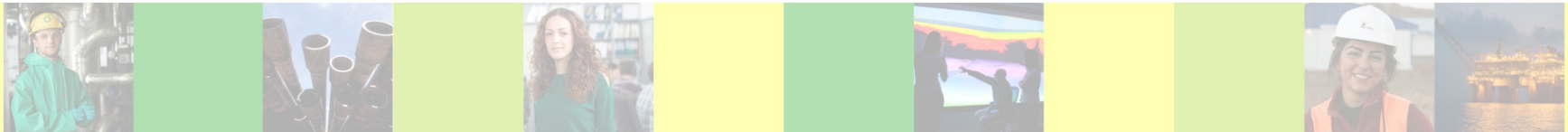
University of Chicago Midwest Trading Competition

BP

Trading Simulation Pre-read



Introduction

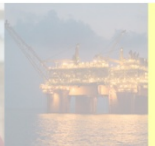
As part of the UChicago trading competition, your team will compete in a BP oil spread trading simulation. This will be significantly different than the algorithmic material you are currently designing. BP trades the oil markets based on fundamental analysis as opposed to technical analysis.

You will be asked to focus on supply and demand factors to determine whether the market is bullish or bearish and how you want to be positioned to profit from that.

We've included some basic information to get you started, but highly recommend you treat this as a starting point for further research into the many factors that affect the oil market.



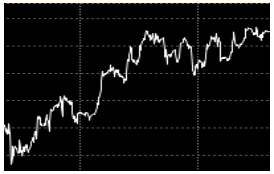


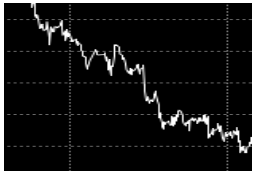
Trading Terminology

Physical
the tangible commodity e.g. crude, gasoline, jet fuel

Paper
financial derivatives e.g. futures, swaps and options



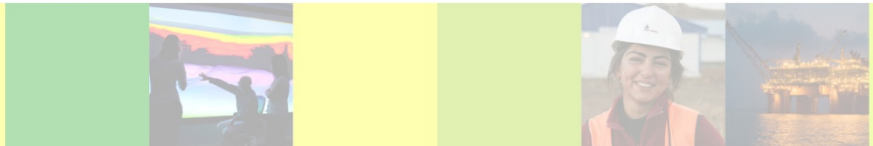
Bullish
the belief that market prices will **rise**



Bearish
the belief that market prices will **fall**

Long
to net own a commodity in a market

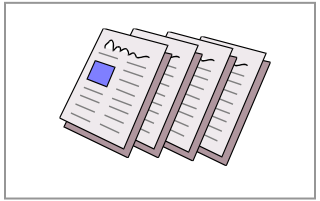
Short
to net owe a commodity in a market



Trading Terminology (cont)

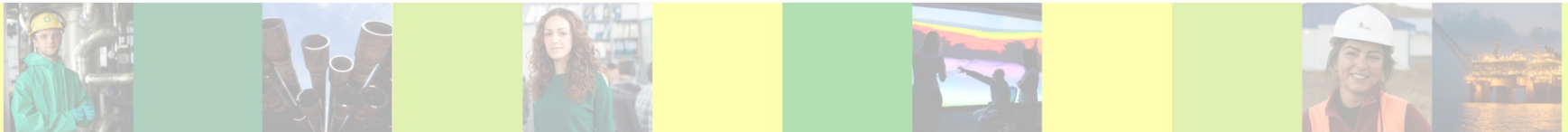
Cargo
a standard size of crude or product traded on a market

Bid
the price at which you are prepared to **buy**



Lots
a standard volume of commodity relating to future contracts

Ask/offer
The price being quoted at which to **sell**

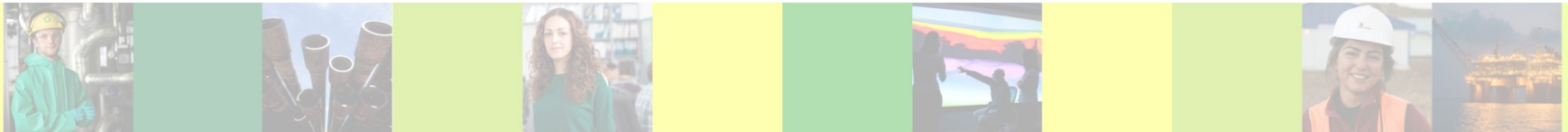


Commodity Markets

Market prices for nearly all goods and services are set by the forces of supply and demand.

If you understand how prices react to changing supply and demand, you are in the drivers seat.

	Demand ↓	Demand ↑
Supply ↑	$ ↓	
Supply ↓		$ ↑



Market Factors

For the energy markets, supply and demand lines may be a bit blurry.
Trade flows are global with many factors affecting its price.

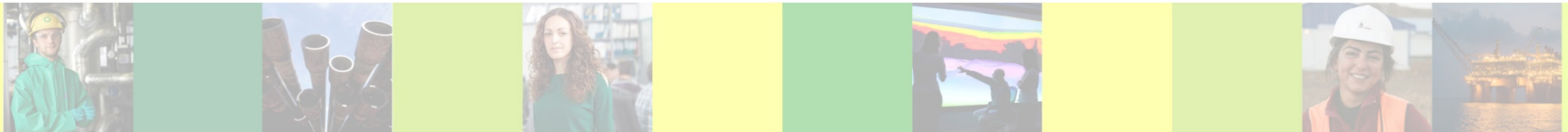
Supply Factors

OPEC
Civil Unrest
Trade Restrictions
New Discoveries
Alternative Fuels

Demand Factors

GDP
Weather
Refinery Margins
Environmental Regulations
Speculators/Hedge Funds

API/DOE Inventories



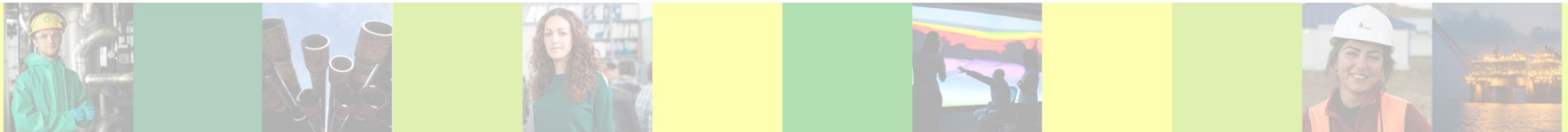
What is a Calendar Spread?

The front month calendar spread is the differential between the first futures month (M1) and the second futures month (M2). The spread is calculated at M1minus M2 and may trade as either a positive or negative value. For example, if today is March 1, the front month calendar spread is calculated using April (M1) and May (M2) futures.

	Example 1	Example 2
April Crude (Flat Price)	100.00	100.00
May Crude (Flat Price)	99.75	100.20
April/May (Calendar Spread)	0.25	(0.20)

To trade the calendar spread, the trader must buy one leg and sell the other. The volumes must be equal and opposite for each leg of the trade.

- To **BUY** 100 April/May Calendar Spreads: Buy 100 April Futures and Sell (100) May Futures
- To **SELL** (100) April/May Calendar Spreads: Sell (100) April Futures and Buy 100 May Futures



Simulation Rules

You will be trading WTI calendar spread in a simulated market environment on our trading platform, STAR.

Objective: Your goal is to maximize your profit, by taking positions as justified by news releases, while trading within your limits. In doing so, you must operate in a compliant manner (ethical), we value integrity above all else.

Control Limits: 2,000 lots (1 lot = 1,000 spreads). **Click Size**: 500 lots

- Periodic updates of the market news will come via STAR.
- You will be fined $250 per lot for being over your limits
- All teams will get the same information, there are no “tricks” in the simulation.