Best Commodities Trading Strategies

Commodities trading strategies help you to decide when to sell or buy commodities. It is desirable to know about some strategies that are deployed by successful traders of commodities trading. While reading financial newsletters you may come across tips that will keep you updated. A well thought out strategy lets you know when to sell or buy to maximize profit and limit losses. Market fundamentals and technical analysis form the basis of strategies for commodities trading. Depending on personal objectives and requirements a trader may select appropriate strategy for commodities trading.

Commodities trading strategies are primarily two types:

Range Trading

Trading within a range means buying a commodity near the bottom of a range and selling it at the high point of range.

Bottom point is called “support” and the high point is called “resistance”.

Whenever any commodity has experienced a lot of selling in the market it hovers around the bottom of the support range. In such situations the commodity is said to be ‘oversold’.

On the contrary, a commodity may be experiencing frenzied buying to reach near the resistance level. At this point the commodity is said to be ‘overbought’.

Commodities trading strategy recommends you to “sell” a commodity that has reached the resistance and “buy” a commodity when it is around the “support”.

Support and resistance level of various ranges of a commodity are determined by various tools of technical analysis. There are different indicators that help to measure at what level a commodity is overbought or oversold. These indicators are Rate of Change, RSI, Stochastics and so on.

However, such strategy works well when there is no major trend in the market. In case the market gets oversold or overbought and a major downturn or uptrend is formed, this strategy should be employed with utmost caution.

Trading Breakouts

When a commodity breaks a particular resistance level and makes a new high, the commodities trading strategy recommends buying it.

Similarly when a commodity breaks the support level and hits a low then selling is advised.

New low and high of a commodity can be easily spotted from the technical charts. The peak of the curve denotes high and the low point indicates new low.

The commodities trading strategies follow a simple logic – market always forms new highs and lows. However, this is ideal when the commodity has a strong trend. When there is no definite trend this strategy is not very effective.

Other than these two types there is one strategy for experienced traders:

Trading on Fundamentals

Buying or selling of a commodity within a range or after positive or negative breakouts is supported by various technical parameters. Commodities trading is based on market fundamentals which are easily understood by experienced traders who have developed an instinct for trading. An experienced commodity trader may buy sugar futures on knowing that the production of sugarcane at Brazil has been low. In anticipation of the Gulf War an experienced trader may buy futures of crude oil. A new trader of commodities trading may be baffled with nuances of such strategy as there is no defined zone to buy or sell.

About the Author

Shamyl Burki shares some important information on the best strategies of Commodities Trading.