

# VARIABLE EXCHANGE RATES AND TRADING ON COMMODITY MARKETS

## PREFACE

The volatility of the floating exchange rate system in operation for currencies during the last decade or so has had profound effects on the world economy. The precise nature of many of these effects remains controversial but it is clear that exchange rate fluctuations and misalignments have had a particularly marked impact on the livelihoods of those who produce for or sell on international commodity markets. Though the amount of literature on the effects of exchange rates on international trade has increased greatly during recent years, comparatively little of it has been directed towards the concerns of developing countries or the marketing of the primary commodities on which many of them still depend for their economic survival. This volume is a contribution towards rectifying that deficiency.

The volume contains two papers. The first, by Landell Mills Commodities Studies, is concerned with the effects of exchange rate instability upon primary product exporters in Africa. After surveying the theoretical issues on the way in which exchange rate fluctuations affect commodity markets, and analysing the special factors at work during the first half of the 1980s, the paper reviews the policy options available to the commodity exporting countries in effecting the necessary adjustments to exchange rate fluctuations and misalignments. A final section summarises the theoretical issues and empirical evidence and draws together the policy-related conclusions resulting from the research.

The second paper, by Graham L. Rees, relates to the operations of the London commodity exchanges. Prof. Rees, who has written extensively on this subject, first considers the need for futures markets and how traders seek to protect themselves from the risk of price fluctuations. This is followed by a survey of the organisation and operation of commodity exchanges in general and of the London market in particular. A final section looks at trends in and prospects for the London market in the light of increasing international competition, external interventions, the development of new forms of trading (especially countertrading), and the revolution in information technology.

These two papers formed part of the background documentation for participants at a recent workshop on trading in primary products which was co-sponsored by the Commonwealth Secretariat. The interest shown in the papers, together with the continuing importance of the subject, has led the Secretariat to believe that there would be value in making the texts more widely

available. It is hoped that they will make a useful contribution to the ongoing search for a greater degree of understanding and a wider measure of consensus on the need for improved arrangements for the marketing of primary products from developing countries.

Finally, I should like to thank the authors for their papers; in doing so I should add that the views they express do not necessarily reflect those of the Commonwealth Secretariat or of Commonwealth Governments.

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