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Quantitative Finance ›
Volume 13, 2013 - Issue 4: Themed Issue on Commodities

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Cross-market soybean futures price discovery: does the Dalian Commodity Exchange affect the Chicago Board of Trade?

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Pages 613-626 | Received 20 Apr 2012, Accepted 04 Feb 2013, Published online: 10 Apr 2013

Cite this article https://doi.org/10.1080/14697688.2013.775477

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Abstract

In this paper, we examine the role that the Dalian Commodity Exchange (DCE) plays in the global price discovery of soybean futures. We employ Structural Vector Autoregressive and Vector Error Correction models on the returns of the DCE and the Chicago Board of Trade (CBOT) soybean futures during trading and non-trading hours, and the result suggests that information transfers between DCE and CBOT in both directions, in particular that the DCE soybean futures prices influence price discovery in CBOT. Furthermore, the impulse response analysis and forecasted error variance decomposition show that the information transfer from DCE to CBOT is at a similar magnitude as that from CBOT to DCE. This shows that the DCE plays a prominent role in the global soybean futures price discovery. This conclusion differs from much of the

literature, which mainly shows that the DCE is a satellite market and is dominated by the CBOT.

Keywords:

Commodity markets | Commodity prices | Information in capital markets | Informational role of stock

JEL Classification:

G1 | G12 | G13

Acknowledgements

We thank Shang Liu for his excellent research assistance with preliminary data analysis. Han acknowledges the support from the National Natural Sciences Foundation of China (NSFC), project No. 70831001. Tang acknowledges financial support from the National Natural Science Foundation of China (grant No. 71171194).

Notes

[1]Note that bold letters denote a matrix or vector in this paper.

[2]In the empirical analysis, we allow a lag of order 2 in the SVAR; hence, also influences the DCE returns. However, because its magnitude is quite small from our empirical results, we omit it when presenting the value of .

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