The trading activity between commodity futures and options markets *

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Abstract

Little is known about the relationship between the trading volume in commodity markets and the returns in the future. We study the information content of commodity futures and options volume. Time-series tests indicate that the futures contracts in the portfolio with the lowest option-to-futures volume ratio \( O/F \) outperform the highest portfolio by 0.3% per week. Cross-sectional tests show \( O/F \) has better predictive power for futures returns than other traditional risk factors such as carry, momentum and liquidity. The analysis of weekly Commitments of Traders (COT) reports indicates that the non-commercials (financial traders) use options for informed trading instead of commercials. The value of \( O/F \) has more fluctuation before and after the release of monthly World Agricultural Supply and Demand Estimates (WASDE) report. \( O/F \) also has longer predictive horizon for post-announcement returns than the information contained in the report.

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