FAO Index of Real Food Commodity Prices, January 1990-May 2012
“The Masters Hypothesis”


http://www.loe.org/images/content/080919/Act1.pdf
CBOT Wheat Futures Prices and Index Trader Net Long Positions, January 2004-September 2009

\[ y = 0.0002x - 0.0798 \]

\[ R^2 = 0.0187 \]
The current state of knowledge indicates only a few, and weak, findings that verify the assumption that the rise in financial speculation in recent years has increased (1) the level or (2) the volatility of agricultural commodity prices. Instead, those developments have rather been caused by fundamental factors in the real economy. This is why the majority of academic studies are not in favor but against (3) enacting regulatory barriers to market entry. Transaction costs or position limits are described as involving high risks. Various studies explicitly warn against overregulation, which would impair rather than improve the functionality of agricultural markets. Seen in this light, the alarmism about financial speculation should be classified as a false alarm: Those who desire to effectively combat hunger in the world have to take real-economy precautions to ensure that food supplies will match the envisaged increasing demands.
Pricing Function for Storable Commodities is Highly Non-Linear

Source: Wright (2009)
Structural Changes in Commodity Markets in the Last Decade

- Electronic trading
- Online discount brokers
- Index investment
- Exchange-traded funds (ETFs)
- High frequency trading (HFTs)
- Real-time release of gov’t reports

Percent of Futures Volume Transacted on Electronic Platform, 2004-2011