurred. For example, “The life-of-contract high so far is $2.50.” Same as Life of Delivery or Life of the Future.

Limit (Up or Down): The maximum price advance or decline from the previous day's settlement price permitted during one trading session, as fixed by the rules of an exchange. See Daily Price Limits.

Limit Move: A price that has advanced or declined the permissible limit during one trading session, as fixed by the rules of a contract market.

Limit Only: The definite price stated by a customer to a broker restricting the execution of an order to buy for not more than, or to sell for not less than, the stated price.

Limit Order: An order in which the customer specifies a price limit or other condition, such as time of an order, as contrasted with a market order which implies that the order should be filled as soon as possible.

Liquidation: The closing out of a long position. The term is sometimes used to denote closing out a short position, but this is more often referred to as covering. See Cover.

Liquid Market: A market in which selling and buying can be accomplished with minimal price change.

Local: A member of a U.S. exchange who trades for his own account and/or fills orders for customers and whose activities provide market liquidity. See Floor Trader.

Locked-In: A hedged position that cannot be lifted without offsetting both sides of the hedge (spread). See Hedging. Also refers to being caught in a limit price move.

London Gold Market: Refers to the five dealers who set (fix) the gold price in London: Mocatta & Goldsmid, N. Rothschild & Sons, Johnson Matthey, Sharps Pixley, and Samuel Montagu & Co.

London Option: A generic term sometimes used to describe options on physical commodities or on futures contracts traded abroad (typified by options on London commodity markets). These options, which often had nothing whatsoever to do with legitimate foreign markets, gained notoriety—prior to their ban in the United States in 1978—because of the sales practices and fraud allegations associated with the American dealers who sold them.

Long: (1) One who has bought a futures contract to establish a market position; (2) a market position which obligates the holder to take delivery; (3) one who owns an inventory of commodities. See Short.

Long Hedge: Purchase of futures against the fixed price forward sale of a cash commodity.

Long the Basis: A person or firm that has bought the spot commodity and hedged with a sale of futures is said to be long the basis.

Lookback Option: An option whose payoff depends on the minimum or maximum price of the underlying asset during some portion of the life of the option.

Lot: A unit of trading. See Even Lot, Job Lot, and Round Lot.

LTM: Leverage Transaction Merchant.

Maintenance Margin: See Margin.

Managed Account: See Controlled Account and Discretionary Account.

Margin: The amount of money or collateral deposited by a customer with his broker, by a broker with a clearing member, or by a clearing member with the clearinghouse, for the purpose of insuring the broker or clearinghouse against loss on open futures contracts. The margin is not partial payment on a purchase. (1) Initial margin is the total amount of margin per contract required by the broker when a futures position is opened; (2) Maintenance margin is a sum which must be maintained on deposit at all times. If the equity in a customer's account drops to, or under, the level because of adverse price movement, the broker must issue a margin call to restore the customer's equity. See Variation Margin.

Margin Call: (1) A request from a brokerage firm to a customer to bring margin deposits up to initial levels; (2) a request by the clearinghouse to a clearing member to make a deposit of original margin, or a daily or intra-day variation payment, because of adverse price movement, based on positions carried by the clearing member.

Market Correction: In technical analysis, a small reversal in prices following a significant trending period.

Marketer: See Distributor.

Market-if-Touched (MIT) Order: An order that becomes a market order when a particular price is reached. A sell MIT is placed above the market; a buy MIT is placed below the market. Also referred to as a board order.

Market Marker: A professional securities dealer who has an obligation to buy when there is an excess of sell orders and to sell when there is an excess of buy orders. By maintaining an offering price sufficiently higher than their buying price, these firms are compensated for the risk involved in allowing their inventory of securities to act as a buffer against temporary order imbalances. In the commodities industry, this term is sometimes loosely used to refer to a floor trader or local who, in speculating for his own account, provides a market for commercial users of the market. See Specialist System.

Market-on-Close: An order to buy or sell at the end of the trading session at a price within the closing range of prices. See Stop-Close-Only Order.

Market-on-Opening: An order to buy or sell at the beginning of the trading session at a price within the opening range of prices.

Market Order: An order to buy or sell a futures contract at whatever price is obtainable at the time it is entered in the ring or pit. See At-The-Market.

Mark-to-Market: Daily cash flow system used by U.S. futures exchanges to maintain a minimum level of margin equity for a given futures or option contract position by calculating the gain or loss in each contract position resulting from changes in the price of the futures or option contracts at the end of each trading day.

Maturity: Period within which a futures contract can be settled by delivery of the actual commodity.

Maximum Price Fluctuation: See Limit (Up or Down).

Member Rate: Commission charged for the execution of an order for a person who is a member of the exchange.

Minimum Price Contract: A hybrid commercial forward contract for agricultural products which includes a provision guaranteeing the person making delivery a minimum price for the product. For agricultural commodities, these contracts became much more common with the introduction of exchange-traded options on futures contracts, which permit buyers to hedge the price risks associated with such contracts.

Minimum Price Fluctuation: Smallest increment of price movement possible in trading a given contract.

Momentum: In technical analysis, the relative change in price over a specific time interval. Often equated with speed or velocity and considered in terms of relative strength.

Money Market: Short-term debt instruments.

Naked Call: See Naked Option.

Naked Option: The sale of a call or put option without holding an offsetting position in the underlying commodity.

Naked Put: See Naked Option.

National Futures Association (NFA): A self regulatory organization composed of futures commission merchants, commodity pool operators, commodity trading advisors, introducing brokers, leverage transaction merchants, commodity exchanges, commercial firms, and banks, that is responsible—under CFTC oversight—for certain aspects of the regulation of FCMs, CPOs, IBs, LTMs, and their associated persons, focusing primarily on the qualifications and proficiency, financial condition, retail sales practices, and business conduct of these futures professionals.

Nearbys: The nearest delivery months of a commodity futures market.

Nearby Delivery Month: The month of the futures contract closest to maturity.

Negative Carry: The cost of financing a financial instrument (the short-term rate of interest), when the cost is above the current return of the financial instrument. See Carrying Charges and Positive Carry.

Net Position: The difference between the open long contracts and the open short contracts held by a trader in any one commodity.

NFA: National Futures Association.

NOB Spread: Note Against Bond. A futures spread trade involving the buying (selling) of a Treasury note futures contract and the selling (buying) of a Treasury bond futures contract.

Non-Member Traders: Speculators and hedgers who trade on the exchange through a member but do not hold exchange memberships.

Nominal Price (or Nominal Quotation): Computed price quotation on futures for a period in which no actual trading took place, usually an average of bid and asked prices.

Notice Day: Any day on which notices of intent to deliver on futures contracts may be issued.

Notice of Delivery: A notice that must be presented by the seller of a futures contract to the clearinghouse. The clearinghouse then assigns the notice and subsequent delivery instrument to a buyer. Also Notice of Intention to Deliver.

Notional Amount: The amount (in an interest rate swap, forward rate agreement, or other derivative instrument) or each of the amounts (in a currency swap) to which interest rates are applied (whether or not expressed as a rate or stated on a coupon basis) in order to calculate periodic payment obligations. Also called the notional principal amount, the contract amount, the reference amount, and the currency amount.

Offer: An indication of willingness to sell at a given price; opposite of bid.

Offset: Liquidating a purchase of futures contracts through the sale of an equal number of contracts of the same delivery month, or liquidating a short sale of futures through the purchase of an equal number of contracts of the same delivery month. See Cover.

Omnibus Account: An account carried by one futures commission merchant with another futures commission merchant in which the transactions of two or more persons are combined and carried in the name of the originating broker rather than designated separately.

On Track (or Track Country Station): (1) A type of deferred delivery in which the price is set f.o.b. seller's location, and the buyer agrees to pay freight costs to his destination; (2) commodities loaded in railroad cars on track.

Opening Price (or Range): The price (or price range) recorded during the period designated by the exchange as the official opening.

Opening, The: The period at the beginning of the trading session officially designated by the exchange during which all transactions are considered made "at the opening."

Open Interest: The total number of futures contracts long or short in a delivery month or market that has been entered into and not yet liquidated by an offsetting transaction or fulfilled by delivery. Also called Open Contracts or Open Commitments.

Open Order (or Orders): An order that remains in force until it is canceled or until the futures contracts expire. See Good 'Til Canceled and Good This Week orders.

Open Outcry: Method of public auction required to make bids and offers in the trading pits or rings of commodity exchanges.

Option: (1) A commodity option is a unilateral contract which gives the buyer the right to buy or sell a specified quantity of a commodity at a specific price within a specified period of time, regardless of the market price of that commodity. Also see Put and Call; (2) A term sometimes erroneously applied to a futures contract. It may refer to a specific delivery month, as the "July Option."

Option Buyer: The person who buys calls, puts, or any combination of calls and puts.

Option Grantor: The person who originates an option contract by promising to perform a certain obligation in return for the price of the option. Also known as Option Writer.

Original Margin: Term applied to the initial deposit of margin money each clearing member firm is required to make according to clearinghouse rules based upon positions carried, determined separately for customer and proprietary positions; similar in concept to the initial margin or security deposit required of customers by exchange regulations. See Initial Margin.

Out-Of-The-Money: A term used to describe an option that has no intrinsic value. For example, a call at $400 on gold trading at $390 is out-of-the-money 10 dollars.

Out Trade: A trade which cannot be cleared by a clearinghouse because the trade data submitted by the two clearing members involved in the trade differs in some respect (e.g., price and/or quantity). In such cases, the two clearing members or brokers involved must reconcile the discrepancy, if possible, and resubmit the trade for clearing. If an agreement cannot be reached by the two clearing members or brokers involved, the dispute would be settled by an appropriate exchange committee.

Overbought: A technical opinion that the market price has risen too steeply and too fast in relation to underlying fundamental factors. Rank and file traders who were bullish and long have turned bearish.

Overnight Trade: A trade which is not liquidated on the same trading day in which it was established.

Oversold: A technical opinion that the market price has declined too steeply and too fast in relation to underlying fundamental factors. Rank and file traders who were bearish and short have turned bullish.

P&S (Purchase and Sale Statement): A statement sent by a commission house to a customer when any part of a futures position is offset, showing the number of contracts involved, the prices at which the contracts were bought or sold, the gross profit or loss, the commission charges, the net profit or loss on the transactions, and the balance.

Paper Profit or Loss: The profit or loss that would be realized if open contracts were liquidated as of a certain time or a certain price.

Par: (1) Refers to the standard delivery point(s) and/or quality of a commodity that is deliverable on a futures contract at contract price. Serves as a benchmark upon which the base discounts or premiums for varying quality and delivery locations. (2) In bond markets, an index (usually 100) representing the face value of a bond.

Path Dependent Option: An option whose valuation and payoff depends on the realized price path of the underlying asset, such as an Asian option or a Lookback option.

Pay/Collect: A shorthand method of referring to the payment of a loss (pay) and receipt of a gain (collect) by a clearing member to or from a clearing organization that occurs after a futures position has been marked-to-market. See Variation Margin.

Payment-in-Kind: Refers to an alternative to cash payments to producers of various commodities under the U.S. Department of Agriculture acreage control program authorized by Congress in 1985. The payments consisted of generic certificates which could be exchanged for commodities held in government warehouses or redeemed for equivalent monetary value.

Pegged Price: The price at which a commodity has been fixed by agreement.

Pegging: Effecting commodity transactions to prevent a decline in the price of the commodity so that previously written put options will expire worthless, thus protecting premiums previously received.

Pit: A specially constructed arena on the trading floor of some exchanges where trading in a futures contract is conducted. On other exchanges the term “ring” designates the trading area for a commodity. See Ring.

Pit Brokers: See Floor Broker.

Point: A measure of price change equal to 1/100 of one cent in most futures traded in decimal units. In grains, it is of one cent; in T-bonds, it is one percent of par. See Tick.

Point-And-Figure: A method of charting which uses prices to form patterns of movement without regard to time. It defines a price trend as a continued movement in one direction until a reversal of a predetermined criterion is met.

Point Balance: A statement prepared by futures commission merchants to show profit or loss on all open contracts by computing them to an official closing or settlement price, usually at calendar month end.

Pork Bellies: One of the major cuts of the hog carcass that, when cured, becomes bacon.

Portfolio Insurance: A trading strategy which attempts to alter the nature of price changes in a portfolio to substantially reduce the likelihood of returns below some predetermined level for an established period of time. This can be achieved by moving assets among stocks, cash and fixed-income securities or, with the advent of stock index futures contracts, by hedging a stock-only portfolio by selling stock index futures in a declining market or purchasing futures in a rising market. The objective is to create an exposure similar to that of a stock portfolio with a protective purchased put option.

Position: An interest in the market, either long or short, in the form of one or more open contracts. Also, "in position" refers to a commodity located where it can readily be moved to another point or delivered on a futures contract. Commodities not so situated are "out of position." Soybeans in Mississippi are out of positionfor delivery in Chicago, but in position for export shipment from the Gulf.

Position Limit: The maximum position, either net long or net short, in one commodity future (or option) or in all futures (or options) of one commodity combined which may be held or controlled by one person as prescribed by an exchange and/ or by the CFTC.

Position Trader: A commodity trader who either buys or sells contracts and holds them for an extended period of time, as distinguished from the day trader, who will normally initiate and offset a futures position within a single trading session.

Positive Carry: The cost of financing a financial instrument (the short-term rate of interest), where the cost is less than the current return of the financial instrument. See also Carrying Charges and Negative Carry.

Posted Price: An announced or advertised price indicating what a firm will pay for a commodity or the price at which the firm will sell it.

Prearranged Trading: Trading between brokers in accordance with an expressed or implied agreement or understanding, which is a violation of the Commodity Exchange Act and CFTC regulations.

Premium: (1) the amount a price would be increased to purchase a better quality commodity; (2) refers to a futures delivery month selling at a higher price than another, as "July is at a premium over May;" (3) cash prices that are above the futures price, such as in foreign exchanges. If the forward rate for Italian lira is at a premium to spot lira, it is selling above the spot price. See Contango, Discount; (4) the money, securities or property the buyer pays to the writer for granting an option contract.

Price Basing: A situation where producers, processors, merchants or consumers of a commodity establish commercial transaction prices based on the futures prices for that or a related commodity (e.g., an offer to sell corn at 5 cents over the December futures price). This phenomenon is commonly observed in grain and metal markets.

Price Discovery: The process of determining the price level for a commodity based on supply and demand factors.

Price Manipulation: Any planned operation, transaction or practice calculated to cause or maintain an artificial price.

Price Movement Limit: See Limit (Up or Down).

Primary Market: (1) For producers, their major purchaser of commodities; (2) in commercial marketing channels, an important center at which spot commodities are concentrated for shipment to terminal markets; and (3) to processors, the market that is the major supplier of their commodity needs.

Principals' Market: A market where the ring dealing members act as principals for the transactions they conclude across the ring and with their clients.

Privileges: See Option.

Program Trading: The purchase (or sale) of a large number of stocks contained in or comprising a portfolio. Originally called "program" trading when index funds and other institutional investors began to embark on large-scale buying or selling campaigns or "programs" to invest in a manner which replicated a target stock index, the term now also commonly includes computer aided stock market buying or selling programs, portfolio insurance, and index arbitrage.

Prompt Date: The date on which the buyer of an option will buy or sell the underlying commodity (or futures contract) if the option is exercised.

Public: In trade parlance, non-professional speculators as distinguished from hedgers and professional speculators or traders.

Public Elevators: Grain elevators in which bulk storage of grain is provided for the public for a fee. Grain of the same grade but owned by different persons is usually mixed or commingled as opposed to storing it "identity preserved." Some elevators are approved by exchanges as "regular" for delivery on futures contracts.

Purchase and Sale Statement: See P&S.

Puts: Option contracts which give the holder the right but not the obligation to sell a specified quantity of a particular commodity or other interest at a given price (the "strike price") prior to or on a future date. Also called "put option," they will have a higher (lower) value the lower (higher) the current market value of the underlying article is relative to the strike price.

Put Option: An option to sell a specified amount of a commodity at an agreed price and time at any time until the expiration of the option. A put option is purchased to protect against a fall in price. The buyer pays a premium to the seller/grantor of this option. The buyer has the right to sell the commodity or enter into a short position in the futures market if the option is exercised. Also see Call Option.

Pyramiding: The use of profits on existing positions as margin to increase the size of the position, normally in successively smaller increments.

Quick Order: See Fill or Kill Order.

Quotation: The actual price or the bid or ask price of either cash commodities or futures contracts.

Rally: An upward movement of prices. Same as Recovery.

Random Walk: An economic theory that price movements in the commodity futures markets and in the securities markets are completely random in character (i.e., past prices are not a reliable indicator of future prices).

Range: The difference between the high and low price of a commodity during a given period.

Ratio Hedge: The number of options compared to the number of futures contracts bought or sold in order to establish a hedge that is risk neutral.

Ratio Spread: This strategy, which applies to both puts and calls, involves buying or selling options at one strike price in greater number than those bought or sold at another strike price.

Reaction: The downward price movement tendency of a commodity after a price advance.

Recovery: An upward price movement after a decline. Same as Rally.

Regular Warehouse: A processing plant or warehouse that satisfies exchange requirements for financing, facilities, capacity, and location and has been approved as acceptable for delivery of commodities against futures contracts. See Licensed Warehouse.

Replicating Portfolio: A portfolio of assets for which changes in value match those of a target asset. For example, a portfolio replicating a standard option can be constructed with certain amounts of the asset underlying the option and bonds. Sometimes referred to as a Synthetic Asset.

Reporting Level: Sizes of positions set by the exchanges and/or the CFTC at or above which commodity traders or brokers who carry these accounts must make daily reports about the size of the position by commodity, by delivery month, and whether the position is controlled by a commercial or non-commercial trader.

Resistance: In technical trading, a price area where new selling will emerge to dampen a continued rise. Also see Support.

Resting Order: An order to buy at a price below or to sell at a price above the prevailing market that is being held by a floor broker. Such orders may either be day orders or open orders.

Retender: In specific circumstances, some contract markets permit holders of futures contracts who have received a delivery notice through the clearing house to sell a futures contract and return the notice to the clearinghouse to be reissued to another long; others permit transfer of notices to another buyer. In either case, the trader is said to have retendered the notice.

Retracement: A reversal within a major price trend.

Reversal: A change of direction in prices.

Reverse Conversion: With regard to options, a position created by buying a call option, selling a put option, and selling the underlying futures contract.

Riding the Yield Curve: Trading in an interest rate futures according to the expectations of change in the yield curve.

Ring: A circular area on the trading floor of an exchange where traders and brokers stand while executing futures trades. Some exchanges use pits rather than rings. See Pit.

Risk Factor: See Delta Value.

Risk/Reward Ratio: The relationship between the probability of loss and profit. This ratio is often used as a basis for trade selection or comparison.

Roll-Over: A trading procedure involving the shift of one month of a straddle into another future month while holding the other contract month. The shift can take place in either the long or short straddle month. The term also applies to lifting a near futures position and re-establishing it in a more deferred delivery month.

Round Lot: A quantity of a commodity equal in size to the corresponding futures contract for the commodity. See Even Lot.

Round Turn: A completed transaction involving both a purchase and a liquidating sale, or a sale followed by a covering purchase.

Rules: The principles for governing an exchange. In some exchanges, rules are adopted by a vote of the membership, while regulations can be imposed by the governing board.

Sample Grade: In commodities, usually the lowest quality of a commodity, too low to be acceptable for delivery in satisfaction of futures contracts.

Scale Down (or Up): To purchase or sell a scale down means to buy or sell at regular price intervals in a declining market. To buy or sell on scale up means to buy or sell at regular price intervals as the market advances.

Scalper: A speculator on the trading floor of an exchange who buys and sells rapidly, with small profits or losses, holding his positions for only a short time during a trading session. Typically, a scalper will stand ready to buy at a fraction below the last transaction price and to sell at a fraction above, thus creating market liquidity.

Scalping: The practice of trading in and out of the market on very small price fluctuations. A person who engages in this practice is known as a scalper.

Security Deposit: See Margin.

Seller's Call: See Call.

Seller's Market: A condition of the market in which there is a scarcity of goods available and hence sellers can obtain better conditions of sale or higher prices. Also see Buyer's Market.

Seller's Option: The right of a seller to select, within the limits prescribed by a contract, the quality of the commodity delivered and the time and place of delivery.

Selling Hedge (or Short Hedge): Selling futures contracts to protect against possible decreased prices of commodities. Also see Hedging.

Series (of Options): Options of the same type (i.e., either puts or calls, but not both), covering the same underlying futures contract or physical commodity, having the same strike price and expiration date.

Settlement: The act of fulfilling the delivery requirements of the futures contract.

Settlement or Settling Price: The daily price at which the clearing house clears all trades and settles all accounts between clearing members of each contract month. Settlement prices are used to determine both margin calls and invoice prices for deliveries. The term also refers to a price established by the exchange to even up positions which may not be able to be liquidated in regular trading.

Sharpe Ratio: A measurement of trading performance calculated as the average return divided by the variance of those returns; named after William P. Sharpe.

Shipping Certificate: A negotiable instrument used by several futures exchanges as the futures delivery instrument for several commodities (e.g., soybean meal, plywood, and white wheat). The shipping certificate is issued by exchange-approved facilities and represents a commitment by the facility to deliver the commodity to the holder of the certificate under the terms specified therein. Unlike an issuer of a warehouse receipt who has physical product in store, the issuer of a shipping certificate may honor its obligation from current production or throughput as well as from inventories.

Shock Absorber: A temporary restriction in the trading of stock index futures which becomes effective following a significant intraday decrease in stock index futures prices. Designed to provide an adjustment period to digest new market information, the restriction bars trading below a specified price level. Shock Absorbers are generally market specific and at tighter levels than circuit breakers.

Short: (1) The selling side of an open futures contract; (2) a trader whose net position in the futures market shows an excess of open sales over open purchases. See Long.

Short Covering: See Cover.

Short Hedge: See Selling Hedge.

Short Selling: Selling a futures contract with the idea of delivering on it or offsetting it at a later date.

Short Squeeze: See Squeeze.

Short the Basis: The purchase of futures as a hedge against a commitment to sell in the cash or spot markets. See Hedging.

Small Traders: Traders who hold or control positions in futures or options that are below the reporting level specified by the exchange or the CFTC.

Soft: A description of a price which is gradually weakening. Also refers to commodities such as sugar, cocoa, and coffee.

Soften: The process of a slowly declining market price.

Sold-Out-Market: When liquidation of a weakly-held position has been completed, and offerings become scarce, the market is said to be sold out.

Specialist System: A type of trading commonly used for the exchange trading of securities in which one individual or firm acts as a market-maker in a particular security, with the obligation to see that trading in that security is fair and orderly by offsetting temporary imbalances in supply and demand by trading for his own account. Also see Board Broker System and Free Crowd System.

Speculative Bubble: A rapid, but usually short-lived, run-up in prices caused by excessive buying which is unrelated to any of the basic, underlying factors affecting the supply or demand for the commodity. Speculative bubbles are usually associated with a "bandwagon" effect in which speculators rush to buy the commodity (in the case of futures, "to take positions") before the price trend ends, and an even greater rush to sell the commodity (unwind positions) when prices reverse.

Speculative Limit: See Position Limit.

Speculative Position Limit: See Position Limit.

Speculator: In commodity futures, an individual who does not hedge, but who trades with the objective of achieving profits through the successful anticipation of price movements.

Split Close: Term which refers to price differences in transactions at the close of any market session.

Spot: Market of immediate delivery of the product and immediate payment. Also refers to a maturing delivery month of a futures contract.

Spot Commodity: (1) The actual commodity as distinguished from a futures contract: (2) sometimes used to refer to cash commodities available for immediate delivery. Also see Actuals or Cash Commodity.

Spot Month: See Current Delivery Month.

Spot Price: The price at which a physical commodity for immediate delivery is selling at a given time and place. See Cash Price.

Spread (or Straddle): The purchase of one futures delivery month against the sale of another futures delivery month of the same commodity; the purchase of one delivery month of one commodity against the sale of that same delivery month of a different commodity; or the purchase of one commodity in one market against the sale of the commodity in another market, to take advantage of a profit from a change in price relationships. See also Arbitrage, Switch. The term spread is also used to refer to the difference between the price of a futures month and the price of another month of the same commodity. A spread can also apply to options.
Squeeze: A market situation in which the lack of supplies tends to force shorts to cover their positions by offset at higher prices.

SRO: See Designated Self-Regulatory Organization.

Standby Commitment: A put option in Ginnie Mae trading which gives the holder the right, but not the obligation, to make delivery.

Stop-Close-Only Order: A stop order which can only be executed, if possible, during the closing period of the market. See also Market-on-Close Order.

Stop Limit Order: A stop limit order is an order that goes into force as soon as there is a trade at the specified price. The order, however, can only be filled at the stop limit price or better.

Stop Order: This is an order that becomes a market order when a particular price level is reached. A sell stop is placed below the market, a buy stop is placed above the market. Sometimes referred to as Stop Loss Order.

Straddle: See Spread.

Strangle: An option position consisting of the purchase or sale of put and call options having the same expiration but different strike prices.

Street Book: A daily record kept by futures commission merchants and clearing members showing details of each futures transaction, including date, price, quantity, market, commodity, future, and the person for whom the trade was made.

Striking Price (Exercise or Contract Price): The price, specified in the option contract, at which the underlying futures contract or commodity will move from seller to buyer.

STRIPS: Separate Trading of Registered Interest and Principal Securities. A book-entry system operated by the Federal Reserve permitting separate trading and ownership of the principal and coupon portions of selected Treasury securities. It allows the creation of zero coupon Treasury securities from designated whole bonds.

Strong Hands: When used in connection with delivery of commodities on futures contracts, the term usually means that the party receiving the delivery notice probably will take delivery and retain ownership of the commodity; when used in connection with futures positions, the term usually means positions held by trade interests or well-financed speculators.

Support: In technical analysis, a price area where new buying is likely to come in and stem any decline. Also see Resistance.

Swap: In general, the exchange of one asset or liability for a similar asset or liability for the purpose of lengthening or shortening maturities, or raising or lowering coupon rates, to maximize revenue or minimize financing costs. In securities, this may entail selling one issue and buying another in foreign currency, it may entail buying a currency on the spot market and simultaneously selling it forward. Swaps may also involve exchanging income flows; for example, exchanging the fixed rate coupon stream of a bond for a variable rate payment stream, or vice versa, while not swapping the principal component of the bond.

Swaption: An option to enter into a swap — i.e., the right, but not the obligation, to enter into a specified type of swap at a specified future date.

Switch: Offsetting a position in one delivery month of a commodity and simultaneous initiation of a similar position in another delivery month of the same commodity, a tactic referred to as “rolling forward.” See Arbitrage.

Synthetic Futures: A position created by combining call and put options. A synthetic long futures position is created by combining a long call option and a short put option for the same expiration date and the same strike price. A synthetic short futures is created by combining a long put and a short call with the same expiration date and the same strike price.

Systemic Risk: Market risk due to price fluctuations which cannot be eliminated by diversification.

Taker: The buyer of an option contract.

T-Bond: See Treasury Bond.

Technical Analysis: An approach to forecasting commodity prices which examines patterns of price change, rates of change, and changes in volume of trading and open interest, without regard to underlying fundamental market factors.

Ted Spread: The difference between the price of the three-month U.S. Treasury bill futures contract and the price of the three-month Eurodollar time deposit futures contract with the same expiration month.

Tender: To give notice to the clearinghouse of the intention to initiate delivery of the physical commodity in satisfaction of the futures contract. Also see Retender.

Tenderable Grades: See Contract Grades.

Terminal Elevator: An elevator located at a point of greatest accumulation in the movement of agricultural products which stores the commodity or moves it to processors.

Terminal Market: Usually synonymous with commodity exchange or futures market, specifically in the United Kingdom.

Theta: The derivative of the option price equation with respect to the remaining time to expiration of the option. A measure of the sensitivity of the value of the option to the passage of time.

Tick: Refers to a minimum change in price up or down. See Point.

Time-of-Day Order: This is an order which is to be executed at a given minute in the session. For example, “Sell 10 March corn at 12:30 p.m.”

Time Spread: The selling of a nearby option and buying of a more deferred option with the same strike price.

Time Value: That portion of an option’s premium that exceeds the intrinsic value. The time value of an option reflects the probability that the option will move into-the-money. Therefore, the longer the time remaining until expiration of the option, the greater its time value. Also called Extrinsic Value.

To-Arrive Contract: A transaction providing for subsequent delivery within a stipulated time limit of a specific grade of a commodity.

Trade Option: A commodity option transaction in which the taker is reasonably believed by the writer to be engaged in business involving use of that commodity or a related commodity.

Trader: (1) A merchant involved in cash commodities; (2) a professional speculator who trades for his own account.

Transaction: The entry or liquidation of a trade.

Transfer Trades: Entries made upon the books of futures commission merchants for the purpose of: (1) transferring existing trades from one account to another within the same office where no change in ownership is involved; (2) transferring existing trades from the books of one commission merchant to the books of another commission merchant where no change in ownership is involved. Also called Ex-Pit Transactions.

Transferable Option (or Contract): A contract which permits a position in the option market to be offset by a transaction on the opposite side of the market in the same contract.

Transfer Notice: A term used on some exchanges to describe a notice of delivery. See Retender.

Treasury Bills: Short-term U.S. government obligations, generally issued with 13, 26 or 52-week maturities.

Treasury Bonds (or T-Bond): Long-term obligations of the U.S. government which pay interest semiannually until they mature or are called, at which time the principal and the final interest payment is paid to the investor.

Treasury Notes: Same as Treasury Bonds except that Treasury Notes are medium-term and not callable.

Trend: The general direction, either upward or downward, in which prices have been moving.

Trendline: In charting, a line drawn across the bottom or top of a price chart indicating the direction or trend of price movement. If up, the trendline is called bullish; if down, it is called bearish.

Underlying Commodity: The commodity or futures contract on which a commodity option is based, and which must be accepted or delivered if the option is exercised. Also, the cash commodity underlying a futures contract.

Variable Price Limit: A price limit schedule, determined by an exchange, that permits variations above or below the normally allowable price movement for any one trading day.

Variation Margin: Payment made on a daily or intraday basis by a clearing member to the clearing organization based on adverse price movement in positions carried by the clearing member, calculated separately for customer and proprietary positions.

Vault Receipt: A document indicating ownership of a commodity stored in a bank or other depository and frequently used as a delivery instrument in precious metal futures contracts.

Visible Supply: Usually refers to supplies of a commodity in licensed warehouses. Often includes afloats and all other supplies “in sight” in producing areas.

Volatility Quote Trading: Refers to the quoting of bids and offers on option contracts in terms of their implied volatilities rather than as prices.

Volume of Trade: The number of contracts traded during a specified period of time. It may be quoted as the number of contracts traded or in the total of physical units, such as bales or bushels, pounds or dozens.

Warehouse Receipt: A document certifying possession of a commodity in a licensed warehouse that is recognized for delivery purposes by a commodity futures exchange.

Warrant: An issuer-based product that gives the buyer the right, but not the obligation, to buy (in the case of a call) or to sell (in the case of a put) a stock or a commodity at a set price during a specified period.

Warrant or Warehouse Receipt for Metals: Certificate of physical deposit, which gives title to physical metal in an exchange approved warehouse.

Wash Sale: Transactions that give the appearance of purchases and sales but which are initiated without the intent to make a bona fide transaction and which generally do not result in any actual change in ownership. Such sales are prohibited by the Commodity Exchange Act.

Wash Trading: Entering into, or purporting to enter into, transactions to give the appearance that purchases and sales have been made, without resulting in a change in the trader’s market position.

Weak Hands: When used in connection with delivery of commodities on futures contracts, the terms usually means that the party probably does not intend to retain ownership of the commodity; when used in connection with futures positions, the term usually means positions held by small speculators.

Wild Card Option: Refers to a provision of any physical delivery Treasury Bond or Note futures contract which permits shorts to wait until as late as 8:00 p.m. on any notice day to announce their intention to deliver at invoice prices that are fixed at 2:00 p.m., the close of futures trading, on that day.

Winter Wheat: Wheat that is planted in the fall, lies dormant during the winter, and is harvested beginning about May of the next year.

Writer: The issuer, grantor, or maker of an option contract.

Yield Curve: A graphic representation of market yield for a fixed income security plotted against the maturity of the security.

Walk the Walk
Trade the Trade
and
Talk the Talk

If you are like us, you probably learned a few things reading through this PDF booklet on Futures Industry Terminology. Using the correct terminology is imperative when placing orders, settling disputes and showing that you know what you are doing in the markets. In fact, it will make you a better trader.

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