Market Talks
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COMMODITIES · BEGINNER · LESSON 1 OF 15

What Are Commodities?

The raw materials behind what we eat, drive and use every day, why one barrel of oil is as good as another, and why their prices matter to every trader

11 min read 8 quiz questions with answer key

COMMODITIES · BEGINNER · LESSON 1 OF 15

What Are Commodities?

IN ONE SENTENCE

Commodities are basic raw materials such as crude oil, gold, copper, wheat and coffee. They are produced in huge amounts, and every unit of the same grade is treated as identical, so each one trades at a single market price set by supply and demand. That price flows into the cost of almost everything people buy, which is why commodity markets matter even to traders who will never own a barrel of oil.

The raw materials behind daily life

Anna starts her day with toast, a cup of coffee and a spoon of sugar. She drives to work, and on the way she checks her phone. Nothing about this morning feels like finance, yet every part of it began in a commodity market.

The bread was made from **wheat**. The coffee and the sugar were grown on farms, often thousands of kilometres away. The car runs on fuel refined from **crude oil**, its body contains **aluminium**, and the filter in its exhaust uses a small amount of **palladium**. The phone has **copper** wiring and tiny amounts of **gold** and **silver** in its circuits.

A **commodity** is a basic raw material that is grown, mined or pumped from the ground and sold in large amounts before it is turned into the things we buy. Wheat is a commodity; a loaf of bread from a famous bakery is not. Copper is a commodity; a smartphone is not. Commodities are the starting point of almost every product in the economy.

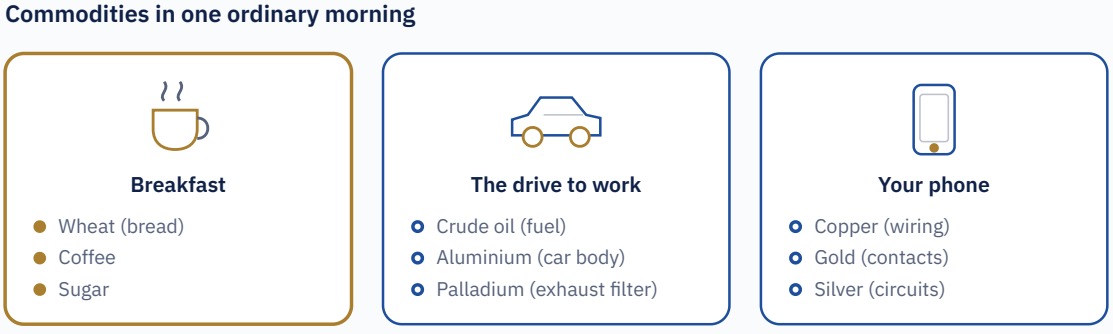


Figure 1. An ordinary morning depends on many commodities, from the wheat in bread to the copper and gold in a phone.

One barrel is as good as another

What makes something a commodity is not only that it is a raw material. It is that every unit of the same quality is treated as **identical**. Economists call this being **fungible**: one unit can replace another without anyone caring where it came from.

A phone is the opposite. Two phones can contain the same metals, but one may sell for $1,000 and the other for $300, because buyers care about the brand, the design and the features. With a commodity there is no brand to pay for. A bar of gold of the standard purity is worth the same whether it was mined in Australia, Canada or Ghana.

To make this work, markets agree on exact quality standards called **grades**. WTI crude oil, for example, must be light and low in sulphur. Metal delivered on the London Metal Exchange must meet a set purity and come from an approved producer. As long as a unit meets the grade, it is accepted at the market price. This is what allows commodities to be bought and sold in standard amounts on exchanges, as later lessons explain.



Figure 2. Commodities are fungible: gold of the same purity has one market price, whoever refined it. Branded products do not work this way.

EXAMPLE: SAME GOLD, SAME PRICE

Suppose the market price of gold is $4,000 an ounce. David has a 1 ounce bar from one refiner and Emma has a 1 ounce bar of the same purity from another. If they both sell on the same day, they both receive about **$4,000**, less the dealer's small fee. Nobody pays extra for the name on the bar, because the gold inside is the same. That single price for identical units is the heart of every commodity market.

From the ground to the shop

Most commodities pass through several hands before they reach a shop. Crude oil is pumped from a well, shipped to a **refinery**, and split into products such as gasoline, diesel and jet fuel. Those fuels

are then transported to petrol stations and airports. Wheat goes from the farm to a mill, then to a bakery. Copper ore goes from the mine to a smelter, then to a cable factory.

The commodity price is the price at the very start of this chain. The price you pay in the shop also includes processing, transport, storage, taxes and the profit of every business along the way. That is why a 10% jump in the price of crude oil does not make fuel at the pump exactly 10% more expensive. The change is passed on, but usually only in part and often with a delay.

Some processed goods are also traded as commodities when they are standard enough. Gasoline, diesel, soybean oil and sugar are all made from other raw materials, yet each has its own market price because one unit of a given grade is the same as another.

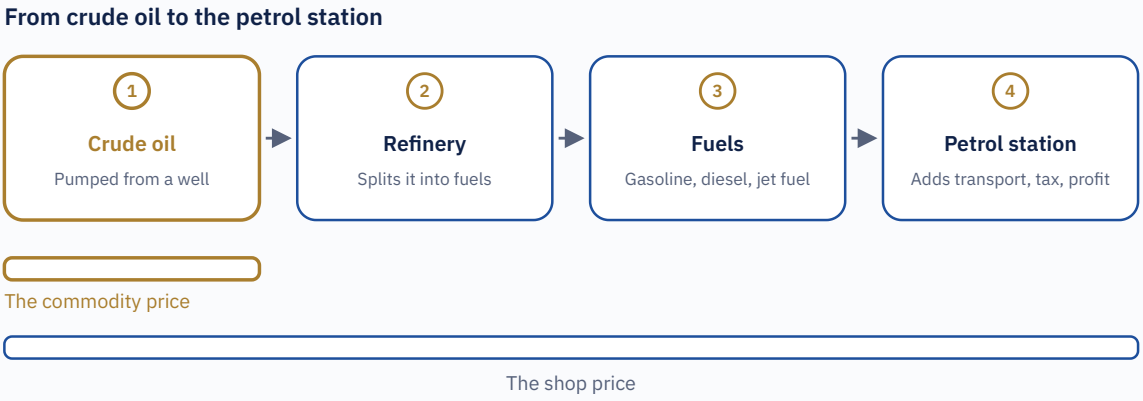


Figure 3. The commodity price is the start of the chain. The shop price also includes processing, transport, taxes and profit.

One price, set by supply and demand

Because the units are identical, there is one market price for each commodity, and it is set by **supply and demand**. When buyers want more than sellers can deliver, the price rises until some buyers drop out. When there is more than buyers need, the price falls until some producers cut back.

On the supply side, prices react to weather, harvests, new mines and wells, accidents, strikes, wars and shipping problems, and to decisions by producer groups such as **OPEC+**, the group of oil exporting countries that sets production targets. On the demand side, they react to economic growth, the seasons, new technology and changes in what people buy.

Supply often cannot react quickly. A new copper mine can take many years to build, and most crops are harvested once a year. So even a small gap between supply and demand can move prices sharply. This is why commodity prices are known for large and sudden moves.

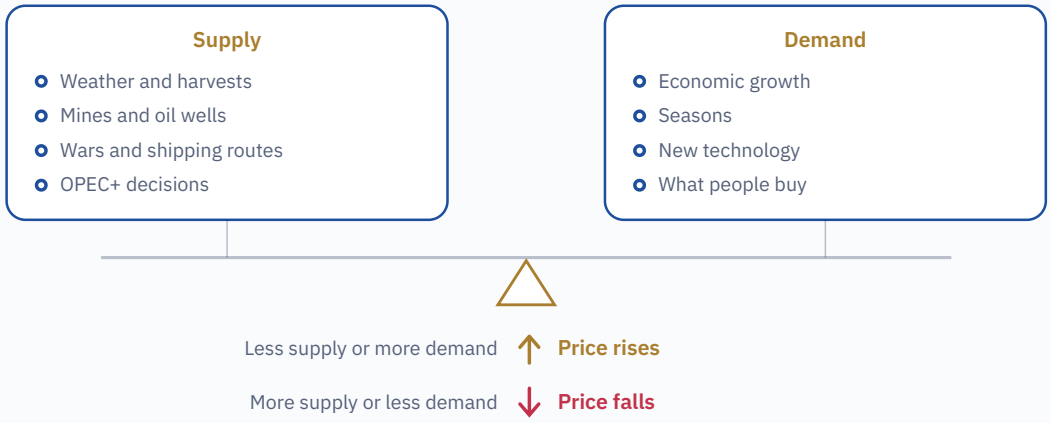


Figure 4. Each commodity's price is set by the balance between supply and demand.

REAL EXAMPLE: OIL IN 2026

In 2026, conflict in the Gulf region and the closure of the Strait of Hormuz, a key shipping route for oil, cut deliveries from Middle East producers. In its September 2026 report, the International Energy Agency (IEA) projected world oil supply for the year at **100.7 million barrels a day, 5.7 million lower than in 2025**. The IEA said high fuel prices were also weighing on use, and it expected world oil demand to fall by **2.5 million barrels a day** in 2026. Supply fell, prices jumped, and the higher prices then reduced demand. That is the supply and demand balance at work.

Where commodities trade

Commodities change hands in two connected places. In the **physical market**, real goods are delivered: a mine sells copper to a smelter, a farmer sells wheat to a mill, an oil company sells crude to a refinery. These deals are often private, and the price is usually linked to an exchange price.

On **futures exchanges**, buyers and sellers trade standard contracts for a set amount and grade of a commodity, to be delivered or settled at a future date. Exchange prices are public and update all day, so the whole industry uses them as a reference. The largest exchanges are:

- **CME Group** in Chicago and New York, home of the NYMEX, COMEX and CBOT markets for oil, natural gas, gold, silver, copper, corn, soybeans and wheat.
- **ICE**, Intercontinental Exchange, which runs the Brent crude oil market in London and the coffee, sugar, cocoa and cotton markets in New York.
- **The London Metal Exchange (LME)**, the main market for industrial metals such as copper, aluminium, zinc and nickel.
- **The Shanghai Futures Exchange (SHFE)**, the largest commodity exchange in China.

These markets are busy. In 2025, CME Group reported record average daily volumes of **2.7 million** energy futures and options contracts, **1.9 million** agricultural contracts and **988,000** metals contracts. Most traders never take delivery of anything; they trade futures, CFDs or funds that follow these prices, which Lesson 4 explains.



Figure 5. The largest commodity futures exchanges and some of the main markets on each.

Benchmark prices you will hear about

When the news says "oil rose 2% today" or "gold hit a record", it is quoting a **benchmark**: a widely followed price for one grade, in one place, that the rest of the market uses as a reference. A few of the most important ones:

Commodity	Benchmark	Main market	Quoted in
Crude oil (US)	WTI	NYMEX, CME Group	US$ per barrel
Crude oil (world)	Brent	ICE, London	US$ per barrel
Natural gas (US)	Henry Hub	NYMEX, CME Group	US$ per million British thermal units
Gold	LBMA Gold Price, COMEX gold	London, New York	US$ per troy ounce
Copper	LME copper, COMEX copper	London, New York	US$ per tonne (LME), US$ per pound (COMEX)
Corn	CBOT corn	CBOT, CME Group	US cents per bushel
Coffee	ICE coffee "C"	ICE, New York	US cents per pound

Two units are worth remembering. A **barrel** of oil is 42 US gallons, about 159 litres. A **troy ounce**, the unit for precious metals, is about 31.1 grams, a little heavier than an ordinary ounce. Notice also

that almost every benchmark is priced in **US dollars**. When the dollar moves, commodity prices often move the other way, which Lesson 14 explains.

Why commodity prices matter to everyone

Commodity prices reach far beyond the people who trade them:

- **Inflation.** Energy and food are a large part of what households spend. When oil, gas or grain prices jump, the cost of living usually rises a few months later, and central banks may respond with interest rate decisions.
- **Whole economies.** Some countries depend on selling commodities: oil for Saudi Arabia and Norway, copper for Chile, soybeans for Brazil. Their growth, their budgets and even their currencies often rise and fall with those prices.
- **Company profits.** Airlines, chemical makers and food companies pay more when raw materials rise, while mining and energy companies earn more. Share prices react to both.

The scale of these markets is huge. The world uses more than **100 million barrels of oil a day**, according to the IEA. The World Gold Council reported record gold demand of **5,002 tonnes** in 2025, worth about $555 billion. And at CME Group alone, about **5.6 million** commodity futures and options contracts changed hands on an average day in 2025.

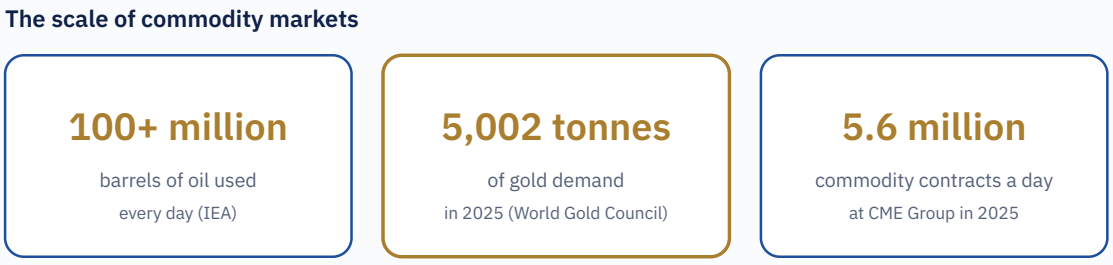


Figure 6. Commodity markets in three numbers.

Why this matters for traders

- **News moves commodities fast.** A pipeline outage, a frost in a coffee growing region or an OPEC+ meeting can move prices within minutes. Know which events matter for the market you trade.
- **Know the benchmark and the unit.** WTI and Brent are different prices for different oil. Gold is quoted per troy ounce, corn in cents per bushel. A wrong unit means a wrong calculation.
- **Commodities move other markets.** Oil feeds into inflation, inflation into interest rates, and interest rates into the US dollar, gold, stocks and even bitcoin. Watching oil helps you understand moves elsewhere.
- **The physical market sets the tone.** Even if you only trade on a screen, the price you see comes from real producers and real buyers. Supply and demand in the real world is what drives the chart.

Key terms

Commodity	A basic raw material, such as oil, gold, copper or wheat, that is produced in large amounts and traded at a single market price.
Fungible	Interchangeable: one unit of the same grade can replace another without any difference in value.
Grade	An agreed quality standard that a commodity must meet to be accepted at the market price.
Physical market	The market in which real goods are bought, sold and delivered, often in private deals.
Futures exchange	A regulated market where standard contracts for a set amount and grade of a commodity are traded for a future date.
Benchmark	A widely followed price for one grade of a commodity that the rest of the market uses as a reference, such as WTI or Brent.
Refinery	A plant that turns crude oil into products such as gasoline, diesel and jet fuel.
OPEC+	A group of oil exporting countries, led by Saudi Arabia and Russia, that agrees on oil production targets.
Barrel	The standard unit for oil: 42 US gallons, or about 159 litres.

Troy ounce	The standard unit for precious metals, equal to about 31.1 grams.

Key takeaways

1. A commodity is a basic raw material that is grown, mined or pumped and sold in large amounts before it becomes a finished product.
2. Commodities are fungible: every unit of the same grade is treated as identical, so each commodity has one market price.
3. The commodity price is the start of a long chain. Shop prices also include processing, transport, taxes and profit, so commodity moves are passed on only in part.
4. Prices are set by supply and demand. Because supply reacts slowly, small imbalances can cause large moves, as oil showed in 2026.
5. Commodities trade in the physical market and on futures exchanges such as CME Group, ICE, the LME and the SHFE. Benchmarks such as WTI, Brent and the LBMA Gold Price are quoted in US dollars.

Test yourself

Circle one answer for each question. The answer key with explanations is on the next page. You can also take this quiz online at markettalks.info and see your score instantly.

1. Which of these is a commodity?

- (A) A designer handbag
- (B) A smartphone
- (C) A tonne of copper of a standard grade
- (D) A famous bakery's bread

2. What does it mean that commodities are fungible?

- (A) Their prices never change
- (B) One unit of the same grade can replace another with no difference in value
- (C) They can only be traded by governments
- (D) They spoil quickly

3. Gold is $4,000 an ounce. David sells a 1 ounce bar from one refiner and Emma sells a 1 ounce bar of the same purity from another. What do they receive?

A. David receives more because his refiner is bigger
B. Emma receives more because her bar is newer
C. Both receive about $4,000, less a small dealer fee
D. It depends on which country the gold was mined in

4. Why does a 10% rise in crude oil usually not make fuel at the pump exactly 10% more expensive?

A. Because petrol stations ignore oil prices
B. Because the pump price also includes refining, transport, taxes and profit
C. Because fuel is not made from oil
D. Because governments fix fuel prices everywhere

5. Why can commodity prices move so sharply?

A. Because supply often cannot react quickly, so small gaps between supply and demand have a big effect
B. Because exchanges set prices at random
C. Because commodities have no buyers
D. Because prices only change once a year

6. In its September 2026 report, what did the IEA expect for world oil demand in 2026?

A. A rise of 5.7 million barrels a day
B. No change at all
C. A fall of 2.5 million barrels a day
D. A rise of 100.7 million barrels a day

7. Which exchange is the main market for industrial metals such as copper, aluminium and zinc?

A. The London Metal Exchange (LME)
B. The New York Stock Exchange
C. The Chicago Board Options Exchange
D. The Korea Exchange

8. What is a troy ounce?

A. A unit for oil, equal to 42 US gallons
B. The unit for precious metals, about 31.1 grams
C. A unit for corn, equal to one bushel
D. Another name for a tonne

Answer key

1 C

A tonne of copper of a standard grade

Copper of a standard grade is a raw material sold in large amounts at one market price. The other items are finished, branded products whose prices depend on the brand and design.

2 B

One unit of the same grade can replace another with no difference in value

Fungible means interchangeable. A bar of gold of standard purity is worth the same whoever mined it, which is why each commodity has a single market price.

3 C

Both receive about $4,000, less a small dealer fee

The gold inside both bars is identical, so both sell at the market price. Nobody pays extra for the name on the bar.

4 B

Because the pump price also includes refining, transport, taxes and profit

Crude oil is only the first cost in the chain. The pump price also includes refining, transport, storage, taxes and margins, so oil moves are passed on only in part and often with a delay.

5 A

Because supply often cannot react quickly, so small gaps between supply and demand have a big effect

A new mine can take years and most crops are harvested once a year. When supply cannot adjust quickly, even a small imbalance can move the price a lot.

6 C

A fall of 2.5 million barrels a day

The IEA expected demand to fall by 2.5 million barrels a day as high fuel prices weighed on use, while supply was projected at 100.7 million barrels a day, 5.7 million lower than in 2025.

7 A

The London Metal Exchange (LME)

The LME in London is the main global market for industrial metals. CME Group's COMEX and the Shanghai Futures Exchange also trade copper.

8 B

The unit for precious metals, about 31.1 grams

Gold, silver, platinum and palladium are priced per troy ounce, about 31.1 grams. Oil is priced per barrel of 42 US gallons, and corn per bushel.

SOURCES

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