



INSIGHT

Going Deeper: Our Industry, Our Government, Our Economy

The Commodity Boom: An expert review with Mark Haraburda, Barchart.com, Inc.

Over the decade 1999 to 2009, volume in exchange-listed commodity futures markets increased 387% in the United States, according to the Futures Industry Association's annual statistics. In fact, annual growth was greater than 20% in all but three of these years. Internationally, futures volume growth was an astounding 590%.

When Commodity Research Bureau (CRB) started collecting and distributing commodity data in 1934, we tracked just a handful of U.S. agricultural futures contracts. Today we track over 7,000 futures contracts representing over 80 derivatives exchanges from around the world, and markets ranging from energy, grains and metals to interest rates, currencies and equity indices. This does not include cash markets or options contracts, which shoot the numbers into the sky. But what is most impressive, is that within the past 10 years the industry has realized more growth in the sheer number of listed futures markets than the previous 65 years (1934 – 1999) combined.

Why have the commodity markets boomed over the past decade? I'll discuss a few reasons, including the evolution of electronic trading, the development of international derivative markets, the embracing of commodities as an asset class, and, of course the volatility of commodity markets. In addition, we have also witnessed major corporate structure changes through demutualization and public offerings by many of the major derivatives exchanges.

The Evolution of Electronic Trading

The 21st century marked the emergence of electronic trading in futures markets. The previous century relied on "open-outcry" trading in pits. Unless you were on the floor of the exchange, you had to call a broker on the phone to transmit an order then wait to hear if your trade was filled, as your order transcended a sea of hand signals and shouting. In hindsight, this of course was slow and inefficient, as we now live in the days of microsecond order routing. Electronic trading gave direct, high-speed access to futures markets to every corner of the world. It enabled you to submit bigger, faster orders with the click of a mouse or the light-speed of an automated algorithm. Add connectivity to the internet, and volume from electronic trading was set to flourish.

Development of International Derivative Markets

When you look at the development of international futures markets over the past 10 years it is difficult to decide where to begin. China, India, Korea, Brazil, Mexico, Russia, Dubai, Thailand—take your pick. Some regions of course have facilitated tremendously more growth than others, like China, Korea, India and Brazil; nevertheless the others have benefited from the development of new financial instruments to manage price-related risks. The international growth is due to both the economic and social expansions of these countries. With the massive infrastructure needs of China and India, the need for raw commodity materials is astounding, as is the importance of managing the related price volatility. In addition, as more than a billion people from these regions advance out of poverty, the dietary demands for more proteins like

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beef and pork have surged, requiring more grain crops to raise cattle and hogs, as well as more petroleum for related machinery and transportation.

Commodities as an Asset Class

Many investment managers have acknowledged the benefit of adding commodity positions to a portfolio. Generally, studies highlight that these portfolios have less risk and higher returns, given the negative correlation seen within some commodity markets with other assets like stocks, bonds and real-estate. Second, with the lackluster performance of the stock market over the past decade, more money has flowed into managed futures investments offered by CTAs and CPOs. Third, commodity-based ETFs have given "everyday investors" the ability to easily invest in crude oil, gold and even corn. Many of these commodity ETFs then must maintain futures positions to provide the exposure.

Volatility of Commodity Markets

From 2000 – 2009, spot WTI crude oil fluctuated from a low of \$17.48 to a high of \$145.66 per barrel, a range of \$128.18. The range in the prior three decades averaged just \$31.39. Over the same period (2000 – 2009), spot gold experienced a range of \$960.98 per ounce compared to an average of \$405.95 over the prior three decades. Cash corn ranged from \$7.32 per bushel to \$1.62, a difference of \$5.70, compared to an average range of \$3.07 over the preceding three decades. Finally, the CRB Spot Index realized a 286 point range versus an average of 125 points during the prior three decades. It is an understatement to say the past 10 years have been volatile—it has been the most volatile period on record for the majority of commodity markets. The increased volatility has translated into a greater need for hedging and has provided more opportunities for speculation.

Corporate Structure Changes

The growth of the commodity markets was also facilitated by the fact that many of the world's largest derivatives exchanges relinquished their non-profit, member-driven structure during this time and became competitive publicly-traded entities. These exchanges became more growth driven as they were now accountable to their shareholders. More cash was also now on hand to invest in new ventures, consolidate, invent new products, and expand futures-related marketing and education.

The turn of the century marked the start of the commodity boom.

For more information about this article or to learn more about CMC's Industry Partner Barchart.com, please contact

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CMC's Value Prop for Prop Traders: Infinium's Mac McNally on State of the Industry 2011

Mac McNally, Managing Director of Strategic Growth at Infinium Capital Management, reflects on the synergy he enjoyed at State of the Industry 2011:



Isn't it true that so much that is important to our businesses happens outside the walls of our offices? State of the Industry 2011 was my first CMC annual meeting, and after my time in Palm Beach, I am convinced of the value of CMC to Infinium Capital Management as well as of the value of State of the Industry events to our business purposes.

The energy of the program coupled with the opportunities to make connections with other attendees gave me deep insight into current realities of our industry as well as the chance to put names with faces and broaden my own contacts within our industry. After hosting the Welcome Reception on Tuesday night, State of the Industry became much more than an attendee list for me and others in attendance from Infinium. It became a deep pool of knowledge and opportunity – one I won't want to miss for years to come.

The uniqueness of State of the Industry's synergies – the coincidence of industry interests and opportunities – makes it a do-not-miss event for Infinium Capital Management. See you next year!



McNally with Susan Lyons (Louis Dreyfus) and Christine Cochran (CMC) at CMC's State of the Industry 2011.

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