

Price formation in commodities markets: the world after financialisation

Final launch of the Task Force Report and Roundtable Event

30 September 2013 – 10.30h-16.45h

CEPS, 1 Place du Congrès, Brussels (Belgium)

Markets are in constant flux and commodities markets are no exception. Their market structure has evolved at an incredible pace over the past decade, driven by soaring international trade, easier access to international finance and technological developments in trading infrastructure. While the commodities super-cycle appears to be fading away, barring a shift in regulatory policy, the interaction between the physical markets and the financial system is likely to remain strong for the foreseeable future. Due to accommodating monetary policies and financial deregulation, the high returns generated by growing international trade fuelled by demand emanating from emerging industrial economies have attracted the interest of financial institutions hoarding cash for what has been commonly perceived as an anti-cyclical asset class. Financial leverage has been therefore instrumental in the development of international trade and empirical evidence points at the benign role of speculation in the long-term, but it is more controversial in the short-term. More interaction with the financial system also means easier access to financial leverage by commodities firms, and in particular by trading companies, which may have become 'too-physical-to-fail'. The combined effects in the last decade of international trade, monetary policies, and technological developments in market infrastructure have made physical markets more interconnected among them and more intertwined with the financial system. The new market structure intensifies the magnitude of non-financial and financial shocks, even if they take place in a small region of the world.

The event will discuss these and other topics relevant to commodities markets in four sessions:

10:30h-11:15h **Launch and discussion of the Final Task Force Report on Price Formation in Commodities Markets** "Price Formation in Commodities Markets. Financialisation and Beyond"

Speakers:

Ann E. Berg, Independent Consultant to International Organisations, Former Board Director, Chicago Board of Trade, *Chairwoman of the Task Force*

Diego Valiante, ECMI Head of Research and Research Fellow, CEPS, *Rapporteur to the Task Force*

Christian Egenhofer, Senior Fellow, Head of the Energy and Climate programme, *Rapporteur to the Task Force* [moderator]

11:15h-12:15h **Session 1: Commodities markets fundamentals and fundamental drivers of long-term price formation – How to take the bull of sustainability by the horns**

- Are there underlying structural issue of demand/supply sustainability behind the sharp increase in short-term volatility for key commodities?
- How are government policies, such as subsidies programmes and biofuel policies, changing long-term drivers of price formation?
- What is the future of international commodities trade?
- How are new natural (e.g. unconventional source of gas and crude oil) or technological (e.g. GMO or pharmaceutical applications) discoveries going to change supply-driven drivers of price formation?

Speakers:

Christopher L. Gilbert, Professor of Econometrics, University of Trento

Jaako Kooroshy, Research Fellow, Energy, Environment & Resources, The Royal Institute of International Affairs, Chatham House

Pierluigi Londero, Head of Unit - Economic Analysis of EU Agriculture, European Commission

Barbara Lewis, Senior EU Energy & Environment Correspondent, Thomson Reuters [moderator]

12:15h-13:15h **Lunch break**

13:15h-14:45h **Session 2: Commodities market structure – Grasping the interaction between futures and physical markets and the role of futures exchanges**

- How does the role of inventories change across physical markets? What are recent developments in warehousing and delivery of commodities exchanges (e.g. aluminium, cocoa, etc)? How can exchanges improve their delivery systems to meet underlying physical markets and final users' interest?
- What are the developments in exchanges consolidation at global level and how is the future of commodities market infrastructure shaping? Have exchanges become too big to fail?
- How should regulatory change (open access and interoperability) be designed to foster competition among market infrastructures and minimise liquidity fragmentation while maximising arbitrage opportunities?
- What are the most relevant developments in the market microstructure of commodities futures trading? Any issues with trading practices embedded in intra-day volumes? How are algorithmic trading programs, including high-frequency trading impacting the market microstructure?

Speakers:

Helyette Geman, Director, Commodity Finance Centre, University of London & Johns Hopkins University

Nicolas Maystre, Economic Affairs Officer, UNCTAD

Marco Georgiou, Head, Aluminium Primary & Products, CRU Group

David Peniket, President & Chief Operating Officer, ICE Futures Europe

Julie Winkler, Managing Director Research & Product Development, CME Group

Suzanne Frost, Director Commodity Risk, Rexam

Diego Valiante, ECMI Head of Research and Research Fellow, CEPS [moderator]

14.45h-15:00h **Coffee break**

15:00h-16:45h **Session 3: Assessing the interaction between commodities markets and the financial system: what lessons for policy-makers?**

- How is access of commodities firms to international finance developing?
- Have trading houses holding assets across diverse commodities markets become 'too-physical-to-fail'? What is the role of financial leverage?
- Are financial participants and their speculative trading damaging for price formation?
- Are there relevant changes in correlations across markets that policy-makers should fear?
- What kind of potential policy toolkit? Position limits? Approval of contract specifications including warehouse obligations? Disclosure of financial leverage? Aggregate disclosure of physical holdings?

Speakers:

Maria Teresa Fabregas Fernandez, Head of Unit Securities Markets, DG Internal Market and Services, European Commission

David Lawton, Director of Markets, Financial Conduct Authority

Christine Keener, Vice President Alcoa Materials Management Europe, Alcoa

Alan Haywood, Head of Commercial Development, Integrated Supply & Trading, BP and ISDA Board Member and Co-Chair of the ISDA Commodities Steering Committee

Marc-Olivier Herman, EU Economic Justice Policy Lead, Oxfam EU Advocacy Office

Markus Ferber, MEP and Member of the Committee on Economic and Monetary Affairs, European Parliament

Thomas Erickson, Vice President and Director of Legal Affairs, Bunge and former CFTC Commissioner [moderator]