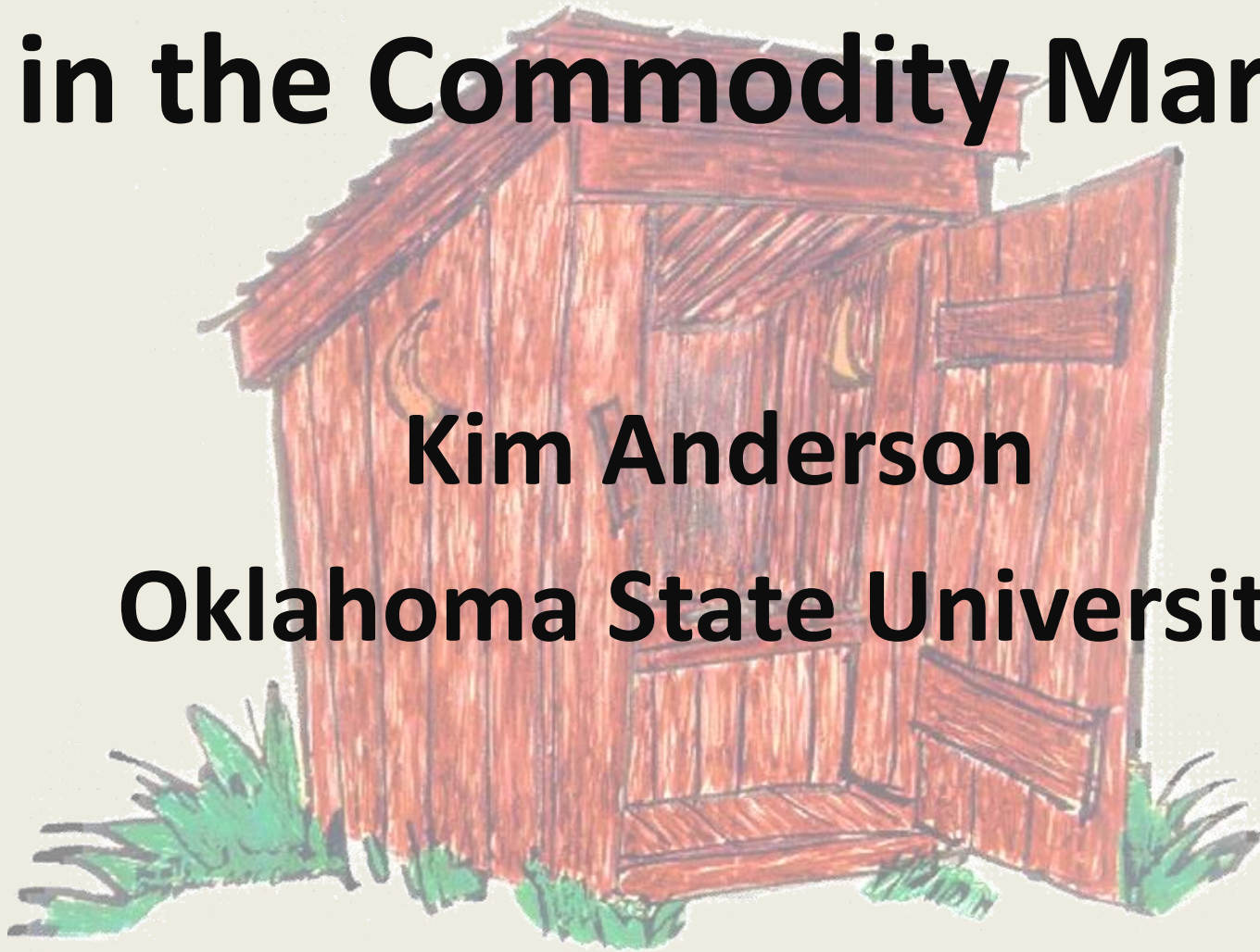


TURMOIL

in the Commodity Markets

Kim Anderson

Oklahoma State University



Talking Points

- **Recent market changes**
 - Oil
 - Dollar
 - Alternative fuels
 - Hedge funds
 - Index funds



NYCE Crude Oil Monthly Nearest

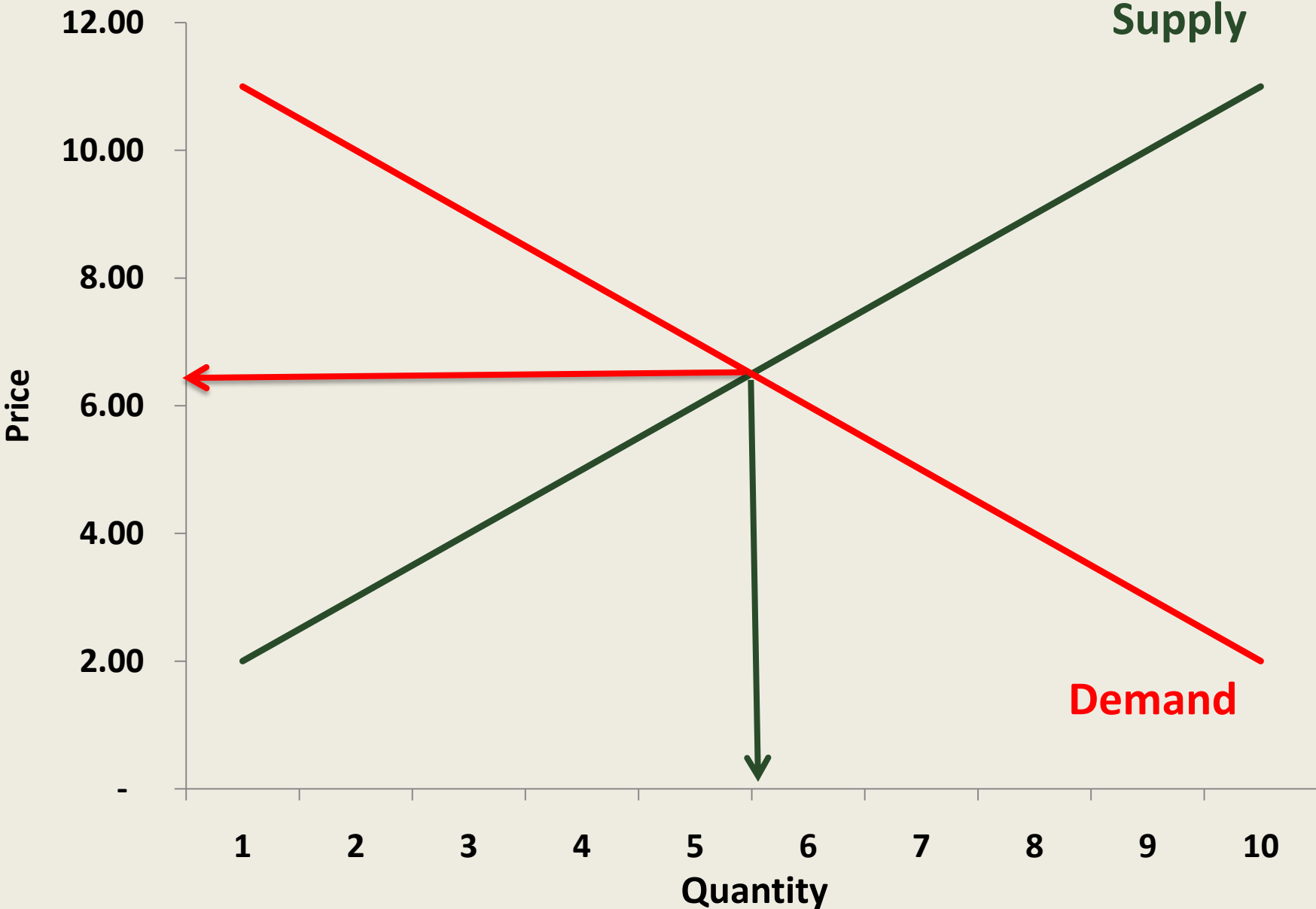
CRUDE OIL NEAREST FUTURES .. monthly OHLC plot



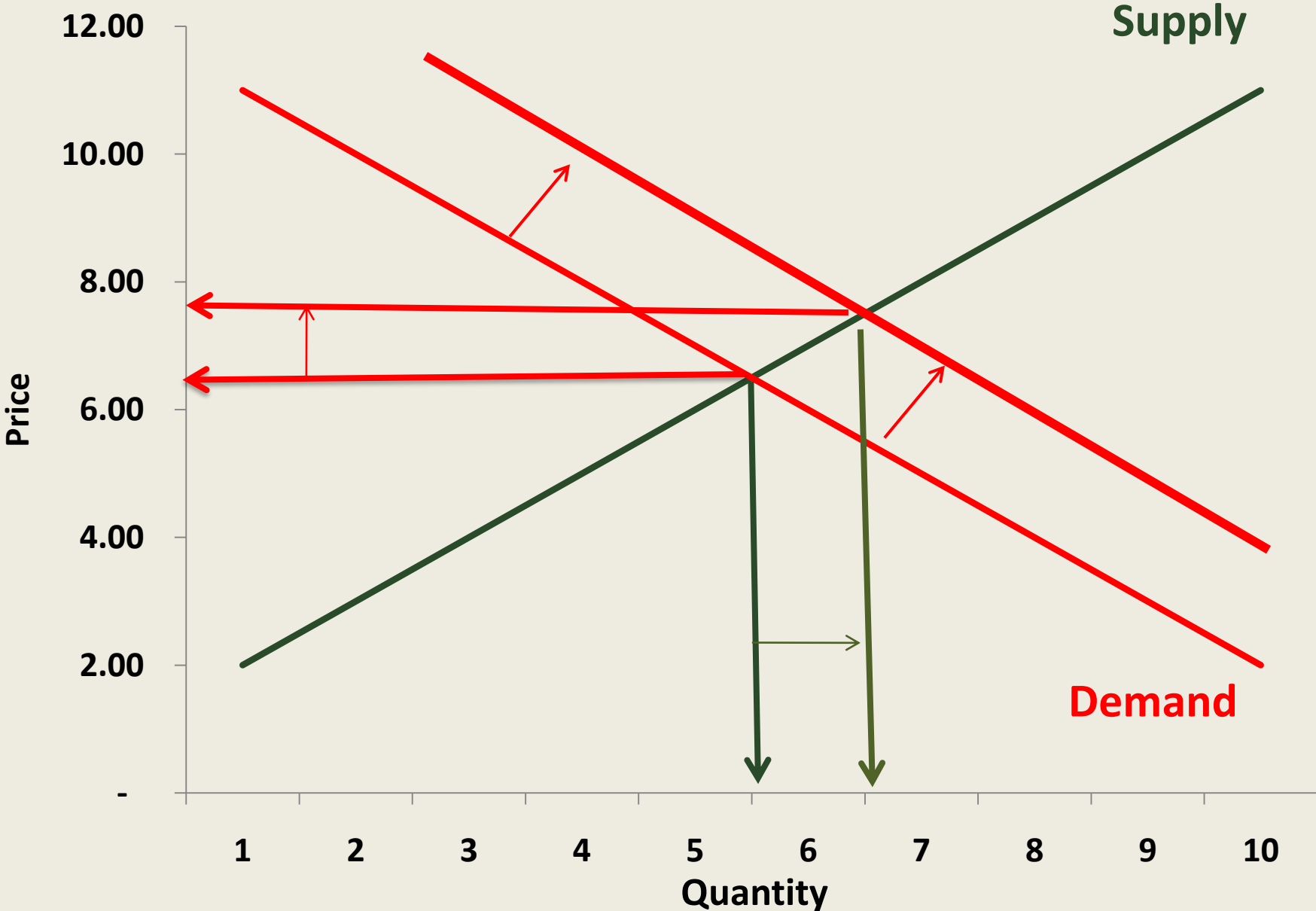
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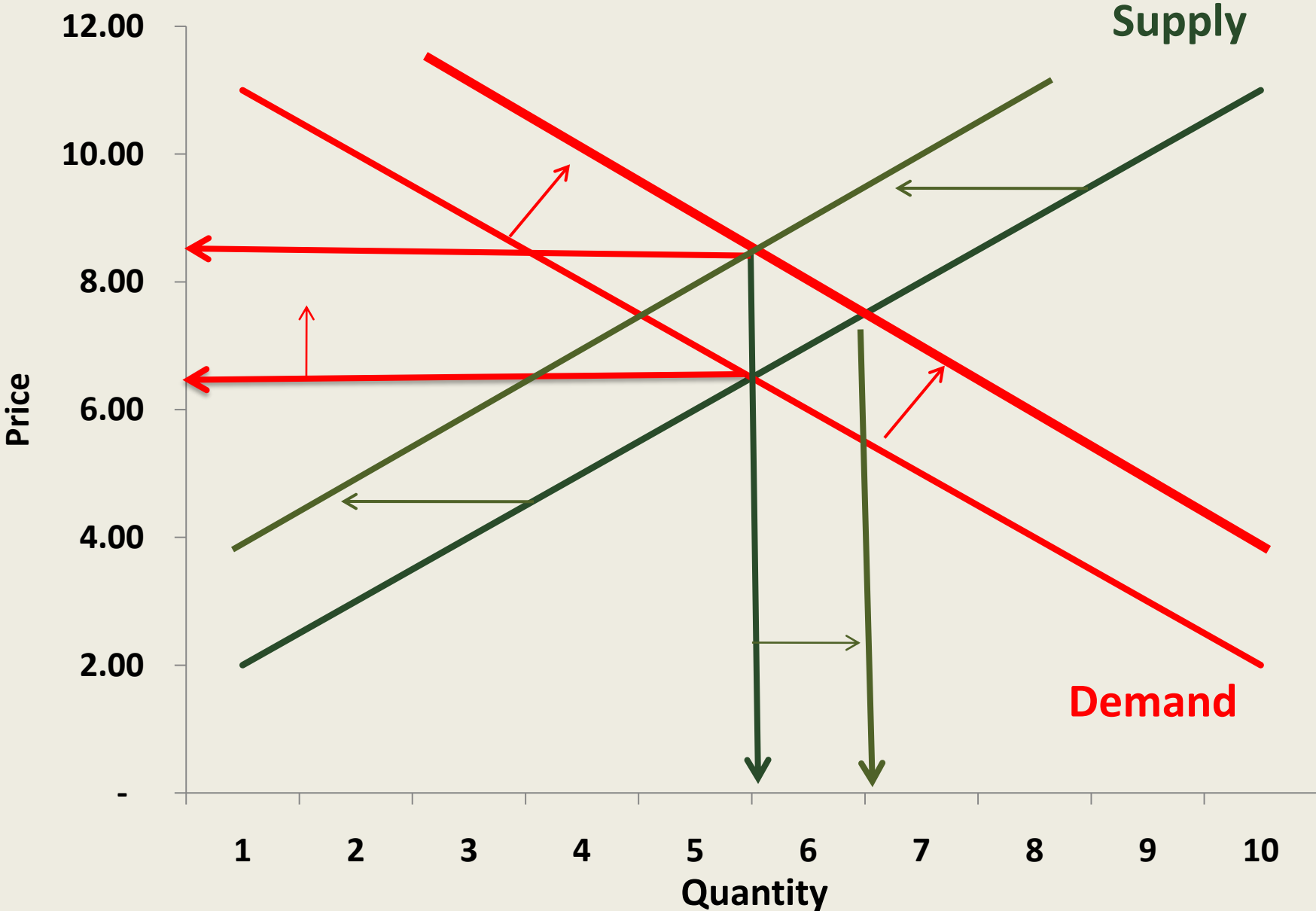
Supply and Demand



Supply and Demand: increased demand



Supply and Demand: increased demand



NYBOT Dollar Index: Monthly Nearest

U.S. DOLLAR INDEX NEAREST FUTURES .. monthly OHLC plot



As of 07/01/08

Talking Points

- **Recent market Changes**
 - Oil
 - Dollar
 - **Alternative fuels**
 - Ethanol
 - Bio-diesel
 - Reallocation of resources



Corn and Soybean Planted Acres: 1971 - 2008



CBT Corn: Monthly Nearest

CORN NEAREST FUTURES .. monthly OHLC plot



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CBT Soybean: Monthly Nearest

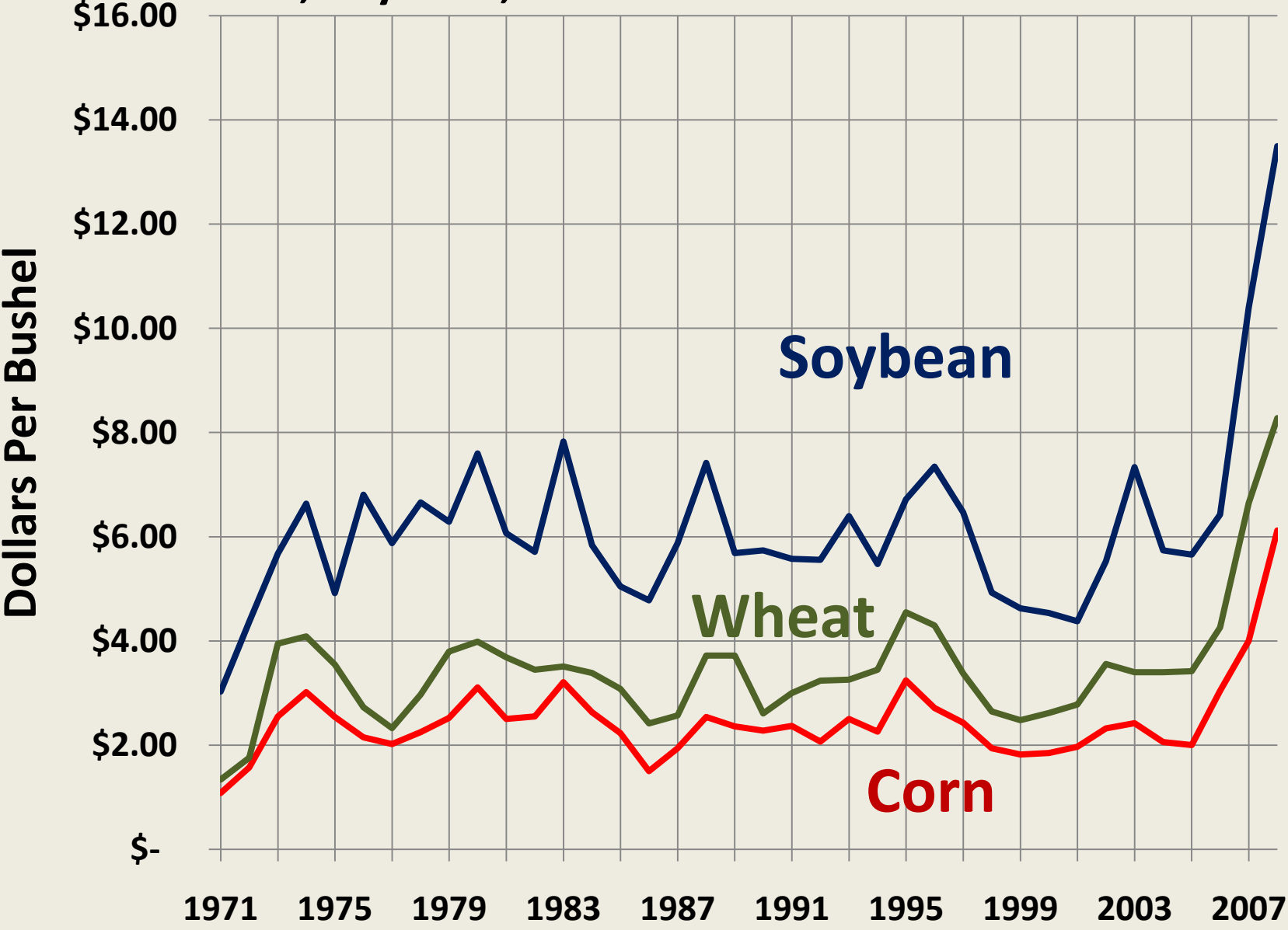
SOYBEANS NEAREST FUTURES.. monthly OHLC plot



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Corn, Soybean, and Wheat Prices: 1971 - 2008



Talking Points

- **Recent market Changes**
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Narrowing the Credibility Gap

When markets behave erratically, they cause concern. When markets appear to collapse, they foment controversy. The focus of much recent scrutiny in this regard is the futures market.



Narrowing the Credibility Gap

Nowhere does the debate over futures land on more familiar - and emotional – shores than with producers. Some claim they're rigged to kill: "When murder's legal, how can you convict for it?" says Kansas farmer Doug Wildin.



Narrowing the Credibility Gap

Price volatility did not arrive with futures. In fact, volatility was fiercest before the futures markets were created, when producers all sold their wheat at the same time, glutting the market and sinking prices.



Narrowing the Credibility Gap

Research confirms that futures tend to *diminish* price swings. "The effect of futures on volatility has been measured in a million ways," says Ann Peck, professor at Stanford University's Food Research Institute. "If anything, futures improve the information on prices and decrease variability."



Narrowing the Credibility Gap

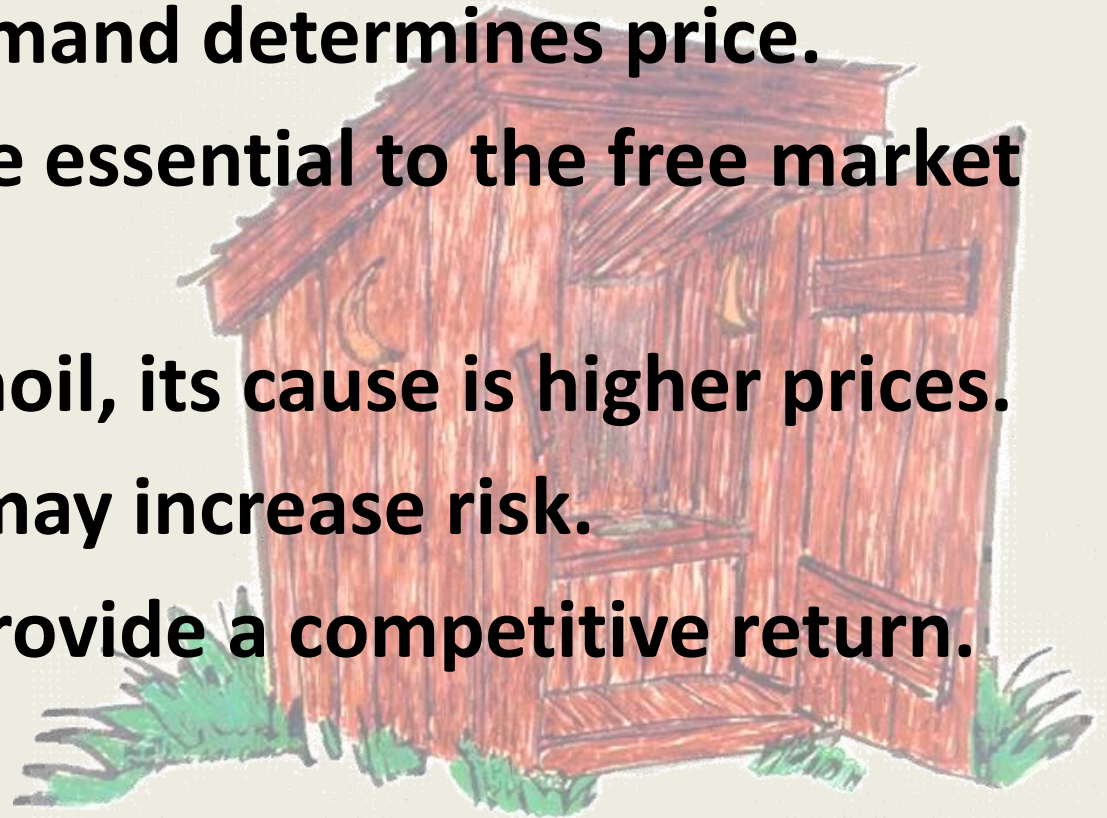
What *do* speculators do? "They 'help' the market find the right price, which is set by supply and demand, government regulations, trade barriers and psychology." "If anything, speculators have an upward bias, they add to market tops because they love being long. That's why you see narrow peaks and wide bottoms."

Alexandra Knox – Farm Journal/March 1988



Concluding Remarks

- The marketing system works.
- Supply and demand determines price.
- Speculators are essential to the free market system.
- If there is turmoil, its cause is higher prices.
- Higher prices may increase risk.
- Markets will provide a competitive return.





**"Anyone who says he
would
like to go back to the good
old days just hasn't been
there**

