Contributing Editor's Collection

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In this issue of the *GCARD*, the Contributing Editor covers the commodity derivatives markets from a broadly conceptual perspective. Specifically, this section's collection of articles reviews (a) the potentially persistent sources of return in the commodity futures markets; (b) the differing risk-management priorities for commercial versus speculative commodity enterprises; and (c) the economic role of commodity market participants.

Each of this collection's three articles is summarized below.

Sources of Return in the Commodity Futures Markets

This digest article describes potentially persistent sources of return in the commodity futures markets due to (1) hedge pressure, (2) scarcity, and (3) weather-fear premia. Each of the strategies described in this article have all continued to exist, but sometimes, in addition, require careful timing and sophistication in trade construction.

Commodity Derivatives Risk Management: The Differing Priorities among Commercial and Speculative Enterprises

This paper discusses how risk management in commodity futures trading takes two different forms, depending on whether trading is done for a commercial or a purely speculative enterprise. The article argues that for commercial enterprises, the most important aspects of risk management are in (a) adhering to regulatory rules and laws, and in (b) establishing strict operational policies and procedures over every facet of risk-taking activity. In contrast, for a purely speculative participant, the emphasis is almost entirely on market risk-management.

The Economic Role of Hedgers and Speculators in the Commodity Futures Markets

This article notes how the terms, "hedging" and "speculation," are not precise. What futures markets accomplish is the specialization of risk-taking rather than the elimination of risk. In addition, this paper discusses how there is some empirical evidence to support the theory that speculative involvement actually reduces price volatility. This article also explains that even when commodity futures markets are viewed as "hedging" markets, there is still a vital role for speculators because there will not always be an even balance of short hedgers and long hedgers at any one time: speculators are needed to balance the market. The paper concludes by noting that it will likely always be useful to be reminded of the economic function of commodity futures markets, as public debate periodically flares up regarding these markets.