



**भारतीय रिज़र्व बैंक**  
**RESERVE BANK OF INDIA**

वेबसाइट : [www.rbi.org.in/hindi](http://www.rbi.org.in/hindi)

Website : [www.rbi.org.in](http://www.rbi.org.in)

ई-मेल email: [helpdoc@rbi.org.in](mailto:helpdoc@rbi.org.in)

संचार विभाग, केंद्रीय कार्यालय, एस.बी.एस.मार्ग, मुंबई-400001

DEPARTMENT OF COMMUNICATION, Central Office, S.B.S.Marg, Mumbai-400001

फोन/Phone: 91 22 2266 0502 फैक्स/Fax: 91 22 22660358

January 8, 2014

**RBI Working Paper Series 1:  
Regulation Must keep Pace with Changing Dynamics of Commodities Market**

The Reserve Bank of India, today placed on its website, a Working Paper titled "[Global Liquidity, Financialisation and Commodity Price Inflation](#)" under the Reserve Bank of India Working Paper Series. The paper has been authored by Kumar Rishabh and Somnath Sharma.

The high and volatile global commodity prices have posed considerable challenges to the domestic monetary policy in several commodity importing countries. In this context, the paper investigates the role of financialisation of commodity markets (captured by speculative trading), global liquidity (private and official) and fundamental factors (emerging market demand) behind global commodity price inflation.

Major findings of this paper are:

- i. Both financialisation of commodity markets as well as fundamental factors have driven commodity price inflation.
- ii. 'Private liquidity' is found to be inflationary while 'official liquidity' is not; possibly due to the central banks leaning against the wind since the financial crisis of 2008.
- iii. Active commodity derivative traders like money managers along with the traditional passive swap dealers have played an important role in commodity inflation dynamics.

The results of this paper imply that regulation of commodity futures markets has to evolve concomitant to the changing dynamics of commodity markets and the sole emphasis on over the counter (OTC) market reforms, that mainly cover the swap dealers, may not be sufficient. Global private liquidity has to be watched more closely in conjugation with the global monetary aggregates for the buildup of inflationary tendencies in the commodity markets. In the context of growing emerging market demand, supply side responses, most of which are long term in nature, are required.

The paper uses Vector Auto Regression (VAR) framework to find the main drivers of commodity inflation. It contributes to the existing literature on the issue in two ways. First, following the recent advancement in the understanding of global liquidity, the distinction between 'private liquidity' and 'official liquidity' is applied to identify the indicators of inflationary pressures in commodity markets. Second, impact of the activities of different type of non-commercial commodity traders on commodity prices is studied.

*\*The Reserve Bank of India introduced the RBI Working Papers series in March 2011. These papers present research in progress of the staff members of the Reserve Bank and are disseminated to elicit comments and further debate. The views expressed in these papers are those of authors and not of the Reserve Bank of India. Comments and observations may kindly be forwarded to authors. Citation and use of such papers should take into account its provisional character.*