

Introduction to Futures

- A futures contract is an agreement to **buy** (if you are **long**) or **sell** (if you are **short**) something in the future, at an agreed upon price (the futures price).
- Futures exist on financial assets (debt instruments, currencies, stock indexes), and real assets (gold, crude oil, wheat, cattle, cotton, etc.)

Unique Features of Futures Contracts

- Some futures contracts have daily price limits.
- Some futures contracts (Euro\$, T-bills, stock index futures, currencies) have one specific delivery date; others (T-bonds, crude oil) give the short the option of choosing which day (usually in the delivery month) to make delivery.
- Some futures contracts (e.g., T-bonds) let the seller choose the quality of good to deliver, within a specified quality range.
- Some futures contracts (Euro\$, stock index futures, feeder cattle) are cash settled.

Reading Futures Prices (8/28/02)

Crude Oil, Light Sweet (NYM) - 1,000 bbls.; \$ per bbl.								
						Lifetime		Open
	Open	High	Low	Settle	CHG	High	Low	Int
Oct	28.87	29.00	28.17	28.34	-0.49	29.65	19.50	175667
Nov	28.62	28.75	28.08	28.23	-0.37	29.35	19.55	53739
Dec	28.64	28.64	28.00	28.12	-0.25	28.90	15.50	58227
Ja03	28.04	28.10	27.83	27.84	-0.12	28.40	19.90	27383
Feb	27.51	27.63	27.43	27.51	-0.05	28.05	19.70	11830
Mar	27.12	27.30	27.04	27.16	-0.01	27.45	20.05	15787
Apr	26.70	26.70	26.70	26.82	0.02	27.10	20.55	8424
May	26.50	26.50	26.50	26.49	0.03	26.68	20.70	5319
June	26.15	26.27	26.10	26.18	0.03	26.45	19.82	18205
July	25.75	25.75	25.75	25.91	0.03	26.05	20.76	4950
Dec	25.05	25.05	24.80	24.86	0.09	25.10	15.92	24864
Jn04	24.30	24.30	24.30	24.28	0.11	24.40	20.53	6804
Dec	23.90	23.90	23.85	23.86	0.17	24.00	16.35	14741
Dc08	22.30	22.30	22.30	22.20	0.17	22.30	19.75	6060
Est vol 209,648; vol Tue 221,229; open int 471,059, +5,139.								

Margin Requirements

- Futures exchanges require good faith money from counterparties to futures contracts, to act as a guarantee that each will abide by the terms of the contract.
- This money is called margin.
- Each futures exchange is responsible for setting the minimum initial margin requirements for their futures contracts.
 - The initial margin is the money a trader must deposit into a trading account (margin account) when establishing a futures position.
 - Many futures exchanges establish initial margin requirements by using computer algorithms, the most popular of which is called SPAN (**S**tandard **P**ortfolio **A**nalysis of risk).