Momentum 13: Fortschritt

Track Präferenz 1: Nr. 8 Fortschrittliche Wirtschaftspolitik
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Financialisation of Commodity Markets & Policy Reforms: Financial investors, commodity prices and the microstructure of commodity markets

Christine Heumesser, Austrian Research Foundation for International Development (ÖFSE)
Karin Kueblboeck, ÖFSE
Cornelia Staritz, ÖFSE (corresponding author: c.staritz@oefse.at)
Stefan Ederer, Austrian Institute of Economic Research (WIFO)

In the last years there has been extensive academic and political discussion on the evolution of commodity prices. Commodity price dynamics have crucial macroeconomic and development implications in industrialized countries and even more in developing countries that are often commodity-dependent on the import and export side. In order to identify international and national policy measures to stabilize commodity prices and implement risk management strategies for producers, consumers and governments, it is important to understand the functioning of international commodity markets, the role and trading strategies of different actors, and their effect on price developments.

The recent commodity price hikes reflect changes in fundamental demand and supply conditions, e.g. the rapid growth in demand from emerging economies, and supply constraints due to low investment in the past. Further, low interest rates and the deprecating U.S. Dollar are stated as factors behind the price hikes. Simultaneously, the presence of financial investors, including banks, institutional investors and hedge funds, on international commodity exchanges has strongly increased and their impact on prices and overall effect on market structure is controversially discussed.

In this paper, we combine quantitative regression-based and qualitative interview-based approaches to assess the extent and effects of financialisation of commodity derivative markets on commodity prices and market structure. We analyze (i) how financial investors have affected commodity price developments in recent years and (ii) how their increased presence and trading strategies have affected the microstructure of commodity markets. Finally, (iii) we give an overview of current reform proposals for the regulation of commodity markets focusing on discussions at the G20, the United States and specifically the European Union level, assess the scope and limitations of these reforms, and identify further necessary policy measures in order to stabilize commodity prices and to secure the functioning of commodity derivative markets for commercial traders, i.e. producers and consumers of physical commodities that use these markets for hedging purposes.

Methodologically, we employ time series approaches, i.e. vector autoregressive models and Granger non-causality tests. New features of our analysis are that we combine fundamental variables, e.g. demand and supply indicators, and macroeconomic variables, e.g. interest and exchange rates, with financialisation variables, in particular different types of traders' net open positions which takes into account that speculation may amplify up- and downward price movements. The econometric analysis is complemented by a qualitative analysis based on interviews with market participants and stakeholders to capture recent changes in the microstructures of international commodity markets and different perspectives on regulatory reforms. We investigate in particular the trading strategies of different types of financial investors (i.e. index investors/swap dealers and money managers, including technical/algorithmic trading, high frequency trading, macro and fundamental based traders), how their behaviour and trading activities have influenced other market participants, in particular commercial traders, and whether their presence has changed the primary role of commodity futures markets, i.e. price discovery and hedging of price risks.