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The Price Impact of Index Funds in Commodity Futures Markets: Evidence from the CFTC's Daily Large Trader Reporting System

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Abstract

This paper analyzes the price impact of long-only index funds in commodity futures markets for the January 2004 through July 2008 period. Daily positions of index traders in 12 markets are drawn from the internal large trader reporting system used by the CFTC. Granger causality test results provide negligible evidence that index traders impact commodity future returns regardless of the measure of market participation considered. The signs of the relatively few significant coefficients are as likely to be negative as positive and the magnitudes of the economic effects are very small. Some evidence is found that volatility has been influenced by the presence of index traders in several markets, but only using one of the measures of index position changes. These effects appear to be small in economic magnitude, except in several traditionally less liquid markets. While the overall balance between significant positive and negative signs is nearly equal, index positions appear to have had a dampening effect on volatility during 2004-2005 particularly in the soft commodity contracts, followed by a heightening effect during 2006-2008 in deferred contracts.

Details

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