



## Introduction to Research Digest Articles

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In selecting research articles for the inaugural issue of the *GCARD*, our goal has been to provide commodity industry practitioners with new academic insights from across the commodity complex. Our intent is to do so in a brief, accessible format. To our knowledge, no other commodity publication has a similar scope.

In this issue, we concisely cover research on (1) metals hedging; (2) energy policy; (3) the logistical planning of a grain-trading firm; (4) commodity pricing; and (5) the development of commodity exchanges. Each of these articles is summarized below.

### Metals Hedging

In the article, “Why Do Firms Engage in Selecting Hedging? Evidence from the Gold Mining Industry,” the authors find a counterintuitive result. While one might expect that firms with both an informational advantage and a robust financial condition to use these competitive advantages to vary their hedging programs according to their market views, the researchers, in fact, find the opposite result. This finding should be of interest to investors in gold equities, who should probably have a skeptical view regarding a firm’s decision to “selectively” hedge, which the authors also refer to as speculation.

### Energy Policy

In the article, “The Biofuel Connection: Impact of US Regulation on Oil and Food Prices,” the authors examine whether one might attribute at least some of the past spikes in corn prices to renewable fuel mandates in the US. The authors provide statistical evidence that corn price dynamics changed after these mandates were put into effect: namely, corn prices began having a stronger response to global demand factors that, in turn, drive demand for crude oil than had been the case previously. This increased connection between oil prices and a food staple is an important public policy issue. Although the authors do not suggest policy innovations, one might conclude that when food prices spike, perhaps there should be a temporary trigger to divert corn stocks to food rather than fuel.

### The Logistical Planning of a Grain Trading Firm

In the paper, “Optimal Trading and Shipping of Agricultural Commodities,” the authors use a case-study approach to show the benefits of jointly planning trading and logistics for a specific Argentinian grain-trading firm. Given the low profit margins of such firms, such an approach should be of interest to comparable firms in Latin America. The paper’s methodology may also be applicable to large firms in other geographic locations, which are similarly involved in the trading and shipping of grain.



## Commodity Pricing

In the paper, “The Determinants of Convenience Yields,” the authors examine what potentially drives this commodity pricing factor. Convenience yields are typically regarded as the benefit that a holder of commodity inventories receives for being able to avoid the cost of potential stock-outs. The authors examine to what extent commodity-specific and broad macroeconomic variables can explain the variability of convenience yields for a set of commodities. Amongst the authors’ results are that convenience yields (in all cases but one commodity) “exhibit statistically significant positive relationships with” expected inflation and expected industrial production in the US. This is a helpful result for investors whom are interested in choosing futures strategies that provide exposure to key macroeconomic variables.

## The Development of Commodity Exchanges

In the article, “Development of Commodity Exchange Markets as an Avenue to Foster Economic Development in Africa,” the author questions to what extent a government should be “hands off” in the development of commodity exchanges. Given the scale of institutional development required for the establishment of a commodity exchange, the author is skeptical about limiting the government’s role. In the Chicago model, the government’s role is limited to providing the relevant legal framework and oversight functions. Instead, the author advocates an approach in which commodity exchanges are government-run. In making his case, the author compares the experience of two African countries.

## Future Issues

As one can see from the breadth of topics covered in our first issue, the global commodities arena is a fertile one full of useful research. We welcome readers’ recommendations regarding novel, and highly relevant, international research for us to distill in future issues of the *GCARD*!