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New study finds no rigging of maize prices

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MAIZE prices were not being manipulated by unnamed speculators on the futures markets, according to a new study — putting to bed habitual rumours that maize prices were being held artificially high to the detriment of consumers.

Research by Prof Johann Kirsten — who was chairman of

the now-defunct food price monitoring committee — shows fundamental factors, such as the rand and stock levels, were driving maize prices on the South African Futures Exchange (Safex), rather than speculation.

This debunks widely held views in the agricultural sector that speculators were manipulating the maize price on the Safex to make unnatural profits.

Kirsten developed a model

with colleague Michela Cutts that estimates the white maize price based on fundamental factors such as the rand-dollar exchange rate, stock levels, international grain prices, rainfall and fuel prices. The model could explain 89% of the change in the monthly average white maize price on the Safex, thus showing that fundamentals were driving the price.

Kirsten said while there was evidence of speculative activity in

the market, this did not translate into price manipulation.

"Speculators are needed to provide liquidity. The large number of trades shows a mature market. There might be manipulation, but it is minimal. It is impossible for anyone to corner the market for very long," he said.

Safex does not distinguish between a hedge or speculative

trade — making it impossible to determine how much speculative activity is taking place — but moves are afoot for Safex members to disclose this information in future, according to Safex manager of clearing, Graham Volter.

Jaco Grobbelaar, an agricultural economist at Commodity Trading House, said speculators were necessary in the market, but could cause excessive volatility of prices in the short-term, which raises the cost of managing a trade position.

Kirsten said that the dissemination of accurate and timely information by the agriculture department's crop estimates committee was crucial for the market to operate more efficiently.

The committee was heavily criticised early last year after it underestimated the maize crop by 1-million tons, distorting the pricing.

"Government has a duty to ensure that the market receives information that is correct and widely disseminated, so that no trader is advantaged over another," said Kirsten.

The exchange rate was the dominant factor driving the white maize

price between May 2000 to November 2003, according to Kirsten's study.

Domestic maize prices veer towards import parity levels — which is the cost of importing grain from the US — when there is a shortage of local maize, with a weaker rand pushing up import parity prices.

The rand's weakness in December, along with evidence of a worsening drought, were the main reasons that maize prices shot up 30%, from R927 a ton to about R1 100 a ton currently.

However, Kirsten was optimistic that maize prices would not accelerate further, given the rand's strength and a large carry-over stock from last year. This should not create problems of rocketing food prices for consumers, as happened two years ago, he said.

Disproving price manipulation in retail food prices was a much tougher task though, with a number of additional factors determining the final price of food products, he said.

Agriculture and Land Affairs Minister Thoko Didiza is yet to make public the findings and recommendations of the food price monitoring committee, which investigated price setting in the food supply chain last year.