Commodity Return Predictability

Regina Hammerschmid
University of Zurich

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Supervisor: Prof. Dr. Henrik Hasseltoft

ABSTRACT

Commodity prices lead expected inflation, capture global economic activity, and are affected by investors' trading activity. Both the commodity futures and spot risk premia are time-varying and strongly regime-dependent. Using a broad set of predictive variables, I identify common market-specific and fundamental economic risk factors driving futures and spot excess returns. Moreover, technical indicators possess strong predictive power over spot returns. Overall predictability is significantly improved by accounting for possible state-dependencies in the predictive dynamics of commodity returns. In particular, spot returns are mostly only predictable during the low volatility regime while the regime-dependent predictive evidence for futures returns is mixed across different market states.