Hedging, arbitrage and the financialization of commodities markets

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Abstract

The paper provides an overview of the unfolding of the financialization of commodities in the 2000-2014 time frame. Different phases are described according to the positioning of the group of traders, their motivations, and the type of financial assets used to take a position in commodities. The main theme is the failure of arbitrage to level prices of similar financial assets traded in different markets. However, this failure does not depend on financing constraints suffered by arbitrageurs. Following Mirowski (2010) it is shown that arbitrage becomes a form of financial innovation rather than an equilibrating mechanism in contemporary financial markets. Historical accidents and changes in policy affect the positions of groups in the financial market game. The various strategies used are explained by creating a set of T accounts for the various groups that highlight the winners and the losers in the various phases.

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