

What one contract actually controls

NOTIONAL VALUE

Units per contract times price per unit: the money a position actually controls, as opposed to the margin posted to hold it. Every commodity contract has its own unit count, so the same quoted price means utterly different exposures from one product to the next. Notional is the number every risk decision has to start from.

Oil at \$80 sounds like something you could afford. This lesson is about why that sentence is a trap.

The multiplier is the instrument

A price is per unit. A contract is thousands of units. One WTI futures contract is 1,000 barrels, so oil at \$80 is a position of \$80,000 - and a \$2 move, the kind that happens before lunch, is \$2,000 per contract, in or out of your account.

Every product carries its own multiplier. Gold trades in contracts of 100 troy ounces, so a \$2,400 price is a \$240,000 contract. Chicago wheat and corn are 5,000 bushels. Henry Hub natural gas is 10,000 MMBtu. None of these numbers is guessable from the price; each comes from the exchange's contract specification, and each one turns the innocent-looking quote into the actual size of the promise you are holding.

The cents trap

Grain quotes add an extra snare: they are in cents per bushel, not dollars. Wheat at 550 is \$5.50 a bushel - and 5,000 bushels at \$5.50 is \$27,500 of wheat. Read the 550 as dollars and every number you compute afterwards is a hundred times too large. Every market has one convention like this lying in wait; commodities have several, and module 2 catalogues them.

Margin is not the size of anything

Your broker will hold a few per cent of the notional as margin, and that small deposit is the number that feels like the size of your trade. It is not. Profit and loss accrue on the notional - the full thousand barrels move together, whether or not you noticed you owned a thousand of anything. Work the example below in your own currency, then use the calculator until per-contract notional is something you check by reflex, before entry, every time.

Retail wrappers exist precisely because these contracts are too large for most accounts - a CFD can slice the barrel into affordable pieces. What the slicing costs is module 3. What it cannot change is the arithmetic on this page.

Worked example - figures in USD

Two WTI futures contracts of 1,000 barrels each, at \$80 a barrel, in a US dollar account. No conversion - the one reader for whom the quoted price and the account speak the same currency.

1. One contract is 1,000 barrels, so before you even look at the price, a full 1.0 move in the quote is \$1,000 to you per contract.
2. At \$80.00 per barrel, one contract controls \$80,000 - and your 2 contracts control \$160,000.
3. A full \$1 move against this position costs \$2,000. The margin your broker collects is a small fraction of \$160,000; the exposure is all of it.

Try it yourself with the contract-notional calculator: <https://ticksprout.com/tools/contract-notional>

Check your understanding

1. Crude oil trades at \$80. What does one standard WTI futures contract control?

- a. \$80 of oil
- b. \$8,000 of oil
- c. \$80,000 of oil - 1,000 barrels at \$80 each

Answer: c. The contract unit is 1,000 barrels, set by the exchange's specification. The price on the screen is per barrel; the position is the price times the unit count.

2. Wheat is quoted at 550. What is one 5,000-bushel contract worth?

- a. \$2,750,000 - 5,000 times 550
- b. \$27,500 - the quote is in cents, so 550 means \$5.50 a bushel
- c. \$550 - the quote is per contract

Answer: b. Grain quotes are in cents per bushel. Convert to dollars first, then multiply by the unit count. Reading cents as dollars inflates every downstream number a hundredfold.

3. Why is margin the wrong number to size risk from?

- a. Margin requirements change too often
- b. Profit and loss accrue on the full notional, not on the margin deposit
- c. Margin is refundable, so it is not really at risk

Answer: b. Margin is a deposit against the position, not the position. The exposure is units times price - the notional - and every move in the quote is multiplied across all of it.