

# ***«Commodity Price Volatility and the Sources of Growth»***

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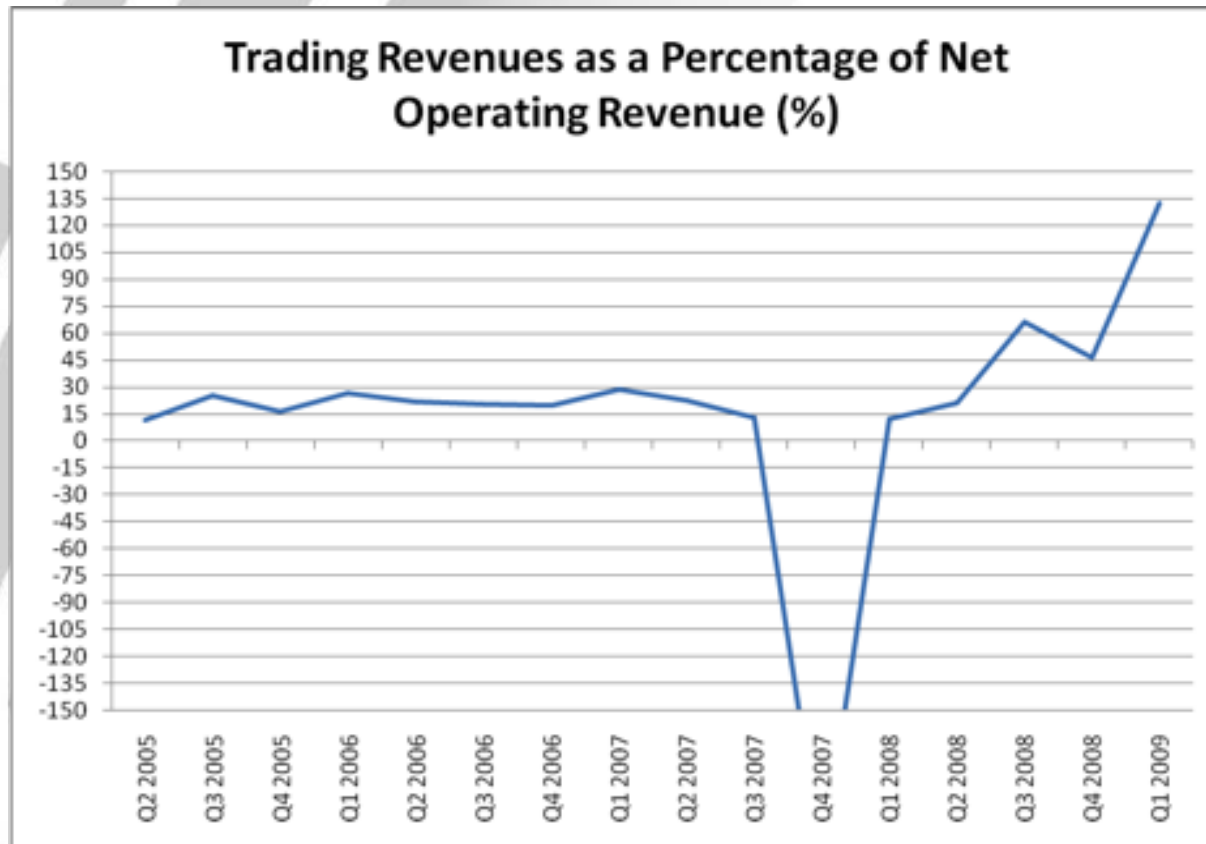
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**Lehman Brothers' proprietary holdings reportedly reached \$313 billion in 2007.**

**When the crisis hit and the values of these holdings declined, Lehman Brothers reportedly lost \$32 billion, more than double the \$18 billion in common equity the firm had in late 2006.**

**By September 2008, the firm had collapsed into the largest bankruptcy in history.**

Since 2004, trading revenues have sky-rocketed at the largest banks in the USA, and by the end of 2009, accounted for all of their net operating revenues.



**1. Future price= Spot price + contango**

**2. Contango = Cost of carry + markup**

**3. Cost of carry = Finance cost + transportation and storage cost + insurance cost**

**Cost of carry has been low due to the fact that the quantitative easing policies have lowered Libor.**

## 07Sep11 RUTERS-ANALYSIS-Banks still winners in aluminium warehouse play

"Even though the market might be in surplus, that metal isn't going to be reaching consumers - it's going to be reaching another consumer: the warehousers," Credit Agricole's Bhar said.

"If you can keep (aluminium tonnage) away from the market by locking it up, then effectively it starves the market of those units as needed, underpinning premiums and prices," he added.

**"And if we didn't have these financing deals, prices would arguably be a lot lower than where they are today, even without a recession."**

## **Suggestions for policy response:**

- 1.B20 should emphasize the importance of inverse impact of quantitative easing policies on growth**
- 2.Authorities in charge of monitoring the proper functioning of financial markets should be endowed by enforceable regulations, and they should act fast**
- 3.Commodity markets should be monitored to ensure that they function efficiently. In that respect, restriction on aluminum supply through financial deals should be eliminated by increasing the cost of carry; and G20 should keep close eyes on LME to ensure that metals sitting in the warehouses reach consumers on time as demanded**
- 4.OTC markets and future exchanges should be integrated in order to put a limit on aggregate net position and net position held by each investor; also reliable and timely information should be available for all market participants at the same time**
- 5. Proprietary trade by banks should be limited by a certain ratio of trading revenues as a percentage of net operating revenues, if not abolished.**