

Table of contents

List of publications.....	XI
List of abbreviations	XIII
List of figures	XV
List of tables	XVII
1 Introduction.....	1
1.1 Motivation	1
1.2 Research on commodity derivative markets and other related topics.....	2
1.3 Research aims of this thesis	3
2 Commodities and their exchange trade	7
2.1 Commodity classification	7
2.2 LME traded industrial metals	9
2.3 Description of industrial metals from the LME	10
2.3.1 Aluminum	10
2.3.2 Copper	11
2.3.3 Lead	11
2.3.4 Nickel	12
2.3.5 Tin	12
2.3.6 Zinc	12
2.4 Measuring criticality of metals	13
3 Theoretical background of commodity derivatives and related literature.....	17
3.1 Pricing and properties of commodity futures	17
3.1.1 Basics of commodity futures and their term structure	17
3.1.2 Pricing models	18
3.1.2.1 The theory of normal backwardation and risk premiums in commodity future prices	18
3.1.2.2 Cost of carry valuation of commodity futures and the theory of storage	21
3.1.2.3 The link between the risk premium and cost of carry valuation model	24
3.1.3 The impact of non-commercial trading on commodity markets	24
3.1.3.1 Classification of participants in commodity markets	24
3.1.3.2 Non-commercial trading activity and price bubbles	25
3.1.3.3 Price discovery and transmission of future price bubbles to spot markets.....	27
3.1.4 Research aims and hypotheses on commodity futures	28
3.1.4.1 Future pricing models.....	28
3.1.4.2 Non-commercial trading in future markets	30

3.1.4.3 Convenience yield as supply risk indicator.....	31
3.2 Properties of commodity options	33
3.2.1 Basics of commodity options	33
3.2.2 Inventory level as determinant of volatility in commodity markets.....	34
3.2.3 Predicting volatility in commodity markets	35
3.2.4 Research aims and hypotheses on commodity options.....	38
3.3 Pricing and properties of structured financial products with commodity underlyings	40
3.3.1 Basics of structured financial products	40
3.3.2 Price setting of structured financial products	41
3.3.3 Research aims and hypotheses on structured financial products with commodity underlyings.....	44
4 Empirical examination	49
4.1 Commodity futures.....	49
4.1.1 Cointegration tests of the future pricing models	49
4.1.1.1 Methodology	49
4.1.1.1.1 Risk premium model.....	49
4.1.1.1.2 Cost of carry model	49
4.1.1.1.3 Johansen cointegration test	50
4.1.1.1.4 The convenience yield as determinant in price mechanisms	51
4.1.1.2 Data	51
4.1.1.3 Unit root and stationarity tests	54
4.1.1.4 Results	55
4.1.1.4.1 Cointegration tests	55
4.1.1.4.1.1 Risk premium model.....	55
4.1.1.4.1.2 Cost of carry model	57
4.1.1.4.2 Regression analysis of the convenience yield's influence on future pricing.....	60
4.1.1.4.2.1 Linkage between future prices and expected spot prices.....	60
4.1.1.4.2.2 Linkage between future prices and current spot prices.....	63
4.1.1.5 Discussion	68
4.1.1.5.1 Risk premium model.....	68
4.1.1.5.2 Cost of carry model	69
4.1.1.5.3 Comparing the risk premium and cost of carry model	71
4.1.2 Cointegration test on non-commercial trading with the turnover	74
4.1.2.1 Methodology	74
4.1.2.2 Data	74

4.1.2.3 Unit root tests.....	74
4.1.2.4 Results	75
4.1.2.5 Discussion	79
4.1.3 Convenience yield as supply risk indicator.....	79
4.1.3.1 Methodology	79
4.1.3.2 Data	81
4.1.3.3 Results	82
4.1.3.3.1 Inventory forecasting with convenience yields.....	82
4.1.3.3.2 Spot price forecasting with convenience yields	83
4.1.3.4 Robustness checks.....	83
4.1.3.4.1 Test of the statistical models.....	83
4.1.3.4.2 Test for operationalization induced biases	88
4.1.3.5 Discussion	89
4.1.3.5.1 Predictive power of the convenience yield	89
4.1.3.5.2 The convenience yield as supply risk indicator	92
4.2 Commodity options	93
4.2.1 Methodology	93
4.2.1.1 Volatility forecasting with implied forward volatilities	93
4.2.1.2 Inventory forecasting with implied forward volatilities.....	96
4.2.2 Data	97
4.2.3 Unit root tests.....	100
4.2.4 Volatility forecasting with implied forward volatilities	101
4.2.4.1 Results	101
4.2.4.2 Discussion	105
4.2.4.3 Methodological drawbacks	115
4.2.5 Inventory forecasting with implied forward volatilities	116
4.2.5.1 Results	116
4.2.5.2 Discussion	120
4.3 Structured financial products with commodity underlyings.....	123
4.3.1 Valuation of discount and bonus certificates.....	123
4.3.1.1 Discount certificates.....	123
4.3.1.1.1 Payoff scheme	123
4.3.1.1.2 Valuation without default risk and quanto	124
4.3.1.2 Bonus certificates	124
4.3.1.2.1 Payoff scheme	124

4.3.1.2.2 Valuation without default risk and quanto	124
4.3.1.3 Valuation of discount and bonus certificates with credit risk.....	125
4.3.1.4 Valuation of quanto discount and bonus certificates	125
4.3.2 Data	126
4.3.2.1 Discount and bonus certificate data	126
4.3.2.2 Market data for the valuation	127
4.3.3 Methodology	130
4.3.3.1 Measuring mispricing of certificates	130
4.3.3.2 Statistical tests on mispricing of certificates	131
4.3.4 Results	133
4.3.4.1 Bank margins in the primary market.....	133
4.3.4.1.1 Sample statistics of bank margins	133
4.3.4.1.2 Bivariate regressions of bank margins	134
4.3.4.1.3 Multivariate regressions of bank margins.....	143
4.3.4.2 Bank margins in the secondary market.....	144
4.3.4.2.1 Sample statistics of bank margins	144
4.3.4.2.2 Bivariate regressions of bank margins	145
4.3.4.2.3 Multivariate regressions of bank margins.....	145
4.3.5 Discussion	146
4.3.5.1 Price setting in the market for commodity certificates	146
4.3.5.1.1 Primary market.....	146
4.3.5.1.2 Secondary market	146
4.3.5.2 Market entry barriers and bank margins	147
4.3.5.2.1 Primary market.....	147
4.3.5.2.2 Secondary market	148
4.3.5.3 Pricing of certificates with quanto feature.....	150
4.3.5.3.1 Primary market.....	150
4.3.5.3.2 Secondary market	151
4.3.5.4 The influence of the convenience yield on the bank margin	152
4.3.5.5 The influence of past returns on the bank margin.....	153
4.3.5.6 The influence of the implied volatility on the bank margin	154
4.3.5.7 Other empirical observations.....	154
4.3.5.7.1 Bank margin differences between discount and bonus certificates	154
4.3.5.7.2 The influence of the time to maturity on the bank margin	156
4.3.5.7.3 Moneyness and distance to the barrier as determinants of bank margins	156

4.3.5.7.4 Issuers' credit spreads and bank margins	159
5 Conclusions.....	161
5.1 Summary of results.....	161
5.2 Final remarks and outlook.....	164
References.....	167
Acknowledgment.....	185
Curriculum vitae	187