

# Commodities Explained

## What Are They?

Commodities are basic things we use or consume every day, like food, energy, and metals. They are often things that can be found in nature. Think of commodities as the raw ingredients for many of the products we use, such as wheat for bread, oil for gasoline, or gold for jewellery.

## What Makes Them Interesting?

One of the most intriguing aspects of commodities is that their prices can be influenced by events all around the world. Things like weather, politics, and global demand can impact the prices of commodities. For example, a drought in a major wheat-growing region can cause the price of bread to go up.

## What Are Some Real-Life Examples?

**Oil:** It's a commodity that powers our cars, heats our homes, and makes plastics. The price of oil can change due to political conflicts, production cuts, or changes in consumer demand.

**Gold:** Often used for jewellery and as a store of value, gold is another commodity. Its price can be affected by economic uncertainty, currency values, and demand for safe investments.

**Cocoa:** Cocoa beans are a commodity used to make chocolate. Bad weather in cocoa-producing countries can reduce the supply of cocoa beans, causing chocolate prices to rise.

## What Else Is Worth Knowing?

**Diversification:** Many investors include commodities in their portfolios because they can act differently from stocks and bonds. This can help spread risk.

**Futures Contracts:** Some people trade commodities through futures contracts, which are agreements to buy or sell a commodity at a set price in the future.

**Physical vs. Paper Commodities:** You can invest in commodities by physically owning them (like buying gold bars) or through financial products tied to commodity prices (like commodity ETFs).

**Global Impact:** Changes in commodity prices can affect the prices you pay for everyday goods and services, from gas at the pump to the cost of your morning coffee.

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