TalkingPoints

Tools for Index Discussions: Commodity Indexes

A comparison of the futures contract selection within the Forward Month versions of the Dow Jones-UBS Commodity Index and the Dow Jones-UBS Roll Select Commodity Index.

- **The distribution of the contract schedule for Dow Jones-UBS Roll Select Commodity Index is much more diversified compared to the predetermined contract schedules for F1, F2 and F3.**

The Dow Jones-UBS Commodity Index (DJ-UBSCI) incorporates a predetermined contract schedule as defined by Table G of its Handbook.[1] Composed of longer-dated commodity futures contracts, the forward versions of the DJ-UBSCI allow investors to measure exposure to different parts of the commodity futures curves by shifting the Table G contract schedule one month forward (F1), two months forward (F2) or three months forward (F3).

In contrast, the Dow Jones-UBS Roll Select Commodity Index is a version of the DJ-UBSCI that aims to mitigate the effects of contango on index performance. It works by dynamically rolling into the futures contract showing the most backwardation or least contango from among those contracts with 9 months or fewer until expiration.

Figures 1-4 show the number of months ahead on the futures curve the Forward Month versions and the Dow Jones-UBS Roll Select Commodity Index have been relative to the DJ-UBSCI over the last three years. Despite the similar risk/return characteristics in the table below, the Dow Jones-UBS Roll Select Commodity Index does not share very many contract holdings with the DJ-UBSCI Forward Month versions.

Index	3-Yr Risk	3-Yr Return
DJ-UBSCI	22.06%	-7.18%
DJ-UBSCI F1	21.87%	-4.77%
DJ-UBSCI F2	21.61%	-4.43%
DJ-UBSCI F3	21.44%	-3.51%
DJ-UBS Roll Select	21.36%	-3.04%

The distribution of the contract holdings for the Dow Jones-UBS Roll Select Commodity Index is much more diversified compared to the predetermined contract schedules of F1, F2 and F3. For example, the DJ-UBSCI F3 (Figure 3) holds the contract two months ahead ~50% of the time and ~50% four months ahead for Energy, Livestock and Industrial Metals. For Agriculture and Precious Metals, the DJ-UBSCI F3 distribution is ~33% two months ahead, ~25% three months ahead, and ~33% four months ahead or beyond. The average across all 19 commodities within the Dow Jones-UBS Roll Select Commodity Index (Figure 4) is ~21% same contract, ~13% two months ahead, ~7% three months ahead, ~29% four months ahead, ~10% five months ahead, and ~20% six months ahead.

Figure 1. DJ-UBSCI F1 Relative to DJ-UBSCI[2]

COMMODITY	0 M	1 M	2 M	3 M	4 M	5 M	6 M	7 M
Natural Gas	50%		50%					
Crude Oil	50%		50%					
Unleaded Gas	50%		50%					
Heating Oil	50%		50%					
Live Cattle	50%		50%					
Lean Hogs	42%	17%	42%					
Wheat	58%		25%	17%				
Corn	58%		25%	17%				
Soybeans	58%		33%		8%			
Soybean Oil	58%	8%	25%			8%		
Aluminum	50%		50%					
Copper	58%		25%	17%				
Zinc	50%		50%					
Nickel	50%		50%					
Gold	58%		33%		8%			
Silver	58%		25%	17%				
Sugar	67%		17%	8%		8%		
Cotton	67%		17%	8%		8%		
Coffee	58%		25%	17%				

Figure 2. DJ-UBSCI F2 Relative to DJ-UBSCI

COMMODITY	0 M	1 M	2 M	3 M	4 M	5 M	6 M	7 M
Natural Gas			100%					
Crude Oil			100%					
Unleaded Gas			100%					
Heating Oil			100%					
Live Cattle			100%					
Lean Hogs		8%	83%	8%				
Wheat	17%		50%	33%				
Corn	17%		50%	33%				
Soybeans	17%		67%		17%			
Soybean Oil	17%	17%	50%			17%		
Aluminum			100%					
Copper	17%		50%	33%				
Zinc			100%					
Nickel			100%					
Gold	17%		67%		17%			
Silver	17%		50%	33%				
Sugar	33%		33%	17%		17%		
Cotton	33%		33%	17%		17%		
Coffee	17%		50%	33%				

Figure 3. DJ-UBSCI F3 Relative to DJ-UBSCI

COMMODITY	0 M	1 M	2 M	3 M	4 M	5 M	6 M	7 M
Natural Gas			50%		50%			
Crude Oil			50%		50%			
Unleaded Gas			50%		50%			
Heating Oil			50%		50%			
Live Cattle			50%		50%			
Lean Hogs			42%	17%	42%			
Wheat			33%	42%	17%	8%		
Corn			33%	42%	17%	8%		
Soybeans	8%		42%		42%		8%	
Soybean Oil	8%	17%	25%	8%	17%	17%		8%
Aluminum			50%		50%			
Copper			33%	42%	17%	8%		
Zinc			50%		50%			
Nickel			50%		50%			
Gold	8%		42%		42%		8%	
Silver			33%	42%	17%	8%		
Sugar	17%		25%	17%	8%	33%		
Cotton	17%		25%	25%	8%	17%		8%
Coffee			33%	42%	17%	8%		

Figure 4. Roll Select Relative to DJ-UBSCI

COMMODITY	0 M	1 M	2 M	3 M	4 M	5 M	6 M	7 M
Natural Gas	17%		33%		33%		17%	
Crude Oil	3%				11%		86%	
Unleaded Gas	22%		11%		25%		42%	
Heating Oil	25%		17%		17%		42%	
Live Cattle	33%		31%		28%		8%	
Lean Hogs	33%		8%	14%	19%	11%	14%	
Wheat	25%		6%	14%	31%	22%	3%	
Corn	14%		3%	17%	33%	25%	8%	
Soybeans	42%		6%		42%		11%	
Soybean Oil	25%		8%	17%	25%	19%	6%	
Aluminum	8%		17%		44%		31%	
Copper	14%		6%	19%	31%	19%	11%	
Zinc			31%		31%		39%	
Nickel			11%		53%		36%	
Gold	47%		22%		28%		3%	
Silver	31%			11%	28%	25%	6%	
Sugar	8%		22%	14%	31%	14%		11%
Cotton	33%		19%	8%	14%	25%		
Coffee	25%		6%	17%	22%	19%	11%	

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[1] Dow Jones-UBS Commodity Index Handbook http://www.djindexes.com/commodity/?go=handbook
[2] Data from September 2008 to August 2011.

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