

Prediction of Commodity Returns and Investor Flows

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Prof. Dr. Henrik Hasseltoft

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Author: Thomas Fischer

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Abstract

The large price moves in several commodity markets seen in recent years has seen new attacks on speculation and investor participation in commodity markets from politicians and academic researchers, as well. This forced supervisory institutions to provide new data for trader positions in commodity futures markets. The analysis of this data created two groups with opposite opinions regarding the price-influencing effects exercised by investors, be they index-focused or short-term speculators. While a majority of publications does not find statistical significance for investors exercising a price-driving role or showing superior forecasting ability, a few recent publications showed interesting results that oppose the majority of the findings. It is a goal of this thesis to look at these events and applying a modified version of a previously presented model to other commodities than just crude oil. The framework is constructed as a return-prediction model that could help in pursuing commodity investment research and trading. But the findings are also of interest from a policy-making perspective whether investors have a significant price-driving effect in commodity markets.