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GLOBAL COMMODITY ISSUES (EDITOR'S CHOICE) eJOURNAL
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"What Determines Management Cash Flow Forecasts in the Oil and Gas Industry?"
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This study examines the determinants of management cash flow forecasts in the oil and gas industry. The oil and gas industry is one of the most important industries worldwide. Oil is considered the number one commodity, which accounts for roughly ten percent of world trade (Wright and Gallun 2008). The industry is characterized by unstable prices, diminishing supplies, and increasing demand. As suggested by prior research and current accounting standards, cash flow information is especially relevant for understanding the operations of oil and gas firms. We identify firm characteristics that affect oil and gas firm managers’ decision to forecast cash flows. We find that managers of the firms 1) in financial distress, 2) with higher leverage, 3) obtaining more debt in the following year, 4) with more intensive capital investment, and 5) with higher earnings volatility are more likely to issue cash flow forecasts. The decision to provide such forecasts is negatively related to growth opportunities and cash flow volatility. Our study contributes to the understanding of why some oil and gas firms provide specific guidance of cash flows beyond the required disclosure, while others do not.

"The Influence of Oil Price Shocks on China's Macroeconomy: A Perspective of International Trade"
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International trade has been playing an extremely significant role in China over the last 20 years. This paper is aimed at investigating and understanding the relationship between China’s macro-
The economy and oil price from this new perspective. We find strong evidence to suggest that the increase of China’s price level, resulting from oil price shocks, is statistically less than that of its main trade partners. This helps us to understand the confused empirical results estimated within the SVAR framework and sheds light on recent data. More specifically, as for the empirical results, we find China’s output level is positively correlated with the oil price, and oil price shocks slightly appreciate the RMB against the US dollar. Positive correlation between China’s output and oil price shocks presumably results from the drop in China’s relative price induced by oil price shocks, which is inclined to stimulate China’s goods and service exports. The slight appreciation of the RMB could be justified by the drop in China’s relative price, which is indicated by economic theory. Moreover, constructing a simple model, our new perspective also helps us to understand the recent fact that together with the dramatic surge of the world oil price, while the oil imports of the other major countries (especially the largest oil import country US) in the world steadily decline or remain stable, China’s oil imports, in contrast, have kept rising steeply since the year 2004.

"Bidirectional Causality in Oil and Gas Markets"
Energy Economics, Volume 42, March 2014, Pages 325-331

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Do events in the natural gas market cause repercussions in the crude oil market? This paper studies linkages between the two markets using high-frequency, intraday oil and gas futures prices. By analyzing the effect of weekly oil and gas inventory announcements on price volatility, we show a bidirectional causal relationship. Both inventory gluts and shortages have cross-commodity effect on price volatility not only for the next-month nearby future contract but also for the following six months’ contracts.

"Cross-Hedging on the Milk-Derived Product Market"

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This paper investigates hedging and cross-hedging internationally traded milk derivative products with internationally traded commodities, recently launched New Zealand dairy futures, New Zealand agricultural products, and mature United States dairy market futures. The contribution of the paper is threefold. First, we show that international dairy commodities are a distinct commodities subgroup, as changes in prices of dairy products are uncorrelated with other worldwide traded commodities. Second, New Zealand Stock Exchange dairy futures are an effective tool for hedging exposure to international dairy commodities. Third, Chicago Mercantile Exchange dairy futures are inefficient both for hedging international dairy commodities and for hedging US dairy commodities. Our findings have important implications for understanding efficient methods of hedging with futures contracts on highly regulated markets with government agency interventions.

"The Anti-Speculation Cycle, Managing Commodity Risk, and Position Limits"

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Market participants have an obligation to periodically explain the economic role of futures trading and the role of speculators in these markets. This will be the main task of this paper. In addition, this paper will discuss two other challenges in the commodity markets: the impact of the Risk On/Risk Off (RORO) environment in managing commodity risk, and the prospects for the imposition of commodity position limits.

"Local Consequences of Global Uncertainty: Capacity Development and LNG Trade Under Shale Gas and Demand Uncertainty and Disruption Risk"
DIW Berlin Discussion Paper No. 1498

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Recent supply security concerns in Europe have revived interest into the natural gas market. Here, we investigate investment behavior and trade in an imperfect market structure under uncertainty in both supply and demand. We focus on three uncertain events: i) transit of Russian gas via Ukraine that may be disrupted from 2020 on; ii) natural gas intensity of electricity generation in OECD countries that may lead to higher or lower natural gas demand after 2025; and iii) availability of shale gas around the globe after 2030. We illustrate how timing of investments is affected by inter-temporal hedging behavior of market agents, such as when LNG capacity provides ex-ante flexibility (e.g., in Ukraine to hedge for a possible Russian supply disruption) or an ex post fallback option if domestic or nearby pipeline supply sources are low (e.g., uncertain shale gas resources in China). Moreover, we find that investment in LNG capacities is more determined by demand side pull (due to higher needs in electric power generation) than by supply side push (higher shale gas supplies needing an outlet).

"Country-Specific Oil Supply Shocks and the Global Economy: A Counterfactual Analysis"
FRB of Dallas Working Paper No. FEDDGW242

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This paper investigates the global macroeconomic consequences of country-specific oil-supply shocks. Our contribution is both theoretical and empirical. On the theoretical side, we develop a model for the global oil market and integrate this within a compact quarterly model of the global economy to illustrate how our multi-country approach to modelling oil markets can be used to identify country-specific oil-supply shocks. On the empirical side, estimating the GVAR-Oil model for 27 countries/regions over the period 1979Q2 to 2013Q1, we show that the global economic implications of oil-supply shocks (due to, for instance, sanctions, wars, or natural disasters) vary considerably depending on which country is subject to the shock. In particular, we find that adverse shocks to Iranian oil output are neutralized in terms of their effects on the global economy (real outputs and financial markets) mainly due to an increase in Saudi Arabian oil production. In contrast, a negative shock to oil supply in Saudi Arabia leads to an immediate and permanent increase in oil prices, given that the loss in Saudi Arabian production is not compensated for by the other oil producers. As a result, a Saudi Arabian oil supply shock has significant adverse effects for the global economy with real GDP falling in both advanced and emerging economies, and large losses in real equity prices worldwide.