



## Update from the Research Director of the J.P. Morgan Center for Commodities

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**Dr. Jian Yang**, Ph.D., CFA, J.P. Morgan Endowed Chair and JPMCC Research Director, presenting at an international conference on derivatives markets and risk management in Shanghai, China.

In this report, the JPMCC research director will provide updates about recent research activities from January 2020 until September 2020 with the focus on recent academic and applied research in commodities. Due to COVID-19, many other activities have been put on hold.

### **A Study Advancing Research on the Price Discovery Function of Commodity Futures Markets**

The article, “Price Discovery in Chinese Agricultural Futures Markets: A Comprehensive Look,” coauthored by the research director, advances research on the price discovery function of commodity futures markets on multiple fronts. First, this is the first study to propose and implement in the literature an empirical framework for testing major aspects of price discovery (i.e., the futures price as an unbiased predictor of the cash price) at every point of time, which reveals a more complete picture of futures market performance over time.

Second, this is the first study empirically demonstrating that it is important to use data from the most active futures contracts rather than nearby futures contracts to examine price discovery performance of international futures markets. If not, as shown in our study in the case of China, there may be seriously



misleading inferences drawn from using the nearby futures data. Equally importantly, a similar problem potentially may apply to other international futures markets such as Japan, which has a similar strong preference for deferred futures contracts in that country. This is vastly different from the case of the U.S. where nearby futures contracts are typically the most active futures contracts before the expiration month. While a few researchers and industry sources (e.g., Bloomberg) note the fact that nearby futures contracts in China are in many cases not the most active contracts, no empirical evidence has yet existed to shed light on the seriousness of using the nearby futures price data in China (and in other countries.) The paper fills this gap and shows that five out of the 11 major agricultural commodity futures markets in China where futures are found to lead national cash prices unidirectionally in the long run, when using the most active futures prices, can be mistakenly found to have bidirectional feedback with national cash prices if nearby futures data are used instead. The finding is consistent with the argument of less informational content in the nearby futures data in China due to much lower trading volume than the most active futures contracts.

Third, it is the first comprehensive study which covers all eleven actively traded agricultural futures markets in China, which include the top five most traded agricultural commodities in the world according to the Futures Industry Association 2016 annual volume survey.

### **Organizing the Featured Articles in *China Futures Magazine***

The research director has initiated and then acted upon the invitation of organizing featured articles around the theme of “Meeting with JPMCC” from the research department head of the China Futures Association, whom also serves as the main editor of *China Futures* magazine. The research director worked together with the JPMCC’s executive director, Dr. Tom Brady, to review numerous business questions raised by the futures and derivatives industry in China, and identify appropriate experts affiliated with the JPMCC to address many of them. This will greatly help further advance the influence of the JPMCC in Asia, and fulfill the applied research mission of the center to have impact on the business community, in this case globally. This effort is also well aligned with the University of Colorado’s strategic goal of elevating our international standing through research.

The authors of these articles come from JPMCC Advisory Council members at J.P. Morgan, Morgan Stanley, and the CME Group; a Research Council member from the World Bank; and two of the JPMCC directors (i.e., the executive director and the research director.) These articles are expected to be translated into Chinese and published in print and online as featured articles in *China Futures* magazine later this year.

### **Updates about the International Commodities Symposium and Other Research Activities**

The JPMCC’s 2020 international commodities symposium was cancelled in April 2020 due to COVID-19, which turned out to be a correct decision. While we plan to hold the symposium in 2021, how we would hold it is still under discussion. We will keep everyone posted via various channels in due time.

Nevertheless, as scheduled, the *Journal of Futures Markets (JFM)* published a special issue in August 2020 that features four high-quality articles presented at the 2019 symposium with author affiliations from MIT, University of Texas at Austin, Bank of Canada, among others. In the journal editor’s note for the special



issue, the research director was humbled to be recognized as “an internationally recognized scholar on derivatives securities and markets.”

Earlier, in late March and April 2020, partly reflecting the international impact of JPMCC affiliated research, the research director was also honored by similar recognition as “an internationally renowned financial expert” (国际知名金融专家 in Chinese) in various media interviews or media articles by others on commodity futures topics, published in prestigious media outlets in China, including *Economic Daily* (of the State Council of China), *Financial News* (of the People’s Bank of China), and *The Economic Observer* (an influential independent Chinese weekly newspaper.) Some of these media articles were reposted on the official websites of China’s Ministry of Commerce, China National Petroleum Corp (CNPC) (the fourth largest company in the world in 2020) and the Shanghai International Energy Exchange. The same recognition also appeared in other interviews with the research director on financial topics published in other Chinese newspapers, including *China Banking and Insurance News* (of the China Banking and Insurance Regulatory Commission.)

As a side note, as of September 2020, based on Web of Science citation counts, two of the *JFM* articles coauthored by the research director (also as the lead author), including one on commodity futures, rank among the top 15 most cited among over 2,100 *JFM* articles in about the last forty years since the *JFM*’s inception (1981-2020).

## Conclusion

COVID-19 has had a profound impact on the economy, the society and our own personal lives. We are very grateful for the constant support from so many of the world’s renowned academics in the field of commodities to serve as members of the JPMCC Research Council or as presenters or discussants at our conferences. We hope we would still meet you virtually next summer, or even better physically.

We wish everyone a healthy and safe winter!

Best Regards,

Jian Yang, Ph.D., CFA