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GLOBAL COMMODITY ISSUES (EDITOR'S CHOICE) eJOURNAL
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"Oil Outlook 2016" □
USAEE Working Paper No. 16-240

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Although global oil demand growth was exceptional during 2015 at 1.7mn b/d, it began to weaken during the last quarter of the year across all markets with the exception of India and the Middle East. We believe demand will grow by 1.1mn b/d in 2016. Non-OPEC supply grew by 1mn b/d in 2015 thanks to large expansions in US production and increasing production in South America, Europe and Russia. We are less optimistic for 2016 and are expecting a contraction of 660,000 b/d. Despite that, there will be excess supply in the market as OPEC production remains elevated. We expect prices to bottom out in the first quarter of 2016 before recovering slowly during the year in our base case scenario. However prices are likely to remained capped in the near term.

"Gold and Silver Manipulation: What Can Be Empirically Verified?" □

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The issue of gold and silver price manipulation, in particular price suppression, is examined. We use a mixture of normal approach to decompose the returns into abnormal and control samples. Price suppression is a form of market manipulation of the runs type where longer negative runs with lower returns than expected would be observed. To explore whether this form of manipulation can be empirically detected the length of runs and the total return observed during a run were computed for modelled abnormal and control clusters in gold and silver. In both metals the proportion of negative runs in the abnormal cluster is greater than the proportion of negative runs in the control cluster. In both cases the average return for negative runs is significantly lower in the abnormal cluster than in the control cluster. When average returns over
positive runs are compared the abnormal group has significantly higher expected returns than the control group.

Given the short maximum run lengths in the abnormal cluster and the fact that positive runs have significantly higher average returns in the abnormal cluster than in the control cluster, it is likely that that the high volatility associated with the abnormal cluster is the driver of the results presented in this study, as opposed to manipulation.

"Lifting the US Crude Oil Export Ban: A Numerical Partial-Equilibrium Analysis"

DIW Berlin Discussion Paper No. 1548

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The upheaval in global crude oil markets and the boom in oil production from shale plays in North America have brought scrutiny on the export ban for crude oil in the United States. This paper examines the global flows and strategic refinery adjustments in a spatial, game-theoretic partial-equilibrium model. We consider detailed supply chain infrastructure with multiple crude oil qualities (supply), distinct oil products (demand), as well as specific refinery configurations and modes of transport (mid-stream). Investments in production capacity and infrastructure are endogenous. We compare two development pathways for the global oil market: one projection retaining the US export ban, and a counterfactual scenario lifting the export restrictions. Lifting the US crude ban, we find significant expansion of US sweet crude exports. In the US refinery sector, more heavy sour crude is imported and transformed. While US producers gain, the profits of US refiners decrease, due to reduced market distortions and a more efficient resource allocation. Countries importing US sweet crude benefit from higher product output, while avoiding costly refinery investments. Producers of heavy sour crude (e.g. the Middle East) are incentivised to climb up the value chain to defend their market share and maintain their dominant position.

"Global Supply Chains and Trade Policy"


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How do global supply chain linkages modify countries' incentives to impose import protection? Are these linkages empirically important determinants of trade policy? To address these questions, this paper introduces supply chain linkages into a workhorse terms-of-trade model of trade policy with political economy. Theory predicts that discretionary final goods tariffs will be decreasing in the domestic content of foreign-produced final goods. Provided foreign political interests are not too strong, final goods tariffs will also be decreasing in the foreign content of domestically-produced final goods. The paper tests these predictions using newly assembled data on bilateral applied tariffs, temporary trade barriers, and value-added contents for 14 major economies over the 1995-2009 period. There is strong support for the empirical predictions of the model. The results imply that global supply chains matter for trade policy, both in principle and in practice.

"The Direction of Crude Oil Prices: The Role of Market Structure"
This article focuses on the price inelasticity of demand for crude oil in the short run and its implications. We show that any producer with a share greater than the elasticity of demand, weighted by its profit margin, could benefit by curbing supply to increase profits. This means high cost producers have a lower threshold to meet before they can profit from a reduction in output. It also implies that high cost producers without major shares may benefit, albeit not as much as those who free ride on cuts by others. We note that the increased competitiveness of the global oil market and differing national preferences may be preventing cooperation that would benefit many producers.

"Increasing Trends in the Excess Comovement of Commodity Prices"

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We investigate how the excess comovement of commodity prices, that is, the correlation in commodity returns after filtering out common fundamental shocks, has changed over the past three decades by developing the smooth-transition dynamic conditional correlation model that can capture long-run trends and short-run dynamics of correlation simultaneously. Using data from 1983 to 2011, we find that significant increasing long-run trends in excess comovement have appeared since around 2000. We confirm that these increasing trends are neither an artifact of the financial crisis after the bankruptcy of Lehman Brothers in September 2008 nor the time-varying sensitivities of commodity returns to common fundamental shocks. Moreover, we find that no significant increasing trends exist in the excess comovement among off-index commodities and that the surge of global demand alone cannot explain the increasing trends. These findings provide additional evidence for the timing and scope of the recent increasing commodity-return correlations that suggest the influence of the financialization of commodity markets starting around 2000.

"Will We Ever Stop Using Fossil Fuels?"
Becker Friedman Institute for Research in Economics Working Paper No. 2720633

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Scientists believe significant climate change is unavoidable without a drastic reduction in the emissions of greenhouse gases from the combustion of fossil fuels. However, few countries have implemented comprehensive policies that price this externality or devote serious resources to developing low carbon energy sources. In many respects, the world is betting that we will greatly reduce the use of fossil fuels because we will run out of inexpensive fossil fuels (i.e., decreases in supply) and/or technological advances will lead to the discovery of less expensive low carbon technologies (i.e., decreases in demand). The historical record indicates that the supply of fossil fuels has consistently increased over time and that their relative price advantage over low carbon energy sources has not declined substantially over time. Without robust efforts to correct the
market failures around greenhouse gases, relying on supply and/or demand forces to limit greenhouse gas emissions is relying heavily on hope.