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Price discovery in commodity markets

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Abstract

This article investigates the long-run relationship between spot and futures prices for corn and soybean. We apply cointegration methodology, allowing for the presence of potentially unknown structural breaks and then study the causality relationships between spot and futures prices within each specific subperiod identified with the aim of analysing the price discovery. Empirical estimates highlight (i) multiple breaks exist in the cointegrating relationship between prices and (ii) subperiods consequently identified express different dynamics in the causal relationship between spot and futures prices and support the idea that fundamentals are important in explaining the 2007/08 food price increase.

Keywords: commodity futures markets price discovery cointegration structural breaks
JEL Classification: C32 G13 G14 Q11

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