Speculation and Commodity Prices

Scott H. Irwin
Efficient Commodity Futures Market

Fundamental Value = Futures Market Price
Chronic Destabilization of Commodity Futures Market by Speculation

Price

Futures Market Price

Fundamental Value

Time
Chronic Destabilization of Commodity Futures Market by Speculation

- "Trend Chasing"
- "Chartists"
- "Positive Feedback Trading"
Chronic Destabilization of Commodity Futures Market by Speculation

- Futures Market Price
- Fundamental Value

“Sentiment”
“Noise Trading”
“Market Psychology”
“Hope, Greed, Fear”
Episodic Destabilization of Commodity Futures Market by Speculation
Episodic Destabilization of Commodity Futures Market by Speculation

- Futures Market Price
- Fundamental Value

Price vs. Time

“Hot Money”
“Massive Passives”
“Accidental Hunt Brothers”
“Masters Hypothesis”
Non-Manipulated Commodity Prices during Futures Delivery

- **Next Expiring Futures**
- **Expiring Futures Delivery Location Cash**
- **Distant Location Cash**

**Price**

**Delivery Period for Expiring Contract**

**Time**
Manipulated Commodity Prices during a Futures Delivery Corner

![Graph showing price changes over time for different delivery locations and expiring futures contracts.]

- Expiring Futures
- Next Expiring Futures
- Delivery Location Cash
- Distant Location Cash

Delivery Period for Expiring Contract

Time
## Level of Concern about Speculation in Commodity Futures Markets: The General Public vs. Economists

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<th>Issue</th>
<th>General Public</th>
<th>Economists</th>
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<tr>
<td>Chronic Destabilization</td>
<td>High</td>
<td>Low</td>
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<td>Episodic Destabilization</td>
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<td>Low</td>
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<td>Delivery Manipulation</td>
<td>Low</td>
<td>High</td>
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The Anti-Speculation Cycle

Commodity Price

Consumers Complain

Producers Complain

Date
ONIONS REVISITED

ROGER W. GRAY
Stanford University

Introduction

THE DEATH SENTENCE meted out to the onion futures market in 1958 (Public Law 85-839) was almost inevitably destined to provide further evidence regarding the truth of the charges made against it.

JOURNAL
of Farm Economics

Vol. 45 No. 2  May 1963