The wrapper decides the cost

> **COST STRUCTURE**
>
> The complete set of charges a way of holding exposure carries: what is explicit, what is embedded, and what accrues with time. Two wrappers on the same commodity can suit opposite trading styles purely through their cost structures - which is why the structure is chosen before the trade, not discovered after it.

Module 1 established the layers between you and the barrel. This module prices them, and the first fact is the organising one: costs belong to the wrapper, not the commodity.

The futures route

Trading the exchange contract directly means commission per contract, exchange and data fees, margin posted at the clearing house - and expiry handled by you. Nothing accrues nightly; the financing embedded in holding a position through time lives inside the futures price itself, in the gap between months you learned to read on the curve. The costs are explicit, itemised and mostly fixed per trade, which rewards size and punishes smallness: the same commission hurts a one-contract account far more than a fifty-contract one.

The CFD route

The retail wrapper inverts all of it. No commission, usually - the charge moves into a wider spread. No expiry to manage - the broker rolls, and the roll cost arrives as a position adjustment. No exchange margin - instead the broker lends the notional and charges financing on it nightly. Every explicit futures cost has been transformed into something smoother, smaller-looking and time-based.

Neither is cheaper. They are shaped differently.

Frequent, short trades meet the spread over and over, and never hold long enough for financing to matter.Long holds pay financing or roll costs night after night, and barely notice the spread they crossed once.The futures fee stack is flat per contract; the CFD stack scales with time and notional.

The lessons that follow price each piece: the spread, the financing, the margin question, the roll, the fees, the slippage - then reassemble them into the only number that matters, the all-in cost of the trade you actually take. By the end of this module 'which wrapper is cheaper' should sound like the wrong question, and 'cheaper for what holding period, at what size' like the right one.

Check your understanding

1. A trader who holds positions for months should care most about which cost?

a. The spread crossed at entry
b. The nightly financing or recurring roll cost, which accrues for the whole holding period
c. The commission per trade

Answer: b. One-off costs are met once; time-based costs are met every night. Over months, the accruing charges dwarf the entry costs - which is exactly why cost structure is chosen to match holding period.

2. Where does the financing cost of holding a futures position live?

a. In a nightly charge from the exchange
b. Embedded in the futures price itself - in the gap between contract months
c. Futures positions carry no financing cost

Answer: b. The curve prices carry: storage, insurance and money tied up. Holding through time means rolling across that gap rather than paying a nightly fee - the same economics, delivered through the price.