

## Margin Management

- Individual traders margin accounts are managed by their brokers.
- The brokers are held accountable for their customers positions in the futures markets.
- Minimum margins are set by the exchange. Brokers may require larger margins from customers.
- Brokers may require traders to post more than their margin requirement in their accounts.
- Margin accounts do not earn interest. However, money can often be moved between a margin account and a money market account

## Market Participants

- Floor Brokers:
  - Largest group of traders in the pits
  - Fill orders for outside speculators or hedgers
  - Responsible for filling orders rapidly with little or no price concession
  - Some take orders from several firms, others specialize

- **Professional Speculators:**

- Mostly trade for their own account
  - **Scalpers** – always presenting a bid and an offer, do not hold positions long and almost never have positions overnight, buy and sell constantly, MARKET MAKERS
  - **Pit Traders** – Larger positions and hold for a longer period of time, typically do not hold positions over night, try to anticipate large orders
  - **Floor Speculators** (day to day scalpers) – Take huge positions and hold for several days, POSITION TRADERS, often deal in multiple markets, deep pockets and can take or make delivery  
THUS WATCH CASH MARKETS

- **Non-professional Speculators**

- **General public** – Largest single group of traders
  - Place orders with account executives or associated persons at local brokerage houses
  - Some make their own trading decisions, some trade on the advise of a broker
  - Some join a club or commodity fund
  - Typically hold:
    - » 25 – 30 percent of financial market positions
    - » 30 to 50 percent of grain positions

## Facilitators of Public Trade

- Associated Parties:
  - Futures Commission Merchant (FCM)
    - Firm or person soliciting outside orders
    - Brokers and account executives
    - Must register with the Commodity Futures Trading Commission
    - Certified attesting to their integrity

- Commodity Trade Advisor (CTA)
  - Individual or corporation who advises others regarding trades
  - Provide information for pay
  - May advise or manage individual discretionary accounts, commodity pools, or FCM's
  - CANNOT POOL INDIVIDUAL INVESTORS INTO A SINGLE ACCOUNT
  - CTA's must register with the CFTC

- **Commodity Pool Operator (CPO)**
  - Solicits and pools together funds from several traders so risks and returns are shared
  - Many pools hire a CTA for advise
  - CPO's must register with the CFTC and the SEC

## Setting a Futures Position

- **Market Order:**
  - Call the broker and buy or sell “at the market”
  - This means get me in the market at whatever price is available now
  - Simplest type order
  - Guaranteed to be in the market, but not guaranteed the price

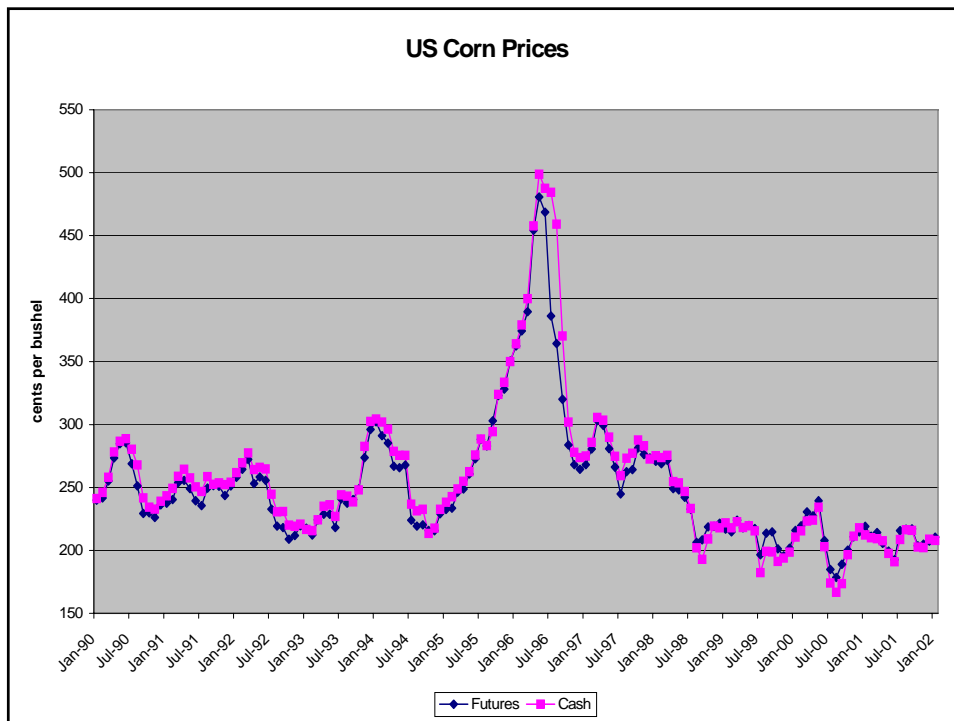
- **Limit Order**

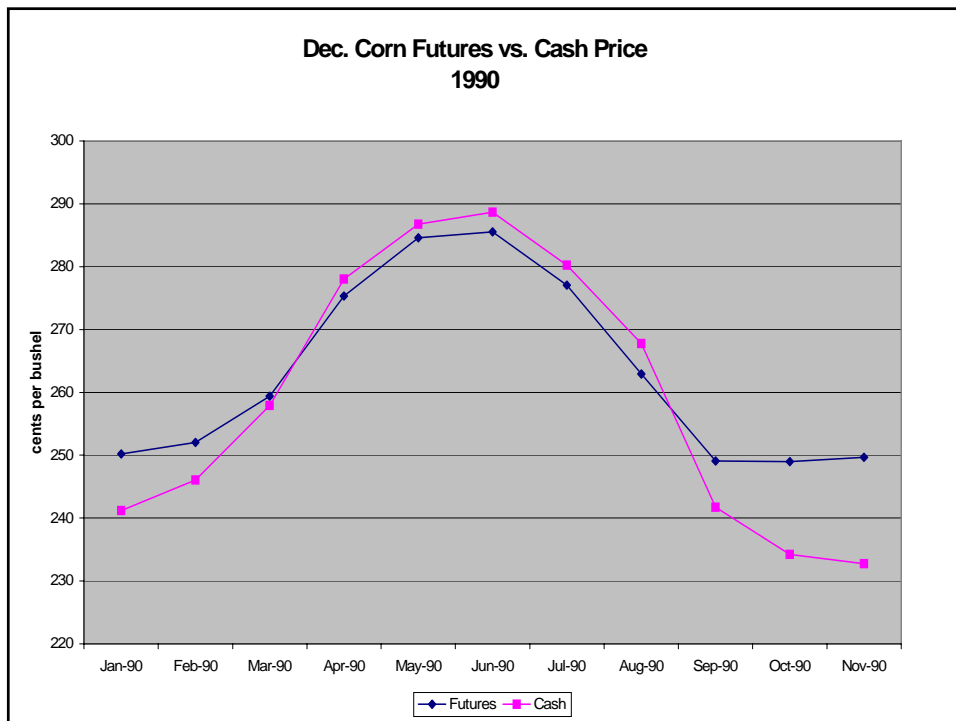
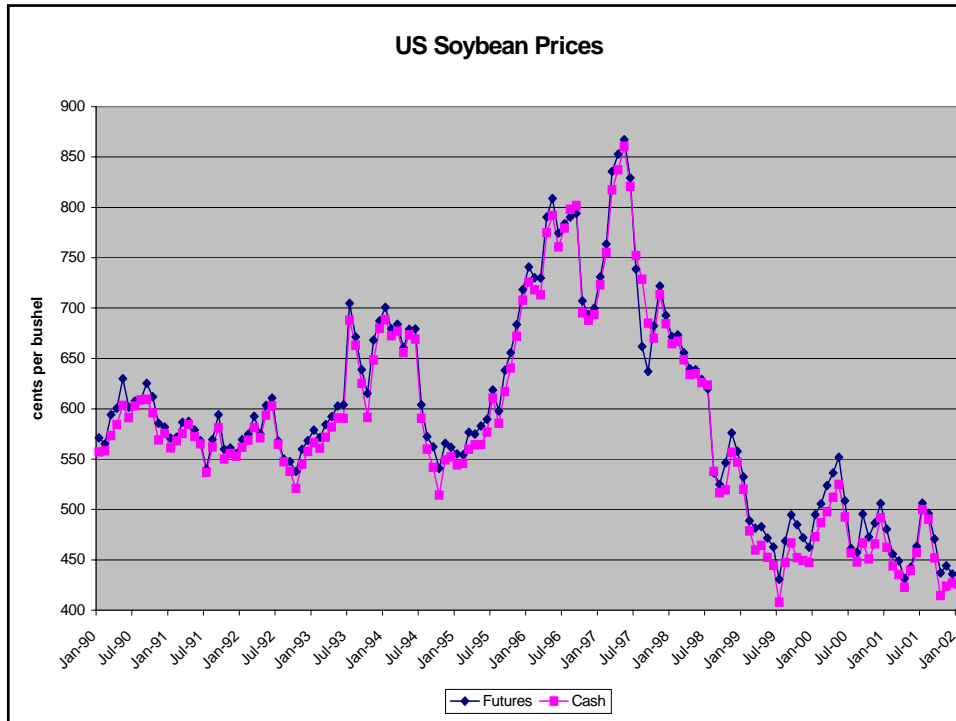
- Specifies a time and/or price
- If you specify a price, you must receive that price or better (higher if a seller, lower if a buyer)
- May not get a market position if no other trader accepts your price

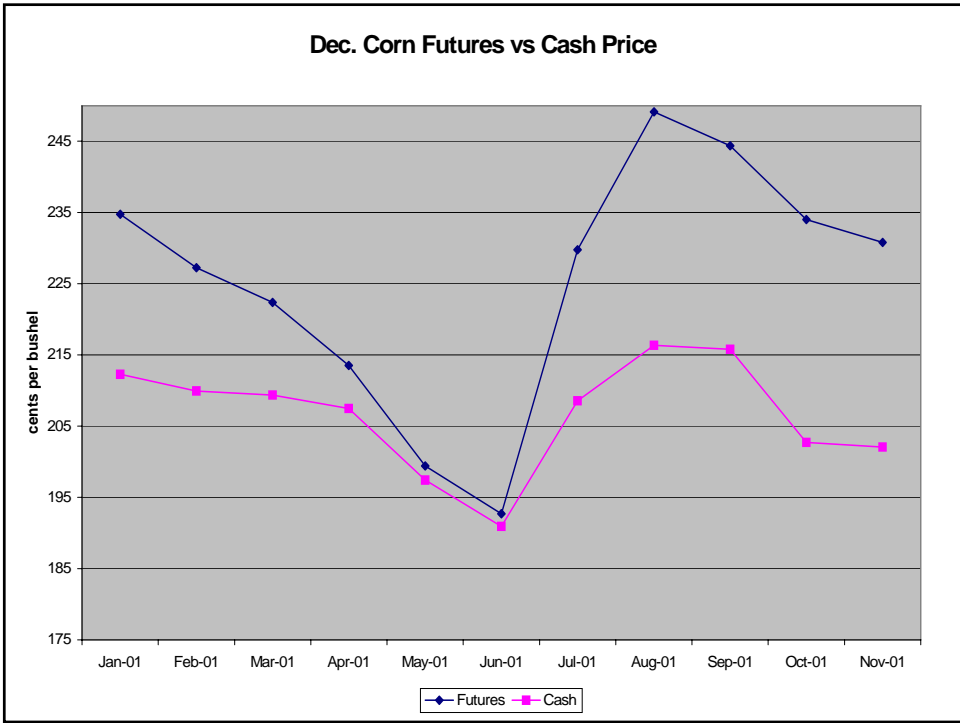
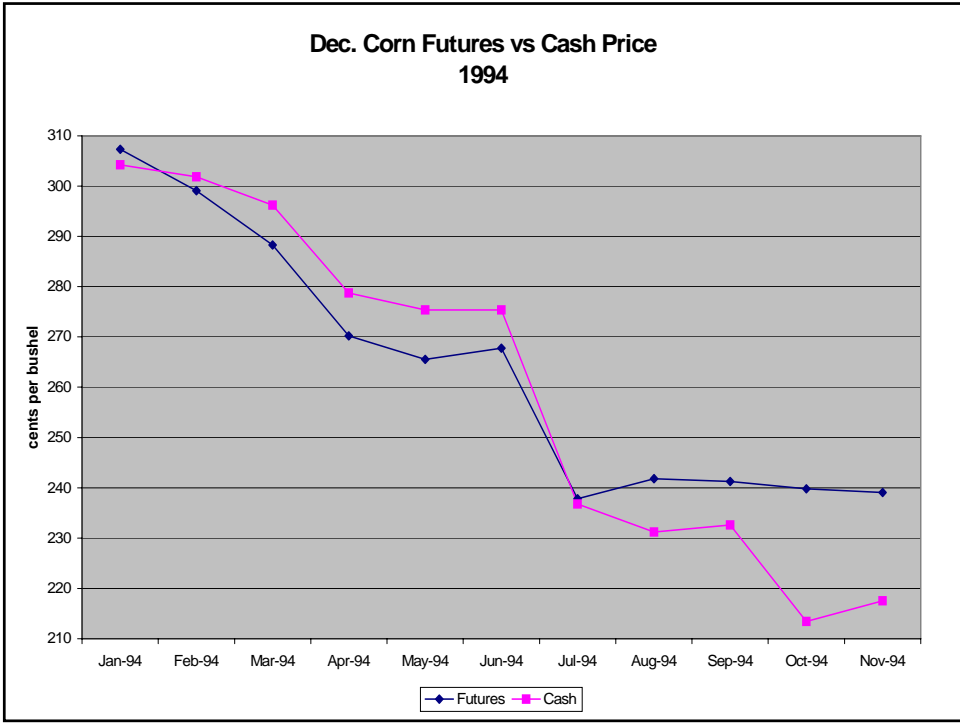
- **Stop Loss:**

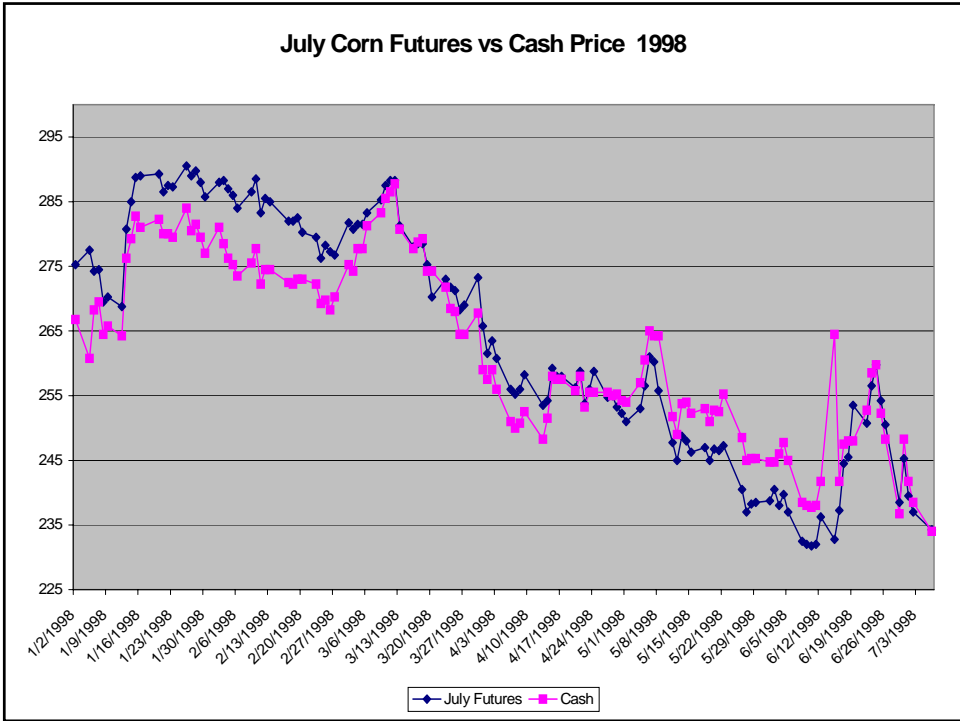
- Designed to protect a trader from a disastrous price change
- A stop loss gets you out of a previously entered futures position
- Once the price is traded, the order becomes a market order, thus the trader may not receive the exact price at which the stop loss was set

- Spread:
  - Sell one contract while simultaneously buying another contract.
  - Could be the same commodity for different delivery months, or it could be different commodities.









## Basis and Price Formation

## Basis

Basis is the difference between a cash price at a specific location and the price of a particular futures contract. The cash price offered to a grain producer for any given marketing strategy is a function of local basis.

## Basis Changes

- The lower the cash price relative to futures prices, the weaker the basis. A weak basis is good for cash buyers, and bad for cash sellers
- The higher the cash price is relative to futures, the stronger the basis. A strong basis is bad for cash buyers, and good for cash sellers.

## Determination of Basis

### Major Factors

- **COST OF STORAGE:** Determines basis over a given crop year. Also affects the price difference between a nearby and a distant futures contract in a given crop year.
- **COST OF TRANSPORTATION:** Determines basis geographically.

## Determination of Basis

### Other Factors:

- Local supply and demand conditions
- Grain quality
- Intensity of local Competition