Why tight commodity markets are boosting investor returns

Saxo Bank · 2026-09-03 · English original

Key Points:

• Commodities are benefiting from two sources of return: The Bloomberg Commodity Total Return Index has gained 43.3% over the past year, compared with 35% for the Spot Index, highlighting the additional contribution from positive roll returns.

• Energy is providing the strongest carry: Tight physical markets have driven Brent, WTI and refined products into steep backwardation, with one-year implied roll yields above 20% across several fuel contracts.

• Backwardation can reinforce bullish market conditions: When supply is tight, investors can benefit from both higher spot prices and positive carry, helping explain why commodity markets in backwardation often attract buying on price corrections.

• Curve structure matters as much as direction: Contango creates the opposite dynamic, with negative carry eroding returns over time and raising the hurdle for investors even when the underlying commodity price outlook is constructive.

The hidden tailwind behind the commodity rally

The strong performance of commodities this year has been driven by more than rising spot prices. Tight physical markets, particularly across energy, have pushed futures curves deeper into backwardation, providing investors with an additional source of return through positive carry. Over the past year, the Bloomberg Commodity Total Return Index has risen 43.3%, compared with a 35% gain in the Bloomberg Commodity Spot Index. Year to date, the indexes are up 33.4% and 26.5%, respectively.

Over the past five years, the Spot Index has gained 25.5%, while the Total Return Index has risen 71.6%. By contrast, during the previous five-year period, from 2016 to 2021, the Spot Index returned 65.2%, while the Total Return Index fell 3.5%. This period was characterized by ample supply, further reinforced by the sharp, short-term drop in demand during the Covid pandemic.

These figures highlight how market conditions - particularly whether supply is tight or abundant - can significantly affect investor returns. Please note that past performance is not indicative of future results.

The gap reflects futures-curve structure. Commodity indices such as BCOM gain exposure through futures contracts that are periodically rolled into later maturities. When nearby contracts trade above deferred contracts, the roll can generate a positive return by selling an expiring contract at a higher price than the next contract being bought. In contango, the opposite applies.

Energy delivers the strongest tailwind

The effect is most pronounced across energy, where the one-year implied roll yield has risen sharply during the past six months, with Brent and WTI currently offering positive carry of around 19% and 21%, respectively. Refined products are even stronger, with gasoil, ULSD (diesel) and RBOB gasoline showing implied roll yields above 20% and, in some cases, close to 30%.

So far this year, these conditions have helped the BCOM Energy Index - which includes natural gas, down 20% year to date - deliver a total realised return of 75.8%, while the underlying spot index has gained "only" 51.3%.

The steep backwardation reflects tight physical energy markets. Disruption to Middle East and Russian supply and shipping, low product inventories and exceptionally strong refinery margins have increased the premium for prompt supply relative to barrels available further into the future.

This creates a powerful combination for investors: a long position can benefit from both rising spot prices and positive carry as exposure is rolled along the curve.

Why backwardation can encourage buying on weakness

A steeply backwardated curve generally signals that consumers are willing to pay a premium for immediate delivery, reflecting low inventories, supply uncertainty or strong near-term demand.

Provided that tightness persists, time works in favour of long positions through positive carry. A correction caused by macroeconomic factors, profit-taking or improved risk sentiment may therefore be viewed as a buying opportunity if the physical market remains tight and the curve stays backwardated.

Contango creates the opposite dynamic. Investors rolling long positions must repeatedly move into more expensive contracts, allowing negative carry to erode returns unless spot prices rise enough to compensate.

Curve structure can therefore provide important confirmation - or a warning - alongside the fundamental and technical outlook.

Metals remain structurally different

Not all commodity sectors currently offer positive carry, with precious and industrial metals mostly remain in contango, although zinc is a notable exception. This does not automatically signal weak fundamentals. Metals typically trade in contango because forward prices incorporate financing, storage and other carrying costs. With USD funding costs still elevated, with the 12-month rate around 4.2%, gold, silver and several industrial metals face a higher hurdle before moving into backwardation.

Zinc's positive roll yield is therefore particularly noteworthy, reflecting the supply-side tightness supporting the metal. Copper, by contrast, remains in modest contango despite prices near record levels, illustrating why curve structure must be interpreted differently across sectors.

Agriculture presents a mixed picture, with some markets moving towards stronger backwardation while others remain in contango depending on inventories, harvest and weather expectations and immediate supply availability.

Carry has become an important part of the commodity story

Investors focusing exclusively on spot-price performance risk overlooking an increasingly important component of commodity returns.

The trailing difference between BCOM Total Return and Spot performance points to a substantial contribution from rolling futures exposure. The BCOM gross roll yield - measured as the 12-month return difference between the Total Return and Spot indices - has risen to around 8.8 percentage points, close to its strongest level in five years. However, as the chart shows, this return has been driven exclusively by strength in energy, raising the possibility of lower carry once the energy supply situation normalises. At the same time, emerging signs of tightness across key agricultural commodities, driven by war and weather, have not yet translated into meaningful backwardation, as seen during the 2022–2024 period following the beginning of Russia’s war in Ukraine.

Current futures curves still indicate positive aggregate carry, although at a more moderate pace than the exceptional contribution realised over the past year. Based on current BCOM target weights and one-year implied roll yields across its 25 constituent commodities, the weighted implied roll yield is around 3.3%.

The distinction matters: 8.8 percentage points describes the favourable curve conditions experienced over the past year, while 3.3% is a snapshot of currently implied carry, not a forecast of future realised returns.

Overall, commodity markets are being supported by supply constraints, rising spot prices and a futures-curve structure that continues to reward long exposure. As long as physical tightness persists - particularly across energy - backwardation provides an additional tailwind supporting the case for buying corrections rather than automatically treating them as the start of a broader reversal.

A meaningful flattening of these curves, or a shift back towards contango, would instead warn that physical tightness is easing. Watching the shape of the curve may therefore be almost as important as watching the price itself.

• Ole S Hansen's articles on Saxo

• For market commentary and insights - not trading advice - follow me and join the conversation on Twitter and Substack

---

Source: https://www.home.saxo/content/articles/commodities/why-tight-commodity-markets-are-boosting-investor-returns-03092026