



## Interview with Mark Keenan

Head of Research and Strategy at Engelhart Commodity Trading Partners; and Editorial Advisory Board Member, *Global Commodities Applied Research Digest*

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In this issue of the *GCARD*, we have the pleasure of interviewing Mark Keenan. Mr. Keenan is Head of Research and Strategy at Engelhart Commodity Trading Partners (ECTP) and an Editorial Advisory Board Member of the *Global Commodities Applied Research Digest*. He has over 20 years of experience in commodity quantitative analysis, research and strategy across all the major energy, metal, agriculture and soft commodities markets. He is also the author of two books: *Positioning Analysis in Commodities Markets – Bridging Fundamental and Technical Analysis* and most recently *Advanced Positioning, Flow and Sentiment Analysis in Commodity Markets*. In this interview, Mr. Keenan discusses his experience in the commodity markets and how he got started in commodities. He also provides insight on commodity strategies that are in vogue right now. In addition, he provides an overview of his recently published books on positioning analysis on commodity markets. Finally, he provides advice to students and young professionals as well as his thoughts on the value of an academic commodity center like the JPMCC.

### Interview

*With over 20 years of experience in the commodity markets, how did you get involved in commodities, and how has your role evolved?*

I studied Biochemistry at university, and I was set on a career in pharmaceutical analysis and research. I also realized quite quickly that it might perhaps be sensible to first get a job in something like finance to settle a few bills and buy somewhere to live. At the time, starting salaries in scientific research in the U.K. were not great – something that might change as we now see how important research into virology for example can be. I convinced myself that that I would only stay in finance for a few years, before returning to scientific research.

Part of my degree was involved in mapping the human genome and in the search for new genes. It was a hugely exciting area of research at the time, involving significant amounts of computing power and the collaboration of numerous teams around the world. After three months of searching, I found my first gene and was (and still am) immensely proud of myself. To put it in context however, humans have about 30,000 useful genes, so I also learnt the importance of teamwork on being able to eventually get it finished! Everything was entirely quantitative and based on techniques in pattern recognition and statistics. Interestingly, these areas now serve as the foundation of nearly everything I do in commodity research and analysis.

After finding a few more genes, I graduated and began working at Morgan Stanley in London. I was immediately drawn towards the more quantitative areas and specifically into the futures markets where a lot of quantitatively driven trading strategies seemed to be developing. After moving to a small derivatives house in London, I focused exclusively on commodities. Working in commodities also made me feel a little less guilty, as there were many areas where their fundamentals overlapped with what I had studied in chemistry. Commodities were also real, somewhat logical in their behavior and I also found a



huge number of linkages between what I had learnt in pattern recognition and statistics and how prices evolved.

I always stayed in the world of commodities, working in a range of different areas of the market including broking, trading for the Saudis, building commodity investment products at UBS and commodity asset management in London and then Singapore. Each time exploring new quantitative trading styles and strategies. More recently, I have decided to focus entirely on commodity research and strategy and in the trading of very specific types of commodity strategies called risk premia. I do this currently at Englehart Commodity Trading Partners (ECTP) in Stamford, Connecticut.

As I look back on my career, it could seem well thought out and logical – but, I simply moved from area to area as my interests shifted and markets evolved. The important thing was that I stayed in commodities and always within the more quantitative areas of the market. If I had to divide it up, there were three very clear periods. Initially, I focused almost entirely on commodity price analysis in all its forms. I was extremely interested in the developing world of technical analysis and quantitatively driven CTA and hedge fund trading strategies. After about 10 years of exhaustive analysis, I began to realize that I was unlikely to find the perfect trend or quant algorithm – commodity markets were simply not the human genome that could be decoded, and I should perhaps start to look at other areas of the market.

For the next five years I focused on what are now referred to as “quantamental” strategies. The idea was to apply the same disciplined framework I had used to analyze price and apply it to fundamental data. I had always thought that fundamental analysis was messy and unstructured and that this was a good solution. This was a rapidly developing area of research and trading as vast new sets of data became widely accessible at the time. These included data like satellite imagery, various types of transport data and high frequency weather data.

Finally, as I learnt that one approach was not necessarily better than the other and that it was always sensible to embrace a variety of different tools and techniques, I noticed that whilst fundamentals ultimately prevailed, prices could decouple from them for extended periods of time. Moreover, this trend seemed to be increasing as new types of investment flows started to develop in many commodities and the analysis of positioning, flow, sentiment, and many of the “fuzzier” aspects of commodity price dynamics have been very helpful in understanding this better. It seems that now, what I do is the most like searching for patterns and relationships in DNA – now I search for patterns and relationships in commodity data.

The reason I now work at ECTP, a very fundamentally driven trading firm, is that the analysis of positioning, sentiment and flow are critical components in position sizing, timing and risk management and in being able to successfully monetize fundamental trading strategies. I see these linkages only becoming stronger.

*What are some of the commodity investments and strategies that are currently in demand?*

I think that one of the most interesting and fastest growing areas of demand and innovation in the commodity investment world has been in risk premia strategies. In a similar way to the growth and proliferation of commodity indices like the Goldman Sachs Commodity Index (GSCI) and the Bloomberg



Commodity Index (BCOM) in the early to mid-2000s, the growth in commodity risk premia, over the last few years in particular, has been phenomenal.

By way of a little background, commodity indices are diversified baskets of commodity futures, often weighted in proportion to their significance in the global economy, that investors buy as an index in the same way they can buy an S&P 500 index tracker. These products are widely used by pension funds and asset managers to diversify portfolios, as a way of taking a broad investment on the commodity market and as a hedge against inflation.

Risk premia strategies are similar. They are also based on indices, but instead of having a directional view, they are typically characterized by a market neutral approach. They are also used by pension funds and asset managers to diversify portfolios by capturing specific factors in commodity markets like “carry.” Carry is typically captured by establishing short positions at the front of the curve, by going short a benchmark index like the Bloomberg Commodity Index (BCOM), and establishing long positions further down the curve, by going long a deferred version of the BCOM. These strategies capture instances of convexity in the curve. Other types of risk premia endeavor to capture factors like “value,” by identifying cheap and expensive commodities in similar sectors, “congestion” by taking specific types of spread exposure ahead of index and ETF roll periods, “momentum” and “seasonality” through a variety of different methodologies and differences in implied and realized volatility. Some of the very latest trends in risk premia innovation include machine learning strategies.

Commodity risk premia strategies compete with some of the most complex and successful hedge fund strategies in the market in terms of both innovation and performance. For some strategies, their size in the market is starting to reshape commodity flow patterns and open interest profiles down the curve.

*Can you describe how Positioning Analysis is applied in the commodity markets?*

In my latest book, I try to define “Positioning Analysis” as a blend of positioning, flow, and sentiment analytics to better understand how they collectively interact and how they can help explain price behavior. This is an area that I find particularly fascinating – mostly in the context of the current market regime, where changing flow patterns due in part to the growth in risk premia and other quantitative trading strategies have become disproportionately important in helping to identify both risks and opportunities.

Positioning Analysis bridges aspects of both fundamental and technical analysis by looking at how certain types of positioning and flow patterns, both within the data and in the context of changes in variables like price, curve structure, seasonality, exchange rates, fundamentals such as inventory, changes in the broader macroeconomic environment and the levels of risk and uncertainty in the market can be used to develop trading models, indicators and analyses.

The book focuses on Positioning Analysis. It is based on new material, but also updates and builds significantly on some of the work in my previous book. New material includes analytics based on the analysis of flow, the decomposition of trading flows, trading activity in the Chinese commodity markets, the inclusion of newsflow into Positioning Analysis and how machine learning can provide insight into trading relationships.



*What advice could you give to students and young professionals interested in the commodity markets?*

It is especially important to stick to it – both in terms of commitment to the market, but also to the same firm until you have developed a demonstrable skill. Too many young professionals move between asset classes, under the illusion they are learning more and too many keep switching firms for the wrong reasons.

Commodities are one of the only areas in finance where knowledge and experience are almost always accretive. This is a combination of the asset class being relatively small in many ways, yet also vast in terms of the depth you can reach within it. Put more simply: to become an expert in tech stocks is very challenging and spending years understanding one or two areas of the sector runs the risk of redundancy as technologies and trends shift. Becoming an expert in the metals market is more realistic and spending years understanding the nuances of the copper market for example can create continuous value throughout a career. In short, we are unlikely to stop using copper any time soon, but a technology company can disappear very quickly.

Learning how to code or at the very least what coding can do is also especially important. Python, for example, can be helpful in nearly every area of the commodity market. This is true whether you work on the development of trading and risk management strategies, in research and data analytics, in the development of models and analytics or in nearly all areas related to the more operational areas of the market.

*How do you think a broad-based commodity center like the JPMCC can be most valuable to industry?*

I think the JPMCC is and has been a hugely valuable resource in the industry. There is simply nothing like it in terms of its accessibility and the depth and range of relevant research material it has available both in the *GCARD* publication and available on the website. The breadth and relevance of the courses and classes offered are also fantastic.

Overall, the JPMCC provides an indispensable resource in helping students and young professionals understand the industry and see what is available to help them make good decisions in finding the right career.

*Thank you, Mark, for serving on the GCARD's Editorial Advisory Board and for this opportunity to interview you!*