What a commodity spread costs, by product and by month

> **SPREAD COST**
>
> The bid-ask gap converted to money: spread in price units, times units per contract, times contracts. Paid in full at entry, again at exit, on every trade, regardless of outcome. In commodities it varies twice over - by product, through tick and unit sizes, and by month, through where the liquidity actually sits.

Module 2 gave you tick values. This lesson multiplies them by the market's willingness to deal, which is what a spread is.

By product

A liquid front-month WTI contract might show a spread of three cents - $30 across 1,000 barrels, before your order moves anything. That is the healthy case: the most-traded contract of one of the most-traded commodities on earth. Step to a smaller market and the same three ticks of quoted courtesy might be ten, because fewer dealers are competing to take your other side. The spread is the price of immediacy, and immediacy is cheap exactly where many people want to deal.

By month - the commodity twist

Here is what FX never showed you: the same instrument, at the same moment, has a different spread in every contract month. The front month carries the volume and the tightest quote. Six months out, the book thins and that 3-cent spread might be 8 cents - $80 a round turn on the same barrels. The curve you read in module 2 has a cost dimension: trading along it gets dearer with distance from the front.

And by the clock

Everything module 2 said about liquidity's schedule is a spread schedule. Outside US hours, into a report, near expiry, through a holiday - the quoted spread widens exactly when the depth behind it retreats. A spread checked at a liquid moment and paid at a thin one is a budgeting error, and it is the commonest small leak in a commodity account.

Price a spread in money, not ticks: ticks times tick value times contracts.Check it for the month you actually trade, not the front month's advertisement.Check it at the hour you actually trade. The 3am spread is not the 3pm spread.

Check your understanding

1. Why does the same commodity carry different spreads in different contract months?

a. Exchanges set wider minimum spreads for later months
b. Liquidity concentrates in the front month, and the spread is the price of finding a counterparty
c. Later months are more volatile

Answer: b. The spread is dealers competing for flow. Where volume lives - the front - competition is fierce and the quote tight. In the back months fewer dealers quote, and immediacy costs more.

2. A WTI spread is 3 cents. What does crossing it cost on two contracts?

a. $3 - three cents, doubled
b. $60 - 0.03 times 1,000 barrels, times two contracts
c. $6 - three cents times two

Answer: b. Spread cost is spread times units times contracts: 0.03 x 1,000 x 2. The tick-value habit from module 2 is exactly what turns a quoted spread into a budgeted cost.