

Causes and Implications of Shifts in Financial Participation in Commodity Markets

Paper AUTHOR OR EDITOR Bassam Fattouh, Lavan Mahadeva AUTHORS AND/OR EDITORS Bassam Fattouh Lavan Mahadeva

We assess the causes and implications of the greater financial participation in commodity markets post-2003. Focusing on crude oil, we build a calibrated macro-finance model of oil prices and quantities that also determines consumer welfare. We show that shifts in the preferences and constraints of financial speculators cannot explain the observed movement in the futures spread and so are unlikely to expose consumer welfare to shocks, even in the presence of belief disagreements. Shifts in the supply and demand for spot oil can better explain many of the features often attributed to financialization including financial participation itself.