

# Harvesting Commodity Carry

Publié le 30 avril 2025

**Luca Berlanda**

Associate Director, Quantitative Research at WisdomTree in Europe

## Points clés

- The structure of commodity futures curves reveals essential insights for selecting commodities and contract maturities.
  - Empirical evidence demonstrates that investing in deferred contracts (3-, 6-, or 12-month maturities) typically provides superior returns compared to front-month contracts, primarily due to lower costs of carry.
  - The WisdomTree's Commodity Carry strategy effectively balances liquidity and performance by systematically allocating 60% in 3-month deferred contracts, 30% in 6-month deferred contracts, and 10% in 12-month deferred contracts, capturing carry premiums while managing liquidity.
  - The **WisdomTree Enhanced Commodity Carry ETC** implements a systematic, market-neutral strategy (long deferred, short front-month futures), offering consistent returns and providing a distinct source of alpha unrelated to directional commodity price movements.
- 
- Related Products WisdomTree Enhanced Commodity Carry Find out more

## Contract selection matters

One of the most important characteristics of futures markets is the shape of the futures curve—that is, the structure of prices for delivery at different dates. This curve shape contains a lot of information.

The information embedded in the shape of the futures curve can be used in two key ways. It can inform how investors select commodities— that is, choosing which commodities to overweight and underweight based on the shape of their futures curves. This is the aspect most commonly addressed in academic research, which has extensively focused on identifying and quantifying roll yield opportunities through cross-sectional commodity selection.

What has been somewhat neglected in academic literature is the importance of contract selection within a single commodity. That is, choosing which point on the curve to invest in. Practitioners have recently started to close this gap by introducing strategies that favour deferred contracts, where the cost of carry is often lower.

## The case for deferred contracts

For a commodity future, the cost of carry represents the gain or loss incurred from holding a futures contract until its maturity, which is unrelated to any gain or loss associated with the physical commodity itself. Typically, when the futures price exceeds the spot price, the *expected* cost of carry becomes negative from the investor's perspective. This implies that, if the curve's shape remains unchanged, maintaining a futures position will result in losses over time.

The cost of carry usually *reflects* the total cost associated with holding a futures position until maturity, including storage, insurance, and financing costs, offset by any convenience yield<sup>1</sup> (which is the cost of carry for that *physical* commodity). For a futures investor, a high cost of carry means that simply rolling a futures position can erode returns over time—even if the spot price remains unchanged.

### Figure 1: Deferred contract performance relative to front month

*Source: WisdomTree, Bloomberg. The table shows the difference in annualised performance between the front month BCOM strategy for each commodity within the BCOM basket (except Gold and Silver) and the corresponding deferred contract strategy. 3 and 6-months deferred indices are Bloomberg indices, while 12-months deferred indices are S&P GSCI Indices. The start date for the 3-month column is 03/01/2000; the start date for the 6-month column is 02/01/2001; the start date for the 12-month column is 12/12/2010. End date is 02/04/2025. Historical performance is not an indication of future performance and any investments may go down in value.*

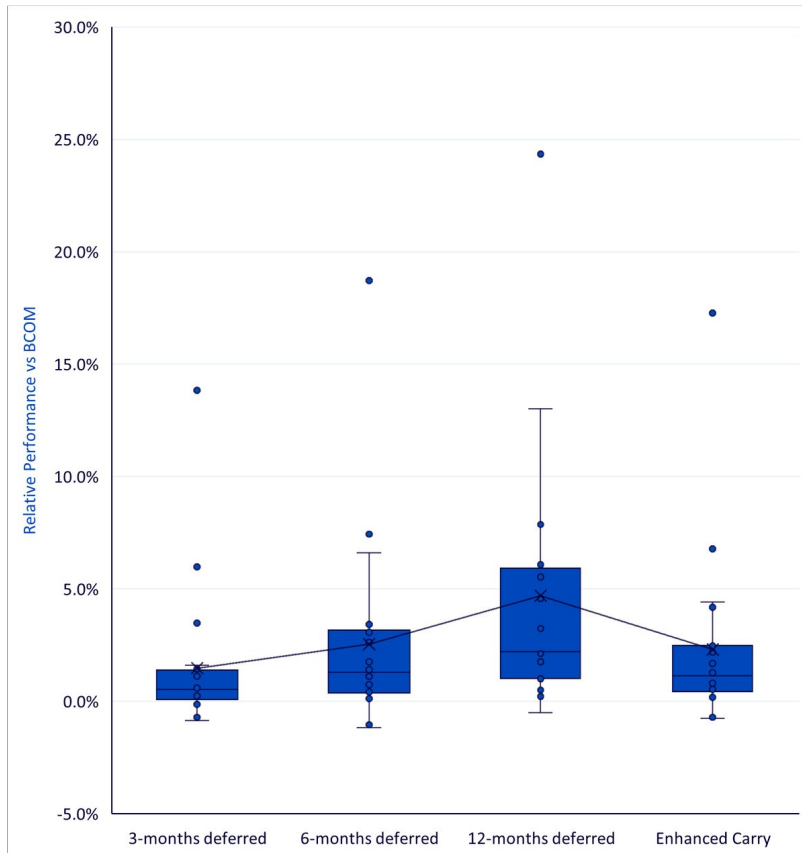
Historically, the cost of carry at the front end of the commodity futures curve has been substantially higher than at longer maturities. In other terms, holding the front month futures contracts has resulted in worse performances than holding deferred contracts for the same commodity. This occurs due to several theoretical reasons, including higher annualised storage expenses in initial periods, a convenience yield that decreases with longer maturities flattening the curve, and hedging and speculative activities concentrated in front-month contracts.

Empirically, investing in deferred contracts has demonstrated significant advantages. Figure 1 shows the difference in annualised performance between deferred contracts and front-month contracts, using the commodities within the Bloomberg Commodity Index ex-Precious Metals (BCOMXPM) as a reference<sup>2</sup>.

Except for Soybean Meal and 12-month ULS Diesel, every commodity analysed exhibited outperformance when investors moved away from front-month contracts and into deferred maturities. This confirms the presence of a carry premium embedded in the structure of commodity futures curves and shows that positioning further out on the curve where the cost of carry tends to be lower. The effect is particularly pronounced in commodities like Natural Gas, where structural characteristics—such as high seasonality, volatile spot prices, and storage constraints—have historically contributed to very steep contango and thus a significant negative roll yield in the front months.

Also, the carry premium tends to increase with maturity—the longer the deferral (that is, moving from 3- to 6- to 12-month deferred contracts), the higher the average outperformance. Figure 2 plots the annualised relative performance of deferred contracts versus BCOM front-month contracts, aligning the start date for

each commodity to enable fair comparison. We can see how the outperformance grows systematically as the deferral increases, reinforcing the idea that positioning further along the curve can enhance returns.



## Harvesting the premium

To capture this premium, WisdomTree recently launched the **WisdomTree Enhanced Commodity Carry ETC (CRRY)3**, which tracks the BNP Paribas Enhanced Commodity Carry Total Return Index. The index seeks to isolate and harvest the premium by going short front-month futures (with high carry cost) and long a basket of deferred contracts (lower carry cost), using the same commodity weights as BCOM ex-Precious Metals both on the long and on the short side.

How is the long leg built? Performance isn't the only factor to take into consideration—liquidity matters too. While deferred contracts offer better carry, they're generally less liquid. To balance these considerations, the long leg of the index is strategically split for every commodity in the index, applying the same deferral structure consistently across the entire basket:

- 60% in contracts deferred by 3 months
- 30% in contracts deferred by 6 months
- 10% in contracts deferred by 12 months

We can see how this contract selection rule fared in the last column of Figure 2, where each dot represents the outperformance of this enhanced strategy versus the BCOM front-month contract. While there may

be a slight compromise in performance compared to using only the most deferred contracts, nearly all commodities still delivered superior returns by a comfortable margin relative to front-month positioning. This highlights the effectiveness of a balanced deferral approach in capturing the carry premium while managing liquidity considerations.

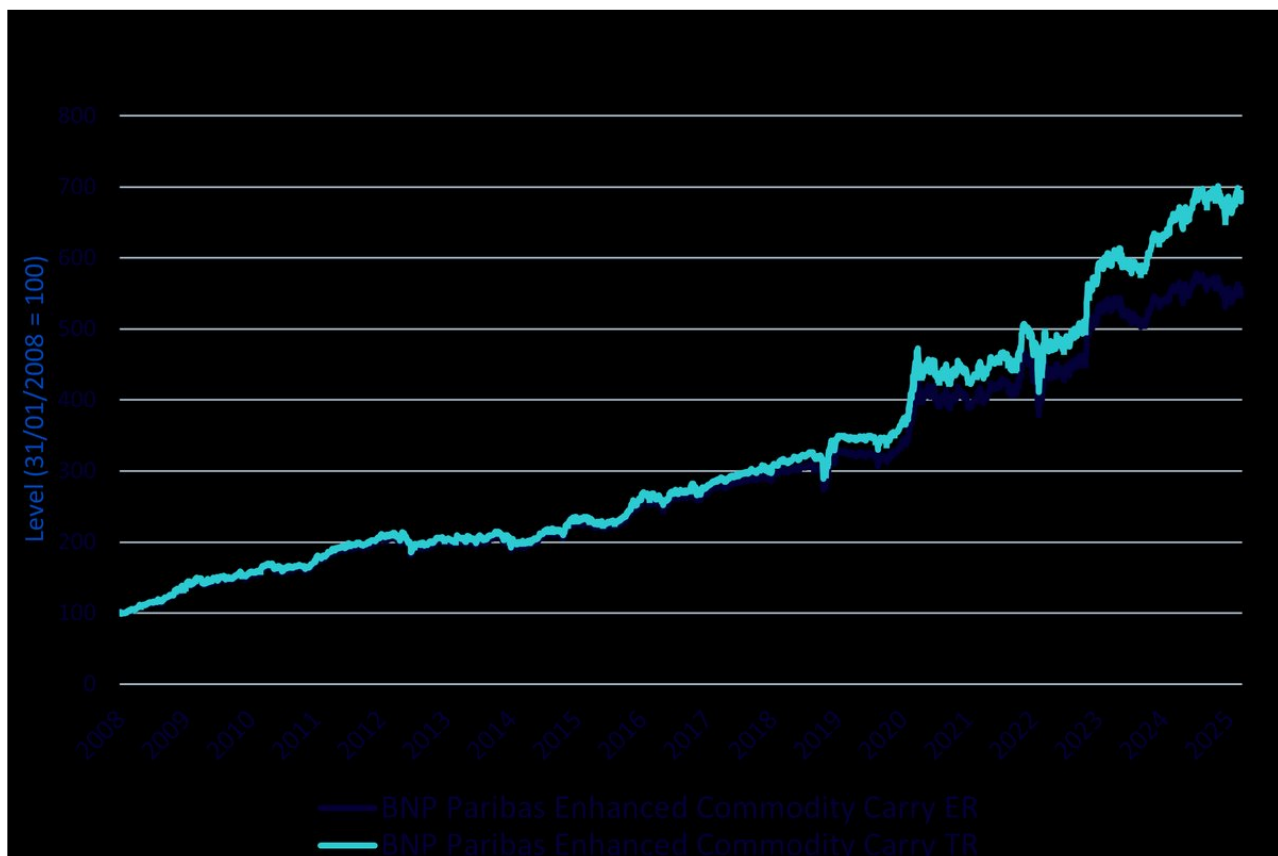
The short leg, where liquidity is less of a concern due to higher trading volumes, invests entirely in front-month future contracts.

The Index applies a 3x leverage on both legs, reset monthly, to effectively capture and amplify the carry differential<sup>4</sup>.

### Visualising the strategy

Figure 3 illustrates the historical performance of the strategy over the past 17 years. What stands out is the consistency of returns, especially during market stress events (for example, post-COVID-19). The strategy tends to underperform when the front of the curve rallies rapidly—as seen during the inflationary shock in early 2022—but overall delivers robust returns.

This systematic, rules-based strategy efficiently harvests roll yield and provides a distinct, low-correlation source of alpha within the commodity space.



In an investment landscape where alpha sources are increasingly scarce, the **WisdomTree Enhanced Commodity Carry ETC** offers a differentiated and data-driven approach to tapping structural pricing

dynamics in futures markets. By focusing on where you invest along the curve—not just what you invest in—this strategy provides investors with an elegant way to diversify return streams without taking a directional commodity bet.

1This definition is based on the widely accepted and empirically supported "Theory of Storage," which explains commodity futures pricing by focusing on the costs and benefits of holding physical commodities. Although other theories attempt to explain the futures curve's shape, they are beyond the scope of our current discussion.

2Gold and silver are excluded because of their extremely efficient curve shape.

3ETC = exchange-traded commodity.

4Risk Management - A built-in floor mechanism guarantees a delta-1 exposure, ensuring that the index level never becomes negative.

## Important Risks Related to this Article

### IMPORTANT INFORMATION

**Marketing communications issued in the European Economic Area (“EEA”):** This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland. **Marketing communications issued in jurisdictions outside of the EEA:** This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority. WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as “WisdomTree” (as applicable). Our Conflicts of Interest Policy and Inventory are available on request. This marketing communication has been prepared for professional investors, but the WisdomTree products set out in this document may be available in some jurisdictions to any investors, subject to applicable laws and regulations. As the product may not be authorised or its offering may be restricted in your jurisdiction, it is the responsibility of every person or entity to satisfy themselves as to the full observance of the laws and regulations of the relevant jurisdiction. Prior to any application investors are advised to take all necessary legal, regulatory, tax and investment advice on the suitability and consequences of an investment in the products. Past performance is not a reliable indicator of future performance. Any historical performance included in this document may be based on back testing. Back testing is the process of evaluating an investment strategy by applying it to historical data to simulate what the performance of such strategy would have been. Back tested performance is purely hypothetical and is provided in this document solely for informational purposes. Back tested data does not represent actual performance and should not be interpreted as an indication of actual or future performance. The value of any investment may be affected by exchange rate movements. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice. These products may not be available in your market or suitable for you. The content of this document does not constitute investment advice nor an offer for sale nor a solicitation of an offer to buy any product or make any investment. An investment in exchange-traded products (“ETPs”) is dependent on the performance of the underlying index, less costs, but it is not expected to match that performance precisely. ETPs involve numerous risks including among others, general market risks relating to the relevant underlying index, credit risks on the provider of index swaps utilised in the ETP, exchange rate risks, interest rate risks, inflationary risks, liquidity risks and legal and regulatory risks. The information contained in this document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares in the United States or any province or territory thereof, where none of the issuers or their products are authorised or registered for distribution and where no prospectus of any of the issuers has been filed with any securities commission or regulatory authority. No document or information in this document should be taken, transmitted or distributed (directly or indirectly) into the United States. None of the issuers, nor any securities issued by them, have been or will be registered under the United States Securities Act of 1933 or the Investment Company Act of 1940 or qualified under any applicable state securities statutes. This document may contain independent market commentary prepared by WisdomTree based on publicly available information. Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or

guarantee its accuracy or correctness. Any third party data providers used to source the information in this document make no warranties or representation of any kind relating to such data. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents. This document may contain forward looking statements including statements regarding our belief or current expectations with regards to the performance of certain assets classes and/or sectors. Forward looking statements are subject to certain risks, uncertainties and assumptions. There can be no assurance that such statements will be accurate and actual results could differ materially from those anticipated in such statements. WisdomTree strongly recommends that you do not place undue reliance on these forward-looking statements. WisdomTree Multi Asset Issuer PLC WisdomTree Multi Asset Issuer PLC (the "Issuer") issues products under a Prospectus ("WTMA Prospectus") approved by the Central Bank of Ireland, drawn up in accordance with the Directive 2003/71/EC. The WTMA Prospectus has been passported to various European jurisdictions including the UK, Italy and Germany and is available on this document. WisdomTree Enhanced Commodity Carry

The BNP Paribas Enhanced Commodity Carry Excess Return Index is the exclusive property of BNP Paribas ("BNPP"). The BNP Paribas Enhanced Commodity Carry Excess Return Index is used by WisdomTree under licence. The WisdomTree Enhanced Commodity Carry ETPs are not endorsed or approved in any way by BNPP and such products are not in any way associated with BNPP. BNPP makes no warranties whatsoever in relation to the use of the Index and is not liable for any losses caused by the use thereof. For Investors in Switzerland – Qualified Investors This document constitutes an advertisement of the financial product(s) mentioned herein. In Switzerland, this communication is only targeted at Qualified Investors. The prospectus and the key investor information documents (KID) are available from WisdomTree's website <https://www.wisdomtree.eu/en-ch/resource-library/prospectus-and-regulatory-reports>  
**For Investors in Monaco:** This communication is only intended for duly registered banks and/or licensed portfolio management companies in Monaco. This communication must not be sent to the public in Monaco.