Referee report on submission # MS 1717
"What drives long-term oil market volatility? Fundamentals versus speculation"
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This paper explores the influence of speculation and economic fundamentals on oil price volatility using a two-component GARCH-MIDAS model. The analysis is done by differentiating between alternative sources of oil market shocks on the short-term and long-term components of oil price volatility. The results show that global demand shocks are the only factor significantly increasing long- or short-term oil volatility in the sample. This is consistent with the well-known finding that global demand dominates the oil market. Since the year of 2004 speculative demand shocks play tend to stabilize long-term oil price volatility.

In general, the analysis of the sources of oil price volatility is a valuable contribution to the literature. The result that the usual shocks exhibit a very similar impact on volatility as on the level of oil prices is not too surprising, but has some merits in confirming the conjecture.

Although the econometrics of the paper and the referencing to the related literature are soundly performed the paper is still in a preliminary condition. The discussion of the empirical results could be a lot clearer. Wording and spelling have to be substantially improved before the paper is publishable in a refereed journal. The following aspects might also be considered in a revision:

- The mean return is modelled as a constant. This is way too simple. The authors should provide different specifications to ensure that a more reliable mean equation does not change the overall results regarding the volatility equation. This is particularly important as the current results are very similar to what is found in studies referring to the level of the oil price.
- How is the finding that speculative activities may stabilize the oil price complementing the existing evidence, which offers support for the ‘Masters Hypothesis’? (page 10)
- Why is oil speculative-demand only closely associated with oil supply? Kilian and Murphy (2014) refer to the expected gap between future demand and supply of oil! (page 10,11)
- There is no estimated parameter u in the Tables.