# GLOSSARY

**Anticipatory Hedge:** Hedge placed in anticipation of future action in the cash market and which serves as a temporary or short-run replacement for the cash position.

**Arbitrage:** Actions taken in response to an apparent profit opportunity due to market imbalances. An example would be buying in the cash market and delivering in the futures market because the futures market appears to be unusually high relative to the cash market.

**At-the-Market:** An order to buy or sell at the first price obtainable when the order reaches the trading floor.

**At-the-Money:** Option with a strike price equal the trading level of the underlying futures.

**Bar Chart:** A daily record of futures market activity which shows the high price, the low price, and the closing or settlement price for a particular futures contract.

**Basis:** The difference between cash and futures prices for a particular commodity. It is defined as cash minus futures for a specific location and for a specific point in time.

**Basis Allowance:** The expected basis at the end of a production or planning period for a particular commodity for which futures contracts are trading. The "allowance" adjusts the price for a particular futures contract to a particular market location.

**Basis Contract:** A contract between buyer and seller of grain, livestock, or other commodity that specifies a level of the cash-futures basis that will be used in final settlement of the contract.

**Basis Risk:** The possibility that the cash-futures basis will not move to expected or predicted levels.

**Bearish:** The belief that the market will go to lower price levels.

**Beginning Basis:** The cash-futures basis at the beginning of a decision period such as a storage period in grains.

**Break:** A rapid and significant decline in price often associated with prices moving below a support level.

**Breakaway Gap:** A gap on a bar chart that occurs when the market moves rapidly from a topping or bottoming formation or from a consolidation pattern.

**Broker:** A person paid a commission for acting as an agent in buying or selling futures or options on futures.

**Bullish:** The belief that the market will go to higher price levels.

**Buy Order:** An order to buy a commodity futures contract or option on a futures contract.

**Buy Signal:** A chart development, chart pattern, or related action that indicates the futures market is likely to move higher and therefore should be bought.

**Buy-Stop Order:** An order that becomes a market order when the price specified in the order is touched from below.

**Buy-Stop-Close-Only Order:** An order that is executed by buying futures contracts if the market closes above the price level specified in the order.

**Call Option:** The right, but not the obligation, to a long position in futures.

**Cash Bid:** A price bid by a buyer seeking to buy the cash product immediately or for later delivery.

**Cash Contract:** A contract, usually for later delivery, that specifies price, quality, and other conditions for delivery of a cash commodity.

**Cash-Futures Basis:** The same as "basis," it is the difference between cash prices in a specific market and for a specific time period and a specific commodity futures contract.

**Cash Settlement:** A process whereby open positions, long and short in futures contracts, are settled or "accounted" using a measure of the cash price level versus delivery of the physical commodity under the provisions of the futures contract.

**Causality:** The notion that one event causes another related event, as in the futures market "causing" a change in the cash market, or vice versa.

**CBOT:** Chicago Board of Trade.

**Cell:** A cell or block in a point-and-figure chart that records a price increase or a price decrease.

**Cell Size:** The size of the cells in cents per bushel, dollars per hundredweight, etc., in point-and-figure charting of commodity futures action.

**Close:** A term used to refer to the "closing" or "settlement" price of a futures contract at the end of the daily trading period.

**Close-Only Order:** An order that will be activated only if the closing price will exceed (buy order) or be below (sell order) a price level specified in the order.

**Closing Basis:** The cash-futures basis at the end of the decision period such as the end of a storage or production period.

**CME:** Chicago Mercantile Exchange.

**Commissions:** The charges by brokerage firms for completing transactions in the futures market.

**Commodity Futures Exchange Commission:** Federal commission with authority to oversee and regulate trade in commodity futures.

**Congestion Area:** A pattern on the bar chart of futures trading activity that is characterized by a prolonged period of trade in a relatively narrow price range.

**Conservative Hedger:** Hedger who ascribes to the philosophy that once a hedge is placed, it will not be lifted or offset until the end of the production, storage, or other decision period.

**Consolidation Pattern:** A pattern on the bar charts that is characterized by recognizable shapes as the market consolidates or "rests" in the middle of a major price move.

**Corrective Rally:** A price move up that "corrects" or retraces part of a recent decrease in price.

**Cost of Carry:** Storage, interest, and other variable costs of holding a product in storage.

**Cover:** The term often used to refer to the action of completing a round turn, as in "covering short positions" when short or sell positions are closed out or offset by buying back.

**CPI:** Consumer price index, a widely used measure of overall price inflation.

**Crossover Action:** Term used to refer to a short moving average penetrating and moving above or below a longer moving average.

**Day Trader:** Trader who focuses on intraday trading versus longer run positions that are carried from one trading day to the next.

**Deficiency Payments:** Payments to producers eligible for the subsidies allowed for in the 1985 and 1990 farm bills when cash prices fall below a target price prescribed in the farm bill legislation.

**Deflated Price:** A price that is adjusted for the influence of overall price inflation as measured by such indices as the consumer price index.

**Delta Factor:** Used in the context of options, it is the probability of a price move from a specific price level.

**Delta Neutral:** A marketing or trading program that compensates for the delta factor in options by adjusting the number of options so that the moves in the underlying futures are "matched."

**Demand Curve:** A schedule of the quantities consumers will take at alternative prices.

**Demand Elasticity:** Defined as percent change in quantity/percent change in price, elasticity is a property of a demand curve that measures quantitative responsiveness to a price change.

**Disappearance:** Refers to the demand or use components in the USDA supply-demand tables.

**Double Bottom:** Pattern on a bar chart that shows two price lows at or near the same price level.

**Double Top:** Pattern on a bar chart that shows two price highs at or near the same price level.

**Ending Basis:** The cash-futures basis at the end of a decision period such as the end of a storage period or the end of a production period. The same as closing basis.

**Ending Stocks:** The stocks of corn, wheat, etc., that are left over at the end of a crop year and must be carried forward to the next crop year.

**Equilibrium Price:** A market-clearing price, and the only price at which the quantity suppliers are willing to offer equals the quantity buyers are willing to take.

**Exchange Member:** Firm that owns a "seat" or the right to trade on an organized futures exchange.

**Exchange Rates:** The rate at which one currency, such as the Canadian dollar, can be exchanged for another currency, such as the U.S. dollar.

**Exercise:** Formal requesting of the right to a short or long position in the underlying futures contract for put and call options respectively.

**Exhaustion Gap:** A chart gap that appears near the completion of a major and sustained move in price of a commodity futures contract.

**Federal Reserve (Fed):** The Federal Reserve System that has the potential, through committee selected actions, to influence the money supply and interest rates by open market operations, changing the discount rate at which member banks borrow funds, etc.

**Fill:** Act of fulfilling an order to buy or sell commodity futures.

**Fiscal Policy:** Tax, spending, and related federal policy decisions that have the potential to influence the nature and level of economic activity.

**Flag:** Consolidation pattern that takes on the distinctive shape of a flag in the midst of a major price move in commodity futures.

**Floor Broker:** Brokers who trade in the futures or options pits on an exchange and fill orders for one or more brokerage firms and/or trade their own account.

**Forced Sale:** Sale that is forced due to margin calls or other financial limitations and which may be inconsistent with orderly management of market positions.

**Forward Price:** The price being offered by the futures market for future delivery, defined as the futures price plus an adjustment for the cash-futures basis.

**Fundamentals:** The supply and demand forces that ultimately determine the direction of price movement and the level of price.

**Futures Contract:** Contract for future delivery traded on organized futures exchange and that specifies quality standards, delivery specifications, delivery locations, etc.

**Fundamental Analysis:** Analyses of the underlying supply-demand forces in an attempt to project direction, probable price range, etc., of the prices of a particular futures commodity.

**Gap:** Price range on a bar chart of daily price action in which no trade occurred.

**GNP:** Gross national product, a measure of economic activity in the U.S. Government Loan Program: Program that offers legislatively determined "loan prices" for eligible producers of corn, wheat, etc. with the loan price becoming effectively a minimum price guarantee.

**Good 'Til Canceled (GTC):** An order for a futures market position that will remain in place until it is canceled by the commodity broker.

**Head and Shoulders:** A topping or bottoming formation on commodity futures charts that takes on the distinctive shape of a person's head and shoulders.

**Hedger:** Futures or options trader who has a position, or will have a position, in the cash market and wishes to transfer the risk of cash-market price fluctuations to someone else.

**Hedging:** The establishing of a position in the futures market that is equal and opposite the position, or intended position, in the cash market with an objective of transferring cash price risk to someone else.

**High:** The highest price recorded for a particular commodity futures contract in a particular trading session or time period.

**High-Volume Day:** A day during which trading volume for a particular commodity future is unusually high relative to trading volumes for recent days.

**IMM:** International Monetary Market, located in Chicago, offering trade in futures contracts for financial futures and foreign currencies.

**In-The-Money:** Put option at a strike price above the underlying futures price or a call option below the underlying futures price.

**Inelastic:** Refers to a demand elasticity coefficient of less than 1.0 in absolute value, indicating quantitative response to a price stimulus will be relatively small.

**Inflation Adjusted:** A price or income series that has been adjusted for the influence of overall price inflation by dividing the series by a measure of price inflation such as the consumer price index (CPI).

**Initial Margin:** Margin required, per contract, before a potential trader can be involved in buying and selling futures contracts for a particular commodity.

**Intrinsic Value:** The difference between the strike price for a commodity futures option and the trading level of the underlying futures contract.

**Island Reversal:** Chart pattern that shows chart gaps before and after price activity for one or more trading days.

**Key Reversal:** A bar chart pattern characterized by a new contract high or low, a trading range that exceeds that of the previous day, and a lower close (for a topping pattern) or a higher close (for a bottoming pattern).

**Life-of-Contract:** Used to refer to the entire period for which a particular commodity futures contract has been trading.

**Limit-Down:** Refers to a commodity futures contract that trades down the allowable daily move from the previous day's close.

**Limit Move:** Largest move allowed, whether up or down, from the closing price of the previous day for a futures contract.

**Limit-Price Order:** An order to buy or sell a commodity futures contract that specifies a particular price level at which the trader is willing to enter the market.

**Limit-Price-Buy Order:** An order to buy a commodity futures contract that specifies the maximum price at which the trader is willing to buy.

**Limit-Price-Sell Order:** An order to sell a commodity futures contract that specifies the minimum price at which the trader is willing to sell.

**Limit-Up:** Refers to a commodity futures contract that trades up the allowable daily move from the previous day's close.

**Liquidity:** The presence of active trade in a futures market to ensure an order can be quickly filled.

**Loan Rate:** The specific price at which a producer could enter corn, for example, into the government loan program as an alternative to selling the crop in the cash market.

**Long:** Refers to a "buy" position in the market—to buy is to go "long."

**Low:** The lowest price recorded for a particular commodity futures contract in a particular trading session or time period.

**Maintenance Margin:** The level of margin funds that precipitates a margin call if the account balance falls below the specified maintenance level.

**Margin Call:** Monies that must be sent to the brokerage firm to maintain a futures market position when the market is moving against the trader's position.

**Margin Liquidation:** Refers to traders being forced out of their futures positions because they are unable to meet margin calls.

**Margin Requirement:** Monies that must be on deposit with the broker before futures can be sold.

**Marginal Cost:** The change in cost associated with generating an added unit of product or service.

**Marginal Revenue:** The change in revenue associated with generating an added unit of product or service.

**Marginal Value Product:** A measure of marginal revenue, it refers to the revenue stream or the change in revenue associated with using an added unit of input.

**Market-Clearing Price:** Equivalent to equilibrium price, and is the only price at which the quantity suppliers are willing to offer equals the quantity buyers are willing to take.

**Market Order:** Order to buy or sell commodity futures at the first available price.

**Micro-Macro Trap:** Tendency for aggregate actions of many small producers to influence price in a way that no single producer's actions could influence price. The individual decision maker is therefore exposed to the aggregate or "macro" influences on quantity and price that are beyond the control of the individual or "micro" firm.

**Market-if-Touched (MIT):** An order to buy or sell commodity futures that becomes a market order if the specified price level is reached or "touched."

**Measuring Gap:** A chart gap that may appear near the 50 percent point in a sustained price move that can be used in conjunction with a breakaway gap to project the price move.

**Monetary Policy:** Actions by the Federal Reserve System designed to control money supply and interest rates and in other ways influence, via policy related actions, the levels of activity in the U.S. economy.

**Moving Averages:** An average of a specified length that "moves" through a data set as N consecutive settlement prices are added and divided by N.

**Nearby Futures Contract:** Closest of the futures contracts that are being traded in a time context.

**Neckline:** A line connecting the price lows in a head-and-shoulders top or the price highs in a head-and-shoulders bottom.

**Nominal:** Prices or costs that have not been adjusted for the influence of overall price inflation.

**Offset:** Buying back after selling futures, or selling after buying futures, to cancel previously established futures positions.

**Open:** Refers to the price recorded for a particular commodity futures contract when the trading session begins or opens.

**Open Interest:** The total number of contracts that are outstanding and have not been offset by either delivery or an opposite buy-sell transaction.

**Open Outcry:** A required procedure in futures pits, referring to the "crying out" of a willingness to sell or buy at a certain price.

**Opening Basis:** The cash-futures basis at the end of a decision period such as a storage period in grains. The same as beginning basis.

**Operating Margin:** Margin a business entity seeks or employs, as in the operating margin per bushel for an elevator buying and selling wheat or soybeans.

**Opportunity Cost:** The potential benefits of a particular course of action that are missed because some other course of action is employed.

**Option:** Right to a position in an underlying futures contract.

**Order:** Request to have a buy or sell action performed by a broker.

**One Cancels the Other (OTO):** Refers to a constraint placed on two orders so that one is automatically canceled if the other is filled.

**Out-of-the-Money:** Put option at a strike price below the underlying futures or a call option above the underlying futures.

**Overbought (oversold):** An expression used when there is belief the market will not go higher (lower) because almost every trader interested in the market has already bought (sold).

**Overnight Position:** The positions in futures or options that are not canceled or offset before trade closes and thus are carried forward to the next trading day.

**Own-Price Elasticity:** The elasticity of demand, where reference is to the price-quantity relationships for a particular commodity as compared to the relationships between two commodities.

**Penetration Rule:** A requirement that a particular level or some measure will be penetrated by a preset amount before any action will be taken.

**Pennants:** Consolidation pattern that takes on the shape of a small, symmetrical triangle.

**Point-and-Figure Chart:** A technique for plotting price action for a commodity futures contract that employs only price action and ignores the time dimension.

**Premium:** The market-determined value of an option for a particular futures contract and for a particular price level or "strike price."

**Price Discovery:** The dynamic process by which buyers and sellers interpret available information and seek to generate a price that balances the available supply and demand and clears the market.

**Price Expectation:** Price anticipated for some future time period that gets brought into production, storage, and related decision processes.

**Price Floor:** Minimum price established by adjusting a particular option strike price for premium costs and a projected cash-futures basis.

**Price Risk:** The risk associated with unpredictable fluctuations in price.

**Price Taker:** Firm that sells products in an economic structure that is characterized by many small producers where no one seller can influence price.

**Production Hedge:** Act of hedging a growing crop or hedging livestock that are in the feeding phase.

**Profit Margin:** A margin reflecting a difference between costs and a price or between costs and a price the decision maker would like to realize.

**Profit-Taking Rally:** A period of rising prices associated with buying actions by holders of short positions in futures. The same as a short-covering rally.

**Profit Window:** A profitable opportunity given costs of providing a product and service and immediately available prices, or prices for a future time period, that would allow a profit to be secured.

**Put Option:** The right, but not the obligation, to a short position in futures.

**Relative Strength Index (RSI):** One of many measures of market momentum designed to help determine when a market is overbought or oversold. The Index is based on moving averages of closing futures prices.

**Resistance Area:** Range of prices in which the market is expected to encounter resistance to higher prices.

**Resistance Plane:** A specific resistance point or plane across a price high at which the market is expected to encounter resistance to higher prices.

**Reversal Requirements:** The required price move on point-and-figure charts for a change in price direction to be recorded.

**Round Turn:** The completion of a "sell and buy back" or of a "buy and then sell" set of transactions.

**Selective Hedger:** Hedger whose objective is to be hedged when price moves are disadvantageous to the operation and to be a cash market speculator when price moves are advantageous.

**Sell Order:** Order to sell commodity futures.

**Sell Signal:** A chart development pattern or related development that indicates the futures market is likely to move lower and therefore should be sold.

**Sell-Stop-Close-Only Order:** A sell order that will be filled only if the market closes below the price level specified in the order.

**Sell-Stop Order:** A sell order that becomes a market order if touched from above.

**Settlement:** Comparable to closing price, the settlement price is the price at the end of the closing session as determined by exchange officials within any range of recorded prices at the close of trade.

**Short:** Refers to a "sell" position in the market—to sell is to "go short."

**Short-Covering Rally:** Price surge that is associated with holders of short positions buying back or offsetting those short positions.

**Speculator:** Futures or option trader who has no position in the cash market and is attempting to earn profits as an investor in commodity futures or options.

**Stops:** Orders designed to limit the exposure if the market is moving against the trader's position.

**Storage Hedge:** Selling commodity futures to forward price a commodity being held in storage.

**Strike Price:** Designated price levels for which put and call options are traded.

**Supply Curve:** Schedule of the quantities that will be offered by producers at alternative prices.

**Support Area:** Range of prices in which the market is expected to encounter support against lower prices.

**Support Plane:** A specific support point or plane across a price low at which the market is expected to encounter support and protection against lower prices.

**T-Bill:** Treasury bill, a short-term or 90-day financial instrument for which futures are traded on the International Monetary Market.

**Target Price:** A price specified in farm bill legislation that is set at a level matching estimates of costs of production. The term may also be used as the price desired by a producer to cover costs, living expenses, etc., and thus becomes a trigger for hedging or pricing action.

**Technicals:** Chart and related considerations used by traders to predict the direction of price movement based on the past history of price movements.

**Technical Analysis:** An approach to the market which relies on the belief that the best information on where the market is going is the past history of the price itself.

**Thin:** A market condition in which high levels of liquidity are not present,

**Time Stamp:** The stamping of the time at which an order to buy or sell is received, or when it is filled.

**Time Value:** That portion of the premium or an option that is associated with the time left before the option matures.

**Trading Volume:** Number of contracts or other measure of trade activity for a particular commodity futures contract or contracts.

**Trend Line:** Line on a bar chart that connects two price lows or two price highs.

**Triangle:** Consolidation pattern on a bar chart that takes the distinctive shape of a triangle.

**Variable Costs:** Costs associated with the level of production and are therefore costs that could be eliminated if operations cease.

**Volatility:** Fluctuations in price or other measure of economic activity.

**Volume:** The number of contracts traded in a particular trading session. Volume data are recorded for each futures month traded, but the reference to trading volume usually refers to the volume of trade in all the months being traded. The same as trading volume.

**Worst-Case Basis:** A basis that shows the cash price at its lowest level relative to a futures contract in a historical context.

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