

A future is a standardised promise

FUTURES CONTRACT

An exchange-standardised promise about a future date: every term - the underlying, the quantity, the quality, the delivery or settlement mechanics, the date itself - fixed by the contract specification, so that only price remains to negotiate. Standardisation is what makes the promise tradeable at scale, and it is the whole design idea of this asset class.

The commodities track met futures as the machinery under its wrappers. This track studies the machinery itself - and it starts with the design insight that created it: fix everything except the price.

Everything but the price

A bilateral forward contract can promise anything, which is why each one is a negotiation and none of them trade. The futures contract removes every negotiable term into a specification the exchange publishes: this underlying, this quantity, this grade or this calculation, this date, this settlement method. Two strangers can then trade in a second, because the only open question is the number - and a market in promises becomes as liquid as a market in shares. Standardisation is not bureaucracy; it is the liquidity technology.

The two families of promise

Physical delivery: the commodities track's promise - barrels, bushels, bars, delivered at the spec's place and grade. The delivery machinery disciplines the price exactly as that track taught. Cash settlement: a promise about a number - an index level, a rate - settled by paying the difference in money. Nothing moves but cash; the promise is kept by arithmetic. Most of what retail trades, index futures above all, ends this way.

Where this track sits

Futures have no fundamentals of their own: an index future follows index logic, a crude future its supply story - which is why this track assumes an underlying's track first, and the indices track is the natural entry, since index futures anchor most retail futures flow. What this track adds is everything the contract itself contributes: the clearing house, the specs, the daily settlement, the expiry mechanics - and, in module 8, the roll and term structure concluded properly. The underlying explains why prices move; this track explains what you are actually holding while they do.

Check your understanding

1. Why does standardisation make futures liquid?

- a. It reduces exchange fees
- b. Every term except price is fixed by the specification, so strangers can trade in seconds - the only open question is the number
- c. It guarantees delivery quality

Answer: b. Bespoke promises are negotiations; standardised ones are markets. Removing every negotiable term into the spec is the design idea the whole asset class stands on.

2. What does a cash-settled future actually promise?

- a. Delivery of the underlying at expiry
- b. Payment of the difference against a number - an index level or rate - with the promise kept by arithmetic rather than delivery
- c. A share of the exchange's clearing fund

Answer: b. The promise is about a calculation's final value. Most retail-relevant futures, index contracts above all, end in a cash difference - the second family of promise.