Commodity trading consists of physical trading in the wholesale markets and derivative trading in commodity exchanges. Physical trading can take the form of either spot trades or forward contracts, while standard derivative trading most commonly refers to things like commodity futures and options. The majority of commodity trading is through standard derivatives. Even physical trading will use commodity exchanges for hedging . **Physical Trading**

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Decide on the nature of the firm's business . For example, a commodity broker and a commodity dealer are both involved in commodity trading but with different business practices that require unique skills and expertise respectively. A broker focuses on the networking ability of soliciting potential clients of commodity buyers and sellers, including dealers, and brokering deals for them. A dealer emphasizes things like the transporting capability of moving commodity goods around between buyers and sellers with or without a broker's assistance.

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Get registered and licensed. Physical commodity trading is enforced by the Model State Commodity Code as adopted by individual states. Therefore, unlike exchange trading, registration and licensing of the off-exchange transactions are handled by states. Check with the appropriate department of your state and file required registration.

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Choose the types of commodities that the firm will specialize in. Trading physical commodities requires extensive product knowledge as the business involves conducting many physical activities such as inspection, transportation and storage. In exchange-commodity trading where price movement dominates, financial institutions and various investors can easily participate in a range of commodity trades such as in agricultural commodities, petroleum products and both precious and industrial metals.