

Quantitative Finance >

Volume 12, 2012 - Issue 12: Commodities

476 | 9

Views | CrossRef citations to date | 3

Altmetric

Features

# Inconvenience yield, or the theory of normal contango

Ilia Bouchoev 

Pages 1773-1777 | Received 01 May 2010, Accepted 22 Aug 2011, Published online: 11 Dec 2012

 Cite this article  <https://doi.org/10.1080/14697688.2012.723463>

Sample our  
Mathematics & Statistics  
Journals  
>> [Sign in here](#) to start your access  
to the latest two volumes for 14 days

 Full Article

 Figures & data

 References

 Citations

 Metrics

 Reprints & Permissions

Read this article

## We Care About Your Privacy

We and our 845 partners store and/or access information on a device, such as unique IDs in cookies to process personal data. You may accept or manage your choices by clicking below, including your right to object where legitimate interest is used, or at any time in the privacy policy page. These choices will be signaled to our partners and will not affect browsing data. [Privacy Policy](#)

We and our partners process data to provide:

Use precise geolocation data. Actively scan device characteristics for identification. Store and/or access information on a device. Personalised advertising and content, advertising and content measurement, audience research and services development.

List of Partners (vendors)

 I Accept

Essential Only

Show Purpose



© 2012 iStockphoto LP

## Inconvenience yield, or the theory of normal contango

ILIA BOUCHOUDEV\*

Koch Supply &amp; Trading, L.P., 667 Madison Ave, 22nd Floor, New York, NY 10065, USA

The relative impact of fundamental imbalances and financial flows on oil prices remains the subject of intense debate among market participants, economists, and policy makers. Proponents of traditional fundamental views blame the oil price spike of 2008—when U.S. crude rose to an all-time high of almost \$150 a barrel—primarily on the inability of the global refining industry to cope with the rapid demand growth from emerging markets. Conversely, practitioners tend to point towards additional demand for futures from so-called ‘long-only’ investors, such as pension funds, whose increased allocations to commodities shifted established balances between buyers and sellers. Unfortunately, the economic objectives of financial investments in commodities are often poorly understood, leading to incorrect characterisations of the relevant market participants and misleading conclusions about the impact of their activities on the price dynamics.

Traditionally, there has always been more producer hedging than consumer hedging in oil markets. While investor money used to balance this gap nicely, it now far exceeds it. It is important, though, to realise that the reasons investors are coming to the oil market have changed. With contango being the ‘normal’ oil market structure for the last several years, investors are no longer investing in the front end of the oil market primarily in order to collect a positive risk premium driven by the roll yield. Rather, they are hedging against inflation, U.S. dollar weakness, and possible geopolitical events that could negatively impact the rest of their investment portfolios. As the traditional roles of different players change, so too do the market instruments available to them. This article applies these changes in the behaviour of market participants to the classical Keynes–Hicks theory of normal backwardation, and the Kaldor–



Acknowledgements

Various people

2011, Pa

2011, Ho

discussio

reliable.

10 and April

risk USA (May

eful

es to be

# Log in via your institution

> Access through your institution

# Log in to Taylor & Francis Online

> Log in

# Restore content access

> Restore content access for purchases made as guest


## Purchase options \*

Save for later

### PDF download + Online access

- 48 hours access to article PDF & online version
- Article PDF can be downloaded
- Article PDF can be printed


USD 53.00

 Add to cart

### Issue Purchase

- 30 days online access to complete issue
- Article
- Article

USD 0

 Add to cart

\* Local tax



Related

## Information for

Authors

R&D professionals

Editors

Librarians

Societies

## Opportunities

Reprints and e-prints

Advertising solutions

Accelerated publication

Corporate access solutions

## Open access

Overview

Open journals

Open Select

Dove Medical Press

F1000Research

## Help and information

Help and contact

Newsroom

All journals

Books

## Keep up to date

Register to receive personalised research and resources by email



Sign me up



Copyright © 2024 Informa UK Limited [Privacy policy](#) [Cookies](#) [Terms & conditions](#)



Taylor & Francis Group  
an informa business

Accessibility



Registered  
5 Howick Place

