A review of theories and evidence on linkages between agricultural future and cash prices

Language: German or English (English preferred)

Contact: Stephanie Grosche (stephanie.grosche@ilr.uni-bonn.de)

Background:

Physical agricultural commodities are traded on the cash or spot market where the cash price indicates the market value of the commodity “on the spot”, i.e. at the time of the trade. Traders may also choose to forward sell or buy the commodity, which may lead to trading activity on the organized global futures markets such as the Chicago Board of Trade (CBOT). It is often assumed that the futures price provides information about the expected spot price at a specific location at the time of the expiration of the futures contract. In addition, in an efficient (arbitrage free) market, futures prices and spot prices at the same location should converge at the expiration date of the futures contract. But, in reality, market behavior may differ. For example, the information signal of the futures price may be imperfect, convergence not as theory predicts, and cash prices in remote locations show little immediate connection to global futures prices. With the food price crisis dating only a few years back, it is important to understand whether or not the existing theoretical models are alone, or in combination, sufficient to explain actual market behavior or whether there is a need for improved models.

Objective

The objective of the thesis is to conduct a review on the different theories about future and cash (spot) price linkages on agricultural commodity markets and evaluate to which extent they are able to describe observable price behavior.

Approach and specific requirements

This thesis is intended to be a literature-based analysis. The contribution of the student will be the development of a framework to systematically analyze the large amount of literature, e.g. show different theories and approaches, specify underlying assumptions, draw connections, indicate contradictions, and evaluate the empirical evidence for or against specific theories. The thesis is best suited for a student who is well organized and finds it easy to structure a large amount of information.

Suggested readings


