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On the Link between Oil and Agricultural Commodity Prices: Do Biofuels Matter?

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Abstract

The aim of this paper is to investigate the long-term effect of the price of oil on agricultural commodity prices by accounting for the influence of biofuel production. Relying on the estimation of nonlinear, cointegrating regime-switching processes, we show that biofuel development has led to an increase in the oil-price effect on agricultural commodity prices: the growing production of biofuels is contributing to the price rise of agricultural commodities. This result underlines the importance of considering alternative biofuels which are not produced from agricultural commodities, and of analyzing the potential effects of the second-generation biofuels derived from agricultural plant residuals or non-food plants.

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