Comments:

Reviewer: 1

Comments to the Author

This paper investigates the impact of the so-called “Financialization” of commodities markets which occurred in the early 2000s with the advent of many regular portfolio investors considering commodities as its own asset class. The authors contend that this financialization changed the hedger/speculator dynamic which had previously applied in commodities markets.

Their very well written paper frames their question exceptionally well. I should also at this stage note that this is a very well written manuscript with very few typographical or language errors. Indeed, while I usually provide a list of about a page of suggested minor/typographical changes, in this case I have very few such errors to report.

The authors test their theory on a panel of 30 commodities: 24 US-traded and 6 UK-traded metals, using a signal they defined as commercial hedging pressure, with which they are able to define states of contango and backwardation.

**RESPONSE TO REVIEWER**

*We thank the reviewer for their insightful comments and have made a major revision of the paper in line with the comments:*

1. I liked the division of time into 4 intervals (of past/financialization/crisis/post-crisis) and the further division of these intervals into periods of contango and backwardation.

I wondered if it would have made sense to compute correlation structures – perhaps within the various sectors (agricultural/energy/metals) and also across the sectors, maybe within each distinct time interval.

*Response to Reviewer: We have focused on correlation structures across each distinct time interval: within each sector in Table4 and carried out this analysis across the sectors using equally weighted portfolios in Table 5.*

To my read the factor R2 were doing that work later.

1. I also liked the idea of just computing equal weighted portfolios of US and UK commodities to track their performance.

*Response to Reviewer: We have carried out this analysis in Table 6 and in Table 7 and the findings are discussed in detail in the Results section period by period.*

I got a bit lost in the complexity of the construction of the mimicking portfolio, and was a bit concerned about the use of order statistics to construct these portfolios. Surely that makes things very sensitive to various vagaries of the data. Why was such a complicated mechanism created?

1. Why not look at more standard constructions of portfolios, for instance looking at a Markowitz style mean-variance portfolio, or even to lean in harder to the equal weight portfolios (nice because easy to understand and robust) already chosen.

*Response to Reviewer: We have chosen to focus on the equally weighted portfolios in Table 6.*

1. Similarly, the use of the factors to pick commodities was also very detailed and very confusing. Conclusions were drawn from R2 values that were in most cases very small.

Also the use of significance was a bit underwhelming, showing that few of the returns (changes? ) in for instance Table 1 were significant. I wasn’t exactly sure what the hypothesis being tested here even was – that the mean returns were different from one period to the next perhaps?

Sticking with table 1, the idea that of 30 commodities 23 or 24 moved in the same direction (returns wise) from one interval to the next is superficially suggestive of a trend – that would be quite unlikely if the commodity prices were all uncorrelated – but in the presence of strong correlation between commodity prices that in itself might not be so surprising.

*Response to Reviewer: While we have focused on testing the significance of commodity asset returns in Table 1, we’ve complemented this analysis in Table 2 with tests of difference in returns between phases of aggregate backwardation and contango.*

1. I liked the problem, I agree it is very important I liked the scholarly framing The conclusions seem reasonable to me But the argument to get from the data to the conclusions seems to me very complicated and hard to follow, and I am missing pieces of the statistical argument here (the fault may be my own insufficiently deep reading, but then again the paper should be clear!) Surely there is a simpler argument that works nearly as well, with the “rolls Royce” version presented here used to nail the point home.

*Response to Reviewer: We have focused the analysis on correlation structures and the equally weighted portfolios, and the main conclusions follow from analysing these. We have retained other elements of the original analysis where we believed they provided additional insight.*

Minor and typographical errors

Page 3 line 31 “by incorporating aggregate CHP (CHP), a market wide..” – delete (CHP) as you already defined this acronym on line 28