

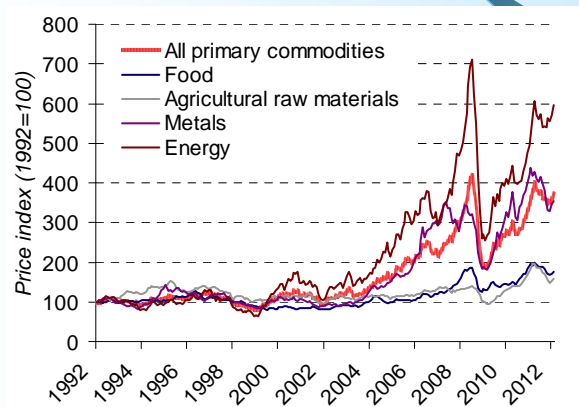
# What role for speculators in driving commodity prices?

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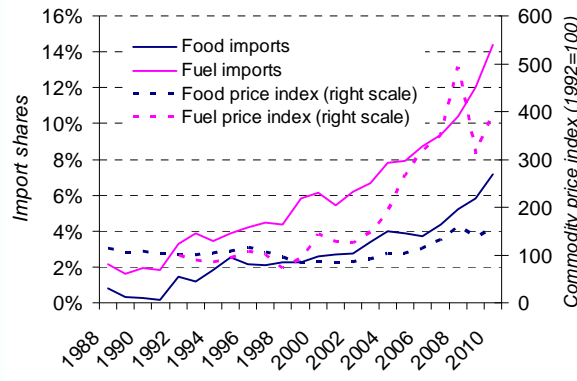
## Review

- Commodity prices have seen a surge in recent years



## Review

- Economic fundamentals do not fully explain commodity price hikes
- Physical demand factors have limited role



## Review

- What else?
  - Supply-side constraints
  - Export restriction
  - Financial investors

## Financialisation of commodities

- Flight to simplicity (exodus from ABS etc. complicated products)
- Monetary easing
  - (at lower interest rates producers have lower incentives to increase production so that the proceeds can be invested in high-yield instruments)

## Speculators

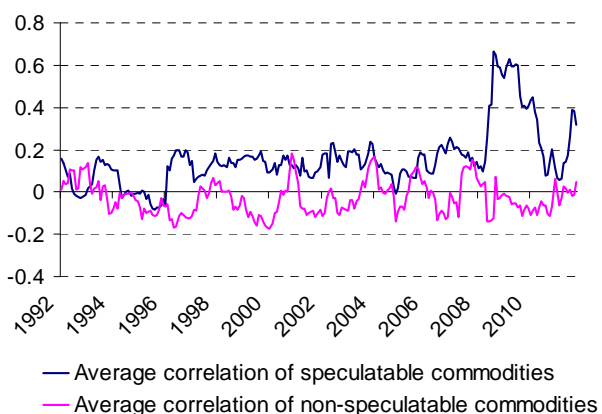
- investors not actually holding commodities but seeking arbitrage opportunities in commodities futures and options markets
  - hedge funds
  - financial institutions
  - commodity trading advisors
  - commodity pool operators
  - associate brokers
  - introducing brokers
  - floor brokers
  - and other non-commercial traders

## Do speculators play a role?

How to pin down their effect?

- comparing the **price changes in commodities with and without organised futures markets.**
  - If speculators play a role, commodity with futures markets should have different price behaviour from non-speculatable commodities.

## Correlation of price changes



## Do speculators play a role?

How to pin down their effect?

- comparing the **price changes in commodities with and without organised futures markets.**
  - If speculators play a role, commodity with futures markets should have different price behaviour from non-speculatable commodities.
  - Due to substitution and other effects, also non-speculatable commodity prices tend to rise if those with organised futures markets rise, though it should happen with a **lag.**
    - Korniotis (2009) shows that the comovement between metals with and without futures contracts has not weakened in recent years as speculative activity has risen

## How to pin down speculators' effects (cont.)

- look at the **changes in positions in futures and options markets of non-commercial traders.**
  - To what extent position changes by non-commercial traders, in particular hedge funds etc. are associated with price changes?

## An additional idea

Framework: cointegration among commodity price inflation, non-commercial trader positions and monetary/financial market conditions

Test for the absence of cointegration by determining whether there exists error correction for individual panel members or for the panel as a whole. The tests are general enough to allow for a large degree of heterogeneity, both in the long-run cointegrating relationship and in the short-run dynamics, and dependence within as well as across the cross-sectional units.

The relationship exists for several choices of monetary/financial market conditions (currency in circulation, M1, M2, M3, credit, exchange rate, stock price indices) → evidence of cointegration for the panel as a whole and for a number of lag choices

VECM: check the short- and long-term impacts of speculators on commodity price inflation

## Estimated equation

$$\Delta \ln p_{i,t} = \alpha_0 + \alpha_1 \Delta \ln m_{i,t} + \alpha_2 \Delta \ln s_{i,t} + \alpha_3 \ln m_{i,t} + \alpha_4 \ln s_{i,t} + [\alpha_5 + \gamma_1 s_{i,t-1}] (\ln p_{i,t-1} + \{\lambda_1 + \gamma_2 s_{i,t-1}\} \ln m_{i,t-1} + \lambda_2 s_{i,t-1} + \lambda_3 T_i) + \beta T_i + \varepsilon_{i,t}$$

预览已结束，完整报告链接和二维码如下：

[https://www.yunbaogao.cn/report/index/云报告?reportId=5\\_7676](https://www.yunbaogao.cn/report/index/云报告?reportId=5_7676)

