

**INSTITUTE OF APPLIED RESEARCH IN SUSTAINABLE ECONOMIC
DEVELOPMENT – IPADES**

**TRAINING OF AGRICULTURAL PRICES: FUNDAMENTALS OR
SPECULATIVE ACTIVITY?**

Francisco Benedito da Costa Barbosa

Associate President – IPADES

The growing complexity of agricultural and forestry production has made this century come having an important debate about where agricultural prices have been formed: physical markets, reflecting the balance between supply and demand, or in the financial markets, a result of speculative activity? There is a consensus in this respect even among the academic community there is a consensus about who is exerting greater influence in the formation of agricultural prices.

There is not a clear answer to the question above the agents involved in this economic sector have to be mindful of both the fundamentals of each market, and the factors that influence the dynamics of speculative activity, namely, the macroeconomic situation internationally.

It's been a long time since the formation of agricultural prices, mainly of commodities, has been conditioned by factors beyond their fundamentals, i.e. production base: climate, size of the planted area, inputs, labor, etc. On the other hand, it is necessary to accompany macroeconomic conjuncture closely well to know where the price is going, even without knowing who is exerting the most influence. Example: the price of price of soybeans in Chicago, USA. This condition will be increasingly present in the globalized market.

Agricultural and forestry activity by be quite optimized promotes agricultural markets generally characterized as competitive markets, where the price reacts quickly to any change or anticipation of change that can interfere in the offer or on demand by the transacted good.

Why the prices of agricultural and forestry products do not follow exactly what is predicted by fundamentals? Exactly because those commodities are produced in world

market scale and therefore become active in the financial market. Thus, there is strong evidence that the increased influence of speculative activity is behind the changes in the behaviour of prices.

Despite all the efforts of the academic community, it is still not clear by which channels the speculative activity has influenced the pricing of physical markets. The hypothesis most consistent so far is associated with the migration of resources for futures and options markets involving agricultural commodities.

This evidence is clear to relate the physical markets prices fluctuation with the variation in the volume of contracts transacted in these markets for speculative characterized as purposes (non-commercial spreads); statistically it is possible to affirm that, since the second half of the past decade, increased the correlation between the volume of contracts for speculative purposes and the price of agricultural commodities.

Observing the behavior of this market is that back in 2006, when it began to look like the first signs that there were bubbles in the USA financial market, investors began to allocate a larger fraction of its resources in assets associated with agricultural commodities. So, it was not by chance that the increase in the volume of speculative nature, contracts in the futures and options markets, coincides with the beginning of the crisis of 2008. In addition to that, the "traditional" financial assets were already being considered too expensive and therefore offered a very low return perspective.

This migration of resources responded to prospect that agricultural commodities prices would rise mainly data by income growth in emerging economies and, to a lesser extent, greater demand for corn in the United States for the production of ethanol. This migration made up quotations agricultural commodity futures markets, and, as the agents use this price to form their expectations, prices in the physical markets also responded positively.

The reality of the market of agricultural commodities today is that prices are still being formed, in part, from the balance between supply and demand (fundamentals) and, partly, in movements of financial markets.

It is in this new context that the producer operates its production. If the Brazil in 2013 produced 187 million tons of grain, and stands out as an important player in this segment, means that there is no more room for the national producer and its representative entities behave in disharmony with the social backwardness, the technological and productive Primitivism, the reactionary political behavior. On the contrary, the agribusiness requires increasingly integrations that make possible interfaces with technology, management, globalized markets, the social and

environmental environment, product quality and increasing consumer observation not only in the product but in the production chain.

The increased production of agricultural commodity is synonymous with food safety, but it is also big business in the future market of exchanges of goods. So the pricing shall be held by the foundations of classical production and market (supply and demand), but also for the financial gain of speculative capital.

What needs to be studied, understood and disseminated to enable in practice is the decrease of intermediaries in this process, that without much effort, but with a lot of insight are the most benefited. With better knowledge of the supply chain and financial can transfer to the extremes of the chain-producers and consumers-greater gains from that production.