A commodity contract is a promise about a physical thing

> **COMMODITY FUTURES CONTRACT**
>
> A standardised, exchange-traded promise to deliver or accept a stated quantity of a physical good, of a stated grade, at a stated place, in a stated month. Nearly everyone trading it will close the position before delivery - but the promise is what anchors the price to the physical world, and it never stops being real.

Everything you have met so far in trading is an abstraction. A share is a claim on a company. An index is a calculation. A currency is money itself. A commodity contract is different in kind: underneath the paper there is a barrel, an ounce or a bushel, and the contract is a promise about it.

The promise has three parts

Grade: not oil, but light sweet crude meeting a published specification for density and sulphur. Not wheat, but No. 2 soft red winter wheat. The contract defines exactly what qualifies, because the buyer on the other end might actually take it.

Place: delivery happens somewhere specific. WTI crude delivers into Cushing, Oklahoma - a land-locked town of tank farms and pipeline junctions. Henry Hub natural gas delivers into one particular point on the Louisiana pipeline system. Location is written into the instrument, and it is why moving the physical good around has a price of its own.

Month: the contract is for delivery in a named month. There is no such thing as buying oil in general. You buy December delivery, or March delivery, and those are different contracts with different prices. Why they differ is a lesson of its own later in this module.

You will never take delivery. It still matters.

Retail wrappers close out or cash-settle long before anyone rents a tank. It is tempting to conclude the physical machinery is trivia. The opposite is true.

The promise is the anchor. If the paper price drifts too far above the physical reality, someone who owns actual barrels sells the contract, delivers, and pockets the difference. Too far below, and someone with storage buys the contract and takes the oil. That arbitrage is only possible because delivery is real, and it is what keeps the number on your screen tethered to tanks in Oklahoma.

It also has teeth. In April 2020 the anchor showed what it is: traders holding expiring WTI contracts with nowhere to put the oil discovered that a futures position is a delivery obligation, not a chart pattern. The price they paid to escape it comes later in this module.

What follows from this

Two contracts on 'the same' commodity, differing in grade, place or month, are different instruments with different prices.Storage and transport are not background costs - they connect those prices to each other.Every wrapper you can actually trade sits on top of this machinery and inherits its behaviour.

Hold on to the promise, and the rest of commodities stops being a collection of oddities. It becomes one idea applied eight ways.

Check your understanding

1. What makes a commodity futures contract different from a share or an index contract?

a. It is more leveraged
b. It is a promise to deliver or accept a specific physical good, at a place and in a month
c. It only trades during exchange hours

Answer: b. Grade, place and month are written into the instrument. Nearly everyone closes out before delivery, but the obligation is real and it anchors the paper price to the physical world.

2. Why does the possibility of delivery matter to a trader who will never take it?

a. It does not - retail positions cash-settle
b. Delivery arbitrage is what keeps the futures price tied to the physical price
c. Exchanges require proof of storage before granting access

Answer: b. If paper and physical drift apart, someone with barrels or tanks trades the difference away. That mechanism disciplines the price on your screen, and it only works because delivery is real.