Upon completion of this lesson, candidates should be able to:

Demonstrate knowledge of the term structure of forward prices on commodities.Including:

Understand and calculate the costs of carry for commodities.

Define supply elasticity and how it relates to harvests and shifts in demand.

Define backwardation and contango with respect to the term structure of forward prices.

Explain backwardation and contango in relation to cost of carry in a perfect market.

Explain backwardation and contango in relation to cost of carry in an imperfect market.

Discuss the basis of forward and futures contracts.

Interpret calendar spreads on forward contracts.

Calculate the return on calendar spreads.

Discuss the risks of a calendar spread.