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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:

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cointegration

structural breaks

JEL Classification:

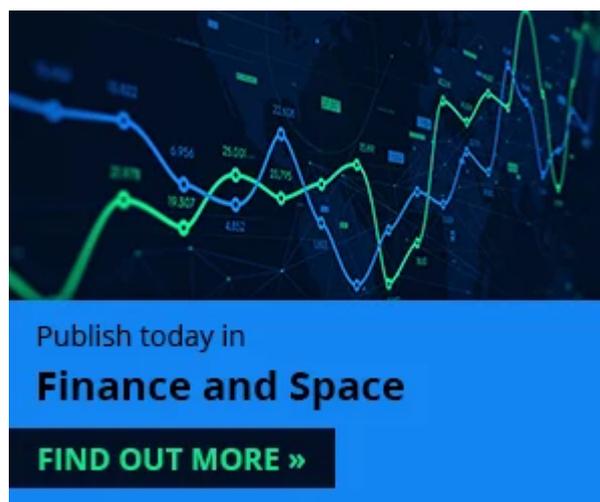
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## Notes

A preliminary version of this article was presented in Dublin at the Infinity Conference on International Finance, 13–15 June 2011, and in Zurich at the European Association of Agricultural Economists Congress, 30 August–2 September 2011.

<sup>1</sup> See Irwin et al. (2009) for a comprehensive explanation on the misunderstanding of the role of speculation in commodity price boom.



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