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.
"A General Approach to Recovering Market Expectations from Futures Prices with an Application to Crude Oil"

CHRISTIANE BAUMEISTER, University of Notre Dame
Email: cjsbaumeister@gmail.com
LUTZ KILIAN, University of Michigan at Ann Arbor - Department of Economics, Centre for Economic Policy Research (CEPR)
Email: lkilian@umich.edu

Futures markets are a potentially valuable source of information about price expectations. Exploiting this information has proved difficult in practice, because time-varying risk premia often render the futures price a poor measure of the market expectation of the price of the underlying asset. Although this expectation in principle may be recovered by adjusting the futures price by the estimated risk premium, a common problem is that there are as many measures of the market expectation as there are estimates of the risk premium. We propose a general solution to this problem that allows us to select the most accurate estimate of the expectation for any set of risk premium estimates. We illustrate this approach by solving the long-standing problem of how to estimate the market expectation of the price of crude oil. We provide a new measure of oil price expectations that is substantially more accurate than the alternatives and more economically plausible. Our analysis has implications for the estimation of economic models of energy-intensive durables, for oil price forecasting, and for the measurement of oil price shocks.

"All that Glitters - Downside Risk Reduction with Precious Metals"

DON BREDIN, University College Dublin
Email: don.bredin@ucd.ie
THOMAS CONLON, University College Dublin
Email: conlon.thomas@ucd.ie
VALERIO POTÌ, University College Dublin (UCD) - School of Business, Catholic University S.C. Piacenza
Email: valeriopoti@gmail.com

Investor aversion to extreme losses may motivate them to seek out investments perceived to serve as a safe haven during times of crisis. In this study, we consider the potential for precious metals to mitigate downside risk when combined with equities and evaluate the impact on portfolio risk-adjusted returns. Each of gold, silver and platinum contribute to downside risk
reduction at short horizons, but the inclusion of silver and platinum may increase portfolio risk at long horizons. The price of mitigating downside risk is a relative reduction in portfolio risk-adjusted returns. Investigating the drivers of risk reduction, variance and kurtosis properties of precious metals are shown to be marginal contributors to reduced downside risk. Findings are robust for investments in precious metals futures and exchange traded funds.

"African Coffee Market Efficiency and International Hedging Viability: Evidence from Uganda"

THAD JACKSON, Eastern Kentucky University
Email: john.jackson@eku.edu
BEN WOODRUFF, Eastern Kentucky University
Email: benjamin.woodruff@eku.edu

Several African nations rely heavily on coffee exports as a source of national income. Given coffee’s importance to many African economies and the risk that price instability poses to coffee exporters, the World Bank and others have promoted price risk management strategies relying on international futures markets. We test the efficiency of Ugandan coffee markets with respect to international futures markets and test the viability of hedging strategies using these markets. We find evidence of a close relationship between the movements of Ugandan coffee producer prices and futures market prices, supporting the feasibility of hedging price risk in international markets.

"Anticipation, Tax Avoidance, and the Price Elasticity of Gasoline Demand"

JOHN M. COGLIANESE, Harvard University
Email: coglianese@fas.harvard.edu
LUCAS W. DAVIS, University of California, Berkeley - Haas School of Business, National Bureau of Economic Research (NBER)
Email: ldavis@haas.berkeley.edu
LUTZ KILIAN, University of Michigan at Ann Arbor - Department of Economics, Centre for Economic Policy Research (CEPR)
Email: lkilian@umich.edu
JAMES H. STOCK, Harvard University - Department of Economics, National Bureau of Economic Research (NBER)
Email: james_stock@harvard.edu

Least-squares estimates of the response of gasoline consumption to a change in the gasoline price are biased toward zero, given the endogeneity of gasoline prices. A seemingly natural solution to this problem is to instrument for gasoline prices using gasoline taxes, but this approach tends to yield implausibly large price elasticities. We demonstrate that anticipatory behavior provides an important explanation for this result. Gasoline buyers increase purchases before tax increases and delay purchases before tax decreases, rendering the tax instrument endogenous. Including suitable leads and lags in the regression restores the validity of the IV estimator, resulting in much lower elasticity estimates.

"When the Walk is Not Random: Commodity Prices and Exchange Rates"

EMANUEL KOHLSCHEEN, Bank for International Settlements (BIS)
Email: emanuel.kohlscheen@bis.org
FERNANDO H. AVALOS, Bank for International Settlements (BIS)
Email: fhavalos@msn.com
ANDREAS SCHRIMPFE, Bank for International Settlements (BIS) - Monetary and Economic Department
Email: andreas.schrimpf@bis.org
We show that there is a distinct commodity-related driver of exchange rate movements, even at fairly high frequencies. Commodity prices predict exchange rate movements of 11 commodity-exporting countries in an in-sample panel setting for horizons up to two months. We also find evidence of systematic (pseudo) out-of-sample predictability, overturning the results of Meese and Rogoff (1983): information embedded in our country-specific commodity price indices clearly helps improving upon the predictive accuracy of the random walk in the majority of countries. We further show that the link between commodity prices and exchange rates is not driven by changes in global risk appetite or carry.

"Oil, Wages, and Public Expenditures in Oil-Producing Regions - Lesson from Alberta"  
USAEE Working Paper No. 16-248

EMILSON CAPUTO DELFINO SILVA, University of Alberta - Department of Marketing, Business Economics & Law  
Email: emilson@ualberta.ca

NOHA ABDEL RAZEK, University of Alberta - China Institute  
Email: abdelraz@ualberta.ca

We examine the impact of oil-price shocks, macroeconomic factors and pipeline bottlenecks on the evolution of wages in Alberta’s oil and gas sector. The aim is to understand how wage-movements are affected by economic cycles in Alberta – an oil-exporting region – to provide policy prescriptions to the industry and public sector. To our knowledge, our paper is the first to examine the impact of oil-price and macroeconomic changes, market access, and inter-sectorial effects on wage changes in Alberta’s oil and gas sector. We find evidence that suggests that competition for scarce labour among oil and gas firms, construction firms and the public sector is an important aspect underlying the evolution of wages in the oil and gas industry. Other important determinants of wage movement in the industry are unemployment rates in oil and gas and construction sectors and the yields of the US Treasury bonds. We also find that the West Texas intermediate (WTI) oil-price is a crucial determinant of the key explanatory variables in the model. We use actual and future WTI prices to simulate wages in Alberta’s oil and gas industry. Our analysis yields two policy prescriptions. Labour costs can be reduced with geographic labour-market segmentation. In addition, government counter-cyclical expansionary infrastructure policies can reduce labour costs and smooth the impact of oil-price fluctuations.

"Formal Versus Informal: Efficiency, Inclusiveness, and Financing of Dairy Value Chains in India"  
IFPRI Discussion Paper 1513

PRATAP S. BIRTHAL, National Centre for Agricultural Economics and Policy Research (NCAP)  
Email: psbirthal@ncap.res.in

RAMESH CHAND, National Institution for Transforming India, Aayog  
Email: Ramesh.chand@ffa.int

P. K. JOSHI, International Food Policy Research Institute (IFPRI)  
Email: P.JOSHI@CGIAR.ORG

RAKA SAXENA, National Centre for Agricultural Economics and Policy Research (NCAP)  
Email: rakasaxena@ncap.res.in

PALLAVI RAJKHOWA, International Food Policy Research Institute (IFPRI)  
Email: p.rajkhowa@cgiar.org

MD. TAJUDDIN KHAN, International Food Policy Research Institute (IFPRI)  
Email: m.t.khan@cgiar.org

MOHD ARSHAD KHAN, National Centre for Agricultural Economics and Policy Research (NCAP)  
Email: arshadkhan82003@yahoo.com

KHYALI R. CHAUDHARY, National Centre for Agricultural Economics and Policy Research (NCAP)  
Email: khyali@ncap.res.in
Despite a growing dairy industry in India, farmers’ lack of access to organized markets and institutional credit remains one of the major hindrances in improving the scale and productivity of dairying. Using data from a survey of 612 households from the state of Punjab, India, this paper evaluates farmers’ choices of dairy value chains and their financing mechanisms. The study finds that 62 percent of the sample farmers representing 69 percent of the total milk sales are connected with formal value chains driven by cooperatives, multinational companies and private domestic processors. Small dairy farmers are associated more with informal value chains but they are not excluded from the formal value chains. The performance of different value chains in terms of productivity and profitability of dairying is almost on par. Also, there is hardly any difference in the milk price offered by formal and informal buyers pointing towards milk market being competitive.

More than half of the farmers borrow credit both from within and outside the chain for dairying related activities. Chain-based financing is restricted to only one-fourth of the borrowers and mostly to those associated with informal value chains. Financing by commercial banks and other financial institutions is limited to only 9 percent of the borrowers, mainly larger farmers. The socially-disadvantaged and smallholder farmers are often neglected in institutional lending because of their lack of physical assets to use as collateral against loans. Value chain approach, due to its product market orientation, can serve as an entry point for financial institutions to improve their outreach to smallholders. The innovative financial products, such as ‘dairy credit card’ and ‘contract as collateral’ would enable them to adopt yield-enhancing technology and inputs and also to scale up their dairy activity.