

Agriculture : Study rules out speculation as cause of agricultural price bubble

OECD

24/6/2010 - Financial market speculation did not cause the price bubble in agricultural futures markets in 2007-08, according to a [preliminary study](#) [1] prepared by two US academics for the OECD.

Professors Scott Irwin, of the University of Illinois, and Dwight Sanders, of the University of Southern Illinois found the amount of money flowing into commodity index funds increased substantially in the period from 2006 to 2008. But although this increase represents a major structural change in investor participation in agricultural commodities futures, it has not increased price volatility, according to the study.

The paper said there is “no convincing evidence that positions held by index traders or swap dealers impact market returns.

“These results tilt the weight of the evidence even further in favour of the argument that index funds did not cause a bubble in commodity futures prices.”

Commenting on the paper, OECD Secretary-General Angel Gurría said: “This is a preliminary study and further research is needed to understand better the recent structural changes in futures markets and how they may impact prices. Such work is an important contribution to the debate surrounding regulation of futures trading in commodity markets.”

He added: “Regulators must also bear in mind that limiting the participation of index fund investors could unintentionally deprive futures markets of an important source of liquidity and risk-absorption, ultimately hurting farmers.”

Earlier OECD work has identified a range of market factors and policy actions that combined to explain the spikes in agricultural commodity and food prices between 2007-08. These included supply shortfalls (mainly due to drought in major exporting countries) coupled with low global stocks, increased demand for food, feed and non-food uses (such as biofuel production), relatively high oil prices, a relatively high US dollar, and various government policy responses (such as export restrictions) that exacerbated initial price increases.

Information about OECD work on agriculture can be found at www.oecd.org/agriculture [2]

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