Volatility in agricultural commodity markets:
Towards some policy responses
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Part 1

food price spikes: causes
Real Commodity Prices

Food and Agricultural
1970 - 2009

Food Crop Prices co-movement

2004 - 2010

(indices, 2005=100)

Source: OECD-FAO Agricultural Outlook 2010-2019
Cereal Commodities

Nominal Annualised Historic Volatility

1957 - 2010

Source: OECD-FAO Agricultural Outlook 2010-2019
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Is volatility likely to increase?

- De-regulating reforms
- Low stocks
- Links to energy markets
- Production moving to less resilient areas
- Climate change increasing the frequency of extreme event
- Speculation

- New technologies increasing resilience
- More open trade leading to less thin markets
- Better information flows
OECD/FAO Price Projections

World Prices in real Terms
Percentage change relative to 1997-2006
Objectives

- Help the most severely affected consumers cope with high prices
- Help producers cope with low, uncertain and excessively volatile prices
- Allow market signals to reflect underlying supply and demand conditions
One size will not fit all

Measures
- Prevention
- Readiness
- Resilience

Actors
- International
- Governments
- Individuals
Part 2
Policy response
International Level

**Short Term**

- Emergency response capacity:
  - More stable and predictable financing framework
  - Financial mechanisms for the poorest net importing countries

** Longer term**

- Export Restrictions
- Information systems and transparency especially (especially stocks)
- DDA: the risk of excessive volatility associated with « thin » markets will be reduced
National Level

Short Term

• In the short-term, targeted emergency measures, safety nets for the most vulnerable

Longer term

• Develop stockholding mechanisms with well-defined operational rules
• Re-think biofuels policies
• Invest in agriculture to improve productivity and resilience
Producer Risk

Integrate volatility into a wider risk management strategy

- Diversification at the enterprise and household level
- Smoothing mechanisms – save in good years with the help of the tax system, or tailored schemes
- Use market instruments – futures, insurance
- Catastrophic situations call for government intervention, but with well defined conditions and terms
## Three Risk Layers

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Three Risk Layers
Different Policy Implications

![Distribution of farm income](image)

Cat. Market Risk Retention

Probabilit

Distribution of farm income
Was financial speculation to blame?
Was Financial Speculation to Blame?

Arguments For

- **Deregulation** in the US in 2000 in important (commodity derivatives) markets.
- Huge increase in **commodity index investment** – non-traditional investors.
- **Rapidity** of the price increases and subsequent **falls**
Was Financial Speculation to Blame?

Arguments Against

- Many plausible and well documented, other contributory factors:
  - supply and demand shocks,
  - exchange rates
  - low stocks
  - hoarding
  - inelastic supply and demand

- Evidence from other commodities, other exchanges.

- Preliminary evidence (Irwin and Shaw).
Part 4

Conclusion
One man’s meat is another man’s poison

- Multiple factors affecting multiple actors in very different ways
- An incomplete understanding of the past and much uncertainty about the future
- Known needs can only be met by a resilient and responsive sector exposed to market signals
- So one size fits all solutions cannot work
OECD Trade and Agriculture

www.oecd.org/agriculture

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