



Leibniz Institute of Agricultural Development  
in Transition Economies

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## **PRESS RELEASE 28/2014**

### **Options trading is important instrument for risk management for farmers and grain dealers**

**Halle (Saale), Germany, 11 December 2014 – Researcher of Leibniz Institute of Agricultural Development in Transition Economies (IAMO) together with researchers from Göttingen and Kiel universities analyzed options trading in agricultural futures markets taking the example of the MATIF grain maize market. Concerns that soaring options trading could spark incremental volatility of international agricultural commodity prices have not been empirically verified.**

So far empirical studies on the relationship between option trading, i.e. trading options on agricultural futures contracts, and price formation for agricultural commodities had not been available. This has been changed with the study of Dr. Sören Prehn and Prof. Dr. Thomas Glauben (both IAMO), Tebbe Dannemann and Prof. Dr. Bernhard Brümmer from the University of Göttingen, and Prof. Dr. Jens-Peter Loy, agricultural economist at Kiel University. The researchers found out that options trading has become increasingly important in higher-volatility agricultural markets, as it allows for unilateral hedging of price risks, e. g. against falling prices only. Concerns that option trading increases the volatility of agricultural commodity prices are unfounded, as demonstrated by the findings of the researchers. This is at least true for the European MATIF grain maize market.

"The findings at hand demonstrate once again that agricultural futures transactions are not responsible for increasing price fluctuations on agricultural markets.", states IAMO Director Thomas Glauben.

Requirements for more stringent regulation of agricultural futures markets beyond increasing transparency cannot be justified. Limiting the use of options could even lead to an undesirable outcome: similar to other price hedging instruments, options trading can help strengthen market functions, diminish market imbalances and counteract excessive price volatility.

The results of the study by Dannemann et al. (2014) are published in IAMO Policy Brief 20 "Options trading in agricultural futures markets: A reasonable instrument of risk hedging, or a driver of agricultural price volatility?". The publication is available for free download on the IAMO website:

[http://www.iamo.de/dok/IAMOPolicyBrief20\\_en.pdf](http://www.iamo.de/dok/IAMOPolicyBrief20_en.pdf). A German edition is available too:

[http://www.iamo.de/dok/IAMOPolicyBrief20\\_de.pdf](http://www.iamo.de/dok/IAMOPolicyBrief20_de.pdf).

*Text: 2,501 characters (with spaces)*

### **More information**

Glauben, T., Prehn, S., Dannemann, T., Brümmer, B., Loy, J.-P. (2014): Options trading in agricultural futures markets: A reasonable instrument of risk hedging, or a driver of agricultural price volatility? *IAMO Policy Brief No. 20*, Halle (Saale).

English Edition: [http://www.iamo.de/dok/IAMOPolicyBrief20\\_en.pdf](http://www.iamo.de/dok/IAMOPolicyBrief20_en.pdf)

German Edition: [http://www.iamo.de/dok/IAMOPolicyBrief20\\_de.pdf](http://www.iamo.de/dok/IAMOPolicyBrief20_de.pdf)

Dannemann, T., Prehn, S., Brümmer, B. und Glauben, T. (2014): Optionshandel und Maispreisvolatilität: Wackelt der Schwanz mit dem Hund? *Mimeo*

### **IAMO Policy Briefs**

The publication series [IAMO Policy Brief](#) is published at irregular intervals and provides a platform for research findings and outcomes of the Institute of Agricultural Development in Central and Eastern Europe (IAMO) with social relevance to be communicated accessibly and entertainingly to a broad audience. Key target groups include political decision-makers, mass media representatives and the general public.

### **About IAMO**

The Leibniz Institute of Agricultural Development in Transition Economies (IAMO) analyzes economic, social and political processes of change in the agricultural and food sector, and in rural areas. The geographic focus covers the enlarging EU, transition regions of Central, Eastern and South Eastern Europe, as well as Central and Eastern Asia. IAMO works to enhance the understanding of institutional, structural and technological changes. Moreover, IAMO studies the resulting impacts on the agricultural and food sector as well as the living conditions of rural populations. The outcomes of our work are used to derive and analyze strategies and options for enterprises, agricultural markets and politics. Since its founding in 1994, IAMO has been part of the [Leibniz Association](#), a German community of independent research institutes.

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