

Module 1

The Role of Global Capital Markets

The Commodity Market (Where real assets are traded...)

Presenter: Paul Kofman



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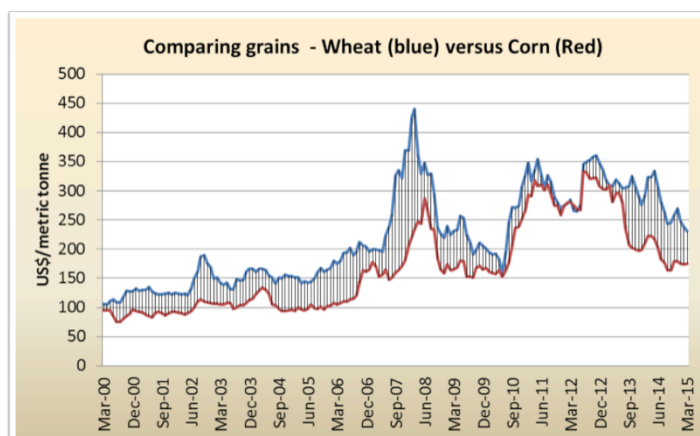


BNY MELLON

Companies go to market...

Primary commodities are traded globally in wholesale OTC markets.

Corporations buy directly from producers or from intermediaries (e.g. large grain merchants or commodity brokers).



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Is it really a market?

Markets in primary commodities (agricultural, energy, metals) are somewhat different to capital markets.

At any point in time there might be 5 to 10 different Arabica coffee prices.

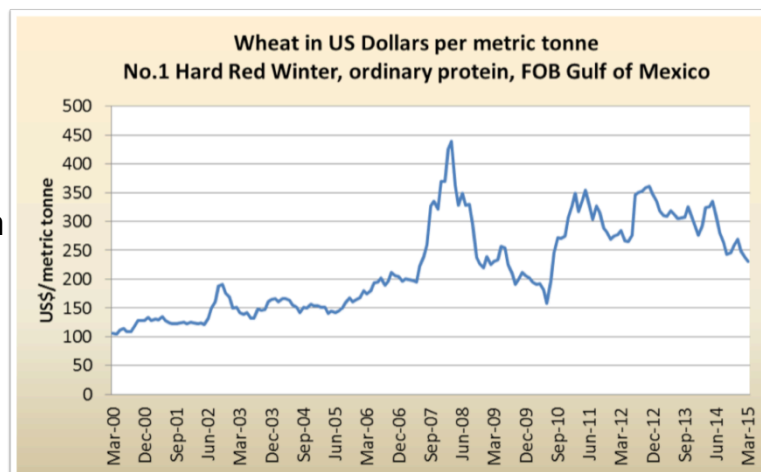
Why?

The “market”

It is difficult to obtain a comprehensive market price signal.

Requires standardization of:

- Quality, purity
- Delivery location
- Transportation
- Etc.

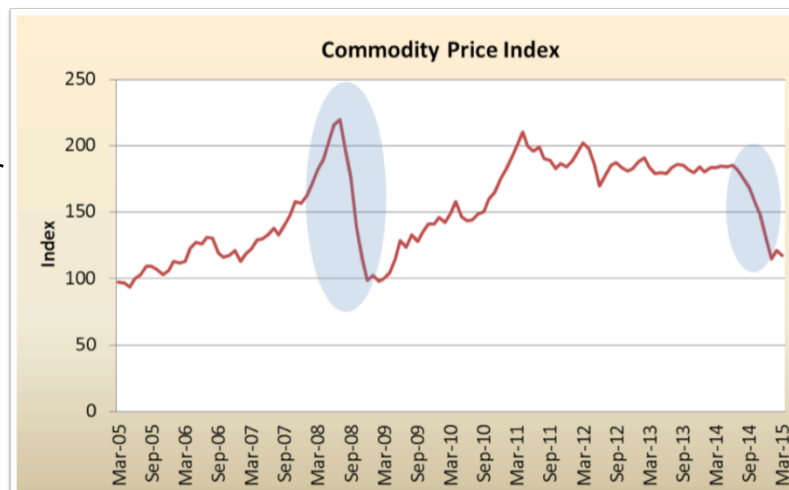


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The “market”

Aggregate market:

Commodity Price Index
(by US Bureau of Labor
Statistics) to signal
changing business
activity and thereby
economic conditions.



Issues with commodity markets

Liquidity can be a problem – significant supply variations (but also demand variations).

Transparency is less than perfect with many “off-market” transactions.

Long-term contracts disadvantage small buyers/sellers.

Market is often not fully competitive (oligopolistic structures).

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Developing commodity markets

New York, Chicago, London are the traditional commodity centers although markets are geographically dispersed.

But more and more commodities are listed on automated trading platforms – and information gets more efficiently pooled.

Commodity trading is becoming increasingly global, making life easier for corporations processing commodities.

Source list

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Slide 4: Wheat in US Dollars per metric tonne. No.1 Hard Red Winter, ordinary protein, FOB Gulf of Mexico. © University of Melbourne. Prepared by Paul Kofman. Sourced from data obtained from <http://www.indexmundi.com/commodities/?commodity=wheat&months=180>

Slide 5: Commodity Price Index © University of Melbourne. Prepared by Paul Kofman. Sourced from data obtained from <http://www.indexmundi.com/commodities/?commodity=commodity-price-index&months=120>

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