

# Futures Trading and Oil ETFs

Ronnie @ Better Women

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# The History of Futures Trading: a Derivative

- Dojima Rice Exchange, 1710, Japan.
- The United States had the earliest official commodity trading exchange in the west, the Chicago Board of Trade (CBOT), formed in 1848.
- The first traded futures contracts in the U.S. were for corn. Wheat and soybeans subsequently followed.
- The CBOT arose in the aftermath of railroads and the telegraph connecting the agricultural marketplace hub of Chicago with New York and other cities in the eastern U.S.

# Why Futures Trading?

## For industry

- Limit the uncertainty. What if you bought pork futures one year ago in China?
- Flatten the curve of balance sheets.
- Are you willing to trade Coca Cola futures?

## For professional traders

- In general, futures are harder to trade on inside information (fairness).
- Most commodity markets are very broad and liquid.
- A company vs. a regime (George Soros in 1997).

# When the contract date approaches, you may

**Suppose you have a futures contract of one barrel of crude oil**

- Realization, carry the barrel to your backyard
- Offset, buy a sell contract to neutralize, it may cost you some
- Rollover, sell it and buy another longer one



# Futures Trading is Essentially Leveraged

Normally, there is no need to pay the contract in full (usually 10%-15% and sometimes less). A maintenance margin is required to keep the account active.

*Futures contracts + No hedging = Suicide*

# Crude Oil Futures

## West Texas Intermediate vs Brent (WTI vs CB)

- OPEC, a group of 13 of the most powerful oil exporting countries, use Brent as their pricing benchmark. They are considered an extremely powerful group, as oil prices dictate the budgets and policies of many countries.
- There has been a trend, due to advancements in oil drilling and fracking, of West Texas Intermediate becoming cheaper than Brent Crude oil.
- Brent is more affected by geopolitical issues as West Texas Intermediate is more landlocked.

# All cost is reflected in the price of ETFs!

### Contango (forwardation)

As the long-term trend of financial market is positive, the rollover is losing constantly, especially for crude oil futures. Under extreme cases, the rollover gains, called backwardation.

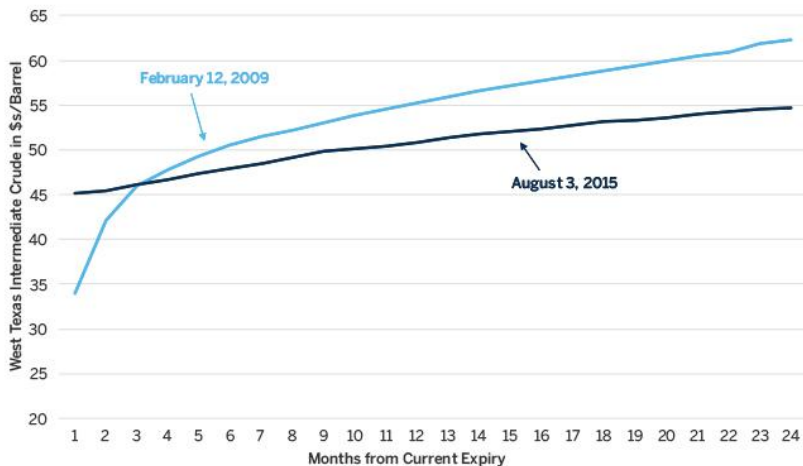
### Leverage Decay

On the long term, holding a position in an N-times leveraged ETF is generally worse than holding an N-times leveraged position in the underlying asset. But few people really understand the reason, which is called beta-slippage.



# An Example of Contango

WTI Crude Futures Curve



Source: Bloomberg Professional (CLA Comdty)

The leveraged ETF may decay by volatility.

100@(t = 0)	1X	2X	3X
go down 10%	90	80	70
go up 11.1%	100	97.78	93.33
10 times after	100	79.90	50.14

# Oil ETFs

United States Oil Fund: USO

Expense Ratio: 0.84%



The investment objective of USO is for the daily changes in percentage terms of its shares' NAV to reflect the daily changes in percentage terms of the spot price of light, sweet crude oil delivered to **Cushing, Oklahoma**, as measured by the daily changes in price of USO's Benchmark Oil Futures Contract, less USO's expenses.

# Oil ETFs

## United States 12 Month Oil Fund, LP (USL)

Expense Ratio: 0.82%



USL tracks light, sweet crude oil spot prices using an average of the 12 nearest-month NYMEX WTI crude oil futures contracts.

# Oil ETFs

## ProShares Ultra Bloomberg Crude Oil (UCO)



Two times (2x) the daily performance of the Bloomberg WTI Crude Oil SubindexSM.

USOU,WTIU, OILU, UWT...

All dead!

# Inverse Crude ETFs

## DB Crude Oil Double Short ETN (DTO)



- Performance over 1-Year: 39.4%
- Expense Ratio: 0.75%
- Assets Under Management: \$18.9 million
- Inception Date: June 17, 2008
- Issuing Company: DWS (Deutsche Bank)

# Inverse Crude ETFs

## ProShares UltraShort Bloomberg Crude Oil (SCO)



- Performance over 1-Year: 26.8%
- Expense Ratio: 0.95%
- Assets Under Management: \$65.9 million
- Inception Date: November 24, 2008
- Issuing Company: ProShares



# Inverse Crude ETFs

## VelocityShares 3x Inverse Crude Oil ETN (DWT)



- Performance over 1-Year: 19.0%
- Expense Ratio: 1.50%
- Assets Under Management: \$152.8 million
- Inception Date: December 8, 2016
- Issuing Company: Citigroup

Please Subscribe and Thumbs Up, Thank you!