

The Bloomberg Commodity Index (BCOM) 2024 rebalance

Published 29 January 2024

Luca Berlanda

Associate Director, Quantitative Research at WisdomTree in Europe

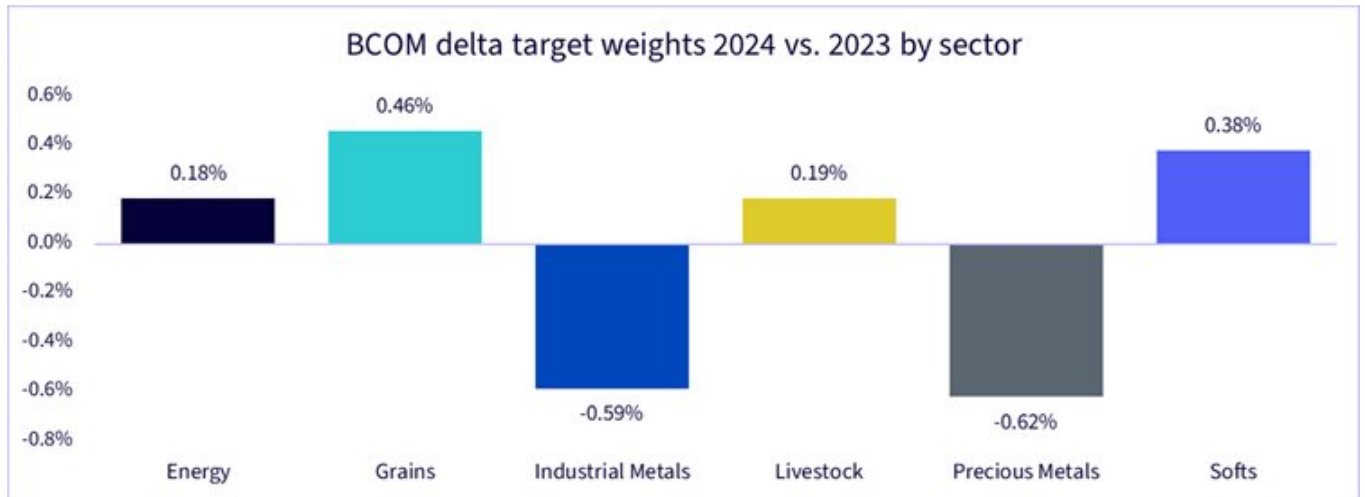
The Bloomberg Commodity Index (BCOM) is an index that reflects a basket of commodity futures price movements. The index wants to fairly represent the importance of a diversified group of commodities to the world economy. To achieve this fair representation, BCOM uses both **liquidity data** and **US 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 requirements¹.

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.

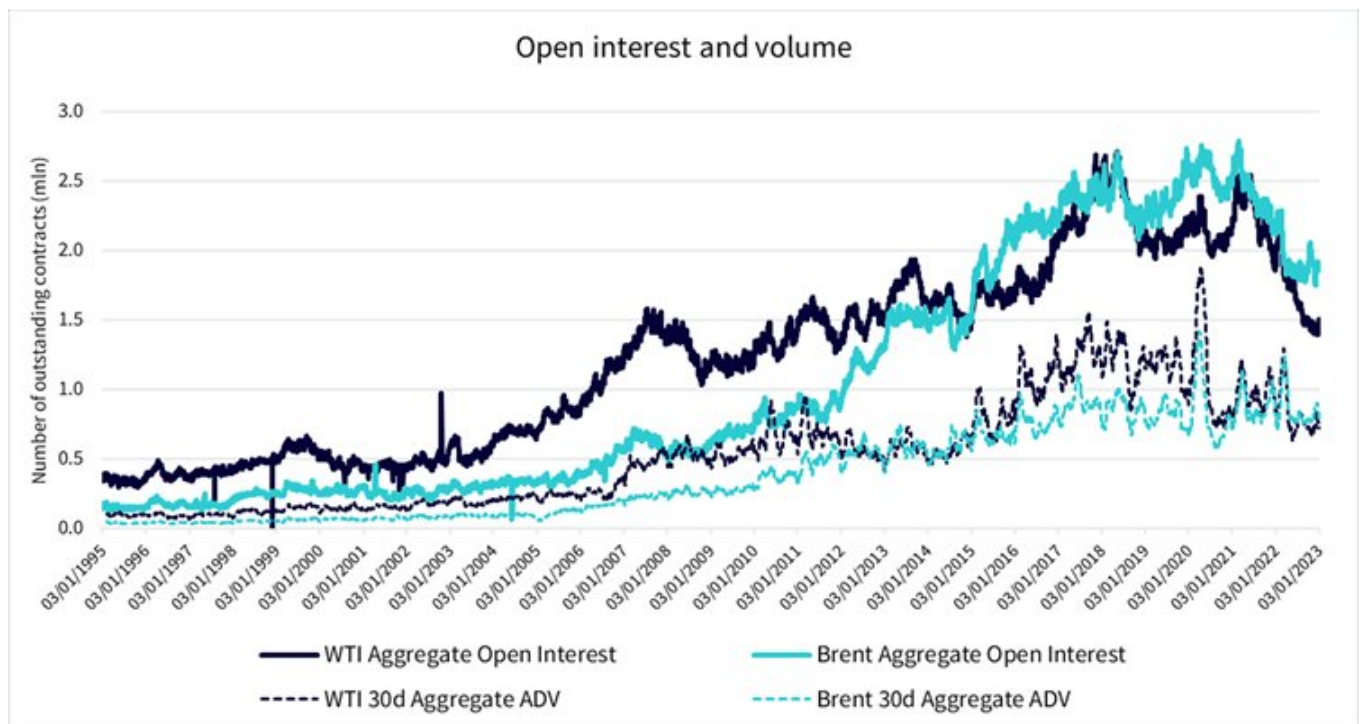
What changes in 2024?

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.





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 futures² 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

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.

For professional clients only. 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 Issuer ICAV

The products discussed in this document are issued by WisdomTree Issuer ICAV ("WT Issuer"). WT Issuer is an umbrella investment company with variable capital having segregated liability between its funds organised under the laws of Ireland as an Irish Collective Asset-management Vehicle and authorised by the Central Bank of Ireland ("CBI"). WT Issuer is organised as

an Undertaking for Collective Investment in Transferable Securities ("UCITS") under the laws of Ireland and shall issue a separate class of shares ("Shares") representing each fund. Investors should read the prospectus of WT Issuer ("WT Prospectus") before investing and should refer to the section of the WT Prospectus entitled »Risk Factors¼ for further details of risks associated with an investment in the Shares.

WisdomTree Broad Commodities UCITS ETF

"Bloomberg®" and the Bloomberg Commodity Index(es)SM referenced herein are service marks of Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services Limited ("BISL"), the administrator of the indices (collectively, "Bloomberg") and have been licensed for use for certain purposes by WisdomTree UK Limited and its permitted affiliates including WisdomTree Management Limited and WisdomTree Issuer ICAV (together, WisdomTree). Bloomberg is not affiliated with WisdomTree, and Bloomberg does not approve, endorse, review, or recommend the WisdomTree Broad Commodities UCITS ETF. Bloomberg does not guarantee the timeliness, accurateness, or completeness of any data or information relating to the index(es).

WisdomTree Enhanced Commodity UCITS ETF

The methodology of and rules governing the index (the "Index Methodology" and the "Index") are proprietary and shall not be reproduced or disseminated without the prior written consent of the "Index Sponsor" (as defined in the "Index Rules" **available on <http://www.wisdomtree.eu/home>**). None of the Index Sponsor, the index calculation agent (where such party is not also the Index Sponsor, the "Index Calculation Agent") nor, where applicable, the index Investment Advisor (the "Index Investment Advisor")

guarantee that there will be no errors or omissions in computing or disseminating the Index. The Index Methodology is based on certain assumptions, certain pricing models and calculation methods adopted by the Index Sponsor, the Index Calculation Agent and, where applicable, the Index Investment Advisor, and may have certain inherent limitations. Information prepared on the basis of different models, calculation methods or assumptions may yield different results. You have no authority to use or reproduce the Index Methodology in any way, and neither the Index Sponsor nor any of its affiliates shall be liable for any loss whatsoever, whether arising directly or indirectly from the use of the Index or Index Methodology or otherwise in connection therewith. The Index Sponsor reserves the right to amend or adjust the Index Methodology from time to time in accordance with the rules governing the Index and accepts no liability for any such amendment or adjustment. Neither the Index Sponsor nor the Index Calculation Agent are under any obligation to continue the calculation, publication or dissemination of the Index and accept no liability for any suspension or interruption in the calculation thereof which is made in accordance with the rules governing the Index. None of the Index Sponsor, the Index Calculation Agent nor, where applicable, the Index Investment Advisor accept any liability in connection with the publication or use of the level of the Index at any given time. The Index Methodology embeds certain costs in the strategy which cover amongst other things, friction, replication and repo costs in running the Index. The levels of such costs (if any) may vary over time in accordance with market conditions as determined by the Index Sponsor acting in a commercially reasonable manner. The Index Sponsor and its affiliates may enter into derivative transactions or issue financial instruments (together, the "Products") linked to the Index. The Products are not in any way sponsored, endorsed, sold or promoted by the sponsor of any index component (or part thereof) which may comprise the Index (each a "Reference Index") that is not affiliated with BNP Paribas (each such sponsor, a "Reference Index Sponsor"). The Reference Index Sponsors make no representation whatsoever, whether express or implied, either as to the results to be obtained from the use of the relevant Reference Index and/or the levels at which the relevant Reference Index stands at any particular time on any particular date or otherwise.

No Reference Index Sponsor shall be liable (whether in negligence or otherwise) to any person for any error in the relevant Reference Index and the relevant Reference Index Sponsor is under no obligation to advise any person of any error therein. None of the Reference Index Sponsors makes any representation whatsoever, whether express or implied, as to the advisability of purchasing or assuming any risk in connection with the Products. The Index Sponsor and its affiliates have no rights against or recourse to any Reference Index Sponsor should any Reference Index not be published or for any errors in the calculation thereof or on any other basis whatsoever in relation to any Reference Index, its production, or the level or constituents thereof. The Index Sponsor and its affiliates shall have no liability to any party for any act or failure to act by any Reference Index Sponsor in connection with the calculation, adjustment or maintenance of the relevant Reference Index and have no affiliation with or control over any Reference Index or the relevant Reference Index Sponsor or the computation, composition or dissemination of any Reference Index. Although the Index Calculation Agent will obtain information

concerning each Reference Index from publicly available sources that it believes reliable, it will not independently verify this information. Accordingly, no representation, warranty or undertaking (express

or implied) is made and no responsibility is accepted by the Index Sponsor or any of its affiliates nor the Index Calculation Agent as to the accuracy, completeness and timeliness of information concerning any Reference Index. The Index Sponsor and/or its affiliates may act in a number of different capacities in relation to the Index and/or products linked to the Index, which may include, but not be limited to, acting as market-maker, hedging counterparty, issuer of components of the Index, Index Sponsor and/or Index Calculation Agent. Such activities could result in potential conflicts of interest that could influence the price or value of a Product.

Notice to Investors in Switzerland – Qualified Investors

This document constitutes an advertisement of the financial product(s) mentioned herein.

The prospectus and the key investor information documents (KIID) are available from WisdomTree's website: <https://www.wisdomtree.eu/en-ch/resource-library/prospectus-and-regulatory-reports>

Some of the sub-funds referred to in this document may not have not been registered with the Swiss Financial Market Supervisory Authority ("FINMA"). In Switzerland, such sub-funds that have not been registered with FINMA shall be distributed exclusively to qualified investors, as defined in the Swiss Federal Act on Collective Investment Schemes or its implementing ordinance (each, as amended from time to time). The representative and paying agent of the sub-funds in Switzerland is Société Générale Paris, Zurich Branch, Talacker 50, PO Box 5070, 8021 Zurich, Switzerland. The prospectus, the key investor information documents (KIID), the articles of association and the annual and semi-annual reports of the sub-funds are available free of charge from the representative and paying agent. As regards distribution in Switzerland, the place of jurisdiction and performance is at the registered seat of the representative and paying agent.

For Investors in France:

The information in this document is intended exclusively for professional investors (as defined under the MiFID) investing for their own account and this material may not in any way be distributed to the public. The distribution of the Prospectus and the offering, sale and delivery of Shares in other jurisdictions may be restricted by law. WT Issuer is a UCITS governed by Irish legislation, and approved by the Financial Regulatory as UCITS compliant with European regulations although may not have to comply with the same rules as those applicable to a similar product approved in France. The Fund has been registered for marketing in France by the Financial Markets Authority (Autorité des Marchés Financiers) and may be distributed to investors in France. Copies of all documents (i.e. the Prospectus, the Key Investor Information Document, any supplements or addenda thereto, the latest annual reports and the memorandum of incorporation and articles of association) are available in France, free of charge at the French centralizing agent, Societe Generale at 29, Boulevard Haussmann, 75009, Paris, France. Any subscription for Shares of the Fund will be made on the basis of the terms of the prospectus and any supplements or addenda thereto.

For Investors in Malta

This document does not constitute or form part of any offer or invitation to the public to subscribe for or purchase shares in the Fund and shall not be construed as such and no person other than the person to whom this document has been addressed or delivered shall be eligible to subscribe for or purchase shares in the Fund. Shares in the Fund will not in any event be marketed to the public in Malta without the prior authorisation of the Maltese Financial Services Authority.

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.