



Press Release

Nice, London, Singapore, July 26, 2011

New EDHEC-Risk Position Paper Confirms No Consensus Exists on Link between Speculation and Price Volatility

In a new EDHEC-Risk Institute position paper, “A Review of the G20 Meeting on Agriculture: Addressing Price Volatility in the Food Markets,” Hilary Till, Research Associate with EDHEC-Risk Institute, and Principal of Premia Capital Management, examines food price volatility in the context of the G20 meeting of agriculture ministers.

In reviewing the evidence so far regarding the impact of commodity trading, speculation, and index investment on price volatility, the report finds that the evidence for the prosecution does not seem particularly compelling at this point. The paper’s conclusion is to agree with the World Bank president who has said that the answer to food price volatility is not to prosecute or block markets, but to use them better. In the author’s view, one sensible use of financial engineering is for hedging volatile food price risk with appropriate commodity derivatives contracts.

The position paper reveals that French President Nicolas Sarkozy’s view that “the financialisation of agriculture markets... is a contributory factor in price volatility...” is contradicted by Dr. Pierre Jacquet, Chief Economist of the Agence Française de Développement, who notes that a number of market-based solutions could potentially help developing countries better manage commodity price volatility, including increasing access to risk-hedging instruments.

This new position paper echoes previous EDHEC-Risk Institute research results, which were the subject of an open letter to European Commissioner Michel Barnier in September 2010¹. These results find no evidence that speculation is a cause of high levels of volatility in commodity prices. The latter position, which is supported by the French presidency of the G20, is contradicted both by EDHEC Risk Institute’s own work² and also by two empirical studies conducted by the two main international economic organisations, the IMF and the OECD³.

A copy of the EDHEC-Risk Institute position paper can be found here:

[EDHEC-Risk Institute Position Paper A Review of the G20 Meeting on Agriculture: Addressing Price Volatility in the Food Markets](#)

1. ERI/part/CE/10-1867, Nice, September 6, 2010, [Open Letter to European Commissioner Michel Barnier](#).
2. [Oil Prices: the True Role of Speculation](#), November 2008, and [Has There Been Excessive Speculation in the US Oil Futures Markets?](#), November 2009.
3. IMF, Global Financial Stability Report, October 2008 and OECD, Speculation and Financial Fund Activity: Draft Report, 24/04/2010.

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