

The roll: where the contango cost actually lands

ROLL COST

The price gap between the expiring contract and the next one, paid by every position that outlives an expiry. In contango a rolling long sells cheap and buys dear each time; across a year of rolls it is typically the largest single cost of maintained commodity exposure. It is set by the curve, not the broker, and no wrapper avoids it.

You learned to read the futures curve in module 2. This is the lesson where the curve stops being a picture and sends you a bill.

The mechanism, plainly

A commodity position that wants to exist next month must move to next month's contract, at next month's price. In contango - the resting state, because storage costs real money - the next month is dearer. Sell the front, buy the next, and the position now needs the price to rise by the gap just to stand still. Do that twelve times a year and the gaps compound into the steady leak that explains one of retail trading's oldest mysteries: the commodity that ended the year higher while the fund tracking it ended lower.

It is not a broker trick

A CFD's roll adjustment arrives as an overnight change to your position, and it is natural to read it as something the broker did to you. It is not. The gap is set on the exchange, by the storage economics from module 1, and a futures trader rolling by hand pays it to the tick. The broker chose the moment; the curve chose the amount. Maintaining exposure to a stored physical good costs what storing it costs - the roll is simply where that truth reaches your account.

And it runs both ways

Backwardation inverts the bill. When the front is dearest, each roll sells dear and buys cheap, and the rolling long is paid to stay - which is why professionals watch curve shape the way other traders watch price. Work the example below, then put your own products' front and next months into the calculator. For anything you hold longer than a month, this number belongs next to the financing figure in the plan - and for most commodity CFDs held long, it is the bigger of the two.

Worked example - figures in USD

A long of one WTI contract, 1,000 barrels, rolled monthly with the front at \$80.00 and the next month at \$80.60, in a US dollar account.

1. The front month trades at \$80.00, the next at \$80.60. To stay exposed past expiry, the position sells the first and buys the second - every single month.
2. That gap is 0.75% of the position per roll, which on 1,000 barrels is \$600 - money that leaves whether the oil price goes anywhere or not.
3. Held for a year at this curve, 12 rolls cost 9% - \$7,200. This is the bill for maintaining exposure, and the curve set it, not the broker.

Try it yourself with the roll-cost calculator: <https://ticksprout.com/tools/roll-cost>

Check your understanding

1. Crude ends the year exactly where it started, yet a rolled long position lost 9%. What happened?

- a. The broker overcharged on financing
- b. Twelve monthly rolls in contango each paid the gap between months - the cost of maintaining the exposure
- c. Slippage on the entries and exits

Answer: b. The spot price is not what the position held. It held a sequence of contracts, each bought dearer than the last was sold. The curve's shape, not the price's direction, wrote that result.

2. Who sets the size of the roll cost?

- a. The broker, in the rollover adjustment
- b. The exchange-traded gap between contract months - storage economics made visible
- c. The clearing house's rollover fee schedule

Answer: b. The broker only picks the moment it happens. The amount is the curve itself, and a futures trader rolling manually pays exactly the same gap. It is the price of exposure, not a fee for service.

3. When does rolling pay the position holder rather than charging them?

- a. Never - rolling always costs
- b. In backwardation, when the front month is dearer than the next: each roll sells dear and buys cheap
- c. When the broker waives the adjustment

Answer: b. The bill has a sign. An inverted curve pays the rolling long - which is why curve shape is a first-class input to any held commodity position, not trivia.