

Price discovery in the aluminum market

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Abstract-

An extended version of the S. Beveridge and C. R. Nelson (1981) decomposition and a latent variable approach are used to examine how the noise content, and therefore the informativeness, of four aluminum prices that have been quoted at various times since 1970—the (now defunct) U.S. producer price, a transactions price reported in a trade journal, and the LME and Comex exchange prices. It was found that the start of aluminum futures trading in 1978 resulted in greater price transparency in the sense that the information content of transactions prices increased. LME prices quickly came to be more informative than published transactions prices. Although the initial Comex aluminum contract failed to attract liquidity and had low information content, the 1999 contract, trading currently, is as transparent as the LME contract.

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