The Bloomberg Commodity Index (BCOM) 2024 rebalance

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The Bloomberg Commodity Index (BCOM) is an index that reflects a basket of commodity futures price movements. The index wants to fairly represent the importance of a diversified group of commodities to the world economy. To achieve this fair representation, BCOM uses both **liquidity data** and **US Dollar-weighted production data** to determine the relative weights of the included commodities. The target weights account for liquidity and production data in a **2:1 ratio** and are subject to further diversification requirements[1].

Every January **BCOM sets new target weights**, according to their methodology. The weights are generally announced a couple of months in advance and are implemented during the first "roll period" of the year (which typically falls within the 6th-10th business day of each month). In this blog, we highlight the main changes in the new target weights for 2024.

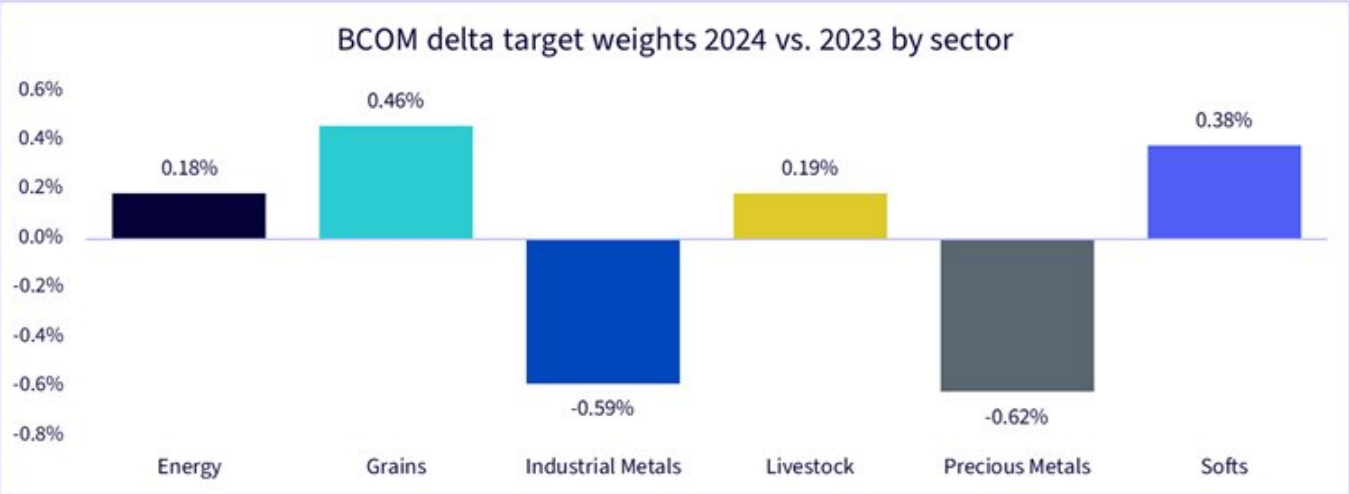
What changes in 2024?

BCOM will not undergo any commodity additions or deletions this year due to reconstitution. Lead, which was added to the index only last year, will remain in the index for 2024, despite failing to meet the minimum threshold requirement in its first year. According to the methodology, if Lead falls below the threshold for two consecutive years, it will be excluded from the index. Figure 1 shows BCOM's target weights for 2023 and 2024, while Figure 2 shows the delta. Figures 3 and 4 show the absolute weight and delta weight by commodity sector.

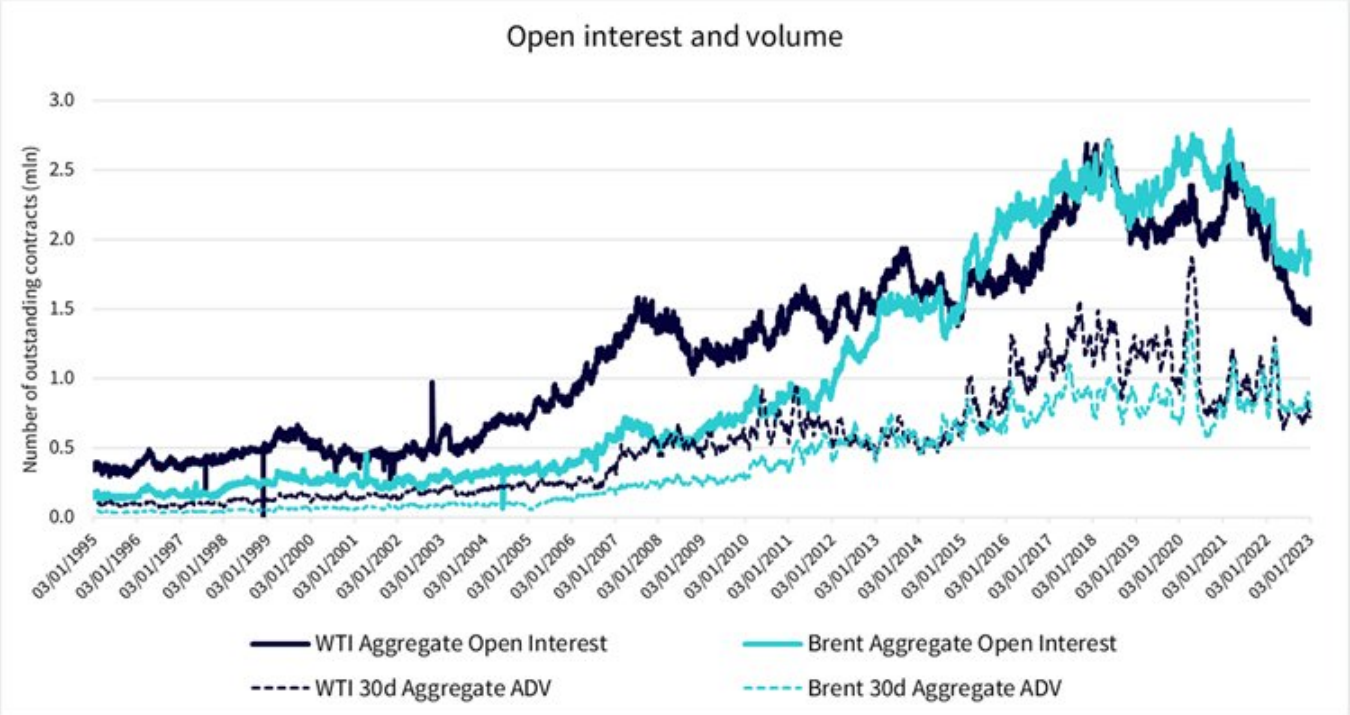

BCOM target weights 2024 vs. 2023
16%
14%
12%
10%
8%
6%
4%
2%
0%
7.64% 7.23%
2.78% 2.71%
2.16% 2.10%
7.98% 7.94%
2.21% 2.20%
7.36% 7.77%
5.66% 5.51%
5.91% 5.78%
3.35% 3.26%
1.82% 1.75%
2.82% 2.79%
3.54% 3.53%
5.30% 5.23%
4.11% 4.09%
0.87% 0.94%
2.58% 2.78%
2.49% 2.91%
3.47% 3.32%
1.78% 1.74%
4.48% 4.59%
14.35% 14.85%
2.81% 2.56%
2.97% 2.86%
1.57% 1.56%
Brent Crude Oil
Low Sulphur Gas Oil
ULS Diesel
Natural Gas
RBOB Gasoline
WTI Crude Oil
Corn
Soybeans
Soybean Oil
HRW Wheat
Wheat
Soybean Meal
Copper
Aluminum
Lead
Nickel
Zinc
Live Cattle
Lean Hogs
Silver
Gold
Sugar
Coffee
Cotton
2024 Target Weight
2023 Target Weight


BCOM delta target weights 2024 vs. 2023
0.60%
0.40%
0.20%
0.00%
-0.20%
-0.40%
-0.60%
0.41%
0.07%
0.06%
0.05%
0.01%
-0.41%
0.15%
0.12%
0.08%
0.06%
0.02%
0.01%
0.07%
0.02%
-0.07%
-0.20%
-0.41%
0.15%
0.04%
-0.11%
-0.51%
0.25%
0.12%
0.01%
Brent Crude Oil
Low Sulphur Gas Oil
ULS Diesel
Natural Gas
RBOB Gasoline
WTI Crude Oil
Corn
Soybeans
Soybean Oil
HRW Wheat
Wheat
Soybean Meal
Copper
Aluminum
Lead
Nickel
Zinc
Live Cattle
Lean Hogs
Silver
Gold
Sugar
Coffee
Cotton


BCOM target weights 2024 vs. 2023 by sector
35%
30%
25%
20%
15%
10%
5%
0%
30.1% 29.9%
23.1% 22.6%
15.3% 15.9%
5.2% 5.1%
18.8% 19.4%
7.4% 7.0%
Energy
Grains
Industrial Metals
Livestock
Precious Metals
Softs
2024 Target Weight
2023 Target Weight



Since 2017, WTI's open interest (i.e. the number of outstanding contracts) has been decreasing, see Figure 5, while Brent has become more popular. Currently, Brent's open interest sits comfortably higher than WTI's. Brent even closed the gap in volume, which historically has been higher for WTI. While Brent and WTI represent similar grades of crude oil, Brent is increasingly seen as the international benchmark for oil prices, while WTI tends to be driven by more US supply and demand characteristics. Thus, the tightness in oil that the Organisation for Petroleum Exporting Countries and its partner countries are trying to engineer should be better reflected in the Brent benchmark. After a WTI futures contract briefly traded negative in April 2020, Brent accelerated its liquidity lead over WTI. Brent futures are cash settled, whereas WTI is physically settled. The extra steps to manage a WTI futures contract investment (either by rolling or closing it as it approaches expiry), means it is more susceptible to trading negative than Brent. As these risks became apparent, Brent has been leading over WTI as the choice for investors.



Moving forward, we see a 0.41% decrease in Zinc and a 0.20% drop in Nickel. Industrial Metals in general will decrease to the lowest weight since the inception of BCOM – to 15.35% – due to a lower trend in liquidity. The difficulties the London Metal Exchange (LME) faced in 2022 surrounding the tradability of Nickel futures[2] seems to have left a scar on the liquidity of LME Nickel contracts since. With base metal prices falling in 2023, investor interest in the complex also declined. Added to that, the UK sanctions applied to Russia (an important industrial metals producing country) could be deterring engagement in trading the underlying spot market and having a knock-on impact on the futures market liquidity.

Gold is recording the biggest drop in weight in absolute terms (-0.51%). This is the second straight year of dropping, decreasing the Precious Metals group to 18.82%.

Overall, BCOM will see weight increases in Energy, Livestock, Grains, and Softs, and decreases in Precious Metals and Industrial Metals. Energy will continue to have the highest BCOM commodity group weight in 2024, increasing slightly to 30.13%. The Agriculturals super-sector, which aggregates Livestock, Grains, and Softs sees an increase of slightly more than 1%, and every commodity within these categories experiences an increase in target weight for 2024. The biggest increases by sector are Corn (+0.15%) for Grains, sugar (+0.25%) for Softs and live cattle for Livestock (+0.15%).

How does this impact WisdomTree Products?

WisdomTree has two UCITS funds that rebalance to the BCOM weights in January:

- the PCOM - WisdomTree Broad Commodities UCITS ETF, which is designed for investors seeking to improve their commodities performance while minimising tracking error against the Bloomberg Commodity Total Return Index (BCOMTR Index) by substituting the synthetic exposure to precious metals with a physical one

- the WCOA - WisdomTree Enhanced Commodities UCITS ETF, which aims at generating alpha versus the benchmark (BCOM) by maximizing the roll yield. Namely, the strategy invests in the most backwardated (or least contangoed) contract along the curve for each commodity in an effort to maximise the curve potential

Both ETFs rebalance back to BCOM's new weights in January, meaning that both ETFs inherit the changes decided by Bloomberg. However, there is a difference between the two ETFs. While PCOM will rebalance back to BCOM weights during the year, to keep the tracking error as low as possible, WCOA only rebalances in January, up until the following January. This means that, as the year progresses, the performance difference that derives from a different contract selection will in turn provoke the weights to drift slightly from BCOM.

[1] No group may see its weight exceed 33%, no single commodity, together with its derivatives, may see its weight exceed 25%, no single commodity may see its weight exceed 15%.

[2] See Sympathy for devil's copper: Nickel

Important Risks Related to this Article

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