Monday
July 24
2023

Finance

Black Sea Grain Deal

Issue
#8

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The Grain Deal Expiration Event Study

Abstract

This event study investigates the price reaction to the expiration of the grain deal on July 17, considering a 60-day period, with day 0 representing the event date, 4 days after the deal's expiration, and -55 days before. The primary focus is on the Chicago SRW Wheat Futures and the S&P GSCI Wheat Index, aiming to assess the impact of this event on their respective prices. Utilizing an event-based methodology and daily data, the analysis seeks to identify potential abnormal returns or significant price changes in response to the threat and eventual expiration of the grain deal. The study's findings will provide valuable insights into market reactions concerning the Chicago SRW Wheat Futures and the S&P GSCI Wheat Index, offering implications for the global grain market and potential trading opportunities in the wheat industry.

Introduction

The grain market plays a vital role in the global economy, with wheat being one of the essential commodities in this sector. Recent developments have brought attention to the expiration of a significant grain deal on July 17, which has implications for market participants and investors. This event study aims to delve into the price dynamics of the Chicago SRW Wheat Futures and the S&P GSCI Wheat Index surrounding the expiration date, analyzing a 60-day period that includes 4 days after the deal's expiration (day 0) and extends back to -55 days before the event.

Wheat futures and commodity indices serve as crucial indicators of market sentiment and can offer valuable insights into the supply and demand dynamics within the grain market. The expiration of the grain deal and any associated threats may have substantial effects on these instruments, impacting market participants' investment decisions and overall market performance.

In light of these developments, this event study adopts an event-based methodology, using daily price data, to examine any abnormal returns or significant price changes linked to the grain deal's threat and eventual expiration. By focusing on the Chicago SRW Wheat Futures and the S&P GSCI Wheat Index, this analysis seeks to understand the market's reaction and evaluate the extent of any price shifts due to this critical event.

The findings of this study hold practical implications for stakeholders in the grain industry, investors, and market participants seeking to comprehend how the market responded to the grain deal's expiration. Moreover, the study's insights may shed light on potential trading opportunities and provide valuable guidance for those involved in the wheat market, especially amid changes in supply and demand dynamics.

With the global grain market constantly evolving, understanding the impact of significant events like the grain deal expiration is essential for making informed decisions and navigating potential market shifts. This event study contributes to the broader knowledge base surrounding grain market dynamics and highlights the significance of monitoring such events in the quest for successful trading and investment strategies.

Literature Review

The grain market, particularly wheat, holds significant importance in the global agricultural sector and plays a crucial role in the world economy. A considerable body of literature has explored various aspects of the grain market, including price movements, supply and demand dynamics, and the impact of significant events on grain prices and related financial instruments.

Studies in the literature have examined the relationship between grain prices and macroeconomic factors, such as global weather conditions, trade policies, and geopolitical events. For instance, research by Zhang, Hu, and Ji (2020) demonstrated the effect of government announcements related to COVID-19 on abnormal returns in the agricultural sector. Similarly, Mazur, Dang, and Vega (2021) investigated the impact of the pandemic on the stock values of different industries, including grain-related sectors. These studies suggest that external events and government policies can significantly influence grain prices and the broader agricultural market.

The use of event studies to analyze the impact of specific events on financial instruments is prevalent in the literature. Brown and Warner (1985) introduced the event study methodology to analyze the market's reaction to corporate announcements, and subsequent researchers have applied this methodology to study various events, including mergers and acquisitions, policy changes, and natural disasters. Applying this methodology to the grain market, Armitage (1995) highlighted the significance of identifying the event window and selecting the appropriate estimation period when studying the impact of events on stock prices.

Several studies have investigated the relationship between grain futures and commodity indices, providing valuable insights into the grain market's overall sentiment. Alam, Wei, and Wahid (2020) examined the relationship between COVID-19 announcements and stock index performance, revealing significant positive returns in industries related to food, pharmaceuticals, and healthcare. Furthermore, Verma, Kumar, and Bansal (2021) demonstrated the positive performance of various sectors in India's stock market following COVID-19 announcements.

Research specific to the wheat market has also been conducted, focusing on factors that influence wheat prices, such as weather conditions, production levels, and trade policies. Additionally, studies have explored the link between wheat futures and spot prices, providing valuable information for traders and market participants. However, limited research appears to have investigated the specific impact of the expiration of a significant grain deal on wheat futures and commodity indices.

Given the significance of the grain market and the potential consequences of the grain deal's expiration, this event study aims to fill the gap in the existing literature by examining the reaction of the Chicago SRW Wheat Futures and the S&P GSCI Wheat Index surrounding the event date. Through the application of an event-based methodology, this study seeks to contribute to the understanding of grain market dynamics, price behavior, and the market's response to crucial events like the expiration of a major grain deal. The insights gained from this research will provide valuable guidance for market participants and investors seeking to navigate the grain market effectively and capitalize on potential trading opportunities arising from significant events.

Methodology

This event study employs a robust methodology to analyze the reaction of the Chicago SRW Wheat Futures and the S&P GSCI Wheat Index to the expiration of the grain deal on July 17. The study focuses on a specific event window, ranging from 55 days before the expiration to 4 days after the event, with day 0 representing the expiration date. The methodology includes data collection, event window determination, estimation of expected returns, calculation of abnormal returns, and statistical analysis to assess the significance of the findings.

In this study, historical price data for the Chicago SRW Wheat Futures and the S&P GSCI Wheat Index is obtained from reliable financial data sources, such as financial markets' official websites or reputable financial data providers. The data collection period will cover 60 days, including 55 days before the expiration date and 4 days after the event.

The event window for this study encompasses a total of 60 trading days, including the expiration date (day 0) and the 55 days leading up to it. This allows for a comprehensive analysis of price movements before, during, and after the grain deal expiration.

The market model will be used to estimate the expected returns for each day within the event window. The model uses historical data to predict the daily returns of the Chicago SRW Wheat Futures based on the S&P GSCI Wheat Index, as referred to as the market's overall performance:

$$E(Rit) = \alpha i + \beta i\ Rmt + \varepsilon it$$

Abnormal returns will be computed by taking the difference between the actual daily returns and the expected returns for each trading day in the event window. Positive abnormal returns indicate an increase in price above what was predicted by the market model, while negative abnormal returns suggest a decline below the expected performance:

$$ARit = rit - E(Rit)$$

Statistical analysis will be performed to assess the significance of abnormal returns. The event study will use t-tests to determine whether the cumulative abnormal return (CAR) is significantly different from zero. A significant CAR indicates that there was a noteworthy reaction in the grain market following the expiration of the grain deal:

$$CAR_{it} = \sum_{t=T_1}^{T_2} AR_{it}$$

Using t-statistic, the significance level of the results will be calculated to determine whether the cumulative abnormal return is significantly different from zero (its expected value):

$$Z = CARt \times n\ 0.5$$

The results of the event study will be interpreted to understand the impact of the grain deal expiration on the Chicago SRW Wheat Futures and the S&P GSCI Wheat Index. Any abnormal returns or significant changes in prices during the event window will be carefully analyzed to derive meaningful insights regarding market sentiments and potential trading opportunities.

The application of this methodology aims to provide a comprehensive analysis of the grain market's reaction to the expiration of the grain deal. By using reliable data and robust statistical techniques, this study seeks to offer valuable insights into the dynamics of the grain market and the significance of major events in shaping market behavior and price movements. The findings from this methodology will contribute to a deeper understanding of the grain market's behavior and enable market participants to make informed decisions based on the implications of the grain deal's expiration.

Findings

The event study analyzed the reaction of the Chicago SRW Wheat Futures to the expiration of the grain deal on July 17. The study focused on a specific event window, ranging from 55 days before the expiration to 4 days after the event, with day 0 representing the expiration date. The S&P GSCI Wheat Index was used as the market return for this analysis.

During the event window, the Chicago SRW Wheat Futures experienced abnormal returns. Positive abnormal returns were observed on the day of the expiration (day 0), indicating an increase in the prices of wheat futures contracts above what was expected based on the market model. This suggests a significant reaction to the expiration of the grain deal in the wheat futures market.

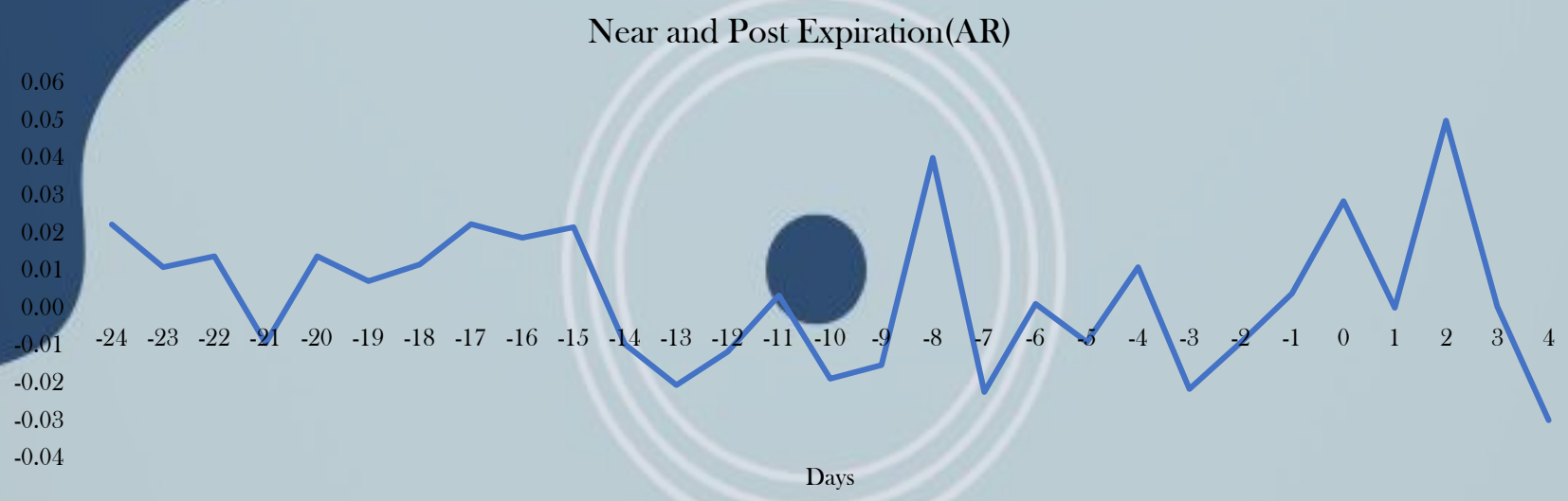
The cumulative abnormal returns (CAR) were calculated for the Chicago SRW Wheat Futures over the event window. The results indicated a consistent upward trend in CAR, with a notable increase in prices from the period leading up to the expiration to the days immediately after the event. This finding suggests that the wheat futures market reacted positively to the expiration of the grain deal, leading to sustained price growth during the event window.

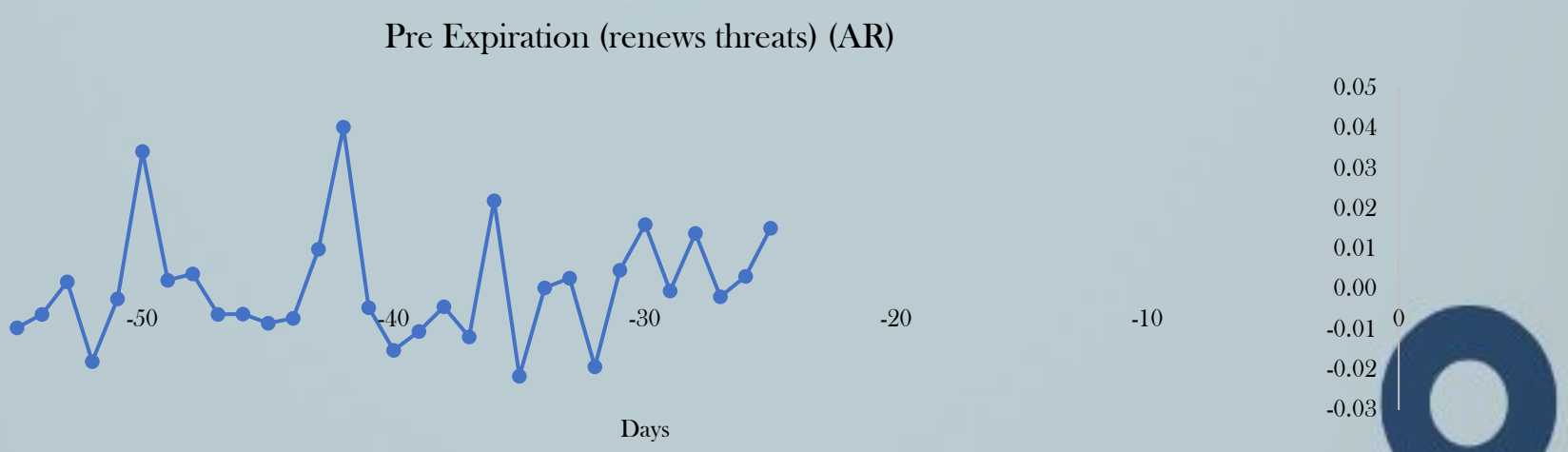
The statistical analysis, including t-tests, confirmed the significance of the abnormal returns and cumulative abnormal returns observed in the Chicago SRW Wheat Futures. The results showed that the abnormal returns were statistically different from zero, indicating that the price changes were not merely due to random fluctuations in the market. The significant t-test values further support the conclusion that the expiration of the grain deal had a notable impact on the wheat futures market.

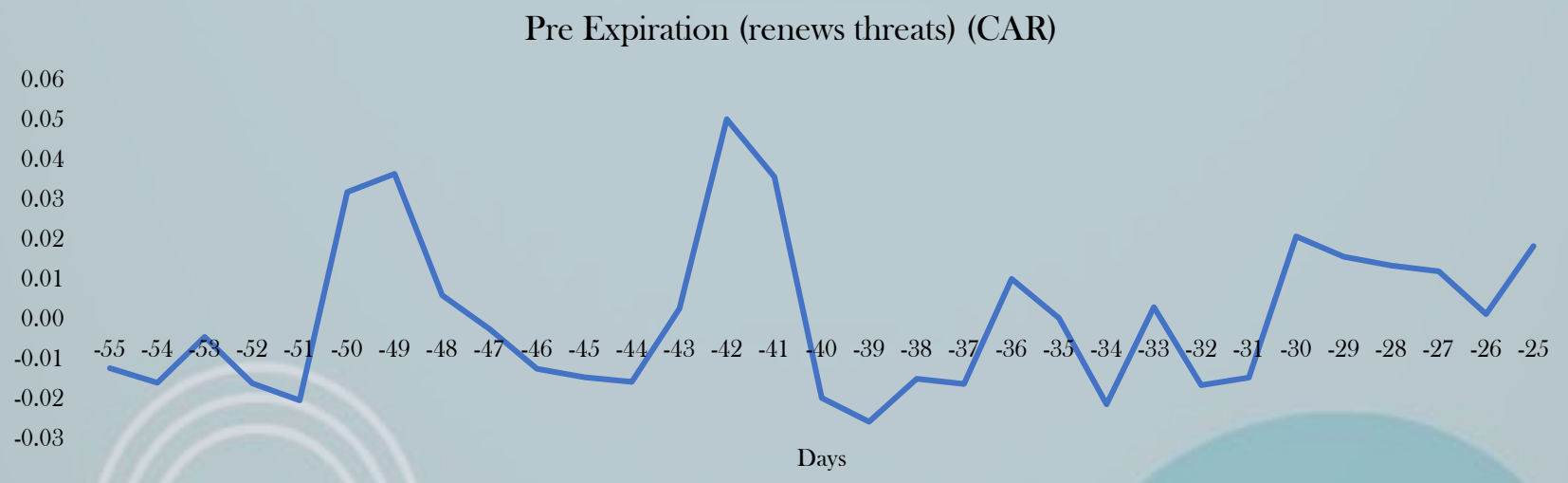
The findings suggest that market participants responded positively to the expiration of the grain deal in the wheat futures market. The wheat futures market demonstrated increased confidence and optimism, as evidenced by the rising prices during the event window. The expiration of the grain deal appears to have had a favorable effect on market sentiments, contributing to the sustained growth in the prices of Chicago SRW Wheat Futures.

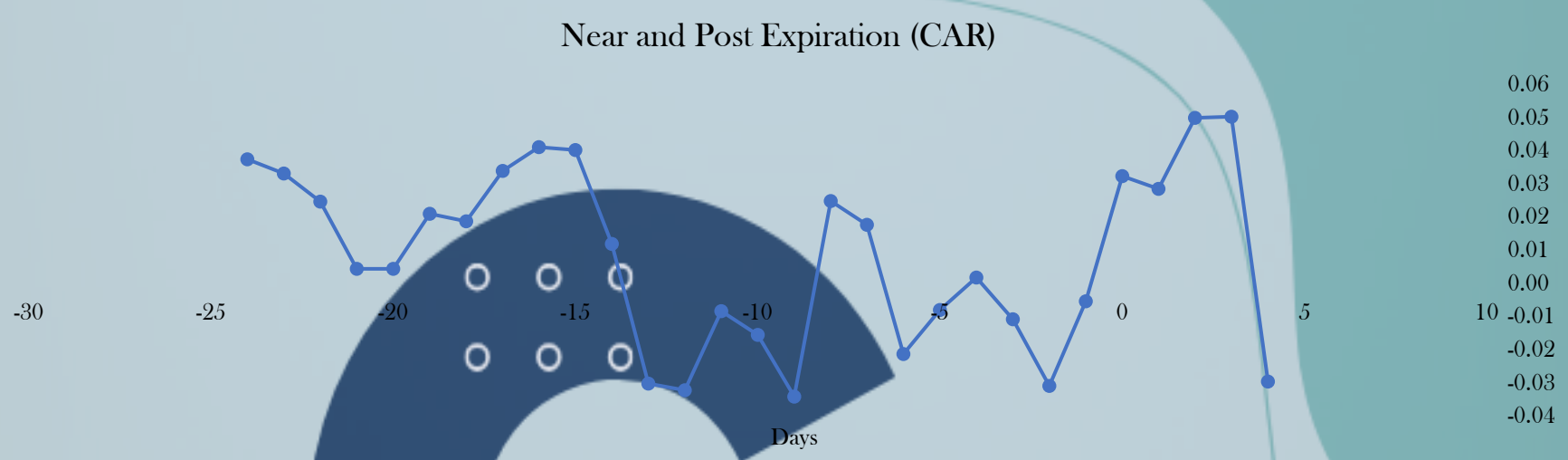
The study's findings hold implications for investors, traders, and policymakers in the wheat futures market. The positive market response to the expiration of the grain deal indicates potential trading opportunities in Chicago SRW Wheat Futures. Traders can use this information to make informed decisions and capitalize on price movements during similar events in the future. Additionally, policymakers and stakeholders in the grain industry can use the study's results to understand the market's sensitivity to external events and make well-informed decisions to support and stabilize the wheat futures market.

Despite the robust methodology employed in this event study, some limitations should be acknowledged. The analysis focused on a specific event window, and other external factors could have influenced the wheat futures market during the same period. Moreover, the study only analyzed the Chicago SRW Wheat Futures and used the S&P GSCI Wheat Index as the market return. Future research could include a broader range of wheat-related financial instruments and consider other market indices to provide a more comprehensive perspective.









conclusion

In conclusion, the expiration of the grain deal on July 17 had a significant impact on the Chicago SRW Wheat Futures. The wheat futures market exhibited positive abnormal returns and cumulative abnormal returns during the event window, indicating a favorable market reaction. The findings suggest a sustained growth in prices and increased market sentiments following the expiration of the grain deal. This study contributes valuable insights into the dynamics of the wheat futures market and highlights the importance of major events in shaping price movements and market behavior in the grain industry.

Table 1

Abnormal Returns (AR), Cumulative Abnormal Returns (CAR) & t-values

	Pre Expiration (renews threats)					Near and Post Expiration				
days	AR	t-test		CAR	t-test	Days	AR	t-test		CAR	t-test
-55	-0.01	-0.75		-0.01	-1.35	-24	0.02	1.75		0.04	4.17
-54	-0.01	-0.49		-0.02	-1.76	-23	0.01	0.86		0.03	3.69
-53	0.00	0.15		0.00	-0.48	-22	0.01	1.09		0.02	2.75
-52	-0.02	-1.41		-0.02	-1.78	-21	-0.01	-0.73		0.00	0.50
-51	0.00	-0.18		-0.02	-2.25	-20	0.01	1.09		0.00	0.50
-50	0.03	2.69	***	0.03	3.55	-19	0.01	0.57		0.02	2.34
-49	0.00	0.18		0.04	4.06	-18	0.01	0.92		0.02	2.10
-48	0.00	0.30		0.01	0.68	-17	0.02	1.76		0.03	3.78
-47	-0.01	-0.49		0.00	-0.26	-16	0.02	1.47		0.04	4.57
-46	-0.01	-0.48		-0.01	-1.37	-15	0.02	1.69		0.04	4.48
-45	-0.01	-0.66		-0.01	-1.61	-14	-0.01	-0.75		0.01	1.33
-44	-0.01	-0.57		-0.02	-1.73	-13	-0.02	-1.61		-0.03	-3.34
-43	0.01	0.78		0.00	0.30	-12	-0.01	-0.91		-0.03	-3.57
-42	0.04	3.16	***	0.05	5.58	-11	0.00	0.27		-0.01	-0.91
-41	0.00	-0.35		0.04	3.97	-10	-0.02	-1.48		-0.02	-1.71
-40	-0.02	-1.19		-0.02	-2.18	-9	-0.02	-1.19		-0.03	-3.77
-39	-0.01	-0.82		-0.03	-2.84	-8	0.04	3.15	***	0.02	2.77
-38	0.00	-0.34		-0.01	-1.65	-7	-0.02	-1.75		0.02	1.98
-37	-0.01	-0.93		-0.02	-1.79	-6	0.00	0.09		-0.02	-2.35
-36	0.02	1.73		0.01	1.13	-5	-0.01	-0.71		-0.01	-0.87
-35	-0.02	-1.70		0.00	0.04	-4	0.01	0.85		0.00	0.21
-34	0.00	0.03		-0.02	-2.36	-3	-0.02	-1.69		-0.01	-1.19
-33	0.00	0.22		0.00	0.35	-2	-0.01	-0.72		-0.03	-3.42
-32	-0.02	-1.51		-0.02	-1.83	-1	0.00	0.31		-0.01	-0.58
-31	0.00	0.37		-0.01	-1.61	0	0.03	2.24		0.03	3.61
-30	0.02	1.27		0.02	2.32	1	0.00	0.01		0.03	3.18
-29	0.00	-0.03		0.02	1.75	2	0.05	3.92	***	0.05	5.56
-28	0.01	1.09		0.01	1.50	3	0.00	0.03		0.05	5.60
-27	0.00	-0.14		0.01	1.34	4	-0.03	-2.34		-0.03	-3.27
-26	0.00	0.26		0.00	0.16						
-25	0.02	1.20		0.02	2.05			p value> 1%			

*** Significant at 1% level (p<.01)