

Crude Oil-Food Spot Price Nexus in the context of Financialisation

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Abstract

Financialisation of commodity futures is becoming a significant change agent in the linkage between spot prices of crude oil and food commodities. Prior research has not examined the impact of cross-market futures prices on food-crude oil spot price nexus. This paper fills this gap by documenting the information transmission from cross-market futures to food and crude oil spot market. Vector error correction model is used to examine the importance of futures price to predict the relationship among crude oil, wheat, maize and soybean spot prices for the sample period 2010-2013. The findings suggest that cross-market futures prices have weakened the magnitude of relationship between spot prices of food and crude oil. The findings have implications for hedgers and speculators for taking their positions in futures market, and for industries which use crude oil and staple food commodities as raw materials.

I. Introduction

GLOBAL STAPLE FOOD and fuel markets have experienced high volatile prices since global financial crisis. In July 2012, global crude oil prices crossed the threshold of US\$ 100 per barrel and reached to US\$ 107 per barrel in February, 2013 after which it declined slightly.¹ Apart from the global crude oil prices, global food prices also fluctuated sharply. In the first half of 2010, global staple food prices showed declining trend except for the prices of wheat, maize, sorghum and rice. Wheat prices went up by 56% having a knock-on impact on corn and sorghum prices. On the contrary, a sharp increase in staple food prices was observed in countries with high levels of poverty.² In July 2012, global maize and soybean prices soared to all-time-high and the prices of maize and soybean went up by 25% and 17% respectively. However, wheat prices went up by 25%, but this was not an all-

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Notes

1. World Bank Food price watch, March, 2013
2. World Bank Food price watch, September, 2010
3. World Bank Food price watch, August, 2012
4. Cashin Darmott and Scott, (1999) opines that related commodities have "complementarity or substitutability in the production or consumption"
5. www.mcxindia.com/sitepages/SpotMarketHistory.aspx?sLinkPage=Ylast accessed on September 2013
6. India is the second largest producer of rice, third largest producer of wheat, fifth largest producer of coarse cereals, sixth largest producer of corn and twelfth largest producer of barley. *Source:* usda.mannlib.cornell.edu/MannUsda/viewDocumentInfo.do?documentID=1487 last accessed on May 2013
7. www.ncdex.com/index.aspx
8. dbie.rbi.org.in/DBIE/dbie.rbi?site=homelast accessed on September 2013
9. www.indiastat.com/default.aspx

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