

Testing for mild explosivity and bubbles in LME non-ferrous metals prices

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Abstract-

This article applies the mildly explosive/multiple bubbles testing methodology developed by Phillips et al. (2015a, International Economic Review, forthcoming) to examine the recent time series behaviour of the six main London Metal Exchange non-ferrous metals prices. We detect periods of mild explosivity in the cash and 3-month futures price series in each of copper, nickel, lead, zinc and tin, but not in aluminium. We argue that convenience yield, although the formal counterpart to dividend yield in commodity markets, is not a useful basis on which to assess whether observed explosivity is indicative of bubbles. We construct other measures that suggest the observed explosivity in the non-ferrous metals market can be associated with tight physical markets.

Index Terms- Mildly explosive process; recursive regression; generalized sup ADF test; economic bubbles; commodity prices; non-ferrous metals;

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