# MARKETING TERMS DEFINED

**Arbitrage** - simultaneous purchase and sale of the same quantity of the same (or similar) commodity in two different markets, either in the same country or in different countries; used to take advantage of what is believed to be a temporary disparity in prices.

**Ask -** offer of commodity for sale at a specific price (also termed "offer").

**Assignment** - the process in which the seller of an option is notified of the buyer's decision to exercise. The seller of the option will be assigned the opposite futures position to the position created for the option buyer.

**At The Market -** an order to buy or sell at the best price obtainable at the time order is received.

**At The Money** - an option with a strike price close to the current price of the underlying instrument.

**Basis** - the difference between a cash price and a futures price of a particular commodity. In the grain trade, it is the difference between the net price the farmer receives and the futures contract price upon which that net price is based, considering all marketing costs including transportation and handling.

**Bear** - one who believes prices are too high and will decline.

**Bear Market** - one where prices are falling, often due to increased supplies and/or weak demand, or the perception thereof.

**Bid** - a price offered for a specific amount of commodity (opposite of "Offer"). The bid, unless otherwise stated, must be accepted immediately.

**Break** - a quick, extensive decline in prices.

**Broker** - an agent entrusted with the execution of an order.

**Bulge -** a rapid advance in prices.

**Bull** - one who believes prices are too low and will rise.

**Bull Market** - one where prices are rising, often due to reduced supplies and/or strong demand, or the perception thereof.

**Call Option** - a financial contract giving the purchaser the right, but not the obligation, to buy a futures contract at a fixed price level on or before an expiration date. The seller of the call option collects a premium, but assumes the obligation to be assigned a sell position of the underlying futures.

**Carrying Charge Market** - a futures market in which the nearby months are selling at a discount to the successive distant months.

**Carrying Charges -** the interest and storage costs associated with the ownership of grain over a time period.

**Carryover Stocks** - the stocks of grain in all positions at the end of the crop year.

**Cash** - the actual physical product or commodity as distinguished from futures. Also known as "cash commodity," "spot commodity" or "actuals".

**Cash Advance** - a cash advance made to a producer for on farm-stored grain under the provision of the Prairie Grain Advance Payments Act.
**Cash Contract for Future Delivery -** a contract between two parties for the purchase and sale of grain of a specified grade, to be delivered to the buyer by the seller at a specified delivery point and within a specified delivery period for a specified price. (same as Deferred Delivery Contract)

**Cash Purchase Ticket -** a ticket issued by a buyer showing the grade, weight, price and amount payable for each delivery of grain received by a buyer. The ticket is a negotiable instrument and can be cashed at any bank.

**CBOT** – Chicago Board of Trade.

**Charting -** the construction and use of charts or graphs in the technical analysis of futures markets.

**CIF -** abbreviation referring to the costs, insurance and freight to port of destination.

**Clearing House** - the separate agency working with a commodity exchange and through which futures contracts are offset or fulfilled and financial settlements are made.

**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".

**Closing Price (or range) -** the price (or price range) recorded during the period designated by the exchange as the official close.

**CME -** Chicago Mercantile Exchange.

**Commission House** – an entity that buys and sells actual commodities or futures contracts for the accounts of customers (e.g., brokerage firm).

**Commodity Exchange -** centers where actual commodities or commodity futures contracts are bought and sold. All organized exchanges have regulations to govern the details or trading procedures.

**Contract Grades -** those grades of a commodity which have been officially approved by an exchange as deliverable in settlement of a futures contract (also called deliverable grades).

**Convergence -** the decrease of basis premiums and/or discounts until cash and futures prices coincide by the expiry of a delivery month at the delivery point for that futures contract.

**Corner** - to secure such relative control of a commodity or security that its price can be manipulated. In the extreme situation, obtaining more contracts requiring the delivery of commodities or securities than the quantity of such commodities or securities actually exist. Strict limits are placed on the number of positions that one entity can hold.

**Cover** - The cancellation (offsetting) of a short (sell) position in any futures market by the purchase of an equal quantity of the same futures (see “liquidation”).

**Cycle Analysis -** the identification and use of cycle patterns to predict future market behavior.

**Daily Bar Chart** - a chart showing the daily high, low and closing prices.

**Daily Continuation Chart** - a daily bar chart that charts the nearest futures contract open, high, low and close for a particular commodity.

**Day Orders** - those limited orders that are to be executed the day for which they are effective and, if not filled, expire at the close of that day.

**Dealer Car -** a railroad car that is part of a grain company's share of allocated railroad cars. (see producer car)

**Deferred Delivery Contract -** a contract in which a seller agrees to deliver a specified quantity of grain or oilseed to a buyer at a specified location for a specified price on a specified date in the future.

**Deferred Futures -** futures contracts that expire in the more distant months.

**Deferred Pricing Option –** delivery of grain with an alternative to price it at a later date.

**Deferred Settlement -** to establish price at the time of delivery, but receive actual settlement at some time in the future; typically used for tax planning reasons.

**Delivery** – (1) the tender and receipt of the actual commodity, or (2) warehouse receipts covering such commodity in settlement of a futures contract.

**Delivery Month** - the calendar month during which a futures contract matures. For futures contracts that include the alternative of physical delivery, it is the month that delivery may occur.

**Delivery Notice** - notification of delivery of the actual commodity on the contract, issued by the seller of the futures to the Clearing House.

**Delivery Period** – the period of time within which delivery may be made under the terms of a contract.

**Delivery Points** - those locations designated by commodity exchanges at which a commodity covered by a futures contract may be delivered in fulfilment of the contract.

**Delivery Price -** the price fixed by the clearing house at which deliveries on futures are invoiced.

**Delta** - the amount an options premium changes given the movement in the underlying futures price.

**Dockage (Screenings) -** the foreign material removable from grain, used to arrive at the net weight of clean grain. Dockage is expressed as a percentage of the gross weight of the delivered grain.

**Embargo** – a restriction or law preventing the flow of a commodity out of a country or into a particular country.

**Evening Up -** when traders are closing their positions in the market by (1) selling in the case of longs (having held a buy position), or (2) buying in the case of shorts (having held a sell position).

**Exchange of Futures -** the exchange of a quantity of futures for the same quantity of the cash commodity.

**Exchange Rate -** the cost or price of one currency stated in terms of another currency.

**Exercise** - the process by which the purchaser of an option informs the seller of the intention to take delivery of the futures contract at the agreed upon strike price.

**Exercise Price (Strike Price) -** the price at which a futures position is taken if the option is exercised.

**Expiration** - the date upon which the option expires and the option seller's obligation ends.

**Extrinsic Value** - time value of an option.

**Fence or Window -** a risk management strategy using options that secures a higher floor price while putting a ceiling on price upside (e.g., to buy a put and sell an "out of the money" call)

**First Notice Day** - the first day on which notices of intentions to deliver actual commodities against futures market positions can be made. First notice day usually precedes the beginning of the delivery period.

**Flat -** to make a cash grain sale or purchase at a fixed price (flat price)

**Floor Trader** – a trader who executes his own trades by being personally present in the place provided for futures trading.

**Forward Price -** an agreement between a buyer and seller that establishes price prior to delivery.

**FOB -** Free on board. Price effective at a certain location with no additional charges (e.g., in a terminal or loaded on a ship or truck)

**Full Carrying Charge -** in futures transactions, the cost (storage, interest, etc.) of taking actual delivery in a given month, storing the commodity and redelivering against the next delivery month.

**Fully Steady -** a steady to up-trending market.

**Fundamentals -** supply/demand factors affecting a market.

**Fundamental Analysis -** the prediction of future price levels based on supply and demand factors

**Futures Contract -** the standardized contract covering the purchase and sale of commodities for future delivery on a commodity exchange. Also known as "futures".

**Grading Certificate -** certificates attesting to the quality of a commodity as graded by official inspectors or graders.

**Grain Sample -** a representative sample drawn from grain at unload that is used to determine the grade, dockage, moisture content, and sometimes protein content of the whole parcel of grain being sampled.

**GTC -** Good 'til cancelled; refers to open order to buy or sell at a certain price.

**Hard Spot** - An interval of strength in the market, typically resulting from more buying than selling at that price level.

**Harden** - a slowly advancing market (firming)

**Heavy** – market situation where there is a higher number of sell orders than buy orders.

**Hedge –** a transaction to reduce the risk of loss due to adverse price change. (1) a sale of any commodity for future delivery on the futures market so that such sales are offset in quantity by the ownership (or potential ownership in the case of a growing crop) of the same cash commodity (short hedge) or, (2) purchases of any commodity for future delivery on a futures market so that such purchases are offset by sales of the same cash commodity (long hedge).

**ICE –** Intercontinental Exchange.

**Implied Volatility** – an estimate of volatility (rate at which a security moves up and down) of a market derived from a model (e.g., Black-Scholes).

**In the Money** - a call option with a strike (exercise) price lower than the current market price, or a put option with a strike price above the current price of the underlying contract.

**Initial Margin -** the amount deposited by buyers and sellers of futures contracts to ensure performance on contract commitments; serves as a performance bond. The minimum initial margin is set by the exchange and can vary depending on the commodity, the contract value and price volatility. A brokerage firm may set a higher margin level than the minimum exchange margin. (see Maintenance Margin)

**Intrinsic Value** - the amount that an option is "in the money". If the option buyer exercised the option while it was "in the money", the futures position created for the option buyer would have a paper profit equal to the amount that the option was "in the money".

**Inverted Market (inverse market)** - a futures market in which the nearby month price is at a premium to the more distant month (i.e., a market displaying "inverse carrying charges"). This price relationship is characteristic of a situation where supplies of a product are in near-term short supply.

**Limit** - the maximum price fluctuation of a futures contract during a trading session as compared to the previous session's closing price; fixed by the rules of an exchange. Limits can be expanded under certain market conditions.

**Limited Order -** order in which the client places limits on the price or time for order execution.

**Liquidation -** the closing out (offsetting) of a long (buy) position in any futures market by the sale of an equal quantity of the same futures. (see "cover")

**Long** - one who has physical grain or who is on the buy side of an open futures contract.

**Maintenance Margin -** the minimum amount of money a trader must have in the margin account to secure the open position(s). A drop below this level will result in a margin call.

**Margin** - the amount deposited by buyers and sellers of futures to guarantee performance on contract commitments.

**Margin Call** - a request to restore the margin of a trade either to the original margin or to "maintenance margin" levels required for that contract.

**Market Order** - an order for immediate execution at the best available price.

**MIT -** Market If Touched - an order with a specific price that, when touched, becomes a market order.

**Moving Average -** an average price calculated by adding a new price and dropping the first price in the series. For example, if a five-day moving average is being calculated, the average for the sixth day is calculated by adding the price for the sixth day and dropping the price for the first day). Typically, the moving average is plotted on a price graph for use in market analysis.

**Nearby** - the nearest traded contract month.

**Net Position** - the difference between the open contracts long and the open contracts short held in any one commodity by an individual or group.

**Nominal Price** - a declared price for a futures month. It is used to establish a closing price when no recent trading has taken place in a particular contract; is usually the average between the "bid" and "ask" prices.

**Non-board Grain -** grain that is marketed through the open market system (i.e., non-CWB grain).

**Off - i**n quoting the basis, the number of points the cash price will be under a specified futures price (e.g., 20 points off December; alternatively, 20 points under December).

**Offset -** reversal of a futures contract position by taking an equal but opposite position to the original trade. Closing order must be for the same commodity and futures month as the position to be closed.

**Offer -** an indication of willingness to sell at a given price. (same as "ask")

**On -** in quoting the basis, the number of points that the cash commodity is above a specified futures contract month's price (e.g., 20 points on December; alternatively, 20 points over December).

**Open Contract (open position)** - contract which has been bought (or sold) without the transaction having been offset by subsequent sale (or purchase), or by the actual delivery or receipt of the commodity.

**Open Interest** - the total of unfilled or outstanding contracts that exist at a particular time. One open buy and sell position equals one open interest.

**Open Order -** an order that is good until cancelled.

**Open, The** - the period at the beginning of the trading session.

**Opening Price (or range)** - the price (or price range) recorded during the period designated by the exchange as the official opening.

**Options -** financial contracts giving the purchaser the right to buy or sell a futures contract at a fixed price level on or before an expiration date. (see call option and put option).

**Option Premium -** the price of a particular option as established by trading in the options market.

**Out of the Money** - a call (put) option with a strike price above (below) the current price of underlying contract. An out of the money option has time (i.e., extrinsic) value only.

**Overbought -** a market price that has been driven too high in relation to the actual conditions of supply and demand, or in relation to technical indicators.

**Oversold -** a market price that has been driven too low in relation to the actual conditions of supply and demand, or in relation to technical indicators.

**Paper Profit or Loss -** the profit or loss that could have been realized if the open position had been offset as of a certain date.

**Pit -** the designated location of the trading floor of a commodity exchange where trading in futures contracts takes place.

**Point** - The minimum unit in which changes in price are expressed.

**Premium** - the amount paid by the buyer of option to the seller (writer) of that option.

**Producer Car -** a railroad car that is ordered, loaded and shipped by a producer. Producers apply to the Canadian Grain Commission to have a car allocated to them. (differs from dealer cars which are allocated to grain companies)

**Put Option** - a contract between buyer and seller, whereby the purchaser assumes the right, but not the obligation, to enter into a short position in the underlying contract on or before expiration day.

**Rally** - a rapid advance in prices.

**Range** - the difference between the high and low price of the instrument during a given period.

**Rolling -** simultaneously buying (selling) a futures contract for delivery in one month while selling (buying) a contract of the same commodity in another month on the same commodity exchange.

**Round Turn** - the completion of both a purchase and an offsetting sale or vice versa.

**Seasonality -** seasonal fluctuation in prices over the year, typically in response to supply and demand patterns (e.g., price weakness as grain deliveries increase during the harvest period).

**Settlement Price -** the daily price at the close of the market at which the clearing house clears all trades and settles accounts between members for each contract month. Settlement prices are used to determine margin calls and invoice prices for deliveries.
**Short** - the selling side of an open futures contract; also refers to a trader whose net position shows an excess of open sales over open purchases.

**Sideways -** a market demonstrating no established price trend.

**Soften** - a slowly declining market price.

**Speculator** – one who attempts to anticipate price direction in the hope of profiting from a price change.

**Speculation –** buying (or selling) a financial instrument (or physical product) for the purpose of selling (or buying) it later for a profit; while speculating, is at the risk of loss due to possible adverse price change.

**Spot Sale -** immediate exchange of title and payment; also referred to as "cash" market.

**Spot Commodity -** the actual physical commodity as distinguished from the futures market.

**Spot (Cash) Price -** the price at which the spot or cash commodity is selling.

**Spread -** the purchase of one futures commodity against the sale of another futures commodity (e.g. wheat verses corn), or the purchase of one month against the sale of another month of the same commodity.

**Steady -** a market with prices basically unchanged from previous quotes.

**Stocks/Use Ratio -** carryover stocks divided by the annual usage or consumption. The ratio is a measure of the relative tightness of the supply demand balance and is usually expressed as a percentage.

**Stop Order Or Stop Loss Order** - an order to buy or sell when the market reaches a specified price. A stop order becomes a market order when the market price trades at or beyond the stop price. The purpose of a stop loss order is to limit a loss or protect a profit.

**Strike Price** (exercise price) **-** the price of the underlying contract that will be owned by the option purchaser if that purchaser elects to exercise (activate) the option.

**Tariff -** taxes which are imposed on commodity imports. They may be levied on an ad valorem basis (as a percentage of value) or on a specific basis (as an amount per unit).

**Technical Analysis -** the prediction of future price levels and trends based on the study of historic price action and market behavior.

**Technical Rally (Or Decline)** - a price movement resulting from conditions developing within the market itself and not relating to supply and demand factors. These conditions could include changes in the open interest, trading volume, degree or recent price movement and approach of first notice day.

**Theta** - the amount an option value will decrease each day because of time decay.

**Thin Market -** a market with a small amount of trading (i.e., small number of buyers or sellers able to agree on a common price).

**Time Value** - the price of an option minus its intrinsic value. The price of an out of the money option is comprised entirely of time value.

**Underlying** - Refers to the instrument to which an option relates (e.g., futures contract or equity).

**Visible Supply -** the supplies of commodities in commercial positions (i.e. not in producers' bins).

**Volume of Trading -** the total purchase or sales of commodity futures contracts during a specific period. Since the number of purchases equals the number of sales, only one side is shown in published reports.

**Warehouse Receipt -** a legal document issued by a warehouse or elevator describing a quantity and grade of a commodity in that warehouse or elevator.

**Weekly Continuation Chart** The same as a daily continuation chart except that the weekly high, low and close are used instead of the daily prices.

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- Daily Green Prices for Alberta
- Weekly Feed Grain Report for Alberta
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