Research Poster from the
Canadian Agricultural Trade Policy Research (CATPRN) Network
Enabling Research for a Competitive Agriculture

ABSTRACT CATPRN-03

Commodity Price Volatility: The Impact of Commodity Index Traders

Getu Hailu and Alfons Weersink,
University of Guelph

The dramatic rise in crop prices that occurred in the fall of 2006 was the beginning of an unprecedented level of volatility in agricultural markets. For example, corn prices for most of this decade fluctuated within a range of US$0.50 per bushel around an average price in the low US$2 range. However, corn prices on the Chicago Board of Trade (CBOT) doubled within a six week period beginning in September 2006 and then doubled again by the spring of 2008 (Figure 1). Corn prices have since fallen back but appear to be fluctuating around a new average price of around US$4 per bushel. The recent rise of wheat prices in July 2010 has revived memories of the commodity boom of 2006-2008.

Speculators were and continue to be a popular target for explaining the price swings experienced in the commodity markets. It became common for political leaders and the media to argue that commodity index traders (CITs) and other large institutional investors exerted a destabilizing influence on prices, particularly after a submission by William Masters to a US Senate sub-committee in the summer of 2008 (Masters 2008). Subsequently, there have been demands for regulatory intervention to lessen the impacts of speculative trading on the assumption that the actions of index traders destabilize commodity prices.

The purpose of this study is to review the impacts of commodity index traders on prices in agricultural commodity futures markets. We specifically aim to answer the following questions: How do commodity index traders operate? What are the arguments of those claiming speculators have influenced commodity and in some cases food prices (Weersink et al., 2009)? What are the counter-arguments made by those who claim prices have moved due to underlying market fundamentals and not from speculator activity? What is the empirical evidence on the relationship between investment fund activity and commodity prices in the futures market? and, What are the implications of the presence of commodity index traders for the risk management and price discovery role of the futures market?

The Future of Farms and Food in Canada
January 13- 14, 2011
Ottawa, Canada