

Subject: New Marketing & Outlook Research Report

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The objective of this report is to re-visit the “adequacy of speculation” debate in agricultural futures markets. The Commodity Futures Trading Commission makes available the positions held by index funds and other large traders in their *Commitment of Traders* reports. The results suggest that after an initial surge from early 2004 through mid-2005, index fund positions have stabilized as a percent of total open interest. Traditional speculative measures do not show any material changes or shifts over the sample period. In most markets, the increase in long speculative positions was equaled or surpassed by an increase in short hedging. So, even after adjusting speculative indices for index fund positions, values are within the historical ranges reported in prior research. One implication is that long-only index funds may be beneficial in markets traditionally dominated by short hedging. Attempts to curb speculation through regulatory means should be weighed carefully against the potential benefits provided by this class of speculators

This report is available in the *farmdoc* Marketing & Outlook section at:

http://www.farmdoc.uiuc.edu/marketing/morr/morr_08-02/morr_08-02.pdf

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