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How to Trade COMMODITIES

BY VINCE STANZIONE



Contents

- 5 Introduction
- 6 History of commodities trading
- 7 Why you should consider trading commodities
- 8 The dominance of the US dollar in commodities trading
- 8 Commodities groups
- 10 Commodity stocks or commodities futures?
- 11 What you need to trade commodities on Deriv MT5
- 13 Leverage
- 14 Risk management
- 15 A CFD example to trade WTI oil
- 17 Order types
- 21 Factors affecting commodity prices
- 24 Technical analysis
- 34 Trading system ideas
- 36 Digital options
- 42 Useful websites and resources
- 44 Glossary of terms
- 48 Other ebooks in this series
- 49 Become an affiliate

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Vince Stanzione has been trading markets for over 37 years and is a self-made multi-millionaire. He is the New York Times bestselling author of *The Millionaire Dropout* and the author of the “Making Money from Financial Spread Trading” course. He has been quoted and featured favourably in over 200 newspapers, media outlets, and websites, including CNBC, Yahoo Finance, MarketWatch, Reuters.com, Independent, Sunday Independent, Observer, Guardian, The Times, Sunday Times, Daily Express, What Investment, Growth Company Investor, New York Times, Bullbearings, City Magazine, Canary Wharf, Institutional Investor China, and Shares Magazine.

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Introduction

Regardless of where we live in the world, we encounter commodities every day. Items like coffee, sugar, wheat, oil, corn, and rice are integral to our daily lives. We've likely used products derived from these commodities without even realising it.

This book aims to provide you with a solid understanding of trading commodities with Deriv, presented in a straightforward and accessible manner. While it's impossible to cover every aspect of the topic in a single book, I will focus on the key factors you need to start trading. As you progress, you can continue to build and refine your skills and knowledge.

History of commodities trading

Commodities have a rich history, dating back to 4500 BC, way before foreign exchange (forex) or stock trading began. The earliest recorded commodity trading took place in Ancient Mesopotamia between 4500 BC and 4000 BC. People traded livestock and forms of commodity money, such as shells, and later, gold and silver.

History also shows that in the 1700s, during Japan's Edo period, rice merchants stored their rice in warehouses and issued receipts called "rice tickets." These tickets detailed the quantity and quality of the rice and initially served as proof of ownership, allowing trade without physically moving the rice. Over time, merchants and traders realised they could sell these tickets for future delivery. This created the first recorded form of futures contracts. These contracts acted as promises to exchange rice and as a mode of raising funds, eventually becoming their own form of currency.



Interesting fact

Japanese candlesticks, a chart pattern still widely used in today's financial markets, have their origins in rice trading. This technique was created by Munehisa Homma, a Japanese rice trader. I will explore candlesticks further in the technical analysis section.

The birth of commodities trading exchanges

The Chicago Board of Trade (CBOT) was founded in 1848 as a cash market for grain, marking the inception of modern commodity trading exchanges. Forward or "to-arrive" contracts began trading at the CBOT almost immediately, revolutionising the way commodities were bought and sold. Over time, the CBOT merged with the Chicago Mercantile Exchange to form CME Group, which today remains a major platform for commodities trading. To understand further, you can visit the CME Group website.

Throughout its history, CME Group has acquired other prominent exchanges, including CBOT, NYMEX, and COMEX. As a result, nearly all major products, such as crude oil, corn, cattle, copper, and gold, are now traded on one of the CME Group exchanges.

In the UK, the London Metals Exchange is one of the few remaining exchanges that specialise in industrial metals such as tin, aluminium, and zinc.

Similarly, in China, the Shanghai Futures Exchange (SHFE), established in 1993, focuses on trading metals, energy, and chemical commodity products, contributing to the global landscape of commodity trading.

The end of floor trading – Electronic trading

Open outcry commodities trading, as satirised in the 1983 film "Trading Places" with Eddie Murphy and Dan Aykroyd, has now come to an end. However, the Frozen Orange Juice contract still trades online. Instead of traders in bright jackets screaming at each other on trading floor pits, today trading is nearly all done via trading screens.

The commodities trading doors are now open to everyone

Electronic trading has now allowed retail traders to join the market regardless of where they reside. Anyone can place trades through online platforms such as the ones offered by Deriv without having to depend on live brokers. These online platforms also offer trading charts, market news and analysis, educational tools, and technical analysis programs. Information that was once only available to professionals with large accounts and high fees is now accessible to all.

Another advantage of dealing with Deriv is that you can start trading commodities with a relatively low starting balance, with some options available for less than USD 50. Additionally, you can learn to trade and practice with a demo account using real prices and the MT5 platform, all without any risk.

Why you should consider trading commodities

Many have been put off trading commodities due to worries that they are too complicated and have unlimited risk. However, as I will explain in this book, risks can be managed, and commodities are relatively straightforward to trade from either your mobile phone or laptop, regardless of which country you reside in.

Flexibility

The majority of commodities trading is now done electronically, with prices readily available 24 hours a day. Commodities markets trade five days a week, from Sunday night at 10:00 pm (GMT) to Friday at 9:00 pm (GMT). Some commodities may also take a one-hour break between 10:00 pm and 11:00 pm (GMT). You will find the exact trading times and specifications on the [Deriv website](#).

No ownership

Some also worry that if they do not close out a trade, they will end up taking delivery of the commodities, and no one wants to have 20 tonnes of sugar on their doorstep! Rest assured, with Deriv, this will never happen. You will be trading contracts for difference (CFDs) on commodity prices. These are financial derivatives that allow you to trade the price movements of various commodities without owning the underlying assets. They are “cash settled.” In other words, you will never see the physical commodity. Funds will be credited or debited from your trading account.

Profit from up and down moves

With Deriv, you’re not restricted to trading solely on rising prices; you can also potentially benefit from downward price movements. As we go through this book, I will show you examples of both scenarios.

You can also make a “pairs” trade, which consists of being long one commodity and short another. For example, on Deriv MT5, you could go long on gold (XAUUSD) and short on copper (XCUUSD), or short on silver (XAGUSD) and long on platinum (XPTUSD).

While the majority of those reading this will be looking to profit from trading commodities, it is also possible to use a commodity contract for difference (CFD) to hedge an existing holding. For example, if I own 100 ounces of gold at the current price of around USD 230,000 and believe gold is starting to look weak, but I do not wish to sell my physical gold, I could place a short trade to “hedge” my gold position. If gold goes down, I am hedged as my CFD will gain. If gold goes up, then my CFD will decrease in value but my physical gold will increase. Hedging only makes sense for a relatively short period of time.

Leverage

CFDs on commodities typically offer leverage, meaning you can control a large position with a relatively small amount of capital. For example, with a leverage of 10:1, you could open a USD 100 position in gold with just USD 10. This leverage can amplify both gains and losses.

Managed risks

With Deriv, you can limit your risk and control your maximum exposure. For example, by setting stop-loss orders, you can ensure that you never lose more than the amount you have decided to risk.

Diversification

Trading commodities can help diversify your portfolio as they do not necessarily move in tandem with other assets such as stocks, cryptocurrencies, or currencies. There have been decades where commodities have performed better than the stock market and vice versa.

The dominance of the US dollar in commodities trading

The global settlement currency for commodities remains the US dollar. This is why you will see oil trading and priced in USD, for example, USD 80 a barrel. Gold is also priced in USD, for example, USD 2,300 an ounce.

Whilst you can settle transactions in other currencies, the US dollar remains king in the commodities world. It's worth noting that if the US dollar is weaker against the euro, it makes oil, gold, or any other commodity cheaper in the local currency. Conversely, a strong dollar would make it more expensive for someone buying gold in Indian rupees.

Commodities groups

There are a vast number of commodities that are traded around the globe; some are more focused, like chemicals and coal. In this book, we will stick to the main commodities groups that are widely traded. Please note that not all these categories are available on Deriv. Currently, only metals and energies are offered.

Energies

This category includes crude oil, natural gas, heating oil, and petrol. Energy commodities are crucial for powering industries, transportation, and residential needs. Whilst there is much talk about “green” energy such as wind and solar reducing or eliminating the need for fossil fuels, we are decades away from this becoming reality. Many parts of the world still depend on coal as a primary energy source.

There are 2 primary crude oil markets: WTI, which is West Texas Intermediate oil, and Brent crude oil, which is a Europe-delivered oil. Both contracts can be traded with Deriv.

Other energy commodities such as uranium and coal can be traded via investing in companies that operate in those areas. Uranium now has its own exchange-traded fund (ETF) that tracks the uranium price: Sprott Physical Uranium Trust Fund (U-UN.TO).

Metals

Precious metals like gold, silver, and platinum, as well as industrial metals like copper, aluminium, palladium, zinc, and steel, fall into this category. Metals are widely used in various industries, including construction, electronics, and manufacturing.

As previously stated, the move to clean energy and the electrification of transportation require a massive quantity of metals. Copper plays a big part in electrification and is also used in air conditioning and cooling. As many developing countries start to use more electricity and air conditioning, copper demand increases. Electric vehicles, due to the significant use of batteries and electric motors, are heavily dependent on copper and other metals.

Agricultural

Agricultural commodities encompass products such as wheat, corn, soybeans, cotton, coffee, sugar, cocoa, rough rice, and orange juice. These commodities are vital for the food industry and agricultural production.

Livestock

This category includes live cattle, lean hogs, and feeder cattle. Livestock commodities are essential for the meat and dairy industry.



Interesting fact

Green energy relies heavily on commodities. For example, solar panels use silver, electric vehicles use copper, and wind turbines use a vast amount of steel.



Interesting fact

As the world's population grows, especially in emerging economies, the demand for protein-rich diets such as pork and beef increases. Consequently, the demand for animal feed also rises.

Bloomberg commodities index

As well as individual commodities, there are also Exchange Traded Funds (ETFs) that trade a basket of commodities, one of the best known being the Bloomberg Commodities Index. This means that one trade would allow you to speculate on a basket of commodities. Think of the Bloomberg Commodities Index as similar to a stock index, such as the S&P 500, which allows you to trade a basket of stocks in one trade.

The most popular ETF is the US-listed Invesco DB Commodity Index Tracking Fund (DBC), which is listed on the NYSE.

Commodity stocks or commodity futures?

In this book, I will concentrate on commodity futures (CFDs), which provide direct access to the underlying price of commodities, such as gold. You can also gain exposure to gold by investing in gold mining stocks or a basket of stocks via exchange-traded funds (ETFs) like the Gold Miners ETF (NYSE: GDX), which can also be traded via a CFD.

Logic might suggest that if gold is performing well, gold mining stocks should also do well. However, this is not always the case. While gold has increased in value in recent years, gold mining stocks have not performed as well overall.

When you purchase a gold mining stock, you are exposed to various factors beyond the gold price, such as management quality, environmental risks, mining costs, and political risks. Owning a company that operates a gold mine and produces gold for the market is very different from trading gold itself.

When you trade a gold futures contract or CFD, you eliminate these additional risks, making it a pure trade on the price of gold. Although there is counterparty risk with your broker or exchange, established entities like Deriv, which has been in business for over 25 years, present relatively low counterparty risk.

I am not suggesting you should never trade commodity stocks, as there are opportunities, particularly in takeovers and mergers. However, owning a gold mining stock does not guarantee you will profit from an increase in the gold price. The same principles apply to other commodities like oil, gas, and silver.

To study this subject in more details, visit [Deriv Academy](#).

What you need to trade commodities on Deriv MT5

You will need an account with Deriv to trade commodities. You can open both real and demo accounts.

You will need to download the MT5 app, which is available for free on the Apple App Store or Android store. You can also use MT5 on a Windows or Apple desktop by using the Webtrader or downloading the relevant app.

You can mix and trade via the mobile app or desktop with the same account details. Some traders prefer a larger screen desktop setup for trading, but appreciate the convenience of using the mobile app for checking positions or making adjustments.

Navigating MetraTrader 5 (MT5) for beginners

For newcomers, the MetaTrader 5 (MT5) platform may seem a bit overwhelming at first glance. Fortunately, you can begin with a demo account to practise trading without risking real funds. This allows you to familiarise yourself with the platform and develop your trading strategies before committing actual capital.

MetaTrader 5 boasts a substantial user base, ensuring ample online resources and tutorials are available to guide you. Deriv Academy offers an excellent selection of instructional videos to help you get started. For more information, visit: [Deriv Academy](#). *(Please note that this website may not be accessible to EU residents.)*



Essential trading specifications

Keep this link handy: [Deriv trading specifications](#). This resource provides important information about the commodities available for trading on Deriv, including trading times, minimum trade sizes, and leverage details. Within the MT5 app, selecting a product, such as Nat Gas, will display its specific details, including minimum trade size, swap charges, and opening times.

Understanding trading times

Trading times are quoted in GMT, enabling you to access and trade commodities globally, but it's essential to account for official trading times. For instance, the trading hours for gold are:

- Sunday 23:05 - Friday 21:45
- Daily Break: 22:00 - 23:00 GMT

Contract for difference (CFD) rollover

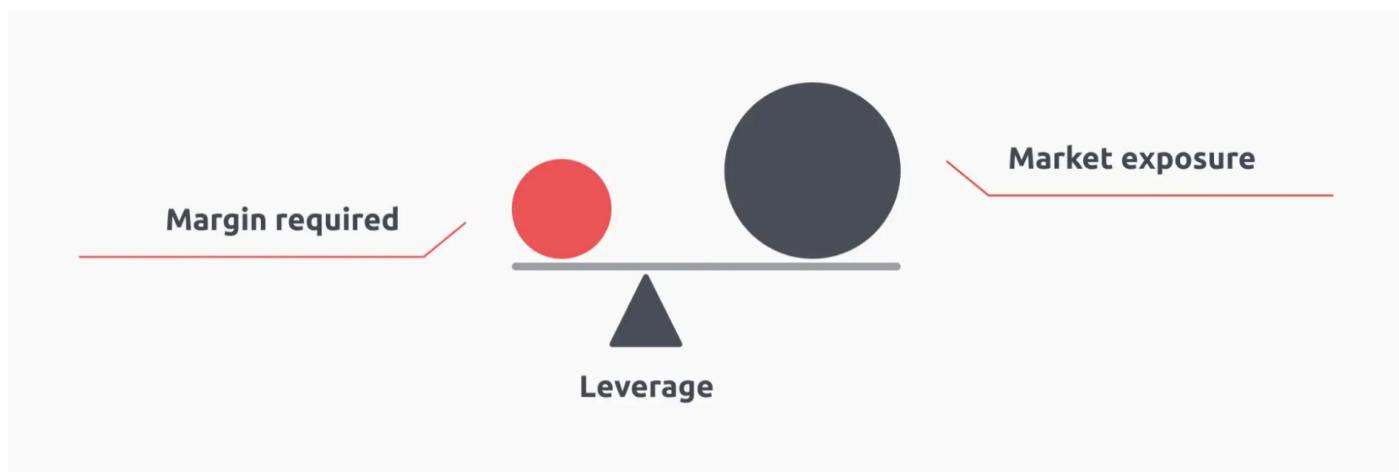
When trading CFDs on Deriv, contracts roll over daily. Depending on whether you are long or short, a swap charge may apply, or you might receive a payment if short. Deriv also offers some swap-free contracts; however, to offset this, the spreads when opening and closing trades are typically higher.

By familiarising yourself with these key aspects, you can better navigate MT5 and make informed trading decisions on the Deriv platform.



A screenshot of the web MT5 terminal

Leverage



Understanding leverage in trading

Leverage allows you to take a larger position than you would be able to with just buying a commodity or share outright in cash. With leverage, you put up a deposit known as a “margin,” and the broker lets you trade the rest on credit. The amount of leverage available to you depends on the specific commodity and your location, as some countries impose lower leverage limits.

Example of leverage: Gold trading on Deriv

Using gold as an example, Deriv currently offers up to 1:500 leverage. This means that with a USD 1,000 deposit, you could control the equivalent of USD 500,000 worth of gold. However, there is no free lunch in the financial world. A daily interest charge is applied for using this facility. For short trades, you would receive a payment.

Financing rates depend on bank base rates and the individual broker. Deriv offers competitive rates on financing, making it a favourable choice for traders.

The benefits and risks of leverage

Leverage is a good tool that Deriv offers across all its markets, but it must be used with caution. Many new traders tend to utilise the maximum leverage available. However, it is often wiser to use less leverage. Think of it like driving—you don’t always need to drive at the maximum speed limit.

For instance, although you can obtain 1:500 leverage on gold, starting with a lower ratio, such as 1:20, might be more prudent. While leverage can amplify profits when a trade moves in your favour, it can also exaggerate losses when a trade moves against you, even by a small percentage. Regardless of the trade’s outcome, you will still have to pay the financing costs which are calculated on a daily basis.

Trading size

When trading in the futures market, you normally need to buy at least one contract, also known as a LOT. The good news with Deriv is that you can trade smaller than the standard contract size. You can find the minimum trading sizes at: [Deriv trading specifications](#).

By understanding and carefully managing leverage and trading sizes, you can enhance your trading potential while mitigating risks.

Risk management

Most new traders focus excessively on when to open a trade, whereas they should devote more time to risk management and determining when to exit a trade. I would love to tell you that all my commodity trades are profitable, but that is not the case. The truth is that a large percentage of my trades either lose money or make a small profit (break-even trades).

The key to making money over time is by keeping losing trades relatively small. When I catch a good trade, typically by following a trend, it compensates for the losses and generates a profit. I will delve deeper into trading systems and risk sizing later on, but here is something important to understand: never let a trade run more than 5% to USD 10 maximum against you.

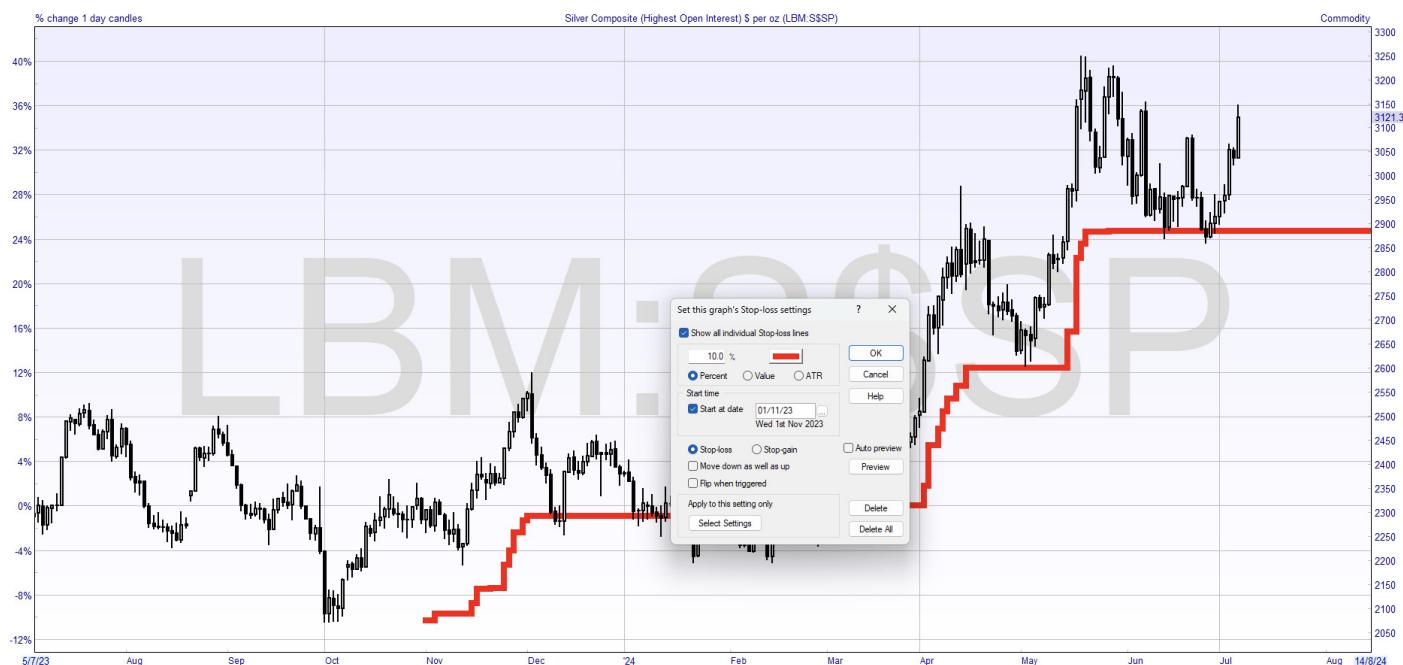
The table below illustrates how your recovery needs to grow exponentially if you let losing trades run too far. For example, if a trade drops by 50%, you will need a 100% gain just to break even!

Percent loss	Percent gain	Percent loss	Percent gain
5%	5.3%	55%	122.2%
10%	11.1%	60%	150.0%
15%	17.6%	65%	185.7%
20%	25.0%	70%	233.3%
25%	33.3%	75%	300.0%
30%	42.9%	80%	400.0%
35%	53.8%	85%	566.7%
40%	66.7%	90%	900.0%
45%	81.8%	95%	1900.0%
50%	100.0%		

Table 1. Returns needed to break even

Here is a chart of silver using a 10% stop loss. As the price moves up, so does the stop. However, when the price moves sideways or lower, the stop remains at the same level. At some stage, your trade is stopped out. If the trade moves higher and the stop loss follows, you are effectively locking in profits. This is known as a trailing stop. For a short trade, the opposite applies—the stop would be above the price.

By understanding and carefully managing leverage, trading sizes, and risk, including using tools like trailing stops, you can enhance your trading potential while mitigating risks.



A CFD example to trade WTI oil

WTI, which stands for West Texas Intermediate. It's an indicator of oil grade/mixture and a price point of oil contracts and futures contracts on the New York Mercantile Exchange (NYMEX). This is a popular traded contract as oil remains a major source of energy around the globe.

Long trade

Here's an example: You're bullish on WTI oil, so you decide to buy oil CFDs at the quoted price of USD 80.25 to USD 80.50 (the lower price is for a short contract, the higher for long). The 0.25 cents difference is the spread; this is where the broker will make their profit margin. The tighter the spread, the better, as it means your break-even point is lower. You need to cover the spread before moving into profit.

You decide to buy 3 lots of crude oil CFDs. Each lot represents a certain quantity (e.g., 1 lot = 100 barrels).

Using leverage of 20:1, you can place this trade with only a fraction of the total value. Let's calculate:

- Each lot is worth USD 80.50 (current price) \times 100 barrels = USD 8,050.
- With 3 lots, the total trade value is USD 8,050 \times 3 = USD 24,150.
- Leverage allows you to control this position with just USD 1,207.50 (20 times less than the actual value), or in other words, just 5% required.

Note: Deriv may have much higher leverage ratios available, but for this example, we will use a 20:1 ratio. Additionally, Deriv offers the opportunity to trade for less than 1 lot.

Later that day, WTI moved to 81.50/81.75. You decide to close out, selling at the bid price of 81.50. This means you have made USD 1 per contract, and with 300 contracts, your profit is USD 300. This is a 24.85% return on your outlay of USD 1,207.50. A relatively small move can give a higher potential gain.

Of course, had WTI gone lower, you would have lost the same amount.

Note: The above is an example – not a recommendation.

Short trade

Let's stay with WTI oil but this time consider going short (potentially profiting from a downward move). WTI oil is now trading at USD 82.00/USD 82.25. You decide to sell (go short) 3 lots of crude oil CFDs. Each lot represents a certain quantity (e.g., 1 lot = 100 barrels).

Using leverage of 20:1, you can place this trade with only a fraction of the total value. Let's calculate:

- Each lot is worth USD 82.00 (current price) \times 100 barrels = USD 8,200.
- With 3 lots, the total trade value is USD 8,200 \times 3 = USD 24,600.
- Leverage allows you to control this position with just USD 1,230 (20 times less than the actual value), or in other words, just 5% required.

Note: Deriv may have much higher leverage ratios available, but for this example, we will use a 20:1 ratio. Additionally, Deriv offers the opportunity to trade for less than 1 lot.

Later that day, WTI moved to 81.00/81.25. You decide to close out, buying to cover at the offer price of 81.25. This means you have made USD 0.75 per contract, and with 300 contracts, your profit is USD 225.

Of course, had WTI gone higher, you would have lost the same amount.

Note: The above is an example – not a recommendation.

For many, profiting from a commodity going down seems strange. However, over my career, I have done very well trading markets both long and short. I may switch from one side to another, such as being long on oil, trading the upward move, closing the trade, then opening a new short trade.

Also, “commodities” is a general term, and they do not all move in the same direction. I might be short on silver but long on copper. I could also be long on coffee but short on wheat.

Order types

Understanding the various order types available on Deriv MT5 is essential for effective trading. These order types are common across many trading platforms.

Market Orders

A market order is the most straightforward and common type of order. It is an instruction to buy or sell a commodity (or any traded asset) at the current market price. Market orders are executed immediately at the best available price, as long as there are willing buyers and sellers. On MT5, this is referred to as “instant execution.”

Pending Orders

These are orders that you set up to trigger at a future price level. They are instructions to your trading platform to buy or sell a currency when it reaches a certain price level.

The four main types of pending orders are Buy Limit, Sell Limit, Buy Stop, and Sell Stop. There are also combined types like Buy Stop Limit and Sell Stop Limit.



Example of a market order on Deriv MT5 app.

BUY LIMIT | PENDING ORDER

This is an order to buy an asset at a price lower than the current market price. Traders use this when they anticipate that the price of an asset will fall to a certain level before rising again.

Example: If silver is currently trading at USD 29.50 and you think it will go down to USD 28.00 before going back up, you can place a Buy Limit order at USD 28.00.

If the price reaches USD 28.00, the order becomes a “market order” and moves to “instant execution.”

SELL LIMIT | PENDING ORDER

A Sell Limit order is set to sell an asset at a price higher than the current market price. This order is used when you anticipate the price will rise to a certain level before falling.

Example: If gold is trading at USD 2100, and you believe it will rise to USD 2150 before falling, place a Sell Limit order at USD 2150.

Note: An order can be canceled as long as the price has not been triggered. Most orders are GTC (Good 'Til Canceled).

BUY STOP | PENDING ORDER

A Buy Stop order is set to buy an asset at a price higher than the current market price. Traders use this when they expect the price to continue rising after reaching a certain level. This order type can be used in breakout strategies, which will be covered later.

SELL STOP | PENDING ORDER:

A Sell Stop order is set to sell an asset at a price lower than the current market price. This order is used when you expect the price to continue falling after hitting a certain level.

Example: If oil is trading at USD 81.00 and you want to go short if the price breaks the support level at USD 80.00, you can place a Sell Stop order at USD 79.00.

BUY STOP LIMIT | PENDING ORDER

This is a combination of a Buy Stop order and a Buy Limit order. You set 2 prices: the stop price, which triggers your order, and the limit price, which is the highest price you're willing to pay. If the market price reaches the stop price, a Buy Limit order is placed at the limit price. This is used when you expect the price to rebound after reaching a specific level above the current price.

SELL STOP LIMIT | PENDING ORDER

This is the opposite of a Buy Stop Limit order. You set 2 prices: the stop price and the limit price. If the market price reaches your stop price, a Sell Limit order is placed at your limit price. This is used when you expect the price to rebound after reaching a specific level below the current price.

Take Profit

This is an order to lock in your profits. You set a Take Profit order at a specific price level above or below the current price. If you're long or buying a commodity (you've bought it expecting the price to rise), you set the Take Profit above the current price. If you're short or selling (you've sold it expecting the price to fall), you set it below the current price. When the market hits this level, your trade is automatically closed, and your profit is locked in.

Stop Loss

This is an order to limit your losses. It's the opposite of a Take Profit. You set a Stop Loss order at a specific price level. If you're long or buying a currency, you set the Stop Loss below the current price. If you're short or selling, you set it above the current price. If the market hits this level, your trade is automatically closed, and your loss is limited.

Key takeaways for order types

These orders help you trade without constantly monitoring the market, but they do not guarantee profits. It's essential to develop a solid understanding of market trends and dynamics and to have a robust risk management strategy in place.

Remember, you can use a Deriv MT5 demo account to practice these orders in real market conditions without taking any real risk.



Factors affecting commodities price

Let's use gold as an example of what factors will move a commodity's price. Of course, each commodity has its own factors, but they do share similarities.

The key factors affecting gold's price are:

Inflation

When a currency experiences greater than normal inflation, traders may prefer to store their value in gold since it is relatively stable and has historically held its value well. In many ways, gold can be seen as a currency rather than just a metal. Until 1971, the US dollar was actually backed by gold.

Supply

Like other commodities, supply has the power to lower gold's price if a market becomes saturated or raise the price if scarce. New gold discoveries increase availability where there may have been a shortage. This is also very relevant to oil prices. If there is a bumper harvest in Brazil for coffee one year, thanks to good growing conditions, then supply will be plentiful, and this will put downward pressure on prices as buyers (demand) have no problems finding supply. Of course, if the reverse occurs, we would see buyers chase prices higher if supply is tight.

Unlike some consumable commodities such as oil and corn, gold is still tradeable even after being used. If the price goes higher, it is more advantageous for miners to mine for new gold. If the price drops, they may not mine as much, resulting in less supply in the market.

Demand

Demand for gold can be triggered by the demand for the metal in jewellery, industrial uses, and trading. If demand is greater than supply, the price may go up. On the other hand, if demand is low and the market has a surplus, the price may drop to attract buyers or it may rise depending on buyer demand.

Higher prices can also bring out jewellery sellers that wish to cash out old or unwanted gold. There are many outlets that offer "cash for gold" around the world. Also, scrap and recycling of metals become more lucrative and viable when gold is at higher prices.

The US dollar

Gold is priced in dollars, making the US currency a player in how attractive the commodity is to foreign investors. If someone trades in euros, pounds, or another currency, a devalued USD may make the commodity more attractive, while a stronger dollar may have the adverse effect.

To study this subject in more details, visit [Deriv Academy](#).



Interesting fact

Gold, when quoted in US dollars, could be down for a period of time, yet when quoted in another currency, the price can be up. The table shown here demonstrates this.

Source: In Gold We Trust report 2024.

Gold Performance in Major Currencies, 2000–2024 YTD

Year	USD	EUR	GBP	AUD	CAD	CNY	JPY	CHF	INR	Average
2000	-5.3%	1.2%	2.0%	11.3%	-1.9%	-5.4%	5.8%	-4.2%	1.4%	0.6%
2001	2.4%	8.3%	5.3%	11.4%	8.8%	2.4%	18.0%	5.5%	5.8%	7.6%
2002	24.4%	5.6%	12.2%	13.3%	22.9%	24.4%	12.2%	3.5%	23.7%	15.8%
2003	19.6%	-0.2%	8.0%	-10.7%	-1.3%	19.6%	8.1%	7.4%	13.9%	7.2%
2004	5.6%	-1.9%	-1.7%	1.5%	-2.0%	5.6%	0.8%	-3.1%	0.1%	0.5%
2005	18.1%	35.1%	31.6%	25.9%	14.1%	15.1%	35.9%	36.3%	22.8%	26.1%
2006	23.0%	10.4%	8.1%	14.3%	23.3%	19.0%	24.2%	14.1%	20.7%	17.5%
2007	30.9%	18.5%	29.2%	18.0%	12.0%	22.5%	22.5%	21.8%	16.9%	21.4%
2008	5.4%	10.0%	43.1%	30.5%	28.7%	-1.5%	-14.2%	-0.8%	30.0%	14.6%
2009	24.8%	21.8%	12.9%	-1.6%	7.9%	24.8%	27.9%	21.1%	19.2%	17.6%
2010	29.5%	38.6%	34.2%	13.6%	22.8%	25.1%	13.2%	16.8%	24.8%	24.3%
2011	10.2%	13.9%	10.6%	10.3%	12.7%	5.2%	4.5%	10.7%	30.7%	12.1%
2012	7.1%	5.0%	2.5%	5.3%	4.2%	6.0%	20.7%	4.5%	11.1%	7.4%
2013	-28.0%	-30.9%	-29.4%	-16.1%	-23.0%	-30.1%	-12.6%	-29.8%	-19.1%	-24.3%
2014	-1.8%	11.6%	4.4%	7.3%	7.5%	0.7%	11.6%	9.4%	0.2%	5.6%
2015	-10.4%	-0.1%	-5.3%	0.6%	6.8%	-6.2%	-9.9%	-9.7%	-5.9%	-4.5%
2016	8.5%	12.1%	29.6%	9.6%	5.3%	16.1%	5.4%	10.3%	11.4%	12.0%
2017	13.1%	-0.9%	3.3%	4.6%	5.9%	6.0%	9.0%	8.3%	6.3%	6.2%
2018	-1.5%	3.0%	4.3%	8.9%	6.8%	4.1%	-4.2%	-0.8%	7.3%	3.1%
2019	18.3%	21.0%	13.7%	18.8%	12.6%	19.7%	17.2%	16.6%	21.3%	17.7%
2020	25.0%	14.8%	21.3%	14.1%	22.6%	17.2%	18.8%	14.3%	28.0%	19.6%
2021	-3.6%	3.6%	-2.6%	2.2%	-4.3%	-6.1%	7.5%	-0.6%	-1.7%	-0.6%
2022	-0.2%	6.0%	11.6%	6.3%	7.0%	8.3%	13.7%	1.1%	10.8%	7.2%
2023	13.1%	9.7%	7.4%	13.1%	10.5%	16.3%	21.6%	2.9%	13.7%	12.0%
2024 YTD	10.8%	14.7%	12.9%	16.6%	15.3%	13.0%	24.0%	21.1%	11.2%	15.5%
CAGR	8.9%	8.6%	10.0%	8.9%	8.7%	8.3%	10.9%	6.5%	11.9%	9.2%

Source: Reuters Eikon (as of 04/30/2024), Incrementum AG

Geopolitical events

As a global metal, geopolitical events can affect the supply of gold. Such events can also influence currency movements, altering the relative value of gold and potentially driving large numbers of traders to or from this commodity.

Most commodities are exposed to geopolitical events, especially those with tight supply. For example, the cocoa market is very sensitive to weather factors, but any political unrest in a major producing country can sharply increase prices.

Similarly, oil prices are affected if a major oil-producing nation experiences unrest or war.

Participants in the commodities market

For simplicity, I will cover the 2 main participants in the commodities market. Most readers will fall into the “speculators” category.

Hedgers/end users: Hedgers in commodities are typically producers or farmers. For example, if I am a farmer growing corn, I can use the commodities futures market to lock in a price for my crop today, which will be delivered in due course. This means I don’t have to worry about the market price at the time of harvest.

End users, such as a confectionery maker like Mondelez, know they will need cocoa to make their chocolate and other products. They can use the futures market to lock in a cocoa price today to manage future price swings.

Similarly, an airline could use oil futures to project their running costs for years ahead. Since fuel constitutes a large part of the airline’s operating costs, they could “hedge” this price 2 or 3 years out, providing stability in an unpredictable industry.

Speculators: In this book, we will focus on speculators, including myself. A speculator has no interest in hedging or taking delivery of a commodity; our only goal is to profit from a commodity moving up or down.

Fundamentals in commodities

There are fundamentals or underlying factors that influence the supply and demand dynamics, and consequently the prices, of various commodities. As mentioned earlier, factors such as demand, supply, and geopolitical issues affect commodities. Weather is also a fundamental factor that impacts commodity prices. For example, in the case of agricultural commodities like coffee, an expected drought or frost could affect crops, reducing supply. Brazil remains one of the largest coffee-producing nations, followed by Vietnam.



Interesting fact

About 3 billion cups of coffee are consumed around the world every day, according to the International Coffee Organization (ICO). If current consumption trends continue, this number is expected to double by 2050.

In the case of natural gas, which is used for heating and cooling (AC), colder-than-normal winters or hot summers will cause prices to fluctuate. Of course, markets will have already factored in seasonal factors and which months would be expected to see stronger or weaker supply, but it’s the unexpected events that will cause large moves. You may be thinking, “If it’s unexpected, how do I profit from this?” I will explain more in the next section.

Accessing seasonal charts for commodities is possible through resources like Seasonax. This company analyses historical data to identify seasonal patterns. However, it’s important to remember that history serves as a guide, not a guarantee.

For instance, the seasonal trend in WTI (West Texas Intermediate) oil reveals 3 distinct patterns: a strong start at the beginning of the year, a sideways range in the middle, and a weaker performance towards the end of the year.



Technical analysis

In this section, we will look at trading systems, including when to buy and, more importantly, when to close out a sell position. We will also explore risk management, position sizing, and using indicators/charting tools to make better trading decisions.

Risk warning: There are no guaranteed trading systems. Using technical analysis does not ensure profit in the commodities market. Conduct your own research and test systems with a demo account before risking capital. Past performance is not indicative of future returns.

Technical analysis is based on the assumption that historical price patterns will repeat themselves. However, unexpected events can disrupt established patterns. For example, a sudden policy change by a government can lead to a price movement that defies historical patterns. In this case, the price movement was influenced by a government announcement, which could not be predicted through technical analysis.

What is technical analysis?

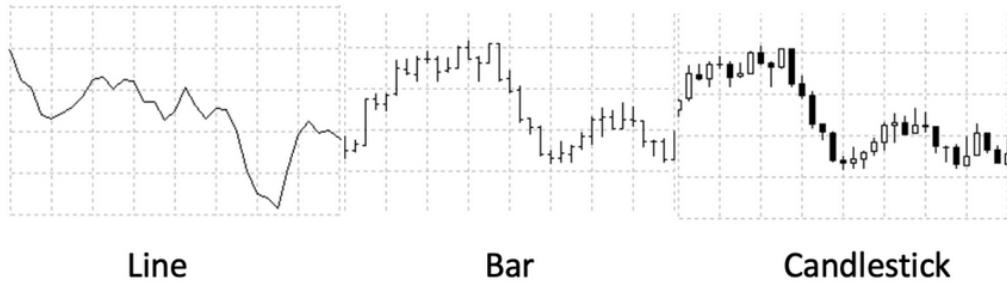
Technical analysis is a method used to evaluate and forecast the future price movements of financial instruments, such as stocks, commodities, currencies, and indices, by examining historical price data and trading volumes.

Unlike fundamental analysis, which focuses on factors like weather, crop reports, or geopolitical events, technical analysis relies on chart patterns, technical indicators, and statistical measures to identify trading opportunities. In essence, “price” is the key factor, not news. If the price progresses from 50 to 51, then 55, and finally to 60, it is considered an upward trend, regardless of personal opinions or what some “trading expert” might say on YouTube.

Key concepts of technical analysis

Price charts visually represent a commodity's price movements over time, helping you analyse trends and make informed decisions. They include:

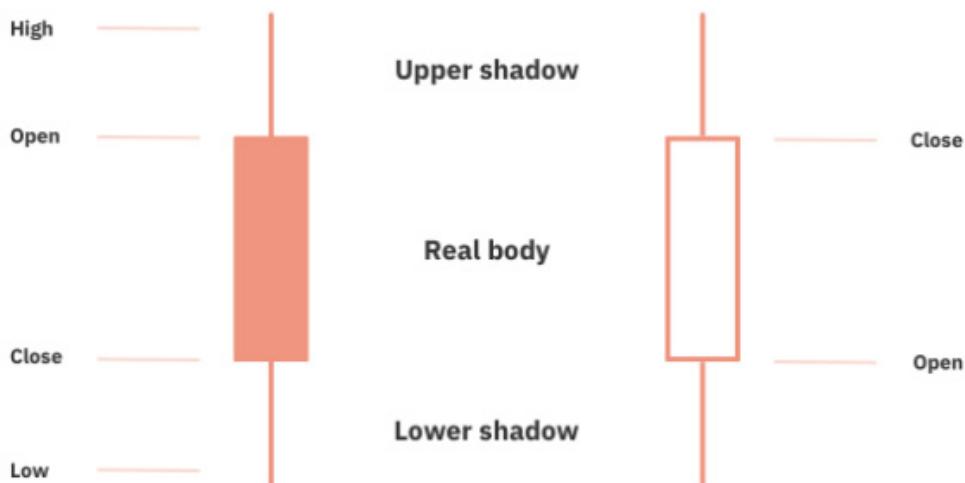
- **Line charts:** Simple charts that plot the closing prices over a specified period.
- **Bar charts:** Charts that show the open, high, low, and close prices for each period.
- **Candlestick charts:** Similar to bar charts but offering a more visual representation of price movements, showing the open, high, low, and close prices.



Charts are available from various platforms, and Deriv will supply you with quality charting software such as Deriv MT5, Deriv X, Deriv GO and Deriv cTrader at no charge. Please note that some of these platforms may not be available in the EU region.

The most popular chart used by traders is the candlestick chart. This method of charting prices is particularly interesting and helpful due to its ability to display five data points at a time, instead of just one. Candlestick charts are said to have been developed in the 18th century by the legendary Japanese rice trader Munehisa Homma and remain in common use by today's financial market traders.

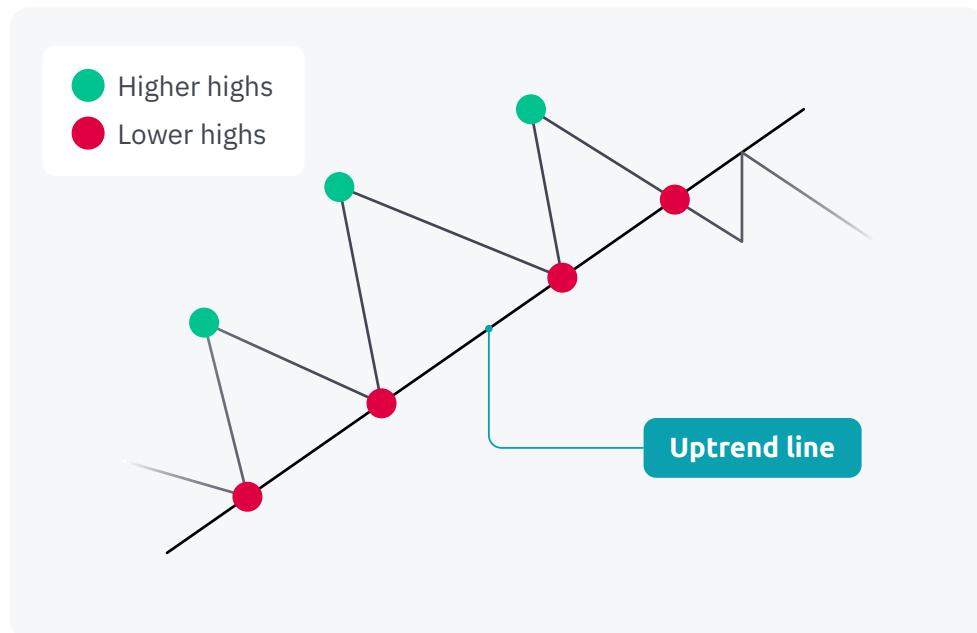
The basic candlestick



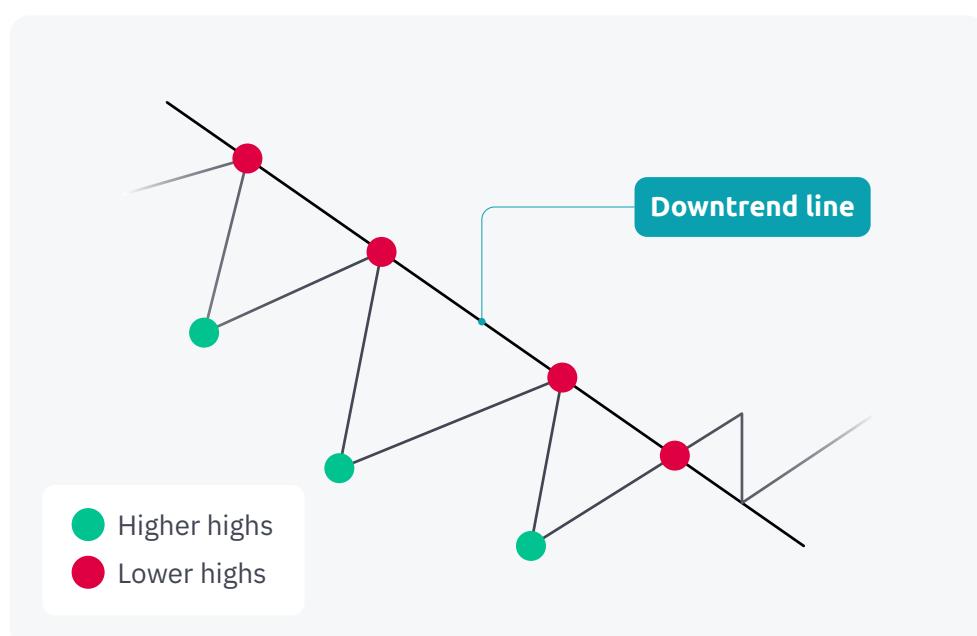
Trends

A commodity can only be in 3 states:

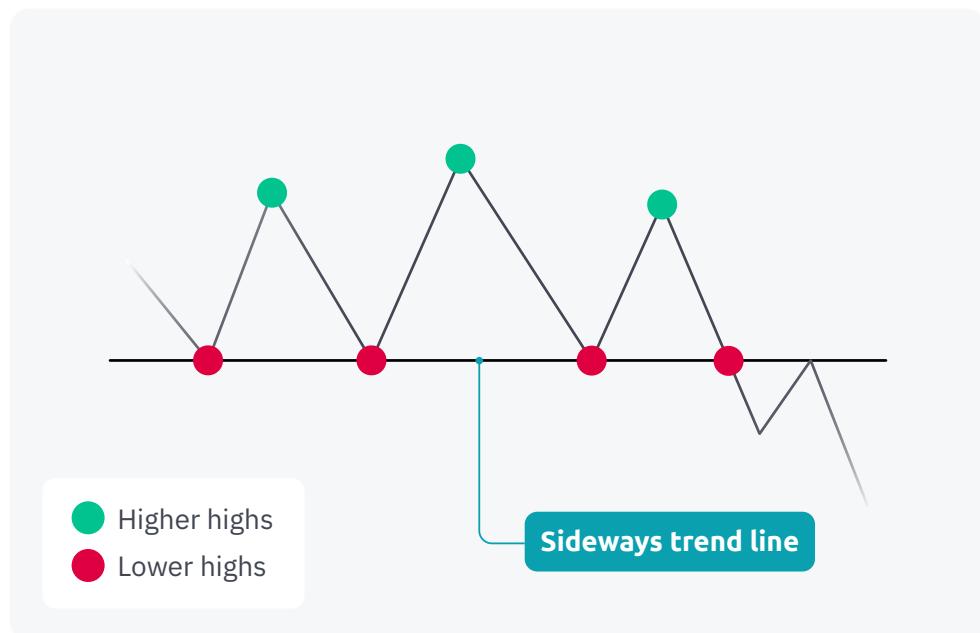
Uptrend: A series of higher highs and higher lows, indicating a rising market. In this case, we would want to be long (buy) a commodity.



Downtrend: A series of lower highs and lower lows, indicating a falling market. In this case, we would want to be short (sell short) a commodity, and if we had a previous long trade, we would want to ensure we have closed the trade.



Sideways trend: A market that is moving within a range, showing no clear upward or downward direction. Sideways markets are often overlooked, but commodities can range for weeks, if not months. Having a diverse range of markets to trade will help you find trending ones.



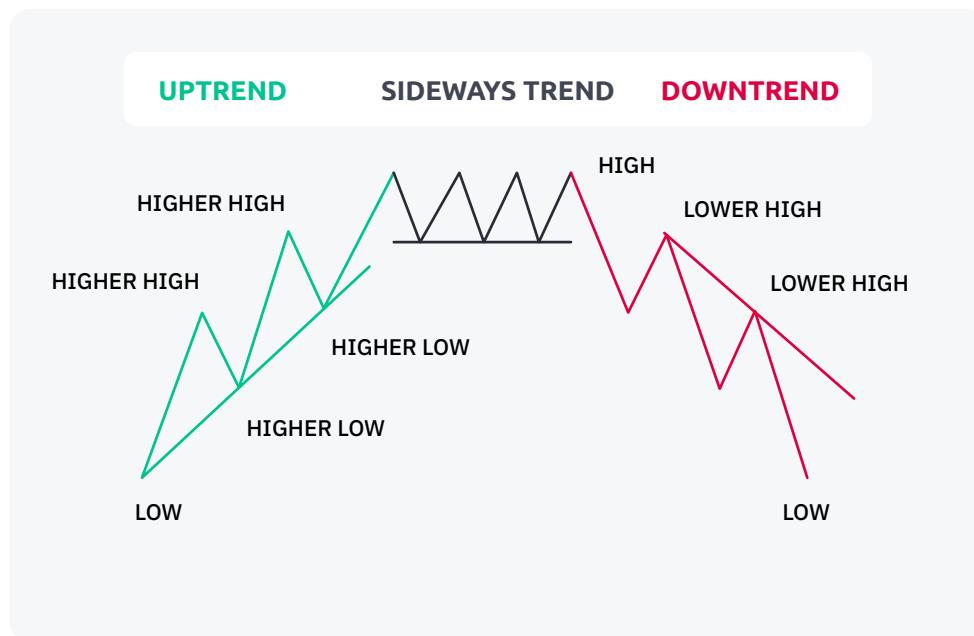
There are still potential trades to be made in a sideways market. You would buy at the bottom of the range (support) and close out at the top (resistance). You can repeat this trade until a new trend, either up or down, emerges, also known as a “breakout.” Deriv also offers Accumulator Options, which are a good tool to profit from range-bound markets.

Breakouts

These can potentially be very profitable in commodities. A fairly recent example of cocoa demonstrates this. Cocoa stayed in a trading range for years, then experienced a breakout in January 2024, with the price soaring 150% in a few months. Of course, such dramatic movements do not happen often, but it gives you an idea of the power of breakouts. By following various markets, you can increase your chances of finding breakout opportunities. Using “watchlists” can help you spot these, such as a list of commodities making new 20-day highs.



From the chart above, we can observe that cocoa prices moved sideways for several months. Then, the price surged past 4,000, and within a few months, it climbed to 11,000 before pulling back.



Above, we can observe the 3 distinct market states together. Each state presents unique opportunities for potential profit. This example illustrates a top formation. Conversely, the opposite scenario would depict a bottom formation.

Support and resistance

- **Support:** A price level where buying interest is strong enough to prevent the price from falling further. For example, every time oil hits USD 60, buyers come in and support the market.
- **Resistance:** A price level where selling interest is strong enough to prevent the price from rising further. For example, every time oil hits USD 80, sellers come in and resist the market.

Using charts, we can identify support and resistance areas. In the graphic of the three market states, we see that the price is in a range but then breaks down lower. After three attempts, support no longer holds, and a new downtrend starts. MT5 allows you to add support and resistance lines to charts.

Technical indicators

I prefer to stick with a few basic indicators, as I like to keep my trading simple. I avoid complicating my analysis with too many indicators, which can lead to confusion or what is commonly known as ‘paralysis by analysis.’

Moving averages

Moving averages are used to smooth out price data and identify trends. Common types include the Simple Moving Average (SMA) and the Exponential Moving Average (EMA). There are other types of moving averages, such as the Variable Moving Average (VIDYA).

- **Moving averages trading system**

Incorporating a technical system that utilises moving averages can mitigate the influence of emotions on your trading decisions. Rather than basing your trades solely on what you believe should happen, ground your trades in the actual market data points. A moving average can also prevent you from making mistakes, such as trading against a trend.

Moving averages work best when prices are moving either up or down. In a sideways range, the moving average will flatten and give many false signals.

A Moving Average Crossover System is a popular trading strategy used in financial markets to identify potential buy and sell signals based on the interaction of two moving averages. Here's a basic outline of how this system works:

Components:

- **Sort-term Moving Average (SMA or EMA):** This could be a 6-day moving average, for example.
- **Long-term Moving Average (SMA or EMA):** This could be a 21-day moving average, for example.

Signals:

- **Buy Signal:** When the short-term moving average crosses above the long-term moving average, it indicates a potential upward trend.
- **Sell Signal:** When the short-term moving average crosses below the long-term moving average, it indicates a potential downward trend.

You can also experiment with other combinations, and the time frames can be changed. For example, a 21/6-day crossover system can become a 21/6-minute crossover system by changing the chart timeframe.

Example of a 21/6 crossover system on coffee: The green arrow shows the buy crossover, and the red arrow shows the sell (close) level, indicating when you would go short.



Source: Sharescope

Indicators

There is a vast array of indicators and tools available in MT5. Rather than covering all of them, let's briefly go over a few popular ones.

RSI

The Relative Strength Index (RSI) measures a share's performance against itself. It is often used to identify buying opportunities during market dips and selling opportunities during market rallies. The value of the RSI is always a number between 0 and 100. The indicator was developed and introduced in 1978 by American engineer, real estate developer, and famous technical analyst J. Welles Wilder. It is still widely used today.

The chart below shows an example of cocoa, to which we can apply this tool to inform trading decisions. A low number (30 and below) indicates a more oversold market, while a high value (70 and above) indicates a more overbought market. The higher and lower horizontal lines on the graph are at 30 and 70, respectively, marking the levels at which markets are often regarded as oversold or overbought.

- When the RSI moves to 70, it's a good time to consider down (short) trades or monitor a long trade more carefully, as we could be getting closer to a price reversal.
- When the RSI is down at 30, it's a good time to consider up (long) trades.

In the example below, we can see the RSI at 45, which is fairly neutral (midway), so the RSI is not providing a clear buy or sell signal. Thus, in this case, it would be best to hold off on placing a trade until clearer signals appear.

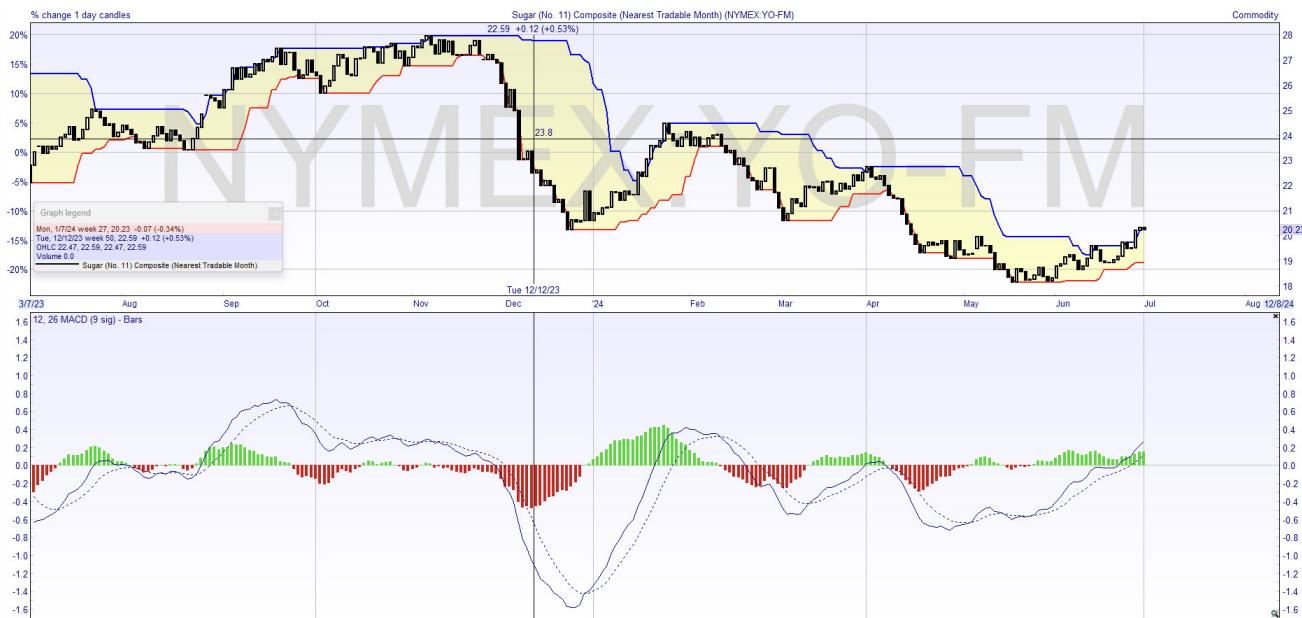
The RSI stayed above 70 and even approached 90 at one stage as the cocoa market became very overheated. However, the RSI and price started falling, and we returned to the middle of the range.

If we are using Digital Options, we would look to buy (up – rise options) when we see the RSI down at 30, and we would look to sell (down – fall options) at 70 or above.



MACD: The Moving Average Convergence Divergence

The Moving Average Convergence Divergence (MACD) is a popular technical analysis tool used in trading to identify potential buy and sell signals. It is a trend-following momentum indicator that shows the relationship between 2 moving averages of a security's price. Here's a breakdown of the MACD trading system:



- **MACD Line:** This is calculated by subtracting the 26-period Exponential Moving Average (EMA) from the 12-period EMA.
- **Signal Line:** This is the 9-period EMA of the MACD Line. It acts as a trigger for buy and sell signals.
- **Histogram:** This represents the difference between the MACD Line and the Signal Line. It helps to visualise the momentum of the price movement.

How to use MACD in trading

Buy signal:

- **MACD Line Crosses Above Signal Line:** When the MACD Line crosses above the Signal Line, it is considered a bullish signal, indicating that it may be a good time to buy.
- **Histogram Turns Positive:** When the histogram moves from negative to positive, it can also be seen as a buy signal.

Sell signal:

- **MACD Line Crosses Below Signal Line:** When the MACD Line crosses below the Signal Line, it is considered a bearish signal, indicating that it may be a good time to sell.
- **Histogram Turns Negative:** When the histogram moves from positive to negative, it can also be seen as a sell signal.

All major software packages like MT5 and Sharescope will allow you to add MACD, and you can also try different parameters, not just 26-12-9.

Here we see sugar with an MACD that has turned positive.



Source: ShareScope

Chart Patterns

Technical analysts look for specific patterns in price charts, such as head and shoulders, double tops and bottoms, triangles, and flags. These patterns can indicate potential future price movements. I have written a guide called “10 Chart Patterns Every Pro Trader Should Know,” which is available for free from Deriv. In this guide, I go into chart patterns in more depth. These chart patterns are valid in commodities and other financial markets. Download your copy [here](#).

10 CHART PATTERNS

Every Pro Trader Should Know

1 Head and shoulders

Bearish. The head and shoulders pattern is characterised by a large peak with two smaller peaks on either side. All three levels fall back to the same support level as the neckline. The trend is then likely to break out in a downward motion.

2 Inverse head and shoulders

Bullish. The inverse head and shoulders pattern is characterised by a large peak with two smaller peaks on either side. All three levels fall back to the same support level as the neckline.

3 Double bottom

Bullish. The double bottom pattern looks similar to the letter W and indicates when the price has had a successful attempt at breaking through the support level. It is a reversal chart pattern as it highlights a trend reversal.

4 Double top

Bearish. The double top pattern is the opposite of a double bottom. A double top looks like the letter M. This pattern is a reversal chart pattern as it highlights a trend reversal.

5 Cup & handle

Bullish. The cup and handle pattern is a continuation stock chart pattern that signals a bullish market trend. It is similar to the rounding top or bottom but features a handle after the rounding bottom. The handle resembles a flag or pennant, and once completed, you can see the market break out in a bullish upwards trend.

6 Rounding top

Bearish. The rounding top pattern usually indicates a bearish (downward) trend. It tends to show that the market is losing strength, with each high being lower than the previous one.

7 Rounding bottom

Bullish. In the rounding bottom pattern, the market is in a downward trend but then starts to make a series of lows, higher than the previous ones, which form the rounded bottom or saucer. A breakout is likely where the triangle lines converge. The buy entry would be just above the resistance. You need to be bearish opposite for the sell entry: sell below the support line.

8 Ascending triangle

Bullish. An ascending triangle pattern is a bullish pattern, meaning that the price could break out from the right side. A breakout is likely where the triangle lines converge. The buy entry would be just above the resistance. You need to be bearish opposite for the sell entry: sell below the support line.

9 Descending triangle

Bearish. The descending triangle pattern shows the price moving into smaller and smaller ranges before the big breakout. Your sell entry would be just below the support line. For the buy entry, buy above the resistance line.

10 Rising wedge

Bearish. Rising wedge patterns are usually reversal patterns. A rising wedge occurs when the price makes multiple swings to new highs, yet the price moves are getting smaller. This is bearish. The opposite is a falling wedge. The price typically breaks higher, so it is a bullish pattern (for more details, please see the ebook 10 Chart Patterns Every Pro Trader Should Know).

Volume Analysis: Analysing the volume of trading can provide insights into the strength or weakness of a price movement. High volume on a price increase might indicate strong buying interest, while low volume on a price increase might suggest a lack of conviction.

Time Frames: Technical analysis can be applied to different time frames, ranging from minutes, hours, days, weeks, and even months, which would be very long-term. MT5 allows you to easily switch and view different time frames.

My own style of trading is longer-term, and I use daily charts, so each bar represents one day, and I am looking at 6 to 12 months. For shorter-term traders, using 1-minute, 10-minute, and 60-minute charts is worth considering.

Trading system ideas

Turtle trading in commodities

Turtle trading is a well-known trading strategy that was developed by Richard Dennis and William Eckhardt in the 1980s. The strategy is based on a trend-following system that aims to capture large market movements by entering trades in the direction of the prevailing trend. Here are the key components of the turtle trading strategy:

1. Entry signals

Breakout method: The strategy typically involves entering a trade when the price breaks out of a predefined range. For example, a common rule is to buy when the price exceeds the highest high of the past 20 days and sell when the price falls below the lowest low of the past 20 days.

2. Position sizing

Volatility-based position sizing: The position size is determined based on the volatility of the asset. The more volatile the asset, the smaller the position size. This is often calculated using the Average True Range (ATR) indicator. This is available on many websites and some software, so you do not need to calculate it by hand.

3. Risk management

Fixed fractional risk: The strategy involves risking a fixed percentage of the trading capital on each trade. For example, a trader might risk 1% or 2% of their capital on any single trade.

Stop losses: Stop losses are placed to limit potential losses. These are often set at a multiple of the Average True Range (ATR) below the entry price for long positions and above the entry price for short positions.

A reminder: a stop loss is an order you give to your broker that, if the price reaches a certain level, your sell or buy order will become a market order and be executed. This means you don't have to keep watching the market all the time.

4. Exit signals

Trailing stops: The strategy uses trailing stops to lock in profits as the trade moves in the trader's favour. The trailing stop is often set at a multiple of the ATR.

Breakout in the opposite direction: Another exit signal is when the price breaks out in the opposite direction of the trade. For example, if a long position was entered on a 20-day high breakout, the position might be exited if the price falls below the lowest low of the past 10 days.

You can learn more about ATRs at [Investopedia](#).

ATR example source: Barchart.com

Silver Sep '24 (SIU24)
31.215 +0.159 (+0.51%) 10:30 CT [COMEX]
 31.215 x 14 31.220 x 3
TECHNICAL ANALYSIS for Wed, Jul 10th, 2024

Notes Alerts Watch Help

Period	Moving Average	Price Change	Percent Change	Average Volume
5-Day	31.126	+1.472	+4.96%	66,649
20-Day	30.100	+0.935	+3.10%	43,568
50-Day	29.962	+3.309	+11.89%	21,178
100-Day	27.998	+8.104	+35.19%	11,218
200-Day	26.028	+6.381	+25.78%	5,729
Year-to-Date	26.938	+6.380	+25.78%	8,679

Period	Raw Stochastic	Stochastic %K	Stochastic %D	Average True Range
9-Day	76.43%	73.56%	79.01%	0.876
14-Day	77.16%	73.81%	79.10%	0.919
20-Day	77.16%	72.34%	73.99%	0.936
50-Day	70.48%	68.99%	70.54%	0.851
100-Day	81.06%	80.47%	81.55%	0.700

Period	Relative Strength	Percent R	Historic Volatility	MACD Oscillator
9-Day	59.38%	23.57%	26.34%	0.620
14-Day	56.40%	22.84%	34.65%	0.811
20-Day	55.48%	22.84%	36.01%	0.933
50-Day	55.71%	29.52%	40.29%	1.071
100-Day	55.30%	18.94%	33.23%	3.035

Adaptations

The time frames can be reduced for short-term systems; for example, you could have a 20-hour high breakout and exit on a 10-hour low. I have also seen 20-minute highs and 10-minute lows for very short-term systems. Worth mentioning are Donchian channels, which are the basis for the Turtle Traders system entry.

The Donchian channel is an indicator used in market trading, developed by Richard Donchian. It is formed by taking the highest high and the lowest low for a set period, such as 20 days. The area between the high and the low is the Donchian channel for the chosen period. This tool is available with MT5 and other chart packages, with adjustable settings for the period length. Twenty days is the conventional timeframe, which is why the Donchian channel is often referred to as the 20-day rule or the 4-week rule.

While basic, this system has some powerful advantages:

- Winning trades are left to run.
- You have an exact exit strategy (no guessing).
- The system is rule-based.
- Your risk is always defined.

Even with more losing trades than winning ones, there's a chance you can still make money as long as the winning trades gain more points than the losing ones. You can also profit from down moves as well as up moves.

ATR example source: Barchart.com



Source: ShareScope

/ Digital options

So far, I have concentrated on contracts for difference (CFDs), which make up most of the trading. Deriv also offers digital options, currently available on the Deriv Trader and SmartTrader platforms. Gold, silver, platinum, and palladium are currently offered. Other markets may be available in due course. Deriv CFDs offer a bigger choice, but it's also worth considering digital options. You can trade CFDs and digital options simultaneously.

A digital option allows you to back your view on a market going up or down with a fixed risk, such as USD 10, and to know what your potential return will be. Digital options can last from 5 minutes to 365 days, providing plenty of flexibility. Most types of options can also be sold before expiry, so if you wish to take your profits or close out early with a loss and change your view, you can do this as a resell price is offered.

When you place a trade, you will be shown the potential returns. In this example, we see a 5-minute trade in Gold/USD Rise/Fall. I have chosen Rise (higher). The trade premium was USD 10, and I cannot lose more than this. The potential profit is USD 7.59, a 75.9% return. That return is fixed. So, in the case of a successful trade, I will be paid USD 17.59 (USD 10 being my stake returned). If the trade is unsuccessful, then I will lose the USD 10 stake.

The image shows a user interface for a digital option trade. On the left, there's a chart of the gold price (2,325.19) and some input fields: 'Commodities Gold/USD', 'Up/Down Rise/Fall', 'Start time Now', 'Duration 5 minutes', 'Stake 10 USD'. On the right, a 'Contract Confirmation' dialog box is open, containing the following information:

Potential Payout	Total Cost	Potential Profit
17.59 USD	10.00 USD	7.59 USD

Win payout if Gold/USD is strictly higher than entry spot at 5 minutes after contract start time. Your transaction reference is 492287018588. A red 'View' button and a teal 'Account balance: 35,268.23 USD' bar are also visible.

[Chart](#)[Explanation](#)

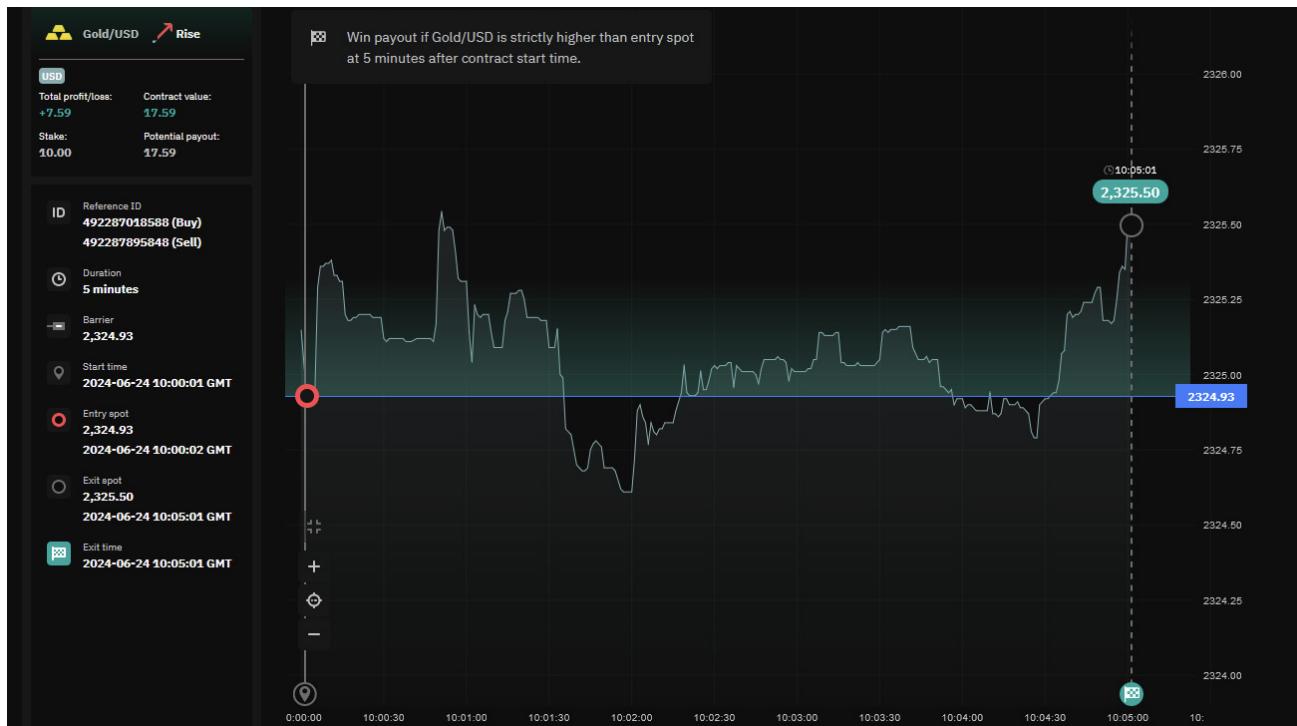
Winning the contract

If you select "Rise", you win the payout if the **exit spot** is strictly higher than the **entry spot**.

If you select "Fall", you win the payout if the **exit spot** is strictly lower than the **entry spot**.

If you select "Allow equals", you win the payout if exit spot is higher than or equal to entry spot for "Rise". Similarly, you win the payout if exit spot is lower than or equal to entry spot for "Fall".

5 minutes later, the price of gold ticked up, and my trade won. The entry price was 2,324.93, and the exit price was 2,325.50, so it was higher. I did not have to close the trade; it expired automatically. Also, note that at one point, the trade was losing money, but what counts is the expiry price. Since it's a digital option, I did not have to worry about stop losses or margin requirements. It's also worth noting that the percentage gain of over 75% was made with just a tiny move in the gold price of 0.43 cents. Even more impressive is that if gold was only 1 cent higher than my entry, I would have still won.



With Deriv, you can have multiple trades on digital options concurrently. You may have a Rise trade on gold expiring in 1 week and another expiring in 5 minutes. You may also have a Fall trade on silver running at the same time.

Digital options available on Deriv

Up/Down

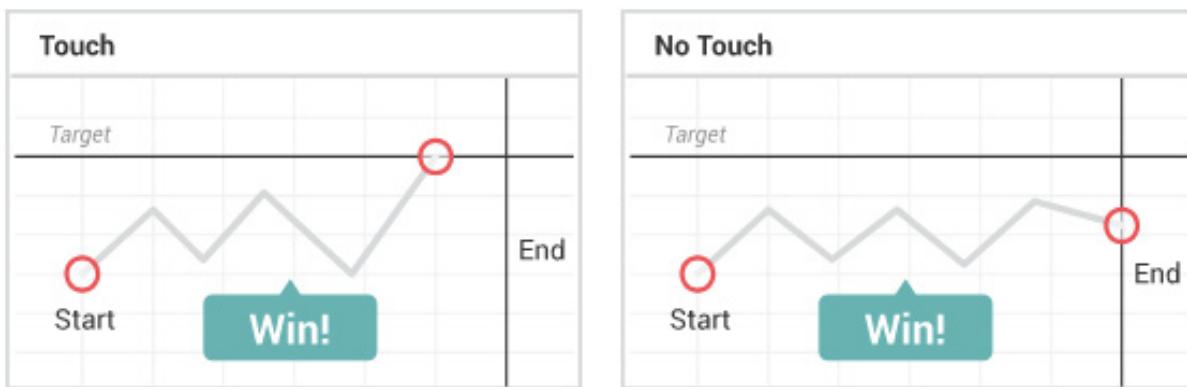
- Rise/Fall:** Predict whether the exit spot will be strictly higher or lower than the entry spot at the end of the contract period.
- Higher/Lower:** Predict whether the exit spot will be higher or lower than a price target (the barrier) at the end of the contract period.

In/Out

- Ends Between/Ends Outside:** Predict whether the exit spot will be inside or outside 2 price targets at the end of the contract period.
- Stays Between/Goes Outside:** Predict whether the market will stay inside or go outside 2 price targets at any time during the contract period.

Touch/No Touch

- Predict whether the market will touch or not touch a target at any time during the contract period.
 - If you select “Touches,” you win the payout if the market touches the barrier at any time during the contract period.
 - If you select “Does Not Touch,” you win the payout if the market never touches the barrier at any time during the contract period.



Here is an example of a fairly unique option available from Deriv.

Ends Between allows you to profit from a sideways range. You would select the high and low price levels, and as long as the price ends within that range, your trade would win. With this trade, you still profit even if at some point the price went out of the range, as long as the price closes within the range. This trade type is available exclusively on SmartTrader.

As with most Deriv options, you can also close out before expiry.



Below, we see an example of Silver.

The screenshot displays the Deriv trading interface for a Silver/USD option trade.

Top Controls:

- Commodities dropdown: Silver/USD
- In/Out dropdown: Ends Between/En...
- Price: 29.9325
- Guide button

Trade Settings:

- Duration: 7 days (Minimum: 7)
- High barrier: 30.8193
- Low barrier: 29.0712
- Stake: 10 USD

Results:

Trade Type	Stake: 10.00 USD	Payout: 14.12 USD	Net profit: 4.12 USD Return 41.2%
Ends Between	10.00 USD	14.12 USD	Net profit: 4.12 USD Return 41.2%
Ends Outside	10.00 USD	19.63 USD	Net profit: 9.63 USD Return 96.3%

The option lasts 7 days (it could be closed out earlier). You can select the higher and lower barriers, and Deriv will price the option for you. As you can see, “Ends Between” is more likely, hence the return is 41.2%, whereas “Ends Outside” is 96.3%, a higher return but less likely. Regardless, the maximum risk is known ahead of time.

Below is an example of the Deriv Trader platform showing MACD and Bollinger Bands on the price of silver.



Summary of Digital Options

You can try these digital options with no risk using a demo account with Deriv. When you're ready, you can make digital options trades with as little as USD 1 risk.

It's certainly worth considering digital options, which are available on many underlying markets, including Forex, stock indices, and derived indices with Deriv, not just commodities.



Useful websites and resources

Here are some of the websites I use that offer good commentary and tools on commodities:

Barchart.com

Barchart.com is an amazing site for commodities traders, and many of the features available are free of charge. The site has charts, news, commentary, and trading opinions on all commodities. Some extra features require a subscription. The Barchart opinion feature scans various technical analysis tools, such as moving averages, and gives a buy or sell opinion.

Source: Barchart.com

The screenshot shows the Barchart.com homepage. At the top, there's a search bar, a 'Select a Commodity' dropdown, and links for 'Watchlist' and 'Portfolio'. On the right, there's a 'My Account' button. The main content area includes a sidebar with links for Stocks, Options, ETFs, Futures, Currencies, Investing, News, Tools, and Learn. The main content area displays a commodity snapshot for Sugar #11 Oct '24 (SBV24), showing a price of 20.68 +0.07 (+0.34%) at 09:48 CT [ICE/US]. It also shows a 'BARCHART OPINION' for Wednesday, July 3rd, 2024. Below this, there are two gauge charts: 'Current Strength' (labeled 'Good') and 'Current Direction' (labeled 'Strongest'). A section titled 'BarChart Opinion' lists various indicators with their outcomes (e.g., Trend Seeker@ BUY). To the right, there's a 'Snapshot Opinion' chart showing a trend from yesterday to last month, with bars for 72% BUY, 24% BUY, and 24% SELL. Another section titled 'Support & Resistance' lists resistance and support levels with their corresponding prices.

ShareScope

ShareScope is the package I have used for over 20 years. It covers stocks, commodities, indices, and forex. Some of the charts in this book were produced using ShareScope. You can find out more and receive a bonus offer using this link: sharescope.co.uk/vince. You can also obtain the exact settings I use. There is a fee for using ShareScope, but one good trade can more than cover this.

Seasonax

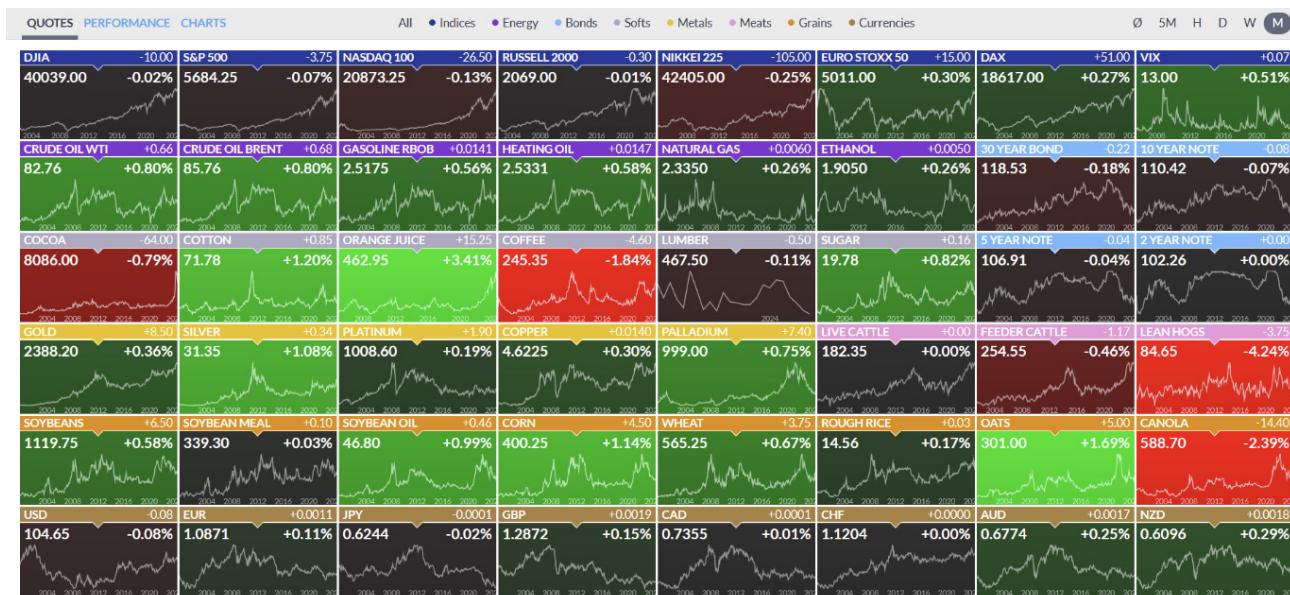
Seasonal Analysis searches for predictable patterns of human behavior that occur repeatedly. They use this information in the financial markets to add a high-probability edge to trading. You can try out Seasonax and find out more at: <https://www.seasonax.com/>

Futures.Tradingcharts

This is a great site that is free to access. It covers all commodities and includes good news feeds. <https://futures.tradingcharts.com/>

Finviz.com

Finviz.com is a site I have used for many years and has great tools for screening. It mainly focuses on stocks but also covers commodities, so it's worth a look. The free service is good enough.



Source: Finviz.com – commodities are under the Futures tab.

Glossary of terms

These terms are used in various financial markets and CFD trading and not just commodities.

At the market

An order to buy or sell at the best price obtainable at the time the order is placed.

Bearish

This refers to a market in decline. Someone with a negative view on a market would be a Bear.

Bear market

A bear market is the condition of a market in which prices are falling or are expected to fall. It typically describes a condition in which the prices of securities fall 20% or more from recent highs.

Bid price

When trading a contract for difference (CFD), the bid price is the price at which you can sell. In the pair of quoted prices, the first price is the bid price; for example, 31.01 (bid)/31.02 (offer).

Bullish

This refers to a market that is rising. Someone with a positive view on a market would be a Bull.

Bull market

A bull market is the condition of a market in which prices are rising or are expected to rise. The term “bull market” is most often used to refer to the stock market. Unlike a bear market, there is no set definition in percentage terms.

Closing price

An asset's closing price is the last price at which it was traded on any given day. With Deriv CFDs, there is no expiration, and the contracts stay open.

Contract for difference (CFD)

A contract for difference (CFD) is an agreement between an investor and a CFD broker to exchange the difference in the value of a financial product between the time the contract opens and closes. This is how Deriv enables you to trade commodities.

Contract period

The contract period is the time frame of a trade. It is also called the duration. In a digital option, you will always have a duration, for example, one day.

Counterparty

The counterparty is the other party that participates in the trade with you. If you trade CFDs via Deriv, your counterparty will be Deriv.

Expiry price

The expiry price is the price of the underlying asset when the contract expires.

Fundamental analysis

Fundamental analysis is a method of quantitative and qualitative analysis used by traders to determine the macroeconomic outlook of a country and currency. Inflation, unemployment, and interest rates are just a few of the considerations in fundamental analysis. In commodities, factors such as crop reports and supply & demand releases would come under fundamental analysis.

GMT

GMT (Greenwich Mean Time) is used in trading as a standard time reference to coordinate and synchronise trading activities across different time zones. It helps traders and financial markets to operate efficiently by providing a uniform time standard.

GTC

GTC (Good ‘Til Canceled) is a type of order that remains active until the trader cancels it or the order is executed. GTC orders are commonly used by traders who want to buy or sell a security at a specific price but are willing to wait until the market reaches that price, regardless of how long it takes.

Limit order

A limit order is an instruction to your broker to execute a trade at a specific price or better.

Long

Being “long” with regard to a market or CFD (contract for difference) means that a trader has bought a security or CFD with the expectation that its price will rise. It indicates a bullish attitude. For example, being long gold.

Margin requirement – initial deposit

Deposit margin is the amount a trader needs to put up in order to open a leveraged trading position. It can also be known as the initial margin.

Offer price (ask price)

When trading a CFD, the offer price or ask price is the price at which you buy. In the pair of quoted prices, the second price is the offer price; for example, 31.10 (bid)/31.11 (offer).

Pairs trade

In commodity trading, we can make 2 separate trades to back a scenario. We could go short on copper and long on gold. This would be a defensive play, taking the view that the industrial metal copper will go down, whereas the precious monetary metal gold will go up.

Point

In commodities trading, this is normally a cent. For example, if orange juice is trading at USD 400.10 and moves to USD 400.11, it will be a 1 point move.

Premium

The premium is the amount that a trader must pay to enter into a trade. These funds must be available in your account. This term is used more in digital options contracts. If you place an options trade with Deriv and your stake/premium is USD 10, then that will be debited from your account at the opening of the trade.

Profit

The profit is the difference between the purchase price and the sale price on a winning trade. In the case of a short trade, your sale price would be higher than your purchase price to make a profit. With a CFD that is held over a period of time, financing costs will also need to be factored into your final profit.

Short

Short is the opposite position of long. If I am short with regard to a commodity, I expect its price to drop, so I enter the market with a sell trade. I will, at some stage, have to buy back to cover my short. To profit, I want to be able to buy back lower than the level I sold at.

Spot price

This is the current price at which an underlying asset can be bought or sold at a particular time.

Spread

Spread is the difference between the bid and the offer. This is where the broker makes their profit. The tighter the spread, the better for the trader and the quicker you can get into profit.

Stop loss order (or stop)

An order that only takes place when the market reaches the level mentioned in the order. Its purpose is to limit losses. It may be either a buying order, which would cover a short position, or a selling order to cover a long trade.

Technical analysis

Technical analysis is a system of analysis whereby historical data is examined to predict future trends in the prices of assets. Charts and indicators are often used.

Tick

A tick is the minimum upward or downward movement in the price of a market. A tick chart is the shortest possible chart time frame.

Underlying

Each contract for difference is a prediction concerning the future movement of an underlying market, i.e., the specific type of asset involved in a given trade, for example, platinum.

Summary and parting words

I hope you have found this book a good introduction to trading commodities with Deriv. Regardless of where in the world you live, the opportunities to trade commodities, even with a small account, are now available. Of course, all trading carries risk, but by using good money management and trading discipline as outlined in this book, you will be on the road to becoming a better trader. As outlined, you can profit from upward, downward, and even sideways movements in commodities. You can also trade commodities with very short-term trades lasting minutes to longer-term trades lasting months.

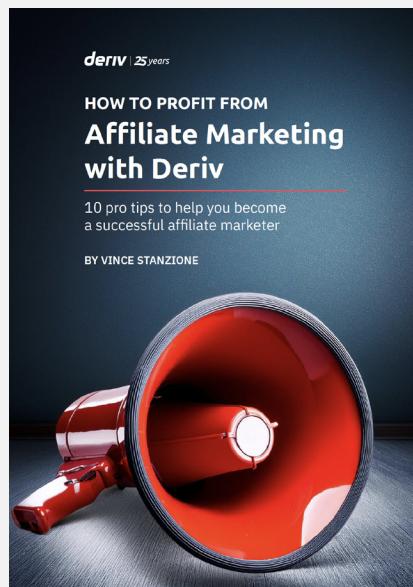
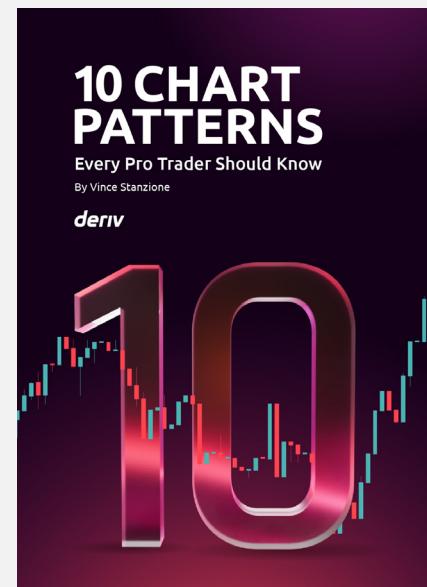
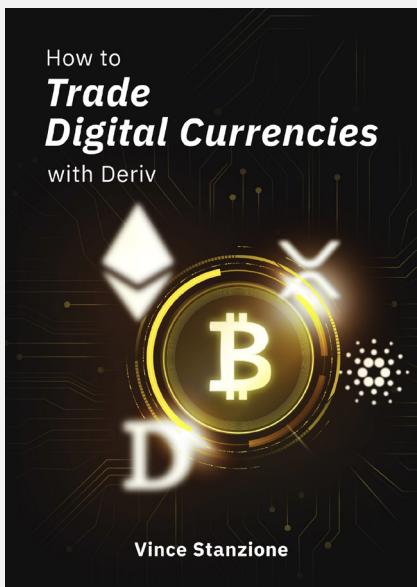
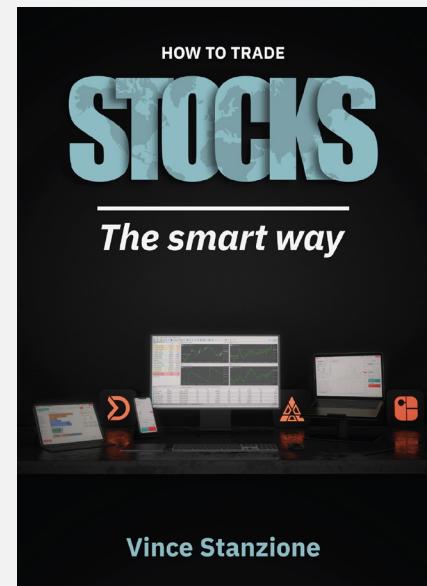
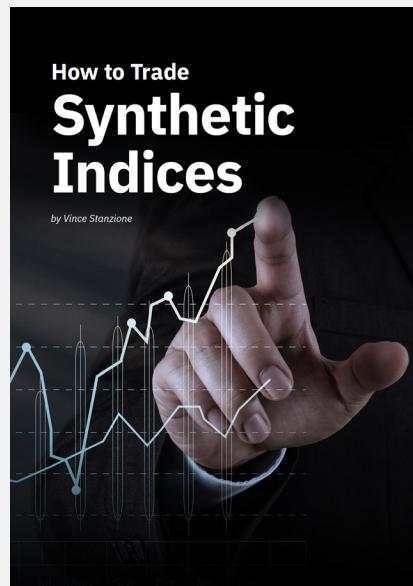
Deriv gives you the opportunity and flexibility to try your new trading skills with a USD 10,000 risk-free practice account. You can then start trading on Deriv's real account with a minimum deposit of USD 5.

Be sure to check out my other ebook available from Deriv.com and access the excellent resources available at no charge from Deriv to help you on your journey as a trader. While this book has focused on commodities, many of the skills are applicable to other financial markets. If you want to diversify your skills into Forex, stocks, cryptos, or derived indices, you will find specific ebooks for those.

Wishing you lots of success.

Vince Stanzione

Other ebooks in this series by Vince Stanzione





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With 25 years of experience, Deriv's mission is to bring online trading to everyone, everywhere via simple, flexible, and reliable platforms tailored to fit any trading style.

Today, Deriv has 22 offices worldwide with over 1,400 employees from over 70 countries working together to create an effortless online trading experience with diversified, market-leading products.