Commodities

What are commodity investments?
Commodities are physical goods that are produced via agriculture and mining, for example, and standardised for use as the underlying of a transaction. Derivatives on commodities such as energy sources (e.g. oil and coal), metals and agricultural produce are traded primarily on futures markets.
Investors can contract to buy or sell futures linked to the performance of a particular commodity, for instance in order to buy a standardised quantity of the commodity at a specific future time for a predefined price.
A common way for private individuals to invest indirectly in commodities is via structured products. Other ways to invest in commodities are commodity funds and financial instruments that are not admitted to trading on an exchange such as over-the-counter swaps and options. These are tailor-made products traded directly between a buyer and a seller
With commodity futures, investors may receive physical delivery of the commodity concerned on expiry under certain circumstances, whereas structured products normally provide for cash payment. Investors who prefer cash settlement must sell their futures before the expiry date. Financial products of this kind are therefore more risky than, for instance, equities or collective investment schemes.

What risks are associated with commodity investments?
The price of commodities is influenced by various factors, including the following:

- the relationship between supply and demand
- climate and natural disasters
- state programmes and regulations, national and international events
- state intervention, embargoes and tariffs
- movements in interest and exchange rates
- trading in commodities and the corresponding contracts
- provisions relating to monetary policy as well as trading, fiscal and currency controls
- additional investment risks arising out of the combination of these variables

Commodity investments are more volatile than conventional investments, and their returns can often fall suddenly and sharply.

The volatility of a commodity's price also affects the value and hence the price of futures and forwards it underlies. For example, conventional oil futures are normally easy to trade, regardless of their term, but they can become illiquid if market activity is low. This can cause their prices to fluctuate significantly, which is a typical feature of commodities.

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DISCLAIMER

This information sheet contains an extract from the brochure “Risks Involved in Trading Financial Instruments” published by the Swiss Bankers Association (SBA), the complete version of which can be consulted at www.swissbanking.org or on the Bank’s website (www.corner.ch).

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Before making any investment decision, we invite you to consult a financial advisor and to examine carefully all documents and information available for each financial instrument (prospectus, basic information sheet, term sheet, etc.).