

Structural Breaks and the Relationship between Barley and Wheat Futures Prices on the London International Financial Futures Exchange

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Abstract

Co-movement between futures prices can arise when commodities are substitutes. Counterintuitively, Dawson and White fail to find a significant long-run link between feed barley and wheat prices on the London International Financial Futures Exchange. This relationship is re-examined using Johansen, Mosconi, and Nielsen's co-integration procedure that permits structural breaks. Results show evidence of co-integration and hence price discovery. There is a significant break in October 2000 following Common Agricultural Policy intervention price reductions, the barley-wheat futures market is perfectly integrated, and the barley price Granger-causes the wheat price. Modeling structural breaks in price relationships appears important.

G130, Q110

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