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Minimum-Variance Hedging Oil Price Risk for US Energy ETF Investors: Out-of-Sample Investigation

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Abstract


Oil price experienced crashes during the period of the 2008 global financial crisis and the recent period of oil price crisis in 2014. Hedging oil price risk becomes more important for energy industry investors. In this paper, we investigate the out-of-sample dynamic hedging performance by using the oil futures based on 11 methods for estimating the minimum-variance optimal hedge ratio for 5 US energy ETFs. Except variance, we also study the difference in average returns and utilities between the unhedged strategy and the hedged strategy by employing statistical tests. Finally, we study explore the performance of the hedged strategy in terms of cumulative return and variance under different oil market regimes.

Keywords: US Oil and Gas Industry; Dynamic Hedging; Minimum-Variance Hedge; Oil Price Risk; Out-of-Sample

JEL Classification: G10; C52

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