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COMMODITIES · BEGINNER · LESSON 4 OF 15

# Spot, Futures and CFDs

Four ways to trade commodities, from owning the real thing to trading a price on a screen, and what each one really costs

12 min read  8 quiz questions with answer key

COMMODITIES · BEGINNER · LESSON 4 OF 15

# Spot, Futures and CFDs

IN ONE SENTENCE

You can trade commodities in four main ways: by buying the physical commodity at the spot price, by trading futures contracts on an exchange, by trading CFDs with a broker, or by buying funds such as ETFs. All four follow the same underlying prices, but they differ in who you trade with, whether you own anything, how much leverage you use, whether there is an expiry date and what you pay to keep a position open.

## Four ways to follow one price

Suppose Alex thinks the price of gold will rise. He has four main ways to act on that view:

- **Physical (spot):** buy real gold, such as a bar or coins, at today's price.
- **Futures:** buy a standard contract on an exchange to buy gold at an agreed price on a future date.
- **CFD:** open a contract for difference with a broker that pays him the change in the gold price, without owning any gold.
- **Funds:** buy shares of an exchange-traded fund (ETF) that holds gold or gold futures.

If gold rises, all four should make money, because they all follow the same market price. But they are very different products. The rest of this lesson looks at each one and then compares them side by side.

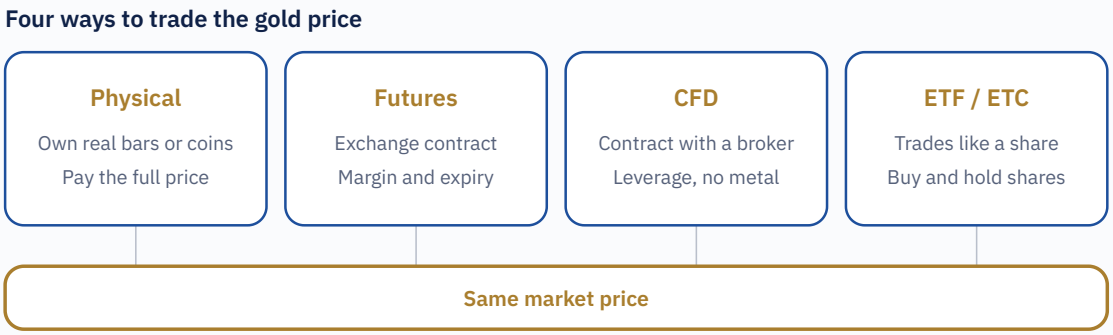



Figure 1. Physical metal, futures, CFDs and funds all follow the same market price, but each works differently.

## Spot: buying the real thing

The **spot price** is the price for buying a commodity for immediate delivery, usually within a couple of days. When the news quotes "spot gold", it means the price of gold traded today in the large London market for physical metal.

For most commodities, buying at spot is only practical for businesses. A refinery can take delivery of crude oil; an individual cannot store 1,000 barrels at home. Precious metals are the exception: anyone can buy gold or silver bars and coins from a dealer.

Owning metal is simple and needs no leverage, but it has costs that a screen price does not show:

- **Dealer premium.** You usually pay a little more than spot when you buy and receive a little less when you sell. The gap is larger for small coins than for large bars.
- **Storage and insurance.** Metal has to be kept safe, at home or in a paid vault.
- **No income.** A bar of gold pays no interest or dividend. Your return comes only from the price change.

Physical metal suits long-term savers more than active traders.

## Futures: a standard contract on an exchange

A **futures contract** is an agreement to buy or sell a set amount of a commodity, of a set grade, at a price agreed today, for delivery on a set date in the future. Futures trade on regulated exchanges such as CME Group and ICE, and every contract for the same month is identical. That makes them easy to trade, and it is why futures prices are the main reference prices for most commodities.

Three features make futures different from spot:

- **Margin.** You do not pay the full value of the contract. You put up a deposit, called margin, which is usually a small share of the contract's value. This creates leverage.
- **Expiry.** Each contract has an end date. Before it, a trader either closes the position or moves it to a later month. Very few traders ever make or take delivery.
- **Size.** Contracts are large. One standard gold futures contract covers 100 troy ounces, and one crude oil contract covers 1,000 barrels. Smaller "micro" versions exist, as Lesson 6 explains.

Lessons 5 and 6 explain how futures work and how to read a contract. For now, remember that futures are the market where commodity prices are made.

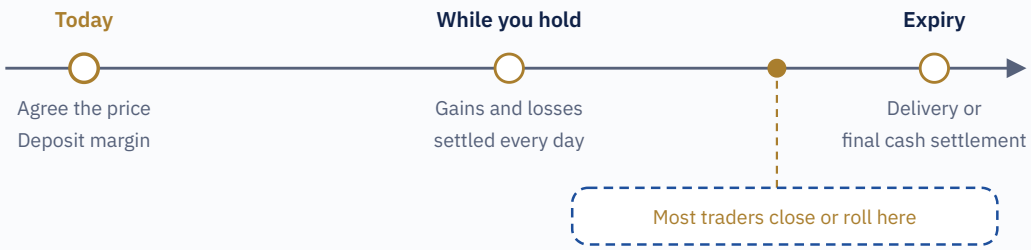



Figure 2. A futures contract fixes a price today for a future date. Most traders close or roll their position before expiry.

## CFDs: trading the price with a broker

A **contract for difference (CFD)** is an agreement between you and a broker to exchange the difference in a price between the moment you open a position and the moment you close it. If you buy a gold CFD and gold rises, the broker pays you the rise. If gold falls, you pay the broker the fall. You never own any gold, and the trade does not take place on an exchange.

CFDs are popular with individual traders because they come in small sizes, use leverage, and often have no fixed expiry date. The broker sets its prices from the underlying market, usually the futures or spot price, and adds a spread. Keeping a position open overnight usually costs a daily **financing charge**, so long-term positions can become expensive.

Because CFDs combine high leverage with retail traders, regulators limit them in many countries. In the European Union, for example, the European Securities and Markets Authority (ESMA) introduced rules in 2018 that limit leverage for retail clients to **20:1 for gold** and **10:1 for other commodities**. The rules also require brokers to close positions when an account falls to half of the required margin, to make sure clients cannot lose more than they deposited, and to show a standard risk warning. National regulators found that **74% to 89%** of retail CFD accounts usually lost money.

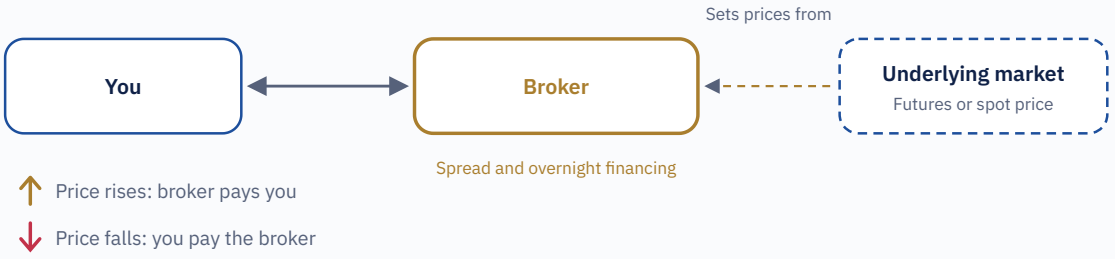



Figure 3. A CFD is a contract with a broker. The broker takes its prices from the underlying market and pays or receives the difference.

**CHECK WHO YOU ARE TRADING WITH**

With a futures contract, your trade is guaranteed by the exchange's clearing house. With a CFD, the other side of your trade is the broker itself. That makes the broker's regulation, financial strength and pricing very important. Check which regulator supervises a broker, and in which country, before opening an account. Rules on leverage and client protection differ from country to country.

## Funds: ETFs and ETCs

An **exchange-traded fund (ETF)** is a fund whose shares trade on a stock exchange like a normal share. In Europe, commodity funds of this kind are often called **exchange-traded commodities (ETCs)**. You buy them through an ordinary investment account, with no margin and no expiry date. There are two main types:

- **Physically backed funds** hold the commodity itself, usually precious metals stored in vaults. Their price follows the spot price closely, minus a small yearly fee.
- **Futures-based funds** hold futures contracts, which is the usual approach for oil, gas and grains, because storing those commodities is impractical. Before each contract expires, the fund must sell it and buy a later one. This regular **rolling** can make the fund's return differ a lot from the spot price over time. Intermediate Lesson 2 explains why.

Funds suit investors who want commodity exposure without leverage or a futures account. They are not ideal for very short-term trading, and they only trade during stock exchange hours.

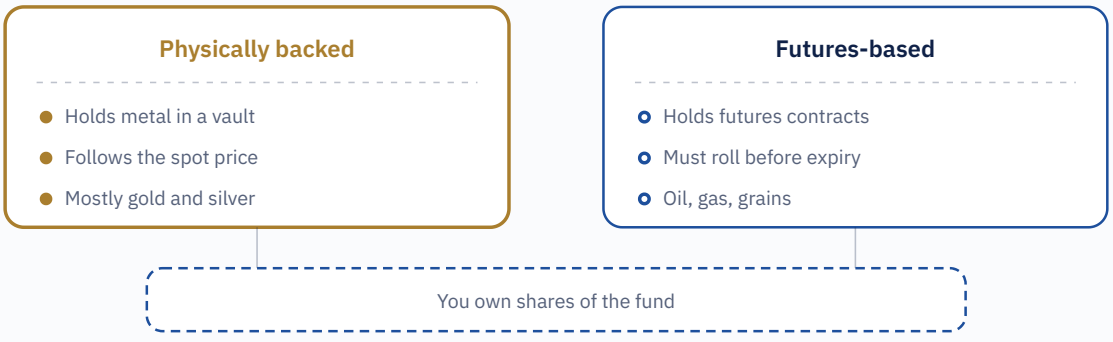



Figure 4. Commodity funds either hold the physical commodity or hold futures that must be rolled before they expire.

## How much cash does each way need?

The biggest practical difference between the four ways is how much money you must put up. Take an exposure of **10 troy ounces of gold**, the size of one Micro Gold futures contract at CME Group. In

early October 2026, CME Group estimated that contract's value at about **$41,571**, with an exchange margin of about **$2,067**.

- **Physical gold or a gold ETF:** you pay the full value, about $41,571, plus premiums or fees.
- **Micro Gold futures:** you deposit about $2,067 of margin, around 5% of the value.
- **A gold CFD at 20:1 leverage:** you deposit about $2,079, also 5% of the value.

The price risk is the same in all four cases: if gold falls 10%, the position loses about $4,157. With physical gold, that is 10% of the money you paid. With futures or a CFD, it is about **twice the margin you put up**. Leverage does not change how much the market moves. It changes how much of your deposit each move represents.

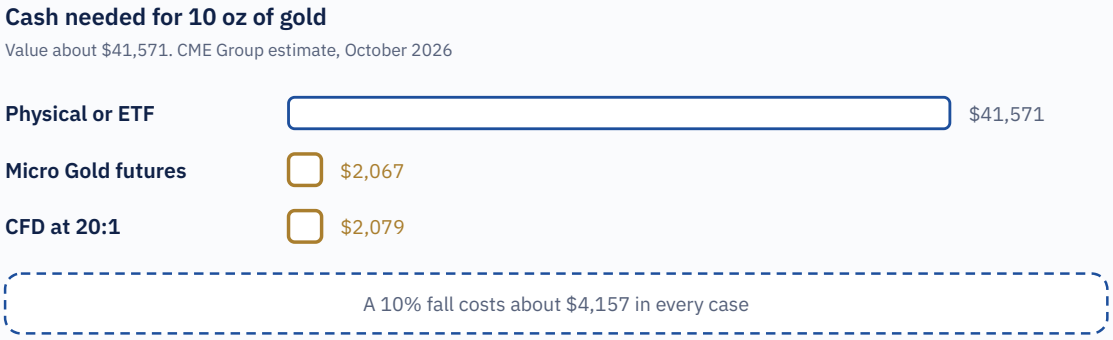



Figure 5. The same 10 oz gold exposure needs very different amounts of cash, but the price risk is the same.

# Side by side

| | Physical (spot) | Futures | CFD | ETF / ETC |
|---|---|---|---|---|
| **Where it trades** | Dealers, physical market | Regulated exchange | With a broker, off exchange | Stock exchange |
| **Do you own the commodity?** | Yes | Only if you take delivery | No | You own fund shares |
| **Leverage** | None | Yes, through margin | Yes, limited by regulators in many countries | Usually none |
| **Expiry** | None | Yes, every contract | Usually none | None |
| **Main costs** | Premium, storage, insurance | Commission, exchange fees | Spread, overnight financing | Yearly fund fee, roll costs for futures-based funds |
| **Most used by** | Long-term savers, businesses | Hedgers, professionals, active traders | Individual short-term traders | Investors |

There is no single best choice. The right tool depends on how long you plan to hold, how much leverage you can safely handle, and whether you want to own the commodity or only follow its price.

## Why this matters for traders

- **The chart you see may not be spot.** Many charting platforms show futures prices, CFD prices or spot prices for the same commodity. They are close but not identical. Know which one you are looking at.
- **Leverage cuts both ways.** A small deposit can control a large position, so normal price moves can wipe out an account. Size positions by the full value, not by the margin.
- **Holding costs add up.** Overnight CFD financing and the roll costs of futures-based funds can turn a correct view into a loss over months.
- **Regulation matters.** A futures trade is backed by a clearing house; a CFD depends on your broker. Choose regulated providers.

## Key terms

| | |
|---|---|
| **Spot price** | The price for buying or selling a commodity for immediate delivery, usually within a couple of days. |
| **Futures contract** | A standard exchange-traded agreement to buy or sell a set amount and grade of a commodity at an agreed price on a future date. |
| **Margin** | The deposit required to open and keep a leveraged position, such as a futures contract or a CFD. |
| **Leverage** | Controlling a position worth more than the money you put up. 20:1 leverage means a $1,000 deposit controls $20,000. |
| **Contract for difference (CFD)** | An agreement with a broker to exchange the change in a price between opening and closing a position, without owning the asset. |
| **Overnight financing** | A daily charge, or sometimes a credit, for keeping a leveraged CFD position open past the end of the trading day. |
| **ETF / ETC** | A fund whose shares trade on a stock exchange. Commodity funds either hold the physical commodity or hold futures contracts. |
| **Rolling** | Closing a futures contract before it expires and opening the same position in a later month. |
| **Dealer premium** | The extra amount above the spot price that a dealer charges when selling physical metal. |

## Key takeaways

1. You can follow a commodity price through physical ownership, futures, CFDs or funds. All four follow the same market, but they work very differently.
2. Physical metal needs no leverage but comes with premiums, storage and insurance. For most commodities other than precious metals, physical ownership is only practical for businesses.
3. Futures are standard exchange contracts with margin, expiry dates and large sizes. They are where most commodity prices are set.
4. CFDs are broker contracts on the price difference, with leverage and overnight costs. In the EU, retail leverage is limited to 20:1 for gold and 10:1 for other commodities.
5. Leverage does not change the market's moves, only how large they are compared with your deposit. A 10% fall can cost about twice the margin on a 20:1 position.

# Test yourself

Circle one answer for each question. The answer key with explanations is on the next page. You can also take this quiz online at markettalks.info and see your score instantly.

**1. What is the spot price?**

- A The price for delivery in one year
- B The price for buying or selling a commodity for immediate delivery
- C The price set by a CFD broker
- D The highest price of the day

**2. Which of these is a typical extra cost of owning physical gold?**

- A Overnight financing
- B Storage and insurance
- C A margin call
- D A contract expiry

**3. With a gold CFD, who is on the other side of your trade?**

A The exchange's clearing house
B A gold mine
C The broker
D The central bank

**4. Under ESMA's rules in the European Union, what is the maximum leverage for a retail client on a gold CFD?**

A 2:1
B 10:1
C 20:1
D 500:1

**5. Why can a futures-based oil fund perform very differently from the spot oil price over time?**

A Because it holds oil in tanks
B Because it must keep rolling expiring futures into later contracts
C Because it is not allowed to trade
D Because oil ETFs always use 20:1 leverage

**6. In October 2026, a Micro Gold futures contract (10 oz) was worth about $41,571 with a margin of about $2,067. Roughly what share of the value was the margin?**

A About 0.5%
B About 5%
C About 50%
D 100%

**7.** **Gold falls 10% on a 10 oz position worth about $41,571. Roughly how much does the position lose, whatever product is used?**

- A About $416
- B About $2,067
- C About $4,157
- D About $41,571

**8.** **Which way of trading commodities usually has an expiry date?**

- A Physical gold
- B A physically backed gold ETF
- C A futures contract
- D Most CFDs

# Answer key

1 B

**The price for buying or selling a commodity for immediate delivery**

The spot price is the price for immediate delivery, usually within a couple of days. Futures prices are for delivery on a later date.

2 B

**Storage and insurance**

Physical metal must be stored and insured, and dealers charge a premium over spot. Overnight financing applies to leveraged CFDs, and margin calls and expiries apply to futures.

3 C

**The broker**

A CFD is a contract between you and your broker. That is why the broker's regulation and financial strength matter so much.

4 C

**20:1**

ESMA limits retail leverage to 20:1 for gold and 10:1 for other commodities, and requires negative balance protection so clients cannot lose more than they deposited.

5 B

**Because it must keep rolling expiring futures into later contracts**

A fund that holds futures has to sell each contract before expiry and buy a later one. These rolls can cost or add money, so the fund's return can drift away from the spot price.

6 B

**About 5%**

$2,067 is about 5% of $41,571. That means the position is leveraged about 20 times.

7 C

**About $4,157**

10% of $41,571 is about $4,157. The loss is the same; what differs is how large it is compared with the money you put up.

8 C

**A futures contract**

Every futures contract has an expiry date. Physical metal and ETFs have none, and most commodity CFDs have no fixed expiry, although they charge overnight financing.

SOURCES


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- ESMA, ESMA adopts final product intervention measures on CFDs and binary options (June 1, 2018): https://www.esma.europa.eu/node/85445
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- CME Group, Gold Futures contract specs (notional and margin estimates, October 5, 2026): https://www.cmegroup.com/markets/metals/precious/gold-futures.contractSpecs.html
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