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FACTORS AFFECTING THE TIMING OF WHEAT PRICE MOVEMENTS

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I AM very sorry indeed that Dr. Stine is unable to be here to take the place assigned him on this program. The pressure of work which could not be put aside has prevented his either attending this meeting or preparing a paper for me to read before you. I am sure that you are also sorry, for what I have been able hurriedly to gather together will be a poor substitute for a paper prepared and presented by Dr. Stine.

The title assigned is: "Factors Affecting the Timing of Wheat Price Movements." This seemed to me, when I first considered it, a strange title. The more I considered it the stranger it seemed, for I became more and more uncertain just what was intended to be discussed. Titles with double meanings are not uncommon, perhaps, but here is a title with a triple meaning—indeed I am not sure that more than three interpretations may not be given it. Perhaps it was intended that there should be three interpretations—hence three people were assigned to the topic with the hope that each would proceed from a different point of view.

One thought which the title suggests may be stated as follows: We find certain things which are closely related to wheat prices—changes in these things apparently causing changes in prices. Thus we know that crop conditions affect prices through their influence upon production, and changes in crop conditions may normally be expected to be followed by changes in wheat prices. Factors, then, which affect the time when crop conditions change are, indirectly, factors which affect the time of wheat price movements. Some of these relationships are quite simple. Crop conditions are subject to change during the period when the crop is growing; indeed they are most subject to change during relatively short "critical" periods of growth. Though somewhere in the world wheat is always in a "critical" period of growth, the bulk of the world's wheat is grown in the temperate regions of the Northern Hemisphere so that there are relatively short periods of time when the wheat market is especially subject to the influence of changes in crop conditions. Thus it is, that mid-summer is one of the times when signi-

ficant wheat price movements are especially likely to originate. There are other relationships of this general sort which are more complex, but nevertheless it is possible to determine the approximate time when the most important sorts of wheat price influences are especially subject to change.

Another approach to the subject is through a consideration of what we may call the "market mechanism" and the influence of this mechanism on the timing of wheat price movements. There are many and diverse aspects of the question which may be delved into from this viewpoint. At the one extreme is the broad and general effect of a speculative system upon price movements—the tendency for prices to depend upon the prospect for future supplies and future demands, rather than upon present available supplies and the immediate demand for consumption. As a result, the timing of price movements tends to coincide with changes in supply prospects rather than with changes in immediately available supplies. At the other extreme is the tendency of the market mechanism itself to generate price changes. Established practices as to margin requirements, the use of stop-loss orders, the existence of ticker service; these and many other of the minor institutions of grain trading appear to have their influences upon the timing of the minor fluctuations in prices and in some cases even upon the major fluctuations. Even the regulations and practices of the railroads as to car demurrage and the declaration of embargoes have their importance.

The third line of approach which the title suggests is a consideration of those factors which seem to interfere with what we deem to be the usual relationships between price influencing occurrences and the resulting price changes. But if we consider things of this sort to be the factors which affect the timing of wheat price movements we need not confine ourselves only to those factors which seem to interfere with "normal" relationships. There may be no given lapse, between a recognized price influencing occurrence and the resulting price change, which is frequent enough to be called a usual relationship. Rather the lapse of time may be of such varying length as to suggest a finely graduated quantitative relationship between the lapse of time and some other factor or factors.

It is this third line of approach which I wish to pursue somewhat further in discussing the factors which affect the timing of

wheat price movements. I wish to include both those factors which appear to interfere with the normal timing of price movements and those which appear normally to have an influence upon the lapse of time between what we may call the "fundamental" price influencing occurrence and the resulting price change. There is of course no precise line of demarcation between the factors which influence the timing of wheat price movements and the factors which we consider to be the "fundamental" price influencing occurrences. Nevertheless, there may be some merit in trying to draw a broad distinction between them.

In order that our thoughts may be a little more concrete let us turn for a moment to the current wheat price situation. During July and August we had in the United States a most unusually severe deterioration of the corn crop. Because wheat prices are so low we have reason to believe that the situation will have a very marked effect upon the amount of wheat which will be fed during the coming year. But what of its effect upon wheat prices? There seems thus far to have been almost no effect. For a short period about the first of this month, wheat prices responded and rose rapidly, but the effect was very short lived and prices of wheat again declined despite the maintenance of a higher level of corn prices. The significant effect, if there is to be any, appears to have been postponed to some later date.

While an examination of past years reveals exceedingly few cases when corn prices were about as high as, or higher than, wheat prices, nevertheless such cases as do appear suggest to me that the effect upon wheat prices this year might have been very different had there been a difference in the attending circumstances. Furthermore, as one looks back through the history of wheat crops and prices there appear to be numerous instances where the full response of prices to the improvement or the deterioration of crops has been considerably delayed as compared with other instances where the response has been immediate. These instances suggest two rather different ways in which price making influences may operate in the world wheat market.

We often hear the statement that the price of wheat is made in the Liverpool market. Any good economist who has considered the question knows the error of taking the statement too literally, for he knows that the supply and demand of every wheat producing and consuming country which enters into international trade has

some effect upon the price of wheat in international markets. Nevertheless, the statement is not the result of an entirely baseless assumption. Rather it is based upon a very significant tendency for the wheat markets of the world to move up and down with changes in the balance between the current requirements of importers and the current supplies being received from exporters. In a very real sense the Liverpool and other import markets are focal points where the forces of supply and demand of the world wheat trade meet and arrive at a series of supply-and-demand equilibriums. As the importing markets have quite limited facilities for storing wheat, prices tend to be very sensitive to the balance between receipts and takings in these markets.

The world trade, however, presents a picture of a singularly uneven flow of wheat from each of the exporting countries. Exports of each country vary widely, not only from year to year but also from one season of the year to another. The largest exports from each country are likely to occur within a few months after harvest and as the season progresses the bulk of world shipments shifts from one country or group of countries to another. Though it is obscured by the many conflicting price influences there is a tendency for each country to have a seasonal price cycle which reaches its low point during or shortly after harvest, and the importing countries tend to draw the bulk of their supplies from whatever country or countries are at a low ebb in their seasonal price cycles.

Under such conditions there is a tendency for prices in the importing markets to fluctuate with the relative abundance or scarcity of supplies to be had from season to season. The times when the volume of shipments from the various exporting countries increase and decline are times when significant changes in the trend of wheat prices may occur. Just when the export movement from any given country may begin is a variable quantity depending largely upon the earliness or lateness of the season, but the time when the export movement of any given country will subside is far more variable and subject in large degree to a number of factors including the size of the crop, weather conditions during the shipping season, and so on.

The foregoing has perhaps tended to give the impression of a rather haphazard and uncertain wheat market, with prices influenced only by the immediate abundance or scarcity of wheat to

fill importers' requirements. In such a picture there is much truth, but it is not a complete or an accurate picture. Though world wheat markets are influenced by the immediate demand and supply situation, they are also influenced by the outlook for the more or less distant future.

The outlook for the future has no small effect upon the size of importers' takings, but it has perhaps a still greater effect upon the rapidity with which exporting countries dispose of their supplies. Of course, this varies from country to country. It seems to us that we have evidence of but little tendency upon the part of Argentina to weigh the prospects of the future and to hold her wheat for a price. Rather it seems that wheat is shipped from Argentina and sold for whatever it will bring, the volume of shipments depending principally upon the rapidity with which the grain can be transported from the harvest fields to foreign countries. In the United States and Canada, on the other hand, provision is made for storing large quantities of wheat. Prices in these countries are not always "in line" with the prices of the importing countries even when they have a large exportable surplus remaining and the volume of their shipments at any particular season of the year shows a marked tendency to adjust itself to import demands and to the volume of shipments from other exporting countries.

In short, I believe that a large share of whatever "stabilization" we may have in the world wheat markets rests upon the shoulders of the North American grain trade. Perhaps it may seem ridiculous to use the word "stabilization" in this connection. Whether we use that word or not, however, a large share of the burden of adjusting both the intra-seasonal and inter-seasonal variations in the supply of wheat is borne by the United States and Canada—but of course the grain trade of other countries also shares the burden.

I presume my main point is now becoming clear. We have two general tendencies which affect wheat prices. On the one hand there is the tendency for prices at Liverpool and other importing markets to reflect a balance between current requirements and current receipts, and for prices in the exporting countries to follow Liverpool prices. On the other hand, there is a tendency for the flow of wheat entering into world trade to be adjusted in the light

of prospects for the future, and this adjustment takes place largely through speculative influences in certain of the exporting countries, causing their prices at times to be "out of line" with the world market. But there is an ebb and flow between the strength of these two tendencies. Sometimes price movements seem to be dominated largely by the adequacy of immediately available supplies. At other times the prospect of future adequacy appears to be dominant.

In the ebb and flow of these two tendencies, I think, is to be found a large share of the reason why a given price influencing occurrence may be either immediately effective in influencing price or may have its effect postponed to the more or less distant future.

There are, of course, many factors which influence the ebb and flow of these two tendencies. Many of them may be grouped together and called "those factors which affect the speculative temper of the market." A more tangible factor, and one which is important at the present time, concerns the adequacy of grain storage space to allow speculative influences to withhold a flow of grain to the world markets.

At the present time the tendency for the flow of grain, and for prices, to be adjusted in the light of future prospects is at a low ebb. We have had a stock market crash, a declining price level, and generally shaken business confidence. The funds of many speculators are depleted so that they are in no position to influence the market; others have no inclination to be particularly bullish until they are sure that values have reached bottom. Add to this, storage facilities taxed almost to the limit of their capacity, which necessitates the moving of a considerable volume of wheat into export in order to avoid congestion, and it is easy to see that speculative influences in the United States and Canada are not in a position to have a large share in affecting wheat price movements. Things which at other times might cause an immediate and marked rise of prices may be expected for the present to have relatively little effect. They may cause a temporary rally but, for the time being, the strength of the speculative market has waned. Prices fall back to the old levels—the market is largely dominated by the surplus of immediate supplies over requirements.

What I have said lacks much in completeness and preciseness of expression. Of course, there is no sharp dividing line between the

two tendencies in the world wheat market nor in the way in which different elements in the market react to the present and to the prospects for the future. Though I have exaggerated, nevertheless, I think it significant that there are conflicting tendencies and I think that these conflicting tendencies are of significance in affecting the timing of wheat price movements.