

FUTURES LINGO

CONTRACT SETTLEMENT



WHAT IS CONTRACT SETTLEMENT?

It is a **settlement method** where a futures contract can be settled in cash or physical delivery of the underlying asset at the expiration.

Cash Settlement

A process where contracts are settled for the **monetary value** of a position, which decreases transaction costs and improves market liquidity.



Physical Delivery

Refers to upon **expiration** of a futures contract, the seller must **deliver the underlying asset** to the buyer, who must then pay the agreed-upon price and take possession of it



CASH SETTLEMENT



ADVANTAGES

Enhances Market Participation

Reduce logistical barriers, **increase** market participation and liquidity.

Simplifies Risk Management

Focus on asset **price movements**, enabling direct hedging strategies.

Mitigates Delivery Risks

Eliminates the need to handle physical delivery processes such as storage, transportation, or inspection of physical goods, largely avoiding transaction dispute.

EXAMPLE Futures Contracts with Cash Settlement

- E-mini Dow Jones Futures
- E-mini Nasdaq-100 Futures
- FTSE Bursa Malaysia KLCI Futures
- FTSE China A50 Futures
- Hang Seng Index Futures
- MSCI Singapore Free Index
- Micro Ether Futures

PHYSICAL DELIVERY



ADVANTAGES

Direct Asset Ownership

Buyers obtain the **actual asset**, following physical delivery transactions.

Long-Term Hedging

Physical delivery enables producers and consumers to **align** their long-term operational needs with their financial hedging positions.

Market Integration

The linkage between the futures market and the spot market is **more transparent**, reducing potential discrepancies between derivative prices and actual commodity values.

EXAMPLE

Futures Contracts with Physical Delivery

- Gold Futures
- Silver Futures
- Copper Futures
- Crude Palm Oil Futures
- Soybean Futures
- Corn Futures
- WTI Crude Oil Futures

HL Futures



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