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The commodity prices conundrum. A round-table on the economic impact of commodity price volatility. With Javier Blas (Financial Times), Ian Dudden (Liffe), Tobin Gorey (UBS), David Halligan (Gafsa) and Steve Wiggins (ODI). Wednesday, October 8, 2008, at Waterman's Hall, 18 St Mary-at-Hill, London EC3R 8EF from 12:30-2:15pm.

The first speaker began by pointing out that when central banks around the world made a co-ordinated interest rate cut on 8 October, they justified it by remarking that commodity prices had now come back down from their highs. Yet the oil price that day was still at \$90 a barrel, and only a year ago, people had been suggesting that it was the end of the world when oil hit \$100. Now, bankers are suggesting that \$90 a barrel is a normal level.

Answering the question of what was behind the sharp rises in commodity prices over the past year, the speaker said that while he believed speculation had played some small part, he thought it was mainly down to a matter of supply and demand. Lack of investment and opportunity in the mining sector in past years has meant that there is now a shortage of supply, at the same time that developing economies such as China are demanding more commodities than ever before. The speaker said that the price drops seen over the past few months have been down to a slowdown in that demand, and not an increase in supply.

The speaker said that while the focus has been on price, for some countries, this is not the biggest issue. Instead, they need to know that they have security of supply. As a result, countries such as Saudi Arabia - which have a lack of land that can be used for arable purposes - are buying up land in poorer countries, which they are using to grow their own food supplies. However, the speaker questioned whether this would be sustainable, as many of the countries that are selling the land do not have enough food for their own citizens. As a result, the farms need high security. And the rest of the world is looking on disapprovingly.

The second speaker said that a lot of different factors had driven commodity prices in recent years, but said one prominent factor was certainly the increase in interest from the investment community - even pension funds are now considering commodities as a good diversifying addition to their portfolios. The speaker predicted that speculation would continue to grow, but said it would be on a more focused basis going forward, with each commodity being judged on its own merits, rather than all commodities being seen as the same.

The speaker said he believed that we are in a super-cycle for commodities, with prices likely to continue rising in the long-term. However, he said he believed there would be booms and busts along the way.

The third speaker said one of the contributing factors to the soft commodity boom was that people around the world are now eating more food, and demanding better food. He

believed that investors had contributed to the rises in recent years, and pondered whether the recent dip in prices may scare some investors away.

The fourth speaker said he believed demographics were driving the price of commodities. At the end of World War II, there were 2.5 billion people in the world. Now there are 6.5bn, and this is predicted to hit 9bn by 2050. And by 2050, we'll need to be producing double the amount of food we produce now, because the average person will be eating more. Some say it's not possible. However, the speaker said there are vast amounts of arable land in countries such as Ukraine and Russia, which are not being used, and global warming is making new areas of the world suitable for growing food while degrading other areas. A time of challenge, but also opportunity.

The fifth speaker said that the production of food staples relative to population growth had slowed in recent years. During the 60s, 70s and 80s, he said that cereal growth was around 2.8% a year, which was faster than the growth of the population. But since the mid 1980s, the growth rate of cereal production has dropped to 1.1%, which is lower than the population growth.

The speaker said that the system had now become very vulnerable to harvest failures. Some bad harvests were one of the contributors to the rise in prices over the past few years. Oil prices have also driven up food prices, as this has a direct impact on the cost of fertiliser. The growth in biofuels has also had an impact.

Looking at the future of commodities trading, one speaker pointed out that regulators around the world had been looking at tighter regulations. However, the UK has so far been more flexible, and so there may be an opportunity for the City to grow its presence in these markets.

Another speaker questioned that the emerging economies may also try and capitalise on increased regulation in developed markets such as the US. While the first speaker pointed out that Asia has a fast growing commodities trading business, and could eventually become a major player.

One member asked what effect the financial crisis would have on commodities. A speaker answered by saying that already a lot of over the counter contracts are moving onto the exchanges to reduce the counter-party risk. Another speaker said that the lack of credit had also been effecting the shipping of commodities.