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.
"Facts and Fantasies about Commodity Futures"  
Yale ICF Working Paper No. 04-20  

GARY B. GORTON, Yale School of Management, National Bureau of Economic Research (NBER)  
Email: gary.gorton@yale.edu  
K. GEERT ROUWENHORST, Yale School of Management - International Center for Finance  
Email: k.rouwenhorst@yale.edu  

We construct an equally-weighted index of commodity futures monthly returns over the period between July of 1959 and December of 2004 in order to study simple properties of commodity futures as an asset class. Fully-collateralized commodity futures have historically offered the same return and Sharpe ratio as equities. While the risk premium on commodity futures is essentially the same as equities, commodity futures returns are negatively correlated with equity returns and bond returns. The negative correlation between commodity futures and the other asset classes is due, in significant part, to different behavior over the business cycle. In addition, commodity futures are positively correlated with inflation, unexpected inflation, and changes in expected inflation.


BRANDON J. PIERCE, Pennsylvania Bar Association - Environmental & Energy Law Section Newsletter  
Email: brandonjpierce@gmail.com  

The close of 2014 ended a lively and prodigious year for energy. This follows $1.6 trillion in energy investments "to provide the world’s consumers with energy" in 2013 — a year in which energy production and consumption levels reached "record levels for every fuel type except nuclear power." While the 2014 statistics had yet to be released at the time this article was completed, those in the energy field and observers alike undoubtedly saw 2014 as yet another instance of energy bolstering its status as one of the preeminent global issues of the 21st century.

The natural gas sector — and liquefied natural gas (LNG) particularly — saw significant movement in 2014. In fact, long-term global growth is expected on the order of up to $500 billion in LNG development by 2025. The United States is seeing a considerable portion of this
development due to massive underground natural gas reserves that have been unlocked through multi-directional drilling and hydraulic fracturing, which has opened the door to natural gas exports when, only a few years earlier, the United States was projected to be a growing natural gas importer.

The year 2014 was, in a way, the visible beginning of a U.S. LNG export transformation — visible in the sense that approvals were granted for, and construction started on, a number of facilities seeking to export LNG produced in the United States. The United States Department of Energy (DOE) and the Federal Energy Regulatory Commission (FERC) authorized four LNG liquefaction and export terminals (at least conditionally) to site, construct, expand, and operate those facilities and export up to several billion cubic feet per day globally. These approvals mark one of the most recent shifts in the U.S. LNG market over the last 50 years, though another wrinkle came to the forefront in the fourth quarter of 2014: oil prices slid to nearly half of their opening value at the beginning of 2014, and in the process, at least partially quelled U.S. LNG export enthusiasm.

This article is a guide to exploring the U.S. LNG liquefaction and export sectors, and specifically, how these sectors progressed over 2014. Part I of this article summarizes the natural gas lifecycle from underground wells to end-users on the opposite side of the globe. Part II then provides a brief history of U.S. LNG imports and exports. Part III outlines the processes necessary to obtain authorizations from the DOE and FERC, which differ depending on where the natural gas originated and its destination. Part IV provides information and statistics regarding four U.S. LNG liquefaction and export projects that received federal approvals in 2014 to site, construct, expand, and operate LNG terminals and export LNG to Free Trade Agreement (FTA) and non-FTA nations. Part V highlights some of the environmental, security, and community concerns that are being considered by stakeholders.

"The Tortoise versus the Hare: The Role of Term Structure versus Spot Price Trends in Determining Commodity Futures Returns"

HILARY TILL, EDHEC Business School, University of Colorado at Denver - J.P. Morgan Center for Commodities, Premia Research LLC
Email: till@premiarisk.com

This paper examines the role of term structure versus spot price trends in determining commodity futures returns. The paper reviews backwardation and discusses how over very long timeframes, the term structure of a commodity futures curve has been the dominant driver of returns for individual futures contracts.

"Why Do Firms Engage in Selective Hedging? Evidence from the Gold Mining Industry"

TIM ADAM, Humboldt University
Email: tim.adam@hu-berlin.de
CHITRU S. FERNANDO, Michael F. Price College of Business, University of Oklahoma
Email: cfernando@ou.edu
JESUS M. SALAS, Lehigh University
Email: jsalas@lehigh.edu

The widespread practice of managers speculating by incorporating their market views into firms’ hedging programs ("selective hedging") remains a puzzle. Using a 10-year sample of North American gold mining firms, we find no evidence that selective hedging is more prevalent among firms that are believed to possess an information advantage. In contrast, we find strong evidence that selective hedging is more prevalent among financially constrained firms, suggesting that this practice is driven by asset substitution motives. We detect weak relationships between selective hedging and some corporate governance measures but find no evidence of a link between selective hedging and managerial compensation.
"Volatility Spillovers Across Petroleum Markets"
William Davidson Institute Working Paper No. 1093

JOZEF BARUNIK, Charles University in Prague - Institute of Economic Studies, Academy of Sciences of the Czech Republic - Department of Econometrics
Email: barunik@fsv.cuni.cz

EVZEN KOCENDA, Charles University in Prague - Institute of Economic Studies, Institute of Information Theory and Automation (Czech Academy of Sciences) - Department of Econometrics, CESifo, University of Regensburg - Institute for East and Southeast European Studies, University of Michigan at Ann Arbor - The William Davidson Institute
Email: evzen.kocenda@fsv.cuni.cz

LUKAS VACHA, Charles University in Prague
Email: lvacha@cbox.cz

We detect and quantify asymmetries in the volatility spillovers of petroleum commodities: crude oil, gasoline, and heating oil. The increase in volatility spillovers after 2001 correlates with the progressive financialization of the commodities. Further, increasing spillovers from volatility among petroleum commodities substantially change their pattern after 2008 (the financial crisis and advent of tight oil production). After 2008, asymmetries in spillovers markedly declined in terms of total as well as directional spillovers. In terms of asymmetries we also show that overall volatility spillovers due to negative (price) returns materialize to a greater degree than volatility spillovers due to positive returns. An analysis of directional spillovers reveals that no petroleum commodity dominates other commodities in terms of general spillover transmission.

"Noncausality and the Commodity Currency Hypothesis"

MATTHIJS LOF, Aalto University
Email: matthijs.lof@aalto.fi

HENRI NYBERG, University of Helsinki
Email: henri.nyberg@helsinki.fi

This paper provides new evidence on the role of exchange rates in forecasting commodity prices. Consistent with previous studies, we find that commodity currencies hold out of sample predictive power for commodity prices when using standard linear predictive regressions. After we reconsider the evidence using noncausal autoregressions, which are able to accommodate the effects of nonlinearities and omitted variables, the predictive power of exchange rates disappears.

"Global Liquidity and Commodity Prices"
Bank of Korea WP 2015-14

HYUNJU KANG, Korea Capital Market Institute
Email: hjkang326@gmail.com

BOK-KEUN YU, Bank of Korea, Bank of Korea - Economic Research Institute
Email: bokyu@bok.or.kr

JONGMIN YU, Hongik University
Email: yu35@illinois.edu

English Abstract: While monetary easing in major economies and the greater participation of financial institutions in commodity trading have enhanced the financialization of commodity markets since the global financial crisis, this paper empirically investigates whether the impact of global liquidity on commodity prices has grown since the crisis. For the agricultural products, energy and metals sectors, this paper uses a structural vector autoregression model of commodity supply, demand and prices with global liquidity to address the short-run relationship between global liquidity and commodity prices.
The key finding is that the effect of global liquidity has been more pronounced for energy and metals commodity prices since the global financial crisis. This paper also suggests a price-based liquidity measure has a greater explanatory power for the commodity price dynamics than commonly-used monetary aggregates in the post-crisis period.

**Korean Abstract:** 본 연구는 최근의 글로벌 금융위기 이후 주요국에서의 양적완화(monetary easing) 실시에 따른 글로벌 유동성 증가와 금융기관들의 상품시장(commodity market)에 대한 투자확대가 동 시장의 금융화(financialization)를 촉진시켜왔음에 주목하였다. 이에 따라 본 논문에서는 상품시장은 농산물, 에너지, 금속부문으로 각각 구분한 후, 상품군별 가격 및 공급, 글로벌 수요 및 유동성으로 구성된 구조 벡터자기회귀(Structural Vector Autoregressive) 모형을 이용하여 글로벌 유동성이 상품가격에 미친 영향을 분석하였다.

분석 결과, 먼저 글로벌 유동성이 상품가격에 미치는 영향이 에너지와 금속 상품가격 중심으로 대체로 글로벌 금융위기 이후에 보다 뚜렷하게 나타났다. 특히 글로벌 금융위기 이후 기간의 경우, 가격에 기반한 유동성 지표(price-based liquidity measure)가 흔히 사용되는 양적 유동성 지표(monetary aggregates)에 비해 상품가격의 변동을 보다 잘 설명하는 것으로 나타났다.