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The J.P. Morgan Center for Commodities is the sponsor of Global Commodity Issues eJournal. The Center was set up at the University of Colorado Denver in 2012 with large sponsorship gifts from J.P. Morgan, CoBank and other major commodities firms in agriculture, minerals/metals and energy. It is the first academic center of its kind in the world focused on issues of academic and professional interest in commodities, with the creation and dissemination of relevant knowledge having broad implications across the entire range of commodities. The Center sponsors academic programs with commodities specialization for students, allocates research grants, and invites speakers from amongst eminent academics and commodity professionals through its various sponsored speaker series.
Some observers have conjectured that the steep decline in the price of oil between June and December 2014 resulted from positive oil supply shocks in the second half of 2014. Others have suggested that a major shock to oil price expectations occurred when in late November 2014 OPEC announced that it would maintain current production levels despite the steady increase in non-OPEC oil production. Both conjectures are perfectly reasonable ex ante, yet we provide quantitative evidence that neither explanation appears supported by the data. We show that more than half of the decline in the price of oil was predictable in real time as of June 2014. We attribute $11 of this predictable decline to the cumulative effects of adverse demand shocks prior to July 2014, reflecting a slowing global economy, and $16 to positive oil supply shocks and to shocks to expected oil production that occurred prior to July 2014. The remaining oil price decline is accounted for by a shock to oil price expectations in July 2014 that lowered the demand for oil inventories and a shock to the demand for oil associated with an unexpectedly weakening economy in December 2014, which lowered the price of oil by an additional $9 and $13, respectively.

"Global Cycles: Capital Flows, Commodities, and Sovereign Defaults, 1815-2015"

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Capital flow and commodity cycles have long been connected with economic crises. Sparse historical data, however, has made it difficult to connect their timing. We date turning points in global capital flows and commodity prices across two centuries and provide estimates from alternative data sources. We then document a strong overlap between the ebb and flow of financial capital, the commodity price super-cycle, and sovereign defaults since 1815. The results have implications for today, as many emerging markets are facing a double bust in capital inflows and commodity prices, making them vulnerable to crises.

"Inside the Crystal Ball: New Approaches to Predicting the Gasoline Price at the Pump"
CESifo Working Paper Series No. 5759

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Although there is much interest in the future retail price of gasoline among consumers, industry analysts, and policymakers, it is widely believed that changes in the price of gasoline are essentially unforecastable given publicly available information. We explore several new forecasting approaches for the U.S. retail price of gasoline and compare their accuracy with the no-change forecast. Our key finding is that substantial reductions in the mean-squared prediction error (MSPE) of gasoline price forecasts are feasible in real time at horizons up to two years, as are substantial increases in directional accuracy. The most accurate individual model is a VAR(1) model for real retail gasoline and Brent crude oil prices. Even greater reductions in MSPEs are possible by constructing a pooled forecast that assigns equal weight to five of the most successful forecasting models. Pooled forecasts have lower MSPE than the EIA gasoline price forecasts and the gasoline price expectations in the Michigan Survey of Consumers. We also show that as much as 39% of the decline in gas prices between June and December 2014 was predictable.

"Business as UNusual: The Implications of Fossil Divestment and Green Bonds for Financial Flows, Economic Growth and Energy Market"

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Green bonds and fossil divestment has emerged as a bottom-up approach to climate action within the business community. Recent pledges by large banks and institutional investors have reached levels that have the potential to contribute markedly to a low carbon transition. This paper traces the impact of green finance in a multiregional global general equilibrium model with non-fossil and non-coal segments of financial flows in addition to the usual unconstrained market for funding. Our high green finance scenario reflects a reasonable upscaling of current level of pledges towards 2030.

The study shows that green finance shifts the investments towards industries generating more value added and increasing GDP, future savings and investments. The green finance leads to a lower return on investments and a transfer of income from investors to wage income. Russia and China see the largest cost increase in coal investments due to constraints on finance for fossil industries. The green finance reduces coal consumption by 2.5 per cent below BAU in 2030 and raises the share of non-fossil electricity from 42 to 46 per cent at the global level. Over the whole period towards 2030, the green finance avoids global CO2 emissions corresponding to the total emissions of European Union and Japan in a recent year.
"The Price is Not Always Right: On the Impacts of Commodity Prices on Households (and Countries)"

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This paper provides an overview of the impact that one-time changes in commodity and other prices have on household welfare. It begins with a collection of stylized facts related to commodities based on household survey data from Latin America and Africa. The data uncovers strong commodity dependence on both continents: households typically allocate a large fraction of their budget to commodities, and they often also depend on commodities to earn their income. This income and expenditure dependency suggests sizable impacts and adjustments following commodity price shocks. The article explores these effects with a review of the relevant literature. The authors study consumption and income responses, labor market responses, and spillovers across sectors. The paper provides evidence on the relative magnitudes of various mechanisms through which commodity prices affect household (and national) welfare in developing economies.

"Turbulent Times: Uncovering the Origins of US Natural Gas Price Fluctuations Since 1993"

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In this paper, we investigate supply and demand shocks in the US natural gas market, focusing on how the effects of these shocks have changed over time. Using a sign-identified structural vector autoregression (SVAR) model that allows for both time-varying parameters and stochastic volatility, we decompose the real price of natural gas into supply shocks, aggregate demand shocks driven by changes in the US economic activity, precautionary inventory demand in anticipation of changes in future demand-and-supply conditions, and residual demand shocks not otherwise accounted for by the previous three shocks. Using quarterly data from 1976 to 2015, we find that an unanticipated supply disruption raises natural gas prices, reduces the aggregate economic demand, and lowers the precautionary inventory demand, while negative aggregate demand shocks, on the other hand, depress natural gas prices, reduce natural gas production, and increase precautionary inventory demand. We also find that following a negative precautionary inventory demand shock, aggregate demand driven by real economic activity declines marginally, and the marketed natural gas production and real prices decrease as well. Our results further suggest that such impact responses have evolved considerably over time with changing market conditions.

"Macroeconomic and Financial Effects of Oil Price Shocks: Evidence for the Euro Area"

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The paper investigates the macroeconomic and financial effects of oil prices shocks in the euro area since its creation in 1999, with a special focus on the recent slump. The analysis is carried...
out episode by episode, within a time-varying parameter framework, consistent with the view that "not all the oil price shocks are alike", yet without imposing any a priori identification assumption. We find evidence of recessionary effects triggered not only by oil price hikes, but also by oil price slumps in some cases, likewise for the most recent episode, which is also rising deflation risk and financial distress. In addition through uncertainty effects, the current slump might then be depressing aggregate demand by increasing the real interest rate, as ECB monetary policy is already conducted at the zero lower bound. The increase in real money balances following the slump points to the accommodation of the shock by the ECB, concurrent with the implementation of the Quantitative Easing policy (Q.E.). Yet, in so far as Q.E failed to generate inflationary expectations within the current and expected environment of soft oil prices, the case for a more expansionary use of fiscal policy than in the past would become compelling, in order to counteract the deflationary and recessionary threats to the euro area.