

The trader's profession — overview and summary

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What does a commodity trader actually do? The question deserves a precise answer, because the profession is little understood and often caricatured. The trader buys goods where they are available and sells them where they are in demand, organising their transport, their storage, their possible transformation and their financing, and assuming the price, credit, logistical and counterparty risks that separate the moment of purchase from the moment of sale. His remuneration comes from the differentials he exploits between places, times, qualities and forms. This chapter describes the craft: the commodities, the contracts, the sources of profit, the hedging instruments, the logistics and the skills it requires.

1 In five sentences

1. The trader buys commodities — energy, metals, agricultural products — where they are available and sells them where they are in demand, organising transport, storage, transformation and financing.
2. He works through contracts whose price is set by reference to a market, with a premium or a discount, and whose payment is secured by banking instruments such as the documentary credit.
3. His remuneration comes from four types of arbitrage — geographical, temporal, quality and form — and from risk-management services rendered to producers and consumers.
4. He hedges his price risk with derivative instruments, which creates basis, liquidity and counterparty risks, while also assuming credit, logistical, political, sanctions, legal and reputational risks.

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5. The craft demands rare skills, formed in the large trading houses and then in specialised programmes, and raises ethical questions on which the Geneva tradition of moral economy sheds light.

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