Reading the futures curve

> **FUTURES CURVE**
>
> All of a commodity's contract months plotted by price at one moment: delivery date along the bottom, price up the side. A chart shows one month through time; the curve shows all months at one time. It is the market's published balance sheet for the physical good, readable daily, and reading it commits you to nothing.

Everything so far looked at one month through time. Turn the axes around: fix the moment, plot every month side by side. That picture is the curve, and commodities traders check it the way FX traders check the calendar.

The two shapes

Sloping upward - later months dearer - is contango, the resting state module 1's storage lesson predicts: carrying the good forward costs money, and the curve charges for it. Sloping downward - the nearest months dearest - is backwardation, and it is information. Someone needs the physical thing now badly enough to pay a premium over waiting, which storage arithmetic alone can never produce. Tightness now; adequacy later. The economics of what each shape pays or costs a position is module 8's opening act - this lesson is only about reading.

Watch the front of the curve

The far end drifts. The front end speaks. A steepening at the front - nearby months surging away from the rest - is the market repricing immediate scarcity, and it can happen inside a day on a supply shock. The 2020 collapse ran the film in reverse: the front fell away from the rest as storage filled, and the curve was screaming glut for weeks before the expiry that made headlines.

How to practise, without trading it

Exchanges publish settlement prices per month, free, daily. Plot a curve for a product you follow; it takes minutes.Track the same curve across a week. The wriggle at the front against the stillness at the back is exactly the lesson-2 point, now visible in one picture.When a headline says a commodity 'rose', check what the curve did. A front-only rise and a whole-curve rise are different events wearing the same headline.

No indicator on a price chart summarises a commodity's physical state better than its curve. It is the highest-value free chart in this asset class, and almost nobody retail looks at it.

Check your understanding

1. A commodity's curve slopes steeply downward at the front - nearby months cost more than later ones. What is the market saying?

a. Prices are expected to fall, so selling is advised

b. Someone needs the physical good now urgently enough to pay over the odds - immediate tightness

c. The exchange has mispriced the near months

Answer: b. Storage costs alone can only produce an upward slope. A downward front means the present is bid: physical scarcity now, expected adequacy later. It is a reading, not a trade instruction.

2. Why does the front of the curve move more than the back?

a. Near months are cheaper to trade

b. The front prices the immediate physical balance, which is where shocks land; the far end prices long-run costs that shocks rarely reach

c. Regulation restricts back-month price movement

Answer: b. A storm, a strike or a full tank changes now. It rarely changes the economics of production years out - so the front reprices and the back barely notices, exactly as lesson 2's hurricane example showed month by month.