# **The fundamentals and financial investment in the World Soybeans Market; understanding "excess volatility".**

Since the early 2000s, there has been growing interest among financial investors in diversifying asset market portfolios through investment in commodity derivatives as an asset class. Investment in commodity derivatives is often in the form of passive index funds, where investment is without due regard to market fundamentals of those commodities but rather driven by returns in other asset markets. This paper focuses on the world soybeans market, and explains how financial speculative forces have changed the workings of the futures and underlying soybean spot market.

Unlike previous analysis on the influence of financial investment in commodity derivatives markets, market fundamentals are investigated in an in depth manner, as means to avoid spurious inference from crude control measures and therefore carefully segregate speculative impacts. Fundamental factors considered include past and expected world soybean supply/demand imbalances, exchange rates, trade tariffs, transport costs and costs of production at the level of regions within major soybean producing countries.

From a fundamental long run grounding, speculative forces in the soybeans market are shown to cause significant overshooting in the underlying spot prices in the short run, which explains the excess volatility observed in recent years.