

Financialisation of Commodity Markets

Co-movement Behind-the-scenes

Dear Editor-in-Chief and the Journal of Futures Markets Editorial Board,

I am pleased to submit our manuscript titled “Financialisation of Commodity Markets: Co-movement Behind-the-scenes” for consideration for publication in the Journal of Futures Markets.

Our paper advances the ongoing debates in the Journal of Futures Markets by providing an alternative examination of the financialisation of commodity markets which serves as a unique contribution to the literature. Specifically, our research extends the dialogue on the impact of the phenomenon on various aspects of the commodity complex including on co-movement and market integration, both within the commodity space (T. Liu, Gong, and Lin 2021; Sehgal, Sobti, and Diesting 2021; Yang, Li, and Miao 2021; Gong, Jin, and Sun 2022) and with legacy asset classes (C. Hu, Li, and Liu 2020; Isleimeyyeh 2020; Daskalaki 2021; Han and Kong 2022; Saishree and Padhi 2022); on market fundamentals (Isleimeyyeh 2020; Maréchal 2023; Yin, Nie, and Han 2021), particularly risk transfer (Ahmadi, Bashiri Behmiri, and Manera 2020) and price formation (Adämmer and Bohl 2018; Merkoulova 2020; Kupabado and Kaehler 2021; Sehgal, Sobti, and Diesting 2021); as well as on investment in the sector (Daskalaki 2021; Han and Kong 2022). The paper also addresses the consequences of financialisation from a regulatory perspective, effectively contributing to the debate on futures markets oversight: Janardanan, Qiao, and Rouwenhorst (2019), Fan and Zhang (2020), J. Hu et al. (2020), Mixon (2022), Szabó and Váradi (2022). Additionally, our study further extends the collection of recent seminal works that study financialisation using asset pricing techniques (Fan and Zhang 2020; Maréchal 2023; Yin, Nie, and Han 2020; Han and Kong 2022). More generally, the paper provides an empirical complement to the growing body of research on co-movement and market integration within the commodity complex (Xiao et al. 2020; Yang and Zhou 2020; Luo et al. 2021; Prokopczuk, Wese Simen, and Wichmann 2021; Boer et al. 2022; Dhaene, Sercu, and Wu 2022; Y. Zhang, Ding, and Shi 2022) and beyond (Alquist, Ellwanger, and Jin 2020; Kang and Kwon 2020; Wong and Zhang 2020; Dark 2021; C. Li, Wu, and Zhou 2021; Y. Liu, Qiao, and Han 2022; Ming et al. 2022; Q. Zhang and Wong 2022, 2023); on commodity market fundamentals (Brooks and Teterin 2020; Llorente and Wang 2020; Maréchal 2021; Z. Li and Hayes 2022) including risk transfer (Fan et al. 2020; Oglend and Straume 2020;

Huang and Xiong 2023) and price formation (Bohmann, Michayluk, and Patel 2019; Janardanan, Qiao, and Rouwenhorst 2019; Arroyo Marioli 2020; Bohl and Stefan 2020; Frino et al. 2020; Siklos, Stefan, and Wellenreuther 2020; Andersen and Lange 2021; Figuerola-Ferretti, Rodríguez, and Schwartz 2021; Geyer-Klingenberg and Rathgeber 2021; Gilbert 2021; Yang, Li, and Wang 2021; Fuertes, Liu, and Tang 2022; H. Li and Shi 2022; Bandyopadhyay and Rajib 2023; Chen, Hartley, and Lan 2023; Fan, Binnewies, and De Silva, n.d.; Filippidis et al. 2023); and on asset pricing in the context of commodity markets (Kang and Kwon 2020; Yuan, Xu, and Wang 2023).

Drawing upon the issues and methods discussed in these studies, our research provides a broader perspective on the phenomenon of financialisation by examining its effects on a large cross-section of liquid commodities, rather than focusing on individual markets. This approach allows us to capture the global nature of financialisation and its influence on market fundamentals, an area of research that we believed has not yet been fully explored. We argue that the global nature of the phenomenon makes cross-sectional co-movement a cornerstone issue and we provide new insights into this issue through our novel approach, using a bespoke futures-based asset pricing framework. We view this contribution as important because it helps to deepen our understanding of the consequences of financialisation for commodity markets and provides a more nuanced perspective on the debates about the phenomenon. We further believe this understanding is beneficial for regulator, policymakers and investors in shaping risk management practices and investment strategies in the age of heightened market participation.

If published, we believe that this paper will be cited for its innovative approach to studying the phenomenon of commodity markets financialisation. The paper challenges the conventional focus on individual markets and instead emphasises the importance of considering the global and cross-sectional impact of financialisation. Our results provide compelling evidence that the phenomenon had ontological consequences for the commodity complex, offering a key reference for future studies on financialisation and commodity markets. By further emphasising the regulatory implications of financialisation, our study also contributes to the discourse on futures markets oversight, offering an additional strong reference point.

The manuscript is original, has not been submitted elsewhere, and all the authors have approved it for submission to your journal. There are no conflicts of interest to declare.

We look forward to the possibility of our paper being published in the Journal of Futures Markets and contributing to the ongoing debates in this field.

Thank you for considering our submission.

Best regards,

Devraj Basu, Olivier Bauthéac

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