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# Efficient estimation and testing of oil futures contracts in a mutual offset system

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## Abstract

With the globalization of financial and commodity markets, it is becoming increasingly important to recognize price linkages between markets beyond national boundaries. Models of futures pricing that incorporate such price linkages into the information set can be expected to be superior empirically. Test results obtained in the paper support this proposition strongly in the case of Brent crude oil futures contracts traded in a mutual offset system between the Singapore International Monetary Exchange (SIMEX) and the [illegible]EX Brent futures [illegible] futures price int[illegible]f-carry hypo[illegible]obtained by incorp[illegible]e two hypothe[illegible]gmented unbiased[illegible] system for the standard Unbiased Expectations Hypothesis, and the augmented cost-of-carry

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system is also found to be superior empirically to the standard cost-of-carry system for both SIMEX Brent futures and IPE Brent futures contracts.


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# Notes

Cointegration has been well explored in the literature, with a comprehensive coverage of the literature given in Engle and Granger (1991)and Banerjee et al. (1993). The basic insight into cointegration analysis is that, although many economic time series are non-stationary, groups of such non-stationary variables may move together in the long run.

Many financial time series, such as those examined in this paper, contain stochastic trends, and are denoted as I (1) in the time series literature (a scalar time series, $y_t$, has a stochastic trend if its first difference, $y_t - y_{t-1}$, has a stationary invertible ARMA representation plus a deterministic component).

Hakkio (1981) applied the certainty equivalence theory of the term structure of interest rates and the hypothesis of interest rate parity to obtain a simple expression relating the six-r premium. His prop ns on the paramet ntinuous time ked distance into t turity of all futures i ght function W(τ), wh urity of existing


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