



## Commodity Trading Tips and Myths

Commodity trading has become a lucrative option for the participants in the stock market. The commodity is a physical wealth different from the stocks. You don't need to trade the commodity physically; all you need to trade the commodity contracts. Commodity trading consists of futures and options. The most popular commodities are Gold, Silver, Copper, and a few agricultural commodities. For successful commodity trading, you should know the commodity tips.

Three primary types of commodities are:

- Agricultural commodities (Coffee, cocoa, wheat, etc)
- Metals (Gold, Silver, Iron, etc)
- Energies (Crude oil, Coal, and Natural gas)

Buying and selling commodities are completely different from trading stocks. For the commodity exchange, you should know the latest commodity trading tips. Commodities are volatile instruments; you need [commodity market tips](#) to navigate the risk or else you'll be crushed by the Commodity trading market.

Tips for Successful Commodity Trading

1. Use the leverage judiciously

In commodity trading, there is high leverage. You need to pay a small number of margins to trade the commodities in India. For example: In index futures, you need to pay a 10% margin that is 10 times the leverage, and for in-stock futures, you have to pay a 15% margin which is 6.6 times of leverage. For commodities, the leverage is higher.

Keep 2 things in mind while using the leverage in Commodity trading. First - define the maximum percentage of the capital that you are ready to lose. Second, in leverage positions both profit and loss are magnified.

## 2. Ignore overtrading and Margin calls

Many traders do not trade for profit only but for the satisfaction they get after profit. Under this, you end up with overtrading. If you think, overtrading will cover all your losses then no. It doesn't work like this under commodity trading. Make sure that you don't get any margin calls from the exchange.

Overtrading might lead you to a huge capital loss. Be very keen and smart while investing in commodities. You can take the help of Shyadmavisory for the commodity trading tips.

## 3. Trading the Trend

Commodities follow large cycles and sub cycles, so you trade on the trend. You will face high volatility in commodity trading but you need to catch the trend and trade. You can try a contrarian approach for commodity trading because commodities are homogenous and the key is to trade under the trend for successful trading.

## 4. Keep Stop loss

Stop-loss should be used for all types of trading; however, it is highly beneficial for commodity trading. The reasons are: as commodities are highly leveraged to manage your loss, stop-loss is necessary. Second, stop loss will make sure that you are not over-trading over one commodity, as it leads to high risk.

For example, you might have bought gold at a higher price and low level, and now you want to average the position. Instead of doing average, learn about the trend and start fresh.

## 5. Watch Supply and Demand

Commodities thrive on short-term fluctuation in supply and demand. While analysing the real-time price, pay attention to the supply-demand curve of the commodity. For example, crude oil prices fall to -37.63 because of less storage capacity and a massive economic change.

#### 6. Conserve your Capital

Plan and make rules before starting trading. Your trading plan will help you to understand how much you are ready to lose in a day or week while trading. Your plan should cover how you are going to conserve capital and shift to cash. Commodity trading is all about managing risk and conserving your capital. If you can do both, you are going to stay in the market for a long time.

#### 7. Currency Dynamics and Economy

The currency market affects commodity price fluctuations. Most commodities are affected by the US dollar as they are priced in the dollar. Even the US dollar affects the Indian rupee rate exchange and impacts the few commodities like Crude oil, Gold, Copper, etc, in the local market.

Global economic growth highly affects industrial commodities. Due to the coronavirus pandemic, the global markets are facing the worst recession period.

### Myths of Commodity Trading

- Availability of Information - For popular commodities like Gold, Crude oil, and base metal, you can easily get the information. Brokers offer commodity trading and information to commodity investors.
- Huge investment - Most of the commodities required 4-5% of the total value of the contract and not a huge margin.
- Extremely Volatile - Metal and energy commodities are only increased by 6% and the agriculture commodities are raised to only 4%. However, the metal commodity is greatly affected by the global economy and market.
- Delivery is difficult - Many people think that they need to physically deliver the commodities which is not true. Because only commercial investors are responsible for the delivery of physical commodities.

- All about Speculation - Many traders think that commodity trading is only for speculative purposes. In all the financial markets, there are three types of people: hedgers, arbitrageurs, and speculators to find the price risk management on a particular commodity. Speculation is not pure gambling. Speculators help the hedgers to transfer price risk by injecting liquidity.

Commodity trading and stock trading are quite the same but the financial leverage in commodity trading makes it a risky affair. With proper risk management and knowledge, commodity trading is a profitable affair. You can check out Shyamadvisory for [commodity tips](#) and share recommendations.

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