Applied Economics ›
Volume 48, 2016 - Issue 57



Original Articles

# Relative scarcity and convenience yield: evidence from non-ferrous metals

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Pages 5605-5624 | Published online: 28 May 2016

Cite this article https://doi.org/10.1080/00036846.2016.1181832 Check for updates



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## ABSTRACT

We study the relationship between convenience yield and relative scarcity in the non-ferrous metal market for the period January 2000–March 2015. We identify various sets of economic relationships for six major base metals, namely, aluminium, copper, lead, nickel, tin and zinc. Our bivariate and multivariate VARs and associated Granger-causality test results generally support the existence of a positive relationship between convenience yields of base metals and our relative scarcity measure. Furthermore, the time-varying characteristics observed in the results, especially during contango and backwardation periods, provide useful information to market players in developing inventory strategies.

KEYWORDS:

Commodity markets options economic linkages convenience yield the theory of storage forecasting

JEL CLASSIFICATION:

G15 Q31 D51 D81 E20

## Disclosure statement

No potential conflict of interest was reported by the author(s).

# Notes

[1] Our study also shows that economic linkages between two metals can be important in determining the convenience yield of one metal but not for the other metal. For instance, the relationship between aluminium and copper is shown to affect the convenience yield of copper but not of aluminium.

[2] We also test whether the significant relationships can be observed in recent years by controlling for various factors; however, the model does not converge. This is possibly because the sample sizes are not large enough.