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Federal Department of Economic Affairs FDEA  
Federal Office for Agriculture FOAG

# Price volatility from a national and agricultural policy perspective

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*Vinzenz Jung, Swiss Federal Office for Agriculture*



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# Overview

1. Pass-through: From world market prices to domestic prices
2. Price volatility: What are the issues from an agricultural and agricultural policy perspective in an industrialized country?
3. Conclusions



# 1. Pass-through

## Preamble

The world market (as such) doesn't exist.

Markets are heterogeneous:

- Size, actors, market power
- Importance of derivative markets
- Product qualities...

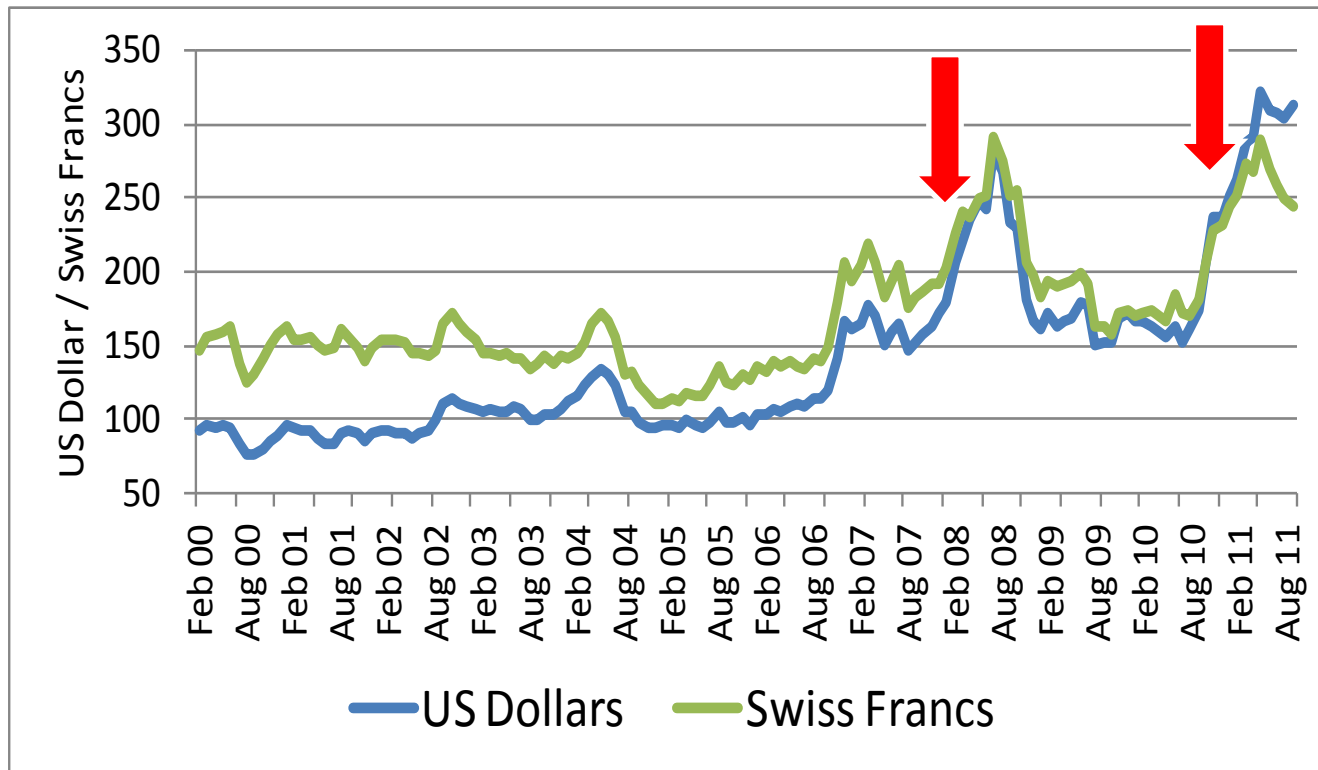
Example: The quotation for US yellow maize No. 2 is the leading benchmark price for the international maize trade



# 1. Pass-through

## The influence of exchange rate movements

Example: maize in US \$ vs maize in CHF

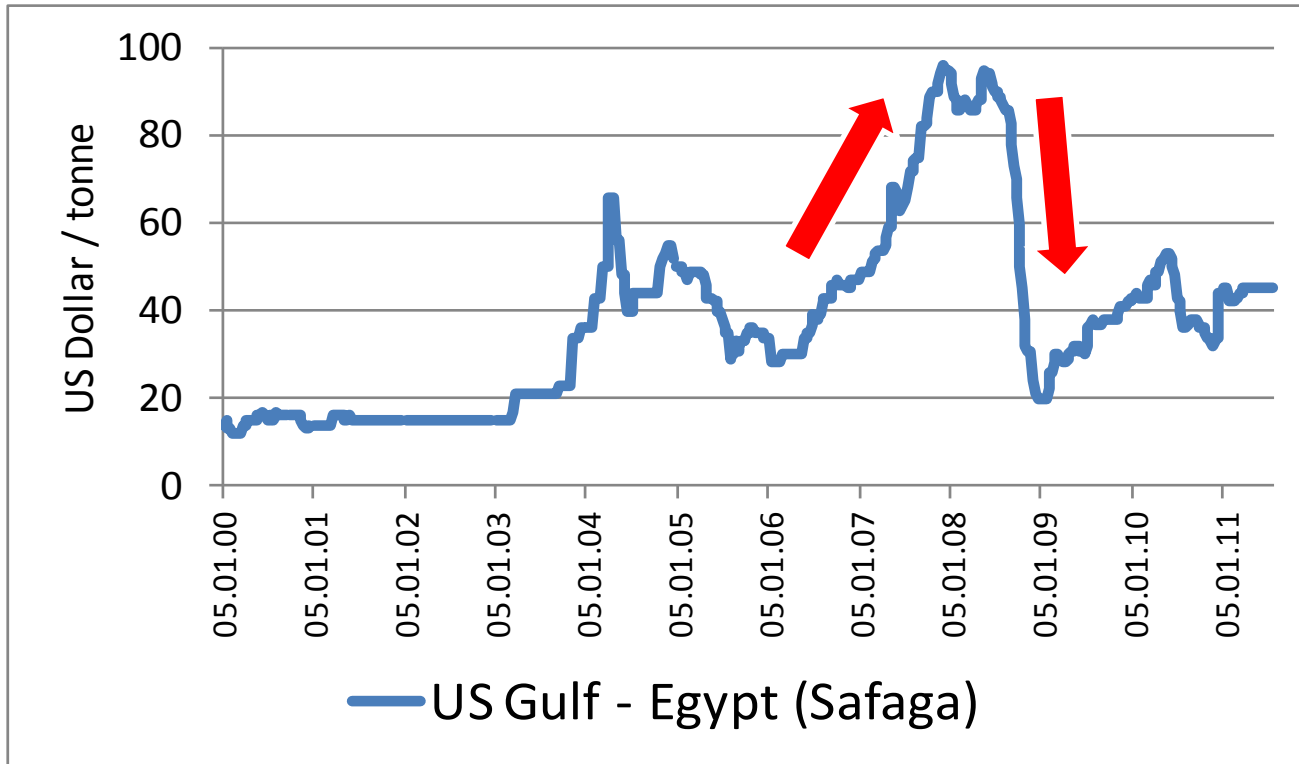




# 1. Pass-through

## The influence of transport costs

Example: Freight rates / tonne from US Gulf to Egypt





# 1. Pass-through

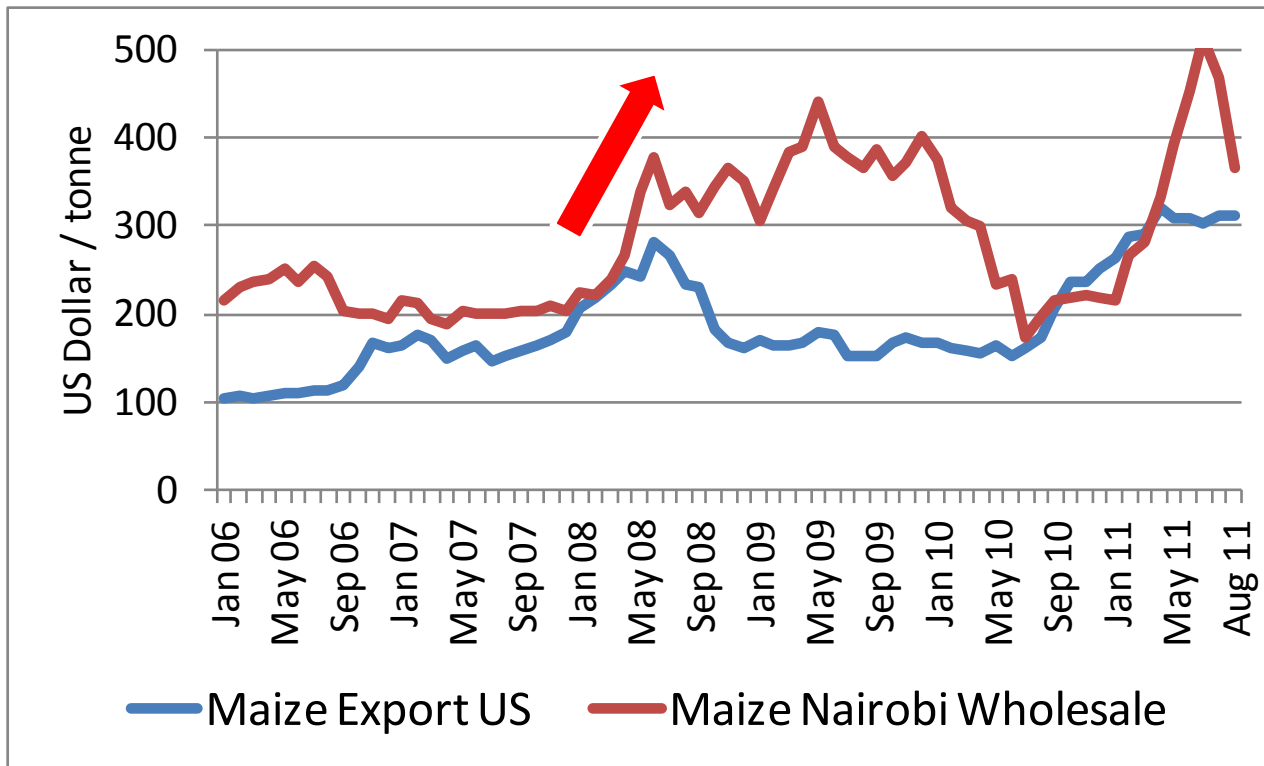
## The influence of the domestic situation



# 1. Pass-through

## The influence of the domestic situation

The case of Kenya for maize

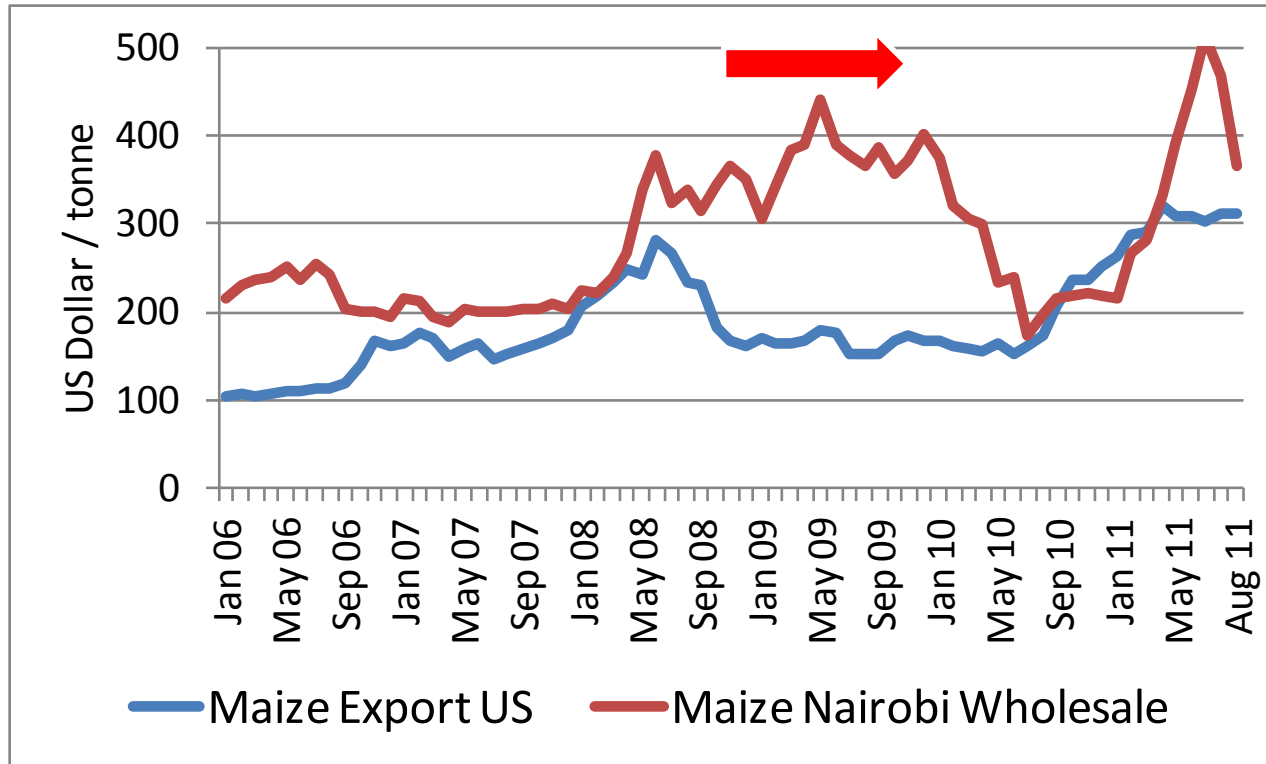




# 1. Pass-through

## The influence of the domestic situation

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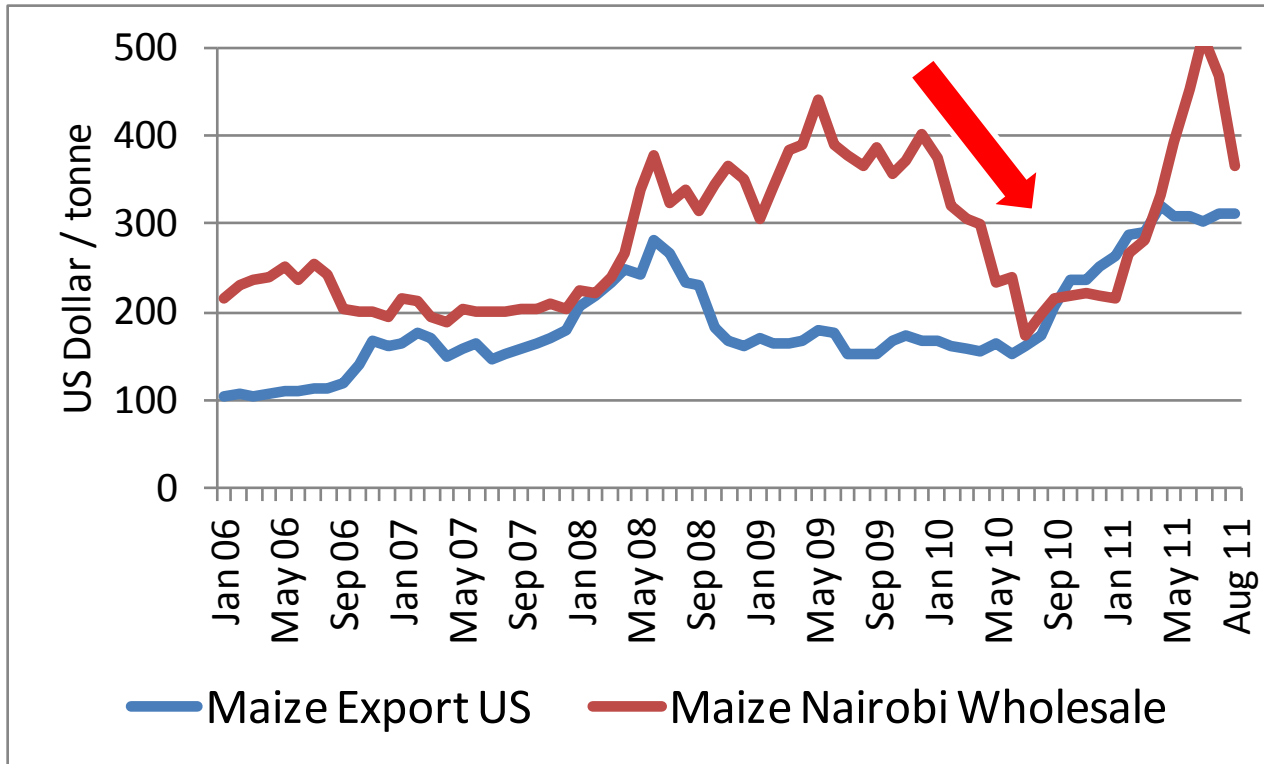




# 1. Pass-through

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The case of Kenya for maize

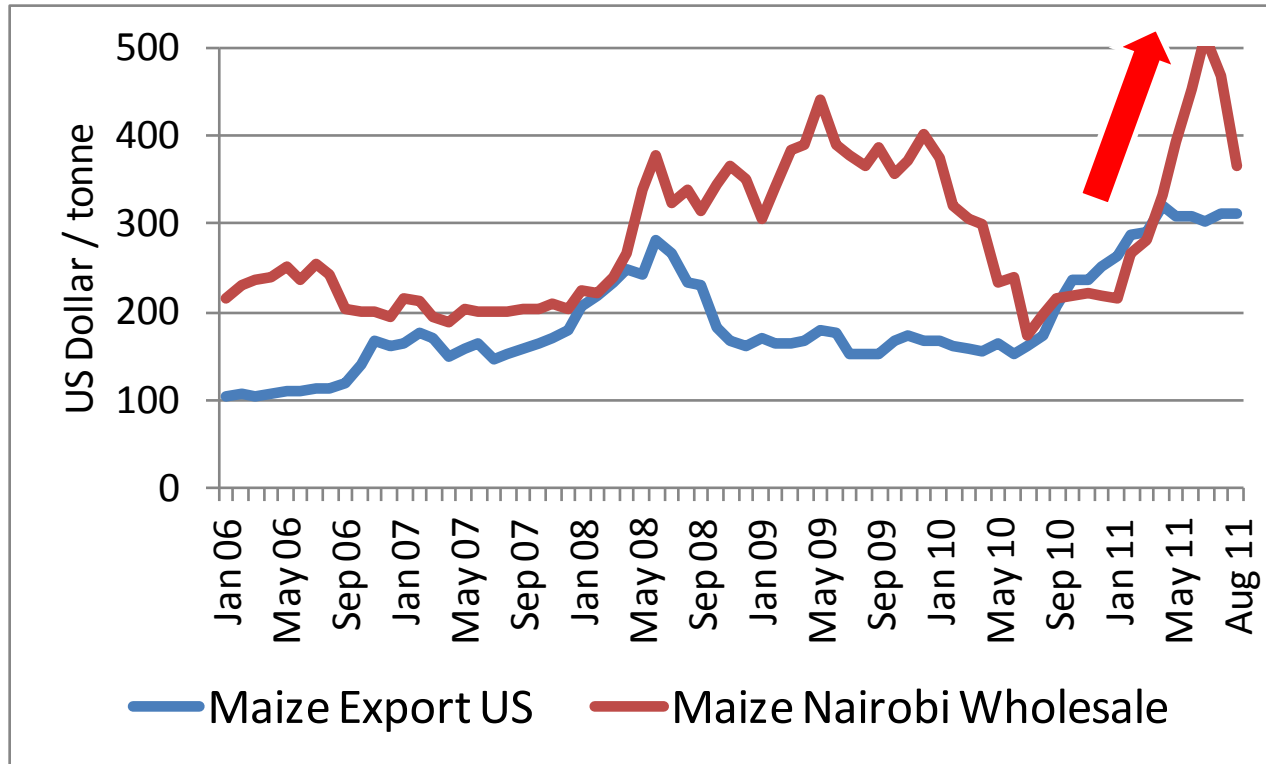




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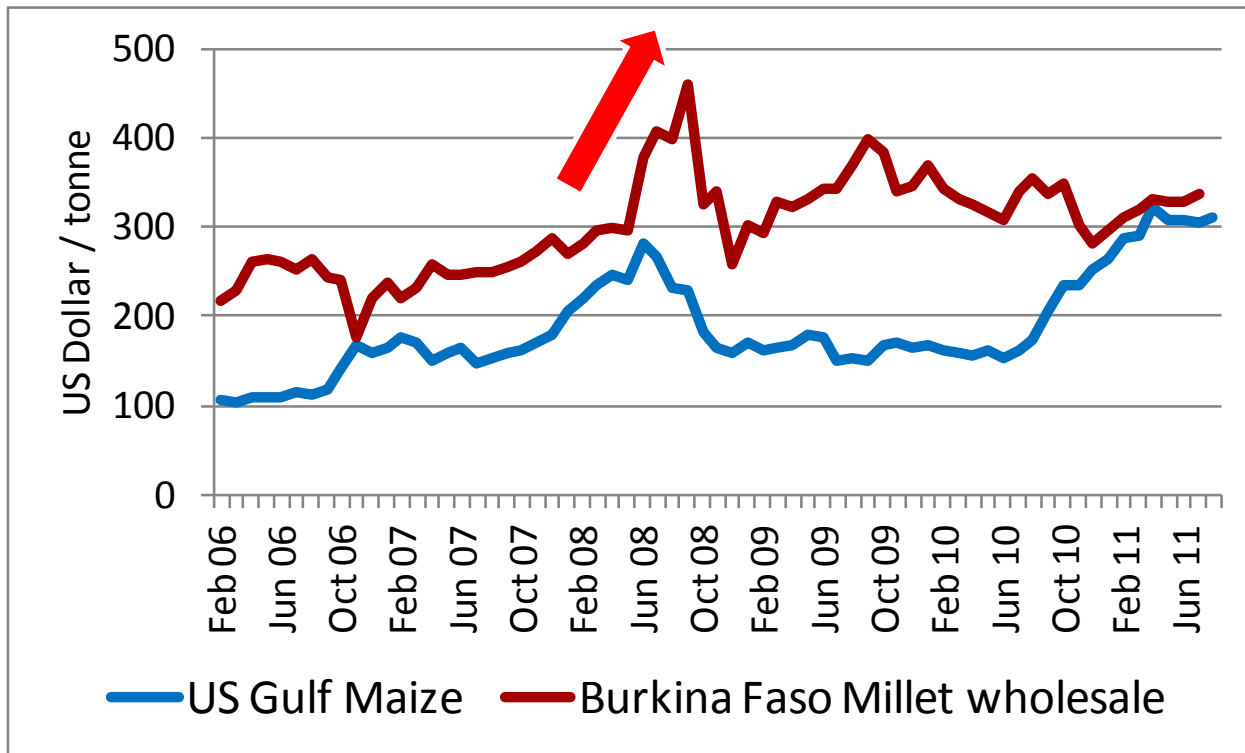




# 1. Pass-through

## The influence of the domestic situation

The case of Burkina Faso for millet

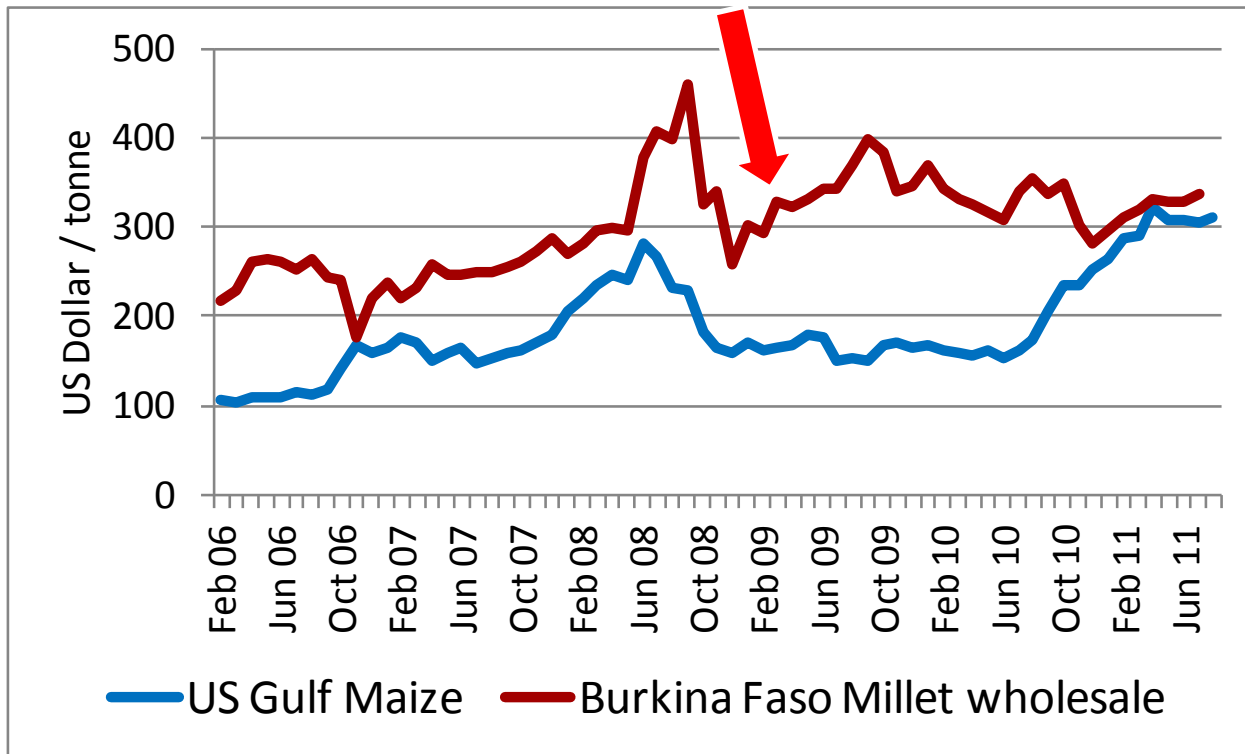




# 1. Pass-through

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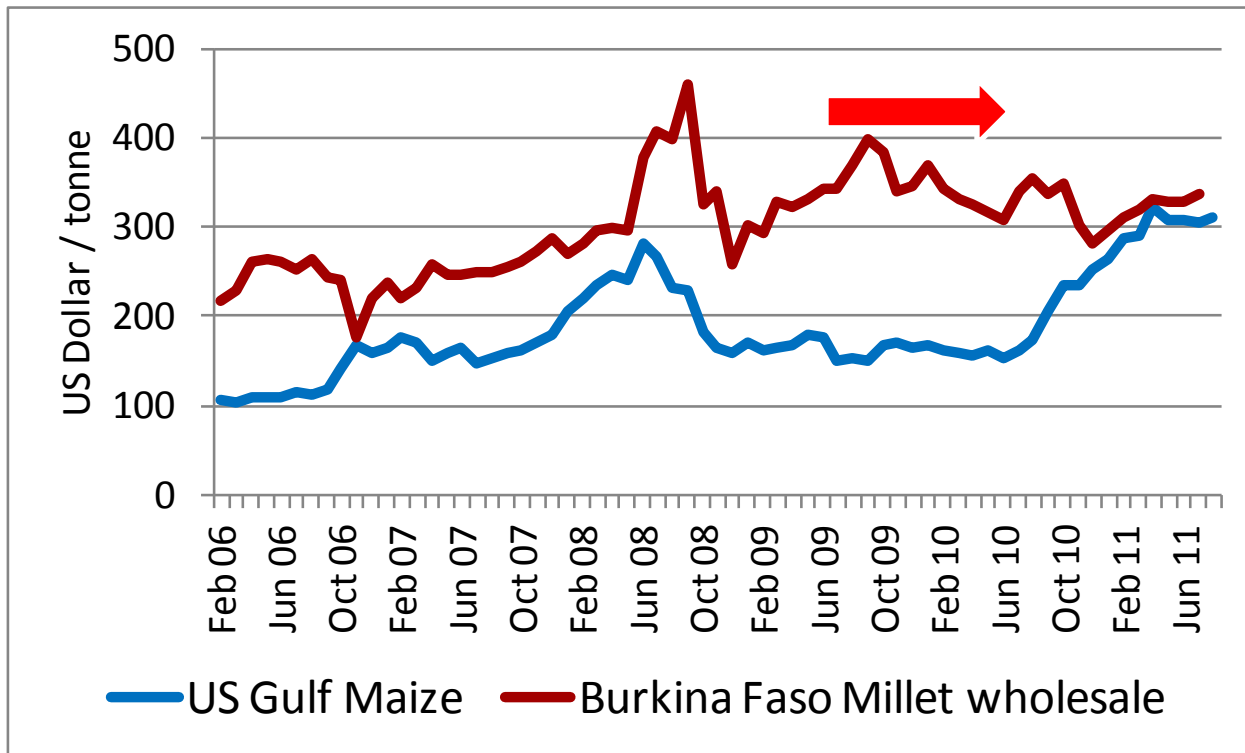




# 1. Pass-through

## The influence of the domestic situation

The case of Burkina Faso for millet

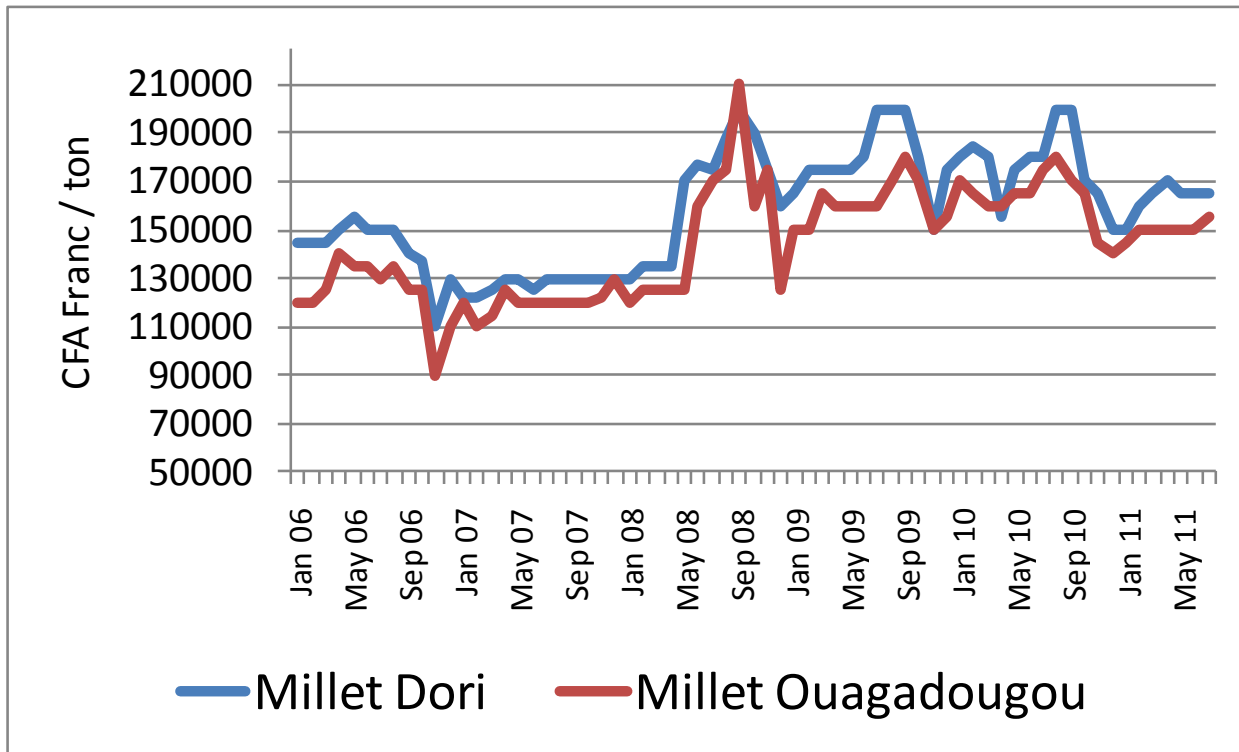




# 1. Pass-through

## The influence of the domestic situation

Millet: Ouagadougou vs Dori





# 1. Pass-through

## Lessons

- Prices at the national level can at times differ markedly from world market prices
- Reasons are manifold: exchange rates, transport costs, domestic production situation, national policies...
- Risk of infection between substitutes, e.g. rice (imported)  
→ maize, millet

„One size fits all“ is not a useful approach!



## 2. Volatility: challenge for agriculture

### Double challenge for farmers

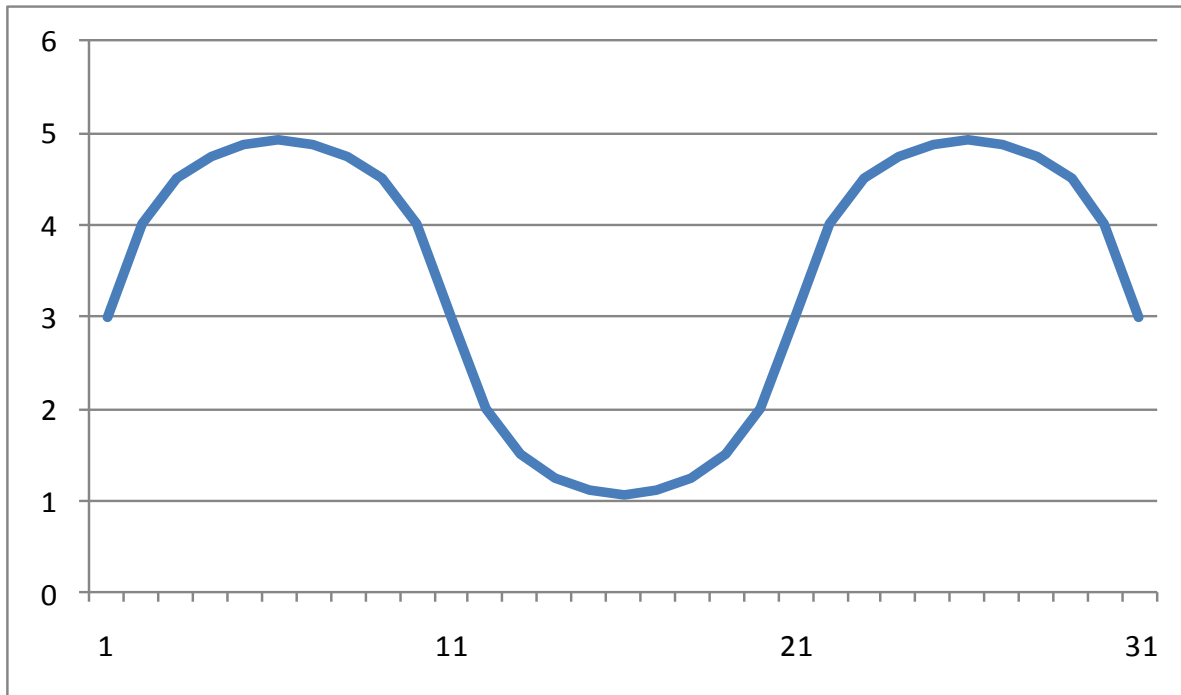
- Volatile input prices
- Volatile output prices

At what point does volatility start to be a problem?



## 2. Volatility: challenge for agriculture

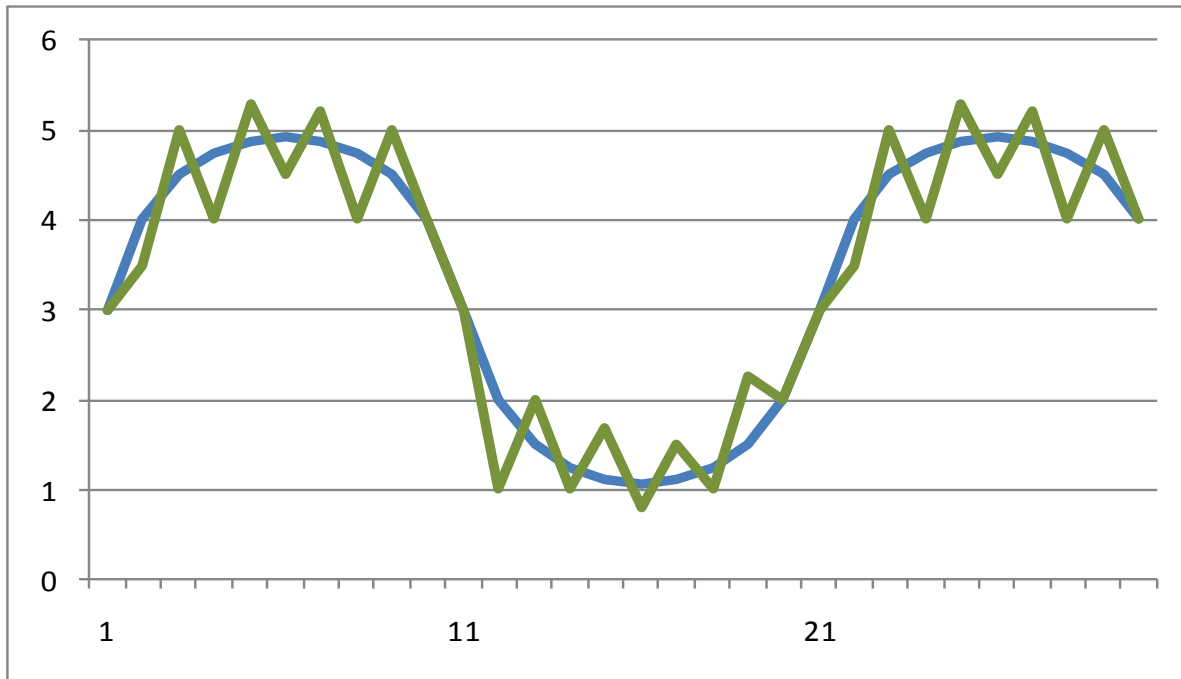
Normal production cycle: **No problem in principle!**





## 2. Volatility: challenge for agriculture

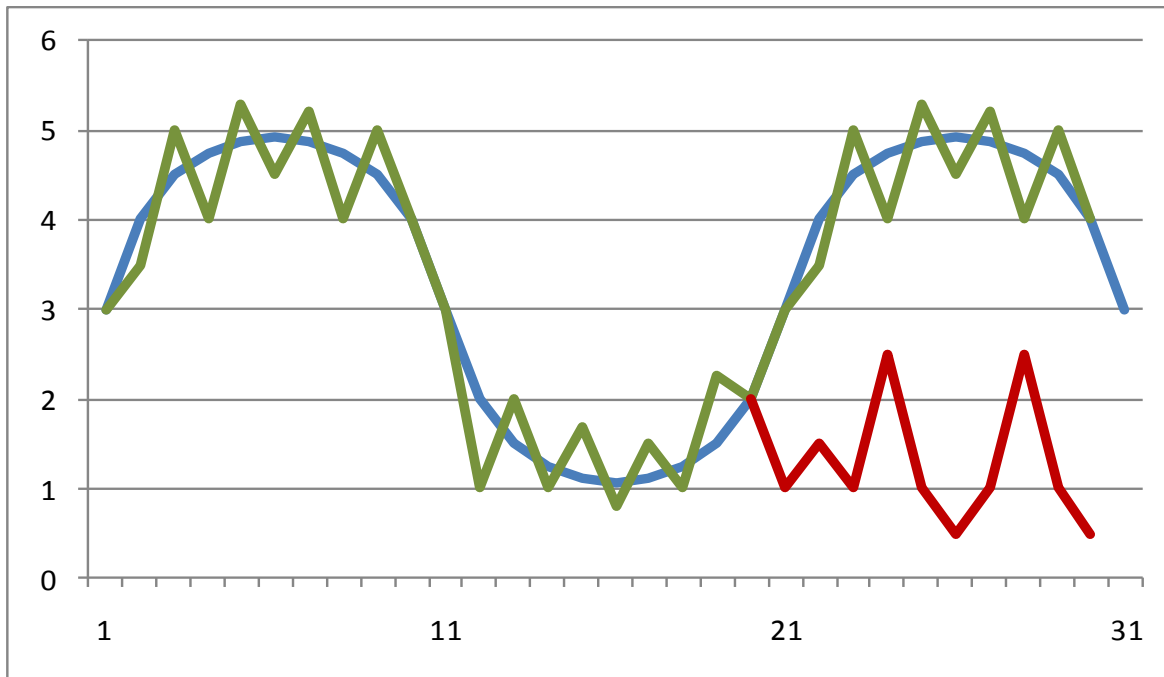
Small volatility around normal production cycle:  
**No problem in principle!**





## 2. Volatility: challenge for agriculture

Erratic, prolonged downward deviation: **Problem!**





## 2. Volatility: challenge for agriculture

Volatility can be a problem for:

- Liquidity
- Profitability

Other factors than price have an influence, too:

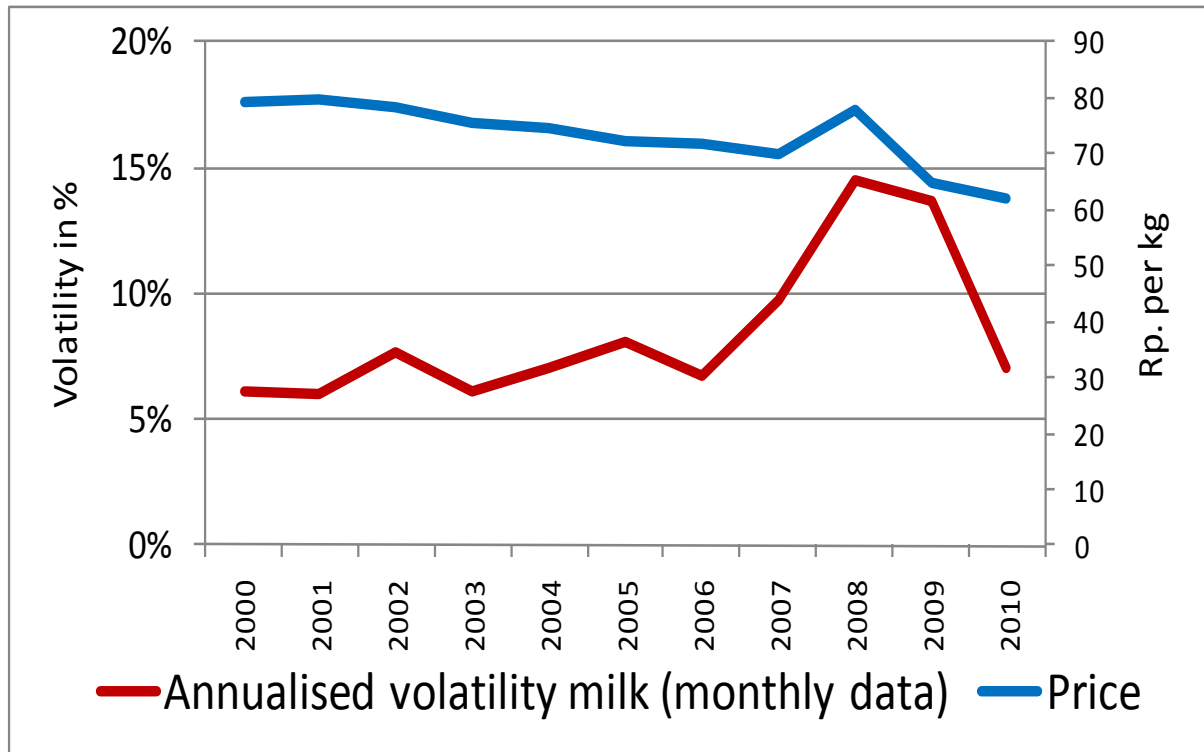
- Volumes
- Production programme
- Other sources of income...



## 2. Volatility: challenge for agriculture

### Profitability (I):

Swiss milk price: Much higher volatility in 2008/09

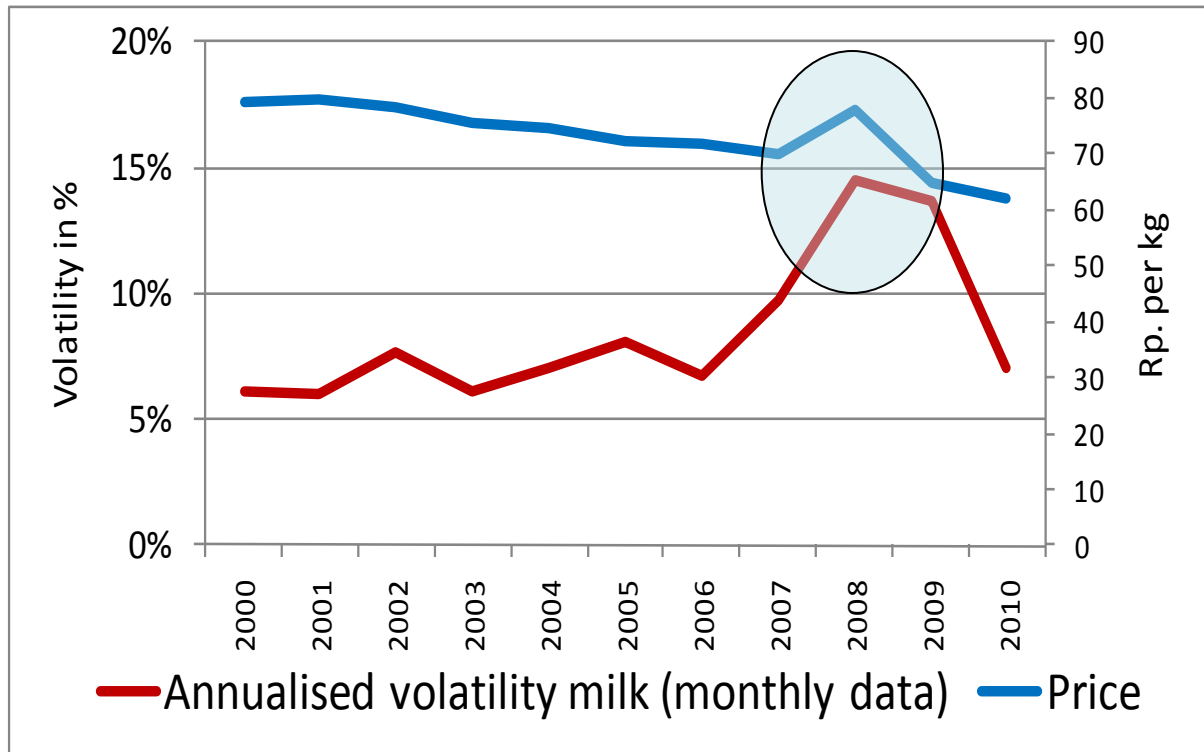




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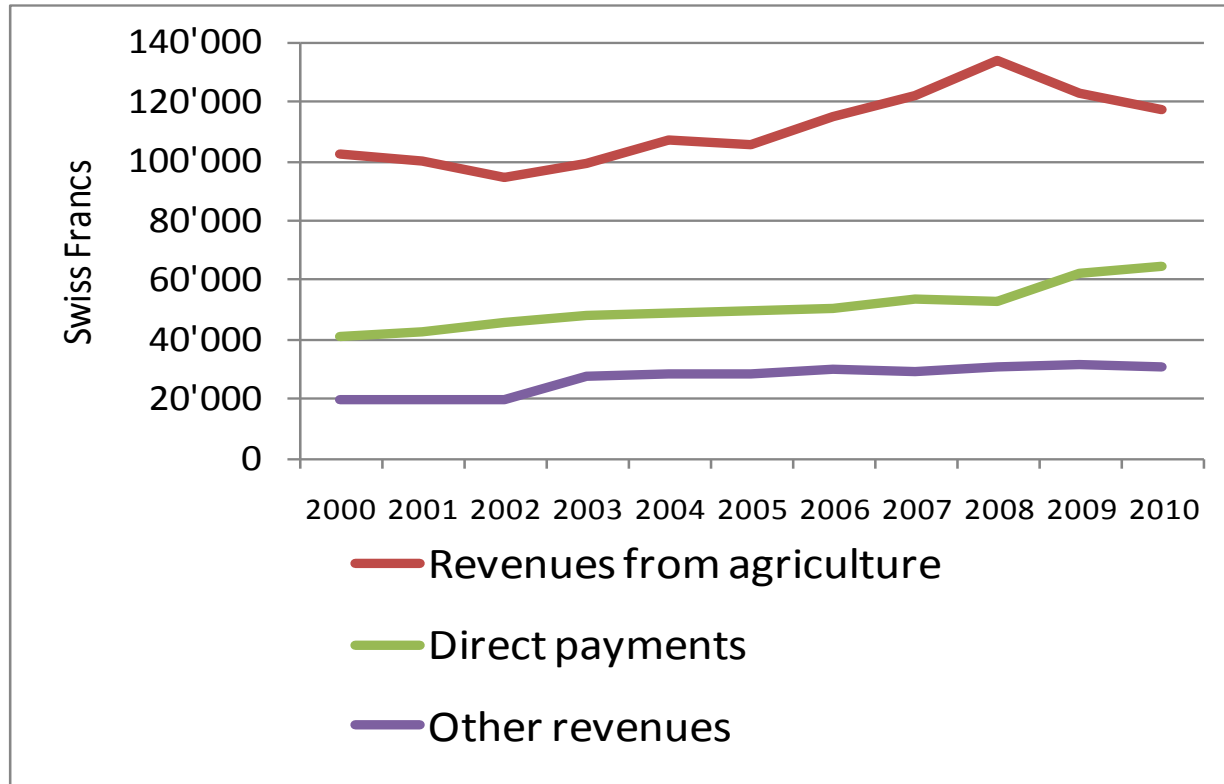




## 2. Volatility: challenge for agriculture

### Profitability (II):

First step is to look at revenue

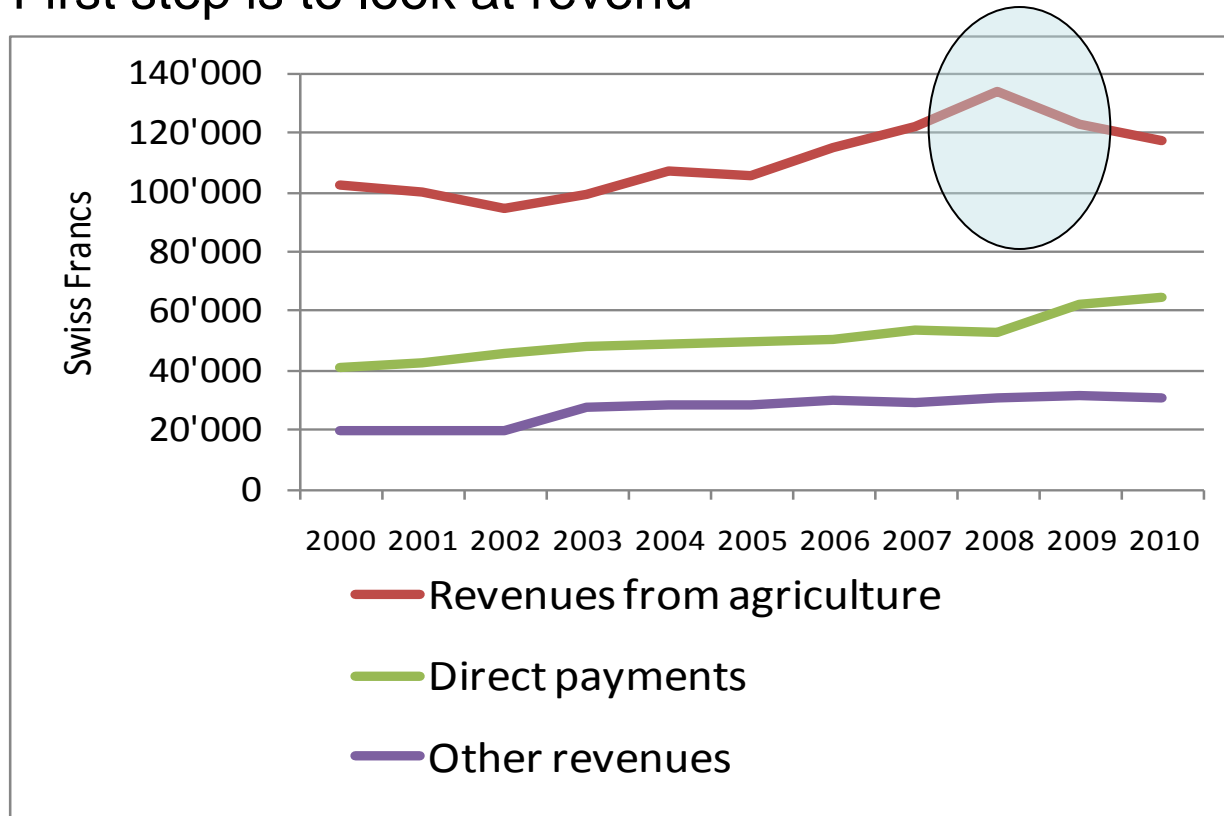




## 2. Volatility: challenge for agriculture

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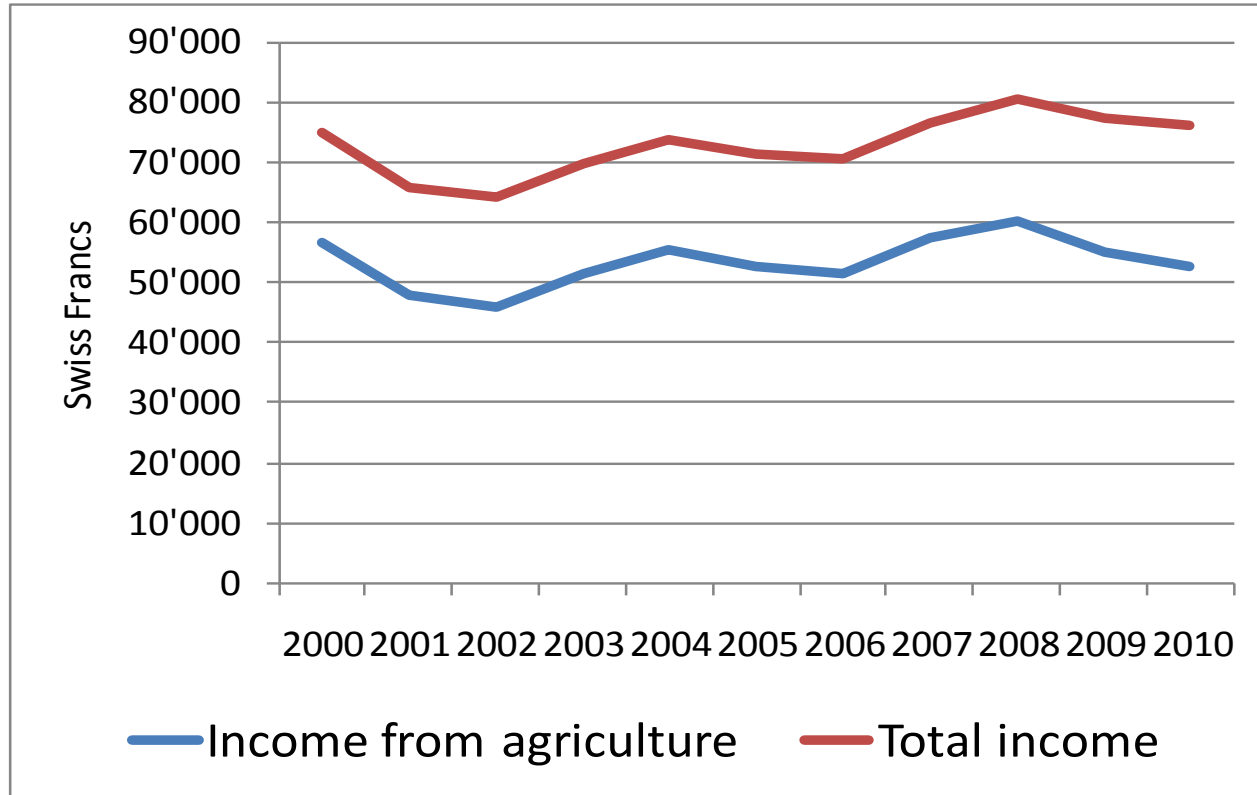




## 2. Volatility: challenge for agriculture

### Profitability (III):

Second step is to look at income

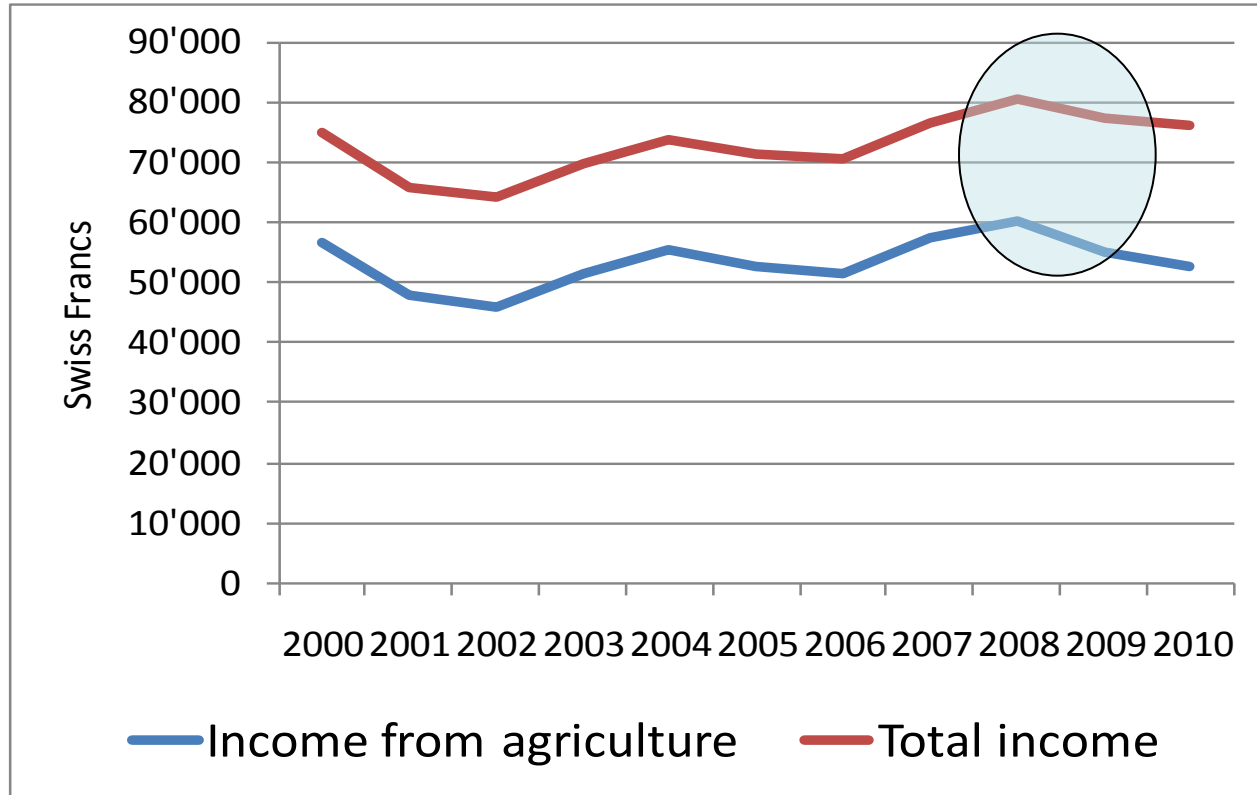




## 2. Volatility: challenge for agriculture

### Profitability (III):

Second step is to look at income





## 2. Volatility: challenge for agriculture

Volatility also hampers willingness to invest:  
farmers, banking sector...

At times when globally more investment in the sector is needed, this can threaten long-term provision of goods and services that society demands from agriculture



## 2. Volatility: challenge for agriculture

Hence monitoring is key

- Investment levels in agriculture: Can agriculture fulfill its roles in the long term?
- Financial resilience of farming sector in a more volatile financial environment



## 3. Conclusions

### Part 1:

- To analyse and understand volatility we have to look beyond world market prices
- Pass-through is a fact, but it can be patchy at times

### Part 2:

- Price volatility can be very harmful for farmers
- However, looking at price volatility is not enough to determine whether public action is needed