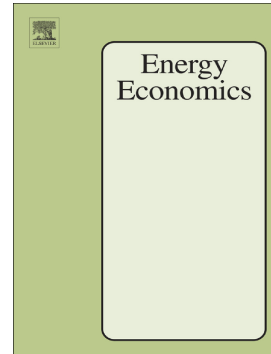


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Identifying Price Bubble Periods in the Energy Sector*

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November 2017

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Abstract

In this paper we test for the existence of single and multiple episodes of explosive behavior in three energy sector indices (crude oil, heating oil, and natural gas) and five energy sector spot prices (West Texas Intermediate (WTI), Brent, heating oil, natural gas, and jet fuel). The results from the Supremum Augmented Dickey-Fuller (SADF) and the Generalized SADF tests provide strong statistical evidence of explosive behavior in all of our energy series. A simple theoretical framework of commodity pricing allows us to understand the assumptions to interpret explosive behavior as bubbles. By constructing implied convenience yields using futures prices we test the key assumption and we are able to identify the beginning and the end of bubble periods for the WTI, Brent, heating oil, and natural gas spot prices.

Keywords: Generalized SADF, Energy, Oil, Explosive behavior, Bubbles.

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