

2010 School Seminar Series

Waikato Management School
Te Raupapa



Liquidity Commonality in Commodities

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Dr Ben R. Marshall
Massey University

Dr Nhut H. Nguyen
University of Auckland

Dr Nuttawat Visaltanachoti
Massey University

Abstract:

Commodities have become an important asset class. However commodities have unique characteristics so it is unclear whether findings for other asset classes apply to commodities. We show, using data from 16 agricultural, energy, industrial metal, precious metal, and livestock commodities, that there is a strong systematic liquidity factor (liquidity commonality) in commodities. Liquidity commonality was present in 1997 - 2002 when commodity prices were relatively stable and during the recent boom. There is no consistent relation between changes in systematic stock market liquidity and changes in commodity liquidity. Commodities can be used to hedge stock market liquidity risk.

Presenter: Ben Marshall

Email: B.Marshall@Massey.ac.nz