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Determinants and Impact of Commodity Price Dynamics*

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On June 26, 2014 the workshop "Determinants and Impact of Commodity Price Dynamics" took place in Münster (Germany). The workshop addressed topics related to the causes and consequences of the commodity price boom and tried to derive policy conclusions and advice on how to regulate and deal with commodity markets.

A selection of peer-reviewed contributions which were presented at the conference is compiled in this special issue. The papers cover different topics: they deal with index trading and market structure in commodity markets, as well as with commodity price determinants.

The special issue starts with a paper by Hsiu-Lang Chen which shows how investor sentiment in the stock market affects prices of commodity exchange-traded funds. The paper empirically investigates how daily tracking errors of commodity exchange-traded funds differ between bullish stock markets (measured by positive investor sentiment, i.e. optimism about stocks in general) and bearish stock markets (measured by negative investor sentiment). The paper also provides evidence that the aggregate tracking error of commodity exchange-traded funds reacts to previously created sentiment measures. By considering a profitable long-short investment trading strategy based on investor sentiment in the stock and commodity market, the results show that the sentiment-driven demand for commodity exchange-traded funds could exist even after incorporating trading costs. This is mostly a short-term phenomenon. Overall, the results imply that investor sentiment has effects on asset valuation across markets.

The compilation continues with a paper by Stephen R. Ingram. His paper deals with analyzing cyclical behavior of world commodity prices.

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First, the paper establishes a new empirical regularity: during commodity price booms, faster growth on average occurs towards the end of the boom; the same finding holds for negative growth towards the end of slumps. These findings hold across a wide range of different commodities (both soft and hard), and for different types of shocks. The behavior of commodity prices within booms and slumps therefore seems to be relatively similar. In a second step, the paper provides a novel way to identify different types of real shocks influencing commodity prices and conceptualize them as a short-run cyclical occurrence. Given the derived empirical regularity above, results show that the largest shocks (measured by their relative amplitude) provide an indication of impending turning points. The paper shows how to differentiate between the large growth spurts and plunges and those of smaller size. For extreme growth plunges, the paper finds that they strongly vary across different and unrelated commodities. On the contrary, extreme growth spurts seem to be similar across different and unrelated commodities.

The next paper, by Diego Valiante, provides an introduction to the functioning and the structure of modern commodity markets. It thereby focuses on three different narratives as the key drivers of the new market structure: international trade, international finance and monetary policies, and trading technology. Contrary to commodity prices, which follow short- or medium-term cycles, the market structure of commodity markets evolves over longer time periods. In analyzing the market structure of different commodity markets, the paper focuses on demand and supply impacted by international trade, access to funding and the role of international finance, and market infrastructure affected by the trading of physical commodities and paper. The paper offers some empirical findings to assess the effects of these recent drivers on the evolution of commodity markets' structure. Empirical findings show that international trade and finance as well as technological developments in market infrastructure have increased pro-cyclicality and interconnection among physical markets; also, a more sensitive price formation mechanism with respect to information flows has emerged. Due to strong interconnections with the financial system and an increase in commodity-linked financial transactions, the transmission of shocks from the financial system to commodity physical and future markets has never been as strong as it has been more recently.

During the workshop in Münster, participants had the opportunity to discuss and gain new insights into current issues within the field of com-

modity markets and to derive policy conclusions. We would like to thank the editors of *Credit and Capital Markets* for granting us the special issue of CCM and the Wissenschaftsförderung der Sparkassen-Finanzgruppe e.V., the Centre for International Governance Innovation (CIGI) and the Westfälische Wilhelms-Universität Münster for funding the workshop. We are also highly indebted to Martin Bohl, Westfälische Wilhelms-Universität Münster, and his team for the local organization of the workshop and Martin Bohl, Pierre Siklos, Wilfrid Laurier University, Waterloo, and Viessmann European Research Centre, Waterloo, Canada, and Joscha Beckmann, University of Duisburg-Essen, for the scientific preparation and organization of the workshop. We also want to thank the papers' referees for providing comments and substantial suggestions for improvement.

Link

https://www.cigionline.org/events/determinants-and-impact-of-commodity-price-dynamics

References

Hsiu-Lang Chen: Cross-market investor sentiment in commodity exchange-traded funds

Stephen R. Ingram: Commodity price changes are concentrated at the end of the cycle

Diego Valiante: Three narratives on the changing face of global commodities market structure