

Our View: Jeff Currie Leaves Goldman – The End of Commodity Futures as an Asset Class

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August 7, 2023

Thirty years ago, Goldman Sachs, JPMorgan, Morgan Stanley, and other investment banks embarked on a crusade to make commodities an asset class. Goldman enlisted the support of Kenneth Froot, a Harvard Business School professor, to author a paper titled “Hedging Portfolios with Real Assets.”¹ Hundreds if not thousands of academic articles followed as investment banks wooed long-term investors to buy commodity futures as assets.

Those efforts ended on August 7, 2023, with Jeff Currie’s exit from Goldman Sachs. *The Wall Street Journal’s* Joe Wallace described the import of this event:

Goldman Sachs Group’s global head of commodities research, Jeff Currie, is retiring, the bank said in a memo Monday. His departure marks the end of a three-decade career in which the bank’s research desk became an institution in energy, metal, and agricultural markets.²

Wallace noted that Goldman hired Currie in 1996, luring him away from a University of Chicago teaching position.

Goldman will not replace Currie. Instead, those responsible for oil, natural gas, and metals research will jointly lead the commodities group.

Financial Times described how Goldman’s commodity business grew out of the firm’s acquisition of J Aron, a commodity trading organization, in 1981.³ Many of the group’s senior managers came from that firm. At one point, some joked that Aron alumni controlled the elevator to the Executive Suite. In 2022, the commodity trading division generated large profits for Goldman.

However, as Reuters noted, as far back as 2013 Goldman Sachs was one of the last major investment houses to continue trading commodities. New regulations following the 2008 financial collapse made the business more difficult. The reason for the exodus from commodities was apparent in a quote included in the article: “For many banks there is too much downside to be in commodities,” chief executive of trading giant Gunvor, Torbjorn Tornqvist, said earlier this year.”⁴

The speculation is that Currie’s continued calls for commodity supercycles led to his exit. Recently, Currie made this telling comment on Bloomberg TV: “We have never been this wrong for this long without seeing evidence to change our views.”⁵

There is a more fundamental explanation for Currie’s departure: the plunge in interest in commodities as an asset class. After the Froot article, two Yale finance professors published research done for AIG Financial Products.⁶ Titled “Facts and Fantasies about Commodity Futures,” the authors demonstrated that investors could profit by taking long positions in commodity markets.

Between the mid-1990s and 2008, long-term investors such as pension firms acted on the academics’ advice and acquired long positions in commodities. Buying peaked in early 2008 and again after 2010

when crude prices were high. Today, many pension funds seeking exposure to commodities prefer to own real assets such as timber rather than hold futures. By our estimate, commodity trading activity is down by seventy-five percent.

The reasons for the decline are numerous. The bottom line, though, is that investors are turning away from commodity futures. Goldman's choice to de-emphasize commodities makes sense.

This development weakens the forces that stabilize oil markets. Investors taking long positions in futures make it possible for those in the physical business to hedge production or inventories. Without these "longs," it costs more to hedge, and, consequently, hedging activity will decline. Crude oil prices will be more volatile, which will discourage investment in exploration, production, and refining.

¹ Kenneth A. Froot, "Hedging Portfolios with Real Assets," *Journal of Portfolio Management*, *Journal of Portfolio Management* 21, No. 4 (June 1995), pp. 60-77 [<https://tinyurl.com/4wckm39s>].

² Joe Wallace, "Wall Street's Biggest Commodities Bull is Retiring," *The Wall Street Journal*, August 7, 2023 [<https://tinyurl.com/4fxwmvtr>].

³ Joshua Franklin and David Sheppard, "Goldman's top commodities analyst Jeff Currie joins high-profile exit list," *Financial Times*, August 7, 2023 [<https://tinyurl.com/27rwx6x>].

⁴ "As rivals fade, Goldman Sachs stands firm on commodities," Reuters, December 6, 2013 [<https://tinyurl.com/5yphwaav>].

⁵ Sridhar Natarajan and Devika Krishna Kumar, "Goldman's Commodities Research Chief Jeff Currie Set to Leave," *Bloomberg*, August 7, 2023 [<https://tinyurl.com/bdz4fu58>].

⁶ Gary Gorton and K. Geert Rouwenhorst, "Facts and Fantasies About Commodity Futures," *Financial Analysts Journal* 62, No. 2 (April 2006), pp. 47-68 [<https://tinyurl.com/ysmhcat4>].