Comovement and the financialization of commodities

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Commodity markets have experienced a surge in participation by financial investors over the past decade. This notable uptick highlighted the potential effect of financialization as one of the causes of increased comovement of commodities returns. Building on the theory of comovement proposed by Barberis et al. (2005), this paper investigates drivers of the observed increase in comovement prices of commodity futures in the United States and provides new empirical evidences.
This empirical analysis allows us to distinguish between two views of return comovement: the traditional view, in which return comovement is explained by comovements in news about fundamentals value, and the alternative view, in which excess comovement is attributed to traders' sentiment. We examine differences in the dependence structure between index and off-index commodities, and three major commodities indexes. Non-energy commodities present in the index exhibit an increase in comovement whereas those commodities off the index do not.
These results are supported by the analysis of high-frequency returns dynamics by means of the so called realised beta. We therefore provide new evidence supporting the friction or sentiment based view of commodity comovement. We interpret this to be additional evidence of financialization as the driver of the observed increase in commodity return comovement.