FE557 Commodity Trading

상품거래기법

2017 Spring (2nd-half semester): 8 weeks

Instructor:	Kwon, Kyung Yoon (권경윤) arari1115@gmail.com (#391, Tel. 3693)
Classes:	Mondays and Wednesdays, 14:30 – 15:50
Office Hours:	After classes or by appointment

Course Description:

The objective of this course is to understand commodities and commodity derivatives, and to learn various trading strategies applied in the industry and the literature. The course includes the fundamentals of commodity and commodity derivatives markets, the risk/determinant of commodity futures prices, and findings on the hedging/diversification effects of commodity investing and profitability of long-short strategies.

Text:

- (**Main**) Geman, H., *Commodities and Commodity Derivatives: Modeling and Pricing for Agriculturals, Metals and Energy*, 1st Ed. Wiley, 2005
- Clark, I.J., *Commodity Option Pricing: A Practitioner's Guide*, 1st Ed. Wiley, 2014
- Kleinman, G., *Trading Commodities and Financial Futures*, 3rd Ed. Pearson, 2005.

Related papers:

- Erb, C.B., and Harvey, C.R., 2006. The Strategic and Tactical Value of Commodity Futures. *Financial Analysts Journal* 62, 2, pp. 69-97.
- Fama E.F., and French, K.R., 1987. Commodity Futures Prices: Some Evidence on Forecast Power, Premiums, and the Theory of Storage. *Journal of Business* 60, 1, pp. 55-73.
- Gorton, G., and Rouwenhorst, K.G., 2006. Facts and Fantasies about Commodity Futures. *Financial Analysts Journal* 62, 2, pp. 47-68.
- Miffre, J., 2016. Long-Short Commodity Investing: A Review of the Literature. *Journal of Commodity Markets*, forthcoming.
- Gibson, R., and Schwartz. E.S., 1990. Stochastic Convenience Yield and the Pricing of Oil Contingent Claims. *Journal of Finance* 45, 3, pp.959-976.

Grading:

- Homework or Quiz (30%)
- Exam (70%)

Class Schedule:

1. **Fundamentals of Commodity and Commodity Derivatives Markets**
   - Overview of Commodity Markets
   - Forward and Futures Contracts
   - Structure of Futures Markets
   - Basis Risk
2. **Relationships of Spot, Forward, and Futures Prices**
   - Theory of Storage and Convenience Yield
   - Theory of Backwardation
   - Spot-Forward Relationship
   - Forward-Futures Relationship
3. **Commodity Categorization**
   - Agriculture, Metal, Meat/Livestock, Energy, and etc.
4. **Trading Strategies**
   - Market Indices
   - Hedging/Diversification Effects
   - Long-Short Strategies
5. **Stochastic Modeling of Commodity Price Processes (Optional)**