Carbon Trading Glossary

Arbitrage
The simultaneous purchase and sale of similar commodities in different markets to take advantage of price discrepancy without taking a risk.

At-the-money option)
An option with a strike price that is equal, or approximately equal, to the current market price of the underlying futures contract.

Backwardation
A market condition in which a futures price is lower in the distant delivery months than in the near delivery months. The opposite of contango.

Bar chart
A chart that graphs the high, low, and settlement prices for a specific trading session over a given period of time.

Basis
The difference between the current cash price and the futures price of the same commodity.

Basis risk
Difference between a hedge's actual underlying reference point and the needed fundamental hedge. E.g. the basis for the Nordpool market is the systems spot price. If, however, a power producer in the north of Sweden hedges his production (hedges his risk) by using system price based derivatives – he might encounter a basis risk. This is because there might be constraints in the transmission system – and hence the price he can sell his physical power at might not be the same as the systems price. (The system price might not be the same as the price in northern Sweden).

Bear market
A period of declining market prices.

Bear spread
The term refers to selling the nearby contract month, and buying the deferred contract, to profit from a change in the price relationship.

Bear
Someone who thinks market prices will decline.

Bid
An expression indicating a desire to buy a commodity at a given price, opposite of offer.

Book
Normally refers to the total portfolio of a trader He was trading this "book" as best he could).

Broker
A company or individual that executes physical or financial products in a market place. In commodity markets a broker normally does not take price of volume risk and hence does not normally take positions. A broker may however some times function as a portfolio manager – trading behalf of a commercial entity.

Brokerage fee
A fee charged by a broker for executing a transaction.

Bull market
A period of rising market prices.

Bull spread
In most commodities and financial instruments, the term refers to buying the nearby month, and selling the deferred month, to profit from the change in the price relationship.

Bull
Someone who thinks market prices will rise.

Buying hedge
Buyer futures contracts to protect against a possible price increase of cash commodities that will be purchased in the future. At the time the cash commodities are bought, the open futures position is closed by selling an equal number and type of futures contracts as those that were initially purchased.

Calendar spread
The purchase of one delivery month of a given futures contract and simultaneous sale of another delivery month of the same commodity in the same market 8same commodity). The purchase of either a call or put option and the simultaneous sale of the same type of option with typically the same strike price but with a different expiration month.

Call option
An option that gives the buyer the right, but not the obligation, to purchase (go “long") the underlying futures contract at the strike price on or before the expiration date.

Candlestick charts
A charting method, originally from Japan, in which the high and low are plotted as a single line and are referred to as shadows. The price range between the open and the close is plotted as a narrow rectangle and is referred to as the body. If the close is above the open, the body is white. If the close is below the open, the body is black.

Contango
A condition in which distant delivery prices for futures exceed spot prices, often due to the costs of storing and insuring the underlying commodity. The opposite of backwardation.

Carrying charge (cost of carry)
For physical commodities such as grains and metals, the cost of storage space, insurance, and finance charges incurred by holding a physical commodity.

Carryover
Commodities not consumed during the marketing year and remaining in storage at the end of a period. These stocks are "carried over" into the next marketing year.

Cash commodity/ physical commodity
An actual physical commodity someone is buying or selling, e.g., Co2e, power, soybeans, corn, gold, silver, Treasury bonds, etc. Also referred to as actuals.

Cash/physical contract
A sales agreement for either immediate or future delivery of the actual product.

Cash Market
A place where people buy and sell the actual commodities, i.e., grain elevator, bank, etc.

Cash settlement
Transactions generally involving index-based futures contracts that are settled in cash based on the actual value of the index on the last trading day, in contrast to those that specify the delivery of a commodity or financial instrument.

Charting
The use of charts to analyze market behavior and anticipate future price movements. Those who use charting as a trading method plot such factors as high, low, and settlement prices; average price movements; volume; and open interest.

Clearing (a trade)
The process by which a clearinghouse maintains records of all trades and settles margin flow on a daily mark-to-market basis for its clearing member. A trade can either be a bilateral trade between a buyer and a seller. Or it might involve a third party "clearing" the trade. In the first instance the parties to the trade will have to assess and mange the Credit Risk (the risk that the other party will default on its obligations of the trade). Using a Clearing House – the clearing house is the counterpart of the trade – both for the buyer and the seller. The advantages are twofold: a) Most often the Clearing House is more financially sound b) The Clearing House has a more advanced system for monitoring risk exposure for each clearing house member. c) The buyer and seller saves the resources needed to maintain a separate credit department.

Clearinghouse
An independent house settles trades acting as a guarantor for all trades cleared by it. The clearinghouse is responsible for settling trading accounts, clearing trades, collecting and maintaining margin monies, regulating delivery, and reporting trading data.

Clearing margin
Financial safeguards to ensure that clearing members (usually companies or corporations) perform on their customers' open futures and options contracts. Clearing margins are distinct from customer margins that individual buyers and sellers of futures and options contracts are required to deposit with brokers.

Closing price
The last price paid for a commodity on any trading day. Also referred to as settle price

Commission fee
A fee charged by a broker for executing a transaction. Also referred to as brokerage fee.

Commission house
An individual or organization that solicits or accepts orders to buy or sell futures contracts or options on futures and accepts money or other assets from customers to support such orders. Also referred to as "wire house'.

Commodity pool
An enterprise in which funds contributed by a number of persons are combined for the purpose of trading futures contracts or commodity options.

Commodity
An article of commerce or a product that can be used for commerce. The types of commodities include oil, oil products, power, gas, agricultural products, metals, petroleum, foreign currencies, and financial instruments and index.

Contract Month
A specific month in which delivery may take place under the terms of a futures contract.

Community Independent Transaction Log (CITL)
A term referring to cash and futures prices tending to come together (i.e., the basis approaches zero) as the futures contract nears expiration. Is also used on prices of different commodities prices coming tighter (e.g. power & gas).

Cost of carry (or carry)
For physical commodities such as grains and metals, the cost of storage space, insurance, and finance charges incurred by holding a physical commodity. In interest rate futures markets, it refers to the differential between the yield on a cash instrument and the cost of funds necessary to buy the instrument.

Covered call
The selling of a call option while simultaneously holding an equivalent position in the underlying commodity. This is an attempt to take advantage of a neutral or declining stock. If the option expires unexercised, the writer keeps the premium. If the holder exercises the option, the stock must be delivered, but, because the writer already owns the

stock, risk is limited. This is the opposite of an uncovered call, when the writer sells a call for a stock that he/she does not already own, a dangerous strategy with unlimited risk.

Crack spreads
The spread between one commodity and its derivative products: E.g. crude oil and oil products such as heating oil and unleaded gasoline.

Cross-hedging
Hedging a cash commodity using a different but related futures contract when there is no futures contract for the cash commodity being hedged and the cash and futures markets follow similar price trends (e.g., using soybean meal futures to hedge fish meal).

Customer margin
Within the futures industry, financial guarantees required of both buyers and sellers of futures contracts and sellers of options contracts to ensure fulfilling of contract obligations.

Day traders
Speculators who take positions in futures or options contracts and liquidate them prior to the close of the same trading day.

Delivery month
A specific month in which delivery may take place under the terms of a futures contract. Also referred to as contract month.

Delta
A measure of how much an option premium changes, given a unit change in the underlying futures price. Delta often is interpreted as the probability that the option will be in-the-money by expiration.

Delta-hedged
An options strategy that protects an option against small price changes in the option's underlying instrument. These hedges are constructed by taking a position in the underlying instrument that is equal in magnitude but opposite in sign (+/-) to the option's delta.

Delta neutral
This is an "options/options" or "options/underlying instrument" position constructed so that it is relatively insensitive to the price movement of the underlying instruments. This is arranged by selecting a calculated ratio of offsetting short and long positions.

Differentials
Price differences between classes, grades, and delivery locations of various stocks of the same commodity.

Elliott wave theory
A pattern-recognition technique published by Ralph Nelson Elliott in 1939, which holds that the markets follow a rhythm or pattern of five waves up and three waves down to form a complete cycle of eight waves. The three waves down are referred to as a "correction" of the preceding five waves up.

Equilibrium price
The market price at which the quantity supplied of a commodity equals the quantity demanded.

Equivolume chart
Created by Richard W. Arms, a chart in which the vertical axis is the high-low range for each day, while the horizontal axis represents the volume of shares of stock or the number of contracts traded for the day. The purpose of the chart is to highlight the relationship between price and volume.

Exchange for physicals
A transaction generally used by two hedgers who want to exchange futures for cash positions. Also referred to as "against actuals" or "versus cash".

Emissions Trading
Emissions Trading allows for transfer of AAUs across international borders or emission allowances between companies covered by a Cap and Trade scheme. However, it is a general term often used for the three Kyoto mechanisms: JI, CDM and emissions trading.

Exercise price(strike)
The price at which the futures contract underlying a call or put option can be purchased (if a call) or sold (if a put). Also referred to as strike price.

Exercise
The action taken by the holder of a call option if he wishes to purchase the underlying futures contract or by the holder of a put option if he wishes to sell the underlying futures contract.

Exit
The point at which a trader closes out of a trade.

Expiration date
Options on futures generally expire on a specific date during the month preceding the futures contract delivery month. For example, an option on a March futures contract expires in February but is referred to as a March option because its exercise would result in a March futures contract position.

Extrinsic value
The amount of money the option buyer is willing to pay for an option in the anticipation that, over time, a change in the underlying futures price will cause the option to increase

in value. In general, an option premium is the sum of time value and intrinsic value. Any amount by which an option premium exceeds the option's intrinsic value can be considered time value. Also referred to as time value.

Fibonacci sequence
The sequence of numbers (0, 1, 2, 3, 5, 8, 13, 21, 34, 55, 89, 144, 233...), discovered by the Italian mathematician Leonardo de Pisa in the 13th century and the mathematical basis of the Elliott wave theory, where the first two terms of the sequence are 0 and 1 and each successive number in the sequence is the sum of the previous two numbers. Technically, it is a sequence and not a series.

Fill
An executed order; sometimes the term refers to the price at which an order is executed.

Fill order
An order that must be filled immediately (or canceled).

Fill-or kill
A customer order that is a price limit order that must be filled immediately or canceled.

Firm bid
A firm bid is a bid that a trader or broker can execute directly without any further consultation with the bidder.

Firm offer
(opposite of "firm bid")

Floor trader (FT)
An individual who executes trades for the purchase or sale of any commodity futures or options contract on any contract market for such individual's own account.

Forward (cash) contract
A cash contract in which a seller agrees to deliver a specific cash commodity to a buyer sometime in the future. Forward contracts, in contrast to futures contracts, are privately negotiated and are not standardized.

Futures contract
A legally binding agreement, made on the trading floor of a futures exchange, to buy or sell a commodity or financial instrument sometime in the future. Futures contracts are standardized according to the quality, quantity, and delivery time and location for each commodity. The only variable is price, which is discovered on an exchange trading floor.

Gamma
A measurement of how fast delta changes, given a unit change in the underlying futures price.

Hedger
An individual or company owning or planning to own a cash commodity; AAUs, corn, soybeans, wheat, U.S. Treasury bonds, notes, bills etc. and concerned that the cost of the commodity may change before either buying or selling it in the cash market. A hedger achieves protection against changing cash prices by purchasing (selling) futures contracts of the same or similar commodity and later offsetting that position by selling (purchasing) futures contracts of the same quantity and type as the initial transaction.

Hedging
The practice of offsetting the price risk inherent in any cash market position by taking an equal but opposite position in the futures market. Hedgers use the futures markets to protect their business from adverse price changes.

Selling(short)hedge
Selling contracts to protect against possible declining prices of commodities that will be sold in the future. At the time the cash commodities are sold, the open futures position is closed by purchasing an equal number and type of futures contracts as those that were initially sold.

Purchasing(long)hedge
Buyer buys contracts to protect against a possible price increase of cash commodities that will be purchased in the future. At the time the cash commodities are bought, the open futures position is closed by selling an equal number and type of futures contracts as those that were initially purchased. Also referred to as a buying hedge.

Holder
The purchaser of either a call or put option. Option buyers receive the right, but not the obligation, to assume a futures position. Also referred to as the Option Buyer.

Horizontal spread
The purchase of either a call or put option and the simultaneous sale of the same type of option with typically the same strike price but with a different expiration month. This is also referred to as a calendar spread.

Indicative bid
A bid given by a trader and or quoted by a broker that is an indication of where the trader is willing to trade. Another trader or a broker can not execute a trade based on this bid with out prior consultation with the bidder. An indicative bid needs to be “firmed up” (e.g. where the broker calls the trader to confirm that he is willing to trade at that price (if the trader is willing to trade at that price he will give a Firm bid.

Indicative offer
Opposite of “indicative bid”

In-the-money option
An option having intrinsic value. A call option is in-the-money if its strike price is below the current price of the underlying futures contract. A put option is in-the-money if its strike price is above the current price of the underlying futures contract. The amount by which an option is in-the-money.

Initial margin
The amount a futures market participant must deposit into his margin account at the time he places an order to buy or sell a futures contract. Also referred to as original margin.

Intercommodity spread
The purchase of a given delivery month of one futures market and the simultaneous sale of the same delivery month of a different, but related, futures market.

Intrinsic value
The amount by which an option is in-the-money. An option having intrinsic value. A call option is in-the-money if its strike price is below the current price of the underlying futures contract. A put option is in-the-money if its strike price is above the current price of the underlying futures contract.

Introducing broker
A person or organization that solicits or accepts orders to buy or sell futures contracts or commodity options but does not accept money or other assets from customers to support such orders.

Inverted market
A futures market in which the relationship between two delivery months of the same commodity is abnormal.

Lift(an offer)
Refers to execution related to buying at the current best offer in the market.

Limit order
An order in which the customer sets a limit on the price and/or time of execution.

Liquid
A characteristic of a security or commodity market with enough units outstanding to allow large transactions without a substantial change in price. Institutional investors are inclined to seek out liquid investments so that their trading activity will not influence the market price.

Long hedge
Buyer futures contracts to protect against a possible price increase of cash commodities that will e purchased in the future. At the time the cash commodities are bought, the open futures position is closed by selling an equal number and type of futures contracts as those that were initially purchased. Also referred to as a buying hedge.

Long
One who has bought futures contracts or owns a cash commodity.

Low
The lowest price of the day for a particular futures contract.

Margin call
A call from a clearinghouse to a clearing member, or from a brokerage firm to a customer, to bring margin deposits up to a required minimum level.

Margin
Financial safeguards to ensure that clearing members (usually companies or corporations) perform on their customers' open futures and options contracts.

Market maker
To debit or credit on a daily basis a margin account based on the close of that day's trading session. In this way, buyers and sellers are protected against the possibility of contract default.

Minimum price fluctuation
The smallest allowable increment of price movement for a contract.

Moving average
A mathematical procedure to smooth or eliminate the fluctuations in data and to assist in determining when to buy and sell. Moving averages emphasize the direction of a trend, confirm trend reversals and smooth out price and volume fluctuations or "noise" that can confuse interpretation of the market; the sum of a value plus a selected number of previous values divided by the total number of values.

Naked option
E.g. the writer of a put option contract who is not short the underlying security. Or the writer of a call option does so without being long the underlying security.

Natural long
A market actor who is intrinsically long is a natural long. E.g. a power generator is a natural long as it would normally hold the ownership to physical power.

Natural short
A market actor who is intrinsically short is a natural short. E.g. a power supplier (distributor) without its own generation would normally have obligation to supply its customers with power and hence be naturally short.

Offer
An expression indicating one's desire to sell a commodity at a given price; opposite of bid.

Offset
Taking a second futures or options position opposite to the initial or opening position. Selling (or purchasing) futures contracts of the same delivery month purchased (or sold) during an earlier transaction or making (or taking) delivery of the cash commodity represented by the futures contract.

Open interest
The total number of futures or options contracts of a given commodity that have not yet been offset by an opposite futures or option transaction nor fulfilled by delivery of the commodity or option exercise. Each open transaction has a buyer and a seller, but for calculation of open interest, only one side of the contract is counted.

Open outcry
Method of public auction for making verbal bids and offers in the trading pits or rings of futures exchanges.

Opening range
A range of prices at which buy and sell transactions took place during the opening of the market.

Option buyer
The purchaser of either a call or put option. Option buyers receive the right, but not the obligation, to assume a futures position. Also referred to as the holder.

Option premium
The price of an option the sum of money that the option buyer pays and the option seller receives for the rights granted by the option.

Option seller
The person who sells an option in return for a premium and is obligated to perform when the holder exercises his right under the option contract. Also referred to as the writer.

Option spread
The simultaneous purchase and sale of one or more options contracts, futures, and/or cash positions.

Option writer
The person who sells an option in return for a premium and is obligated to perform when the holder exercises his right under the option contract. Also referred to as the option Seller.

Option
A contract that conveys the right, but not the obligation, to buy or sell a particular item at a certain price for a limited time. Only the seller of the option is obligated to perform.

Original margin
The amount a futures market participant must deposit into his margin account at the time he places an order to buy or sell a futures contract. Also referred to as initial margin.

Out-of-the-money option
An option with no intrinsic value, i.e., a call whose strike price is above the current futures price or a put whose strike price is below the current futures price.

Over-the-counter market (OTC)
A market where products such as stocks, foreign currencies, and other cash items are bought and sold by telephone and other means of communications.

Pit
The area on the trading floor where futures and options on futures contracts are bought and sold. Pits are usually raised octagonal platforms with steps descending on the inside that permit buyers and sellers of contracts to see each other.

Point-and-figure charts
Charts that show price changes of a minimum amount regardless of the time period involved.

Position
A market commitment. A buyer of a futures contract is said to have a long position and, conversely, a seller of futures contracts is said to have a short position.

Premium
(1) In speaking of price relationships between different delivery months of a given commodity, one is said to be "trading at a premium" over another when its price is greater than that of the other. (2) The price of an option, the sum of money that the option buyer pays and the option seller receives for the rights granted by the option.

Price discovery
The generation of information about "future" cash market prices through the futures markets.

Put option
An option that gives the option buyer the right but not the obligation to sell (go "short") the underlying futures contract at the strike price on or before the expiration date.

Roll
Substituting a far option for a near option on the same underlying instrument at the same strike price; also to roll forward or roll over.

Runners
Messengers who rush orders received by phone clerks to brokers for execution in the pit.

Scalper
A trader who trades for small, short-term profits during the course of a trading session, rarely carrying a position overnight.

Settle
The last price paid for a commodity on any trading day. The exchange clearinghouse determines a firm's net gains or losses, margin requirements, and the next day's price limits, based on each futures and options contract settlement price. If there is a closing range of prices, the settlement price is determined by averaging those prices. Also referred to as settlement rice or closing price.

Settlement price
The last price paid for a commodity on any trading day. The exchange clearinghouse determines a firm's net gains or losses, margin requirements, and the next day's price limits, based on each futures and options contract settlement price. If there is a closing range of prices, the settlement price is determined by averaging those prices. Also referred to as settle or closing price.

Short
One who has sold futures contracts or plans to purchase a cash commodity. Selling futures contracts or initiating a cash forward contract sale without offsetting a particular market position.

Short hedge
Selling futures contracts to protect against possible declining prices of commodities that will be sold in the future. At the time the cash commodities are sold, the open futures position is closed by purchasing an equal number and type of futures contracts as those that were initially sold.

Speculator
A market participant who tries to profit from buying and selling futures and options contracts by anticipating future price movements. Speculators assume market price risk and add liquidity and capital to the futures markets.

Spike
A sharp rise in price.

Spark spread
Is the difference between the cost of electricity and the cost of converting natural gas to electricity.

Spot month
The futures contract month closest to expiration. Also referred to as nearby delivery month.

Spot
Usually refers to a cash market price for a physical commodity that is available for immediate delivery.

Spot market
A market in which commodities, such as grain, gold, crude oil, or RAM chips, are bought and sold for cash and delivered immediately. Also called cash market.

Spread
The difference between the “bid” and the “offer”. Also used about the price difference between two related markets or commodities.

Spreading (spread trading)
The simultaneous buying and selling of two related markets in the expectation that a profit will be made when the position is offset. Examples include: buying one futures contract and selling another futures contract of the same commodity but different delivery month; buying and selling the same delivery month of the same commodity on different futures exchanges; buying a given delivery month of one futures market and selling the same delivery month of a different, but related, futures market.

Stop loss
The risk management technique in which the trade is liquidated to halt any further decline in value.

Stop order
An order to buy or sell when the market reaches a specified point. A stop order to buy becomes a market order when the futures contract trades (or is bid) at or above the stop price. A stop order to sell becomes a market order when the futures contract trades (or is offered) at or below the stop price.

Straddle
The purchase or sale of an equivalent number of puts and calls on an underlying stock with the same exercise price and expiration date.

Strangle
The purchase or sale of an equivalent number of puts and calls on an underlying stock with the same expiration date but a different exercise price. Usually, the put has a low strike price and the call has a higher strike price.

Strike price
The price at which the futures contract underlying a call or put option can be purchased (if a call) or sold (if a put). Also referred to as exercise price.

Support
A historical price level at which falling prices have stopped falling and either moved sideways or reversed direction; usually seen as a price chart pattern.

Support line
On a chart, a line drawn indicating the price level at which falling prices have stopped falling and have moved sideways or reversed direction.

Swap
An exchange of streams of payments over time according to specified terms. The most common type is an interest rate swap, in which one party agrees to pay a fixed interest rate in return for receiving an adjustable rate from another party.

Synthetic securities
Security created by buying and writing a combination of options that imitate the risk and profit profile of a security.

Technical analysis
Anticipating future price movement using historical prices, trading volume, open interest and other trading data to study price patterns.

”The figure”
Used by brokers to quote ”whole numbers”, e.g. 5,50 bid at 6 ”the figure” (meaning 6,00)

Theta
The measurement of the time decay of a position.

Tick
The smallest allowable increment of price movement for a contract.

Time value
The amount of money option buyer are willing to pay for an option in the anticipation that, over time, a change in the underlying futures price will cause the option value to change. In general, an option premium is the sum of time value and intrinsic value. Any amount by which an option premium exceeds the option's intrinsic value can be considered time value. Also referred to as extrinsic value.

Trend channel
A parallel probable price range centered about the most likely price line. Historically, this term has been used to denote the area between the base trend line and the reaction trend line defined by price moves against the prevailing .

Value at risk (VaR)
A measure of exposure within a given portfolio, which attempts to estimate how much the portfolio would be expected to lose, given the recent behavior of the securities contained therein.

Variation margin
During periods of great market volatility or in the case of high-risk accounts, additional margin deposited by a clearing member firm to an exchange.

Vertical spread
Buying and selling puts or calls of the same expiration month but different strike prices.

Volatility
Measurement of the change in price over a given period. It is often expressed as a percentage and computed as the annualized standard deviation of the percentage change in daily price.

Volume
The number of purchases or sales of a commodity futures contract made during a specific period of time, often the total transactions for one trading day.

Writer
The person who sells an option in return for a premium and is obligated to perform when the holder exercises his right under the option contract. Also referred to as the option seller.