

# The Commodity Price Fluctuations Triggered by Political Issues

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## ABSTRACT

This paper explores the problem of product price fluctuations in the commodity trading market in Australia with three aspects, including Australia's policy environment, the significant impact of policy on the Australian market, and how they can be improved in the future. In this article, the authors discuss the influence of commodity trading on account of a political problem. Taking the relations between China and Australia as an example, this article tells the impact of the deterioration between them. The exports amount of coal and iron ore exports change in Australia. Commodity trade has a positive or negative impact on other countries due to political problems. In the future, the COVID-19 still will influence the market a lot. Still, it does not know when will COVID-19 end. Oil prices will also change by clean energy because of new government regulations. The trade war between China could cause looking for a new supplier, but China and Australia still need each other.

**Keywords:** Product price volatility, International relation, COVID-19

## 1. INTRODUCTION

Commodity prices in Australia are typically established by markets rather than regulated by the government. Australia believes competitive markets create more efficient and productive outcomes for firms and consumers since prices are free to vary in response to changes in market circumstances [1]. Market competition incentivizes firms to be efficient, inventive, and productive. Furthermore, competitive pressure on firms ensures that pricing closely reflects provision costs, which benefit customers. Australia is a bicameral state with two political factions, the Liberals and the Labor party loyalists. The two sides compete to take control of the legislative and executive arms of the government. Through their actions, individual party politics impact political stability in the nations, thereby triggering product price volatility in more than one aspect.

Government interference, mainly through regulation or other actions to influence the pricing of products or services, is typically disliked. Such legislation should only be used in the event of a demonstrated market failure. In economic price control, government involvement is usually tricky and an inadequate

substitute for actual competition. Economic regulation takes a long time and a lot of resources, and determining an efficient price is tough. As a result, price control must be utilized sparingly and only in areas where market failures are established. Price volatility, a hallmark of various Australian markets, may be a sensitive topic and a cause of public concern. Uncertainty may be created by volatile prices for both enterprises and consumers. Furthermore, price volatility is frequently regarded as the effect of a lack of competition. Finally, the public may interpret price rises as the result of collusive behavior. Goodell and Vähämaa explored the effect of political uncertainty in a U.S. setting using data from the Iowa Electronic Market. The Uowa Electronic Market is a betting market that predicts the U.S. Presidential election. They discovered evidence for the political uncertainty hypothesis, which states that knowledge about the likelihood of a specific election victor reflects information about future economic policies. Using the VIX index volatility rate as a proxy for uncertainties in the stock market, they discovered an unexpectedly positive link between changes in the ultimate winner's chance of success and market uncertainty. Scott leads the Liberal/National alliance to a legislative majority. Since

September, an unprecedented heatwave has caused flaming that have destroyed at least 25 human lives, destroyed millions of animals, and displaced around 2,000 houses in the country's southeast. As a result, recent price swings and their negative impact on the agricultural sector have sparked a renewed discussion on the problem of volatility and the potential for agricultural market stabilization. Because price and revenue volatility for farmers is expected to persist and even rise in the future, the options for managing these risks should be a top priority for both stakeholders and policymakers. In light of this, this paper focuses on agricultural policies and instruments that might assist farmers in managing this sort of volatility.

Peng focused on the price of crude oil price always changes for some reasons. Nonlinearity is a great toy to find out the reason why the price can always be changed. In the event of price fluctuations, the correlation between events and types. Drakeford uses the autoregressive distributed lag method (NARDL) model to capture the characteristics of the impact mechanism of crude oil [2]. Hou makes a theoretical and concrete point of view to study the impact of meaning on the commodity market. Tang and Zhang researched the national selection of major commodity-producing countries, the basic certainty of the supply side has been the same result. In the reading, there are some examples to prove that politics could influence the price. Also, gold is not a hedge against potential [3].

B study during covid the price of the product could affect by the national evidence like covid, the government has enough power to change the price of the good. Most they change the quantity of import and export. K adjusts that number could change the price of the goods easily. Also, the national relationship could affect the price of the good [4].

Wei and Chang discussed the impact of the commodity market affects the economy. The rise in commodity trading prices caused by the increase in energy prices harms the global economy. Authors study the relationship between the exchange rate of commodity-exporting countries and future commodity prices through trade. They believed that commodity currencies, including the Australian dollar, Canadian dollar, New Zealand dollar, and other country dollars, contain important market expectations [5].

Mo et al. supported that commodity prices fell sharply because of the global financial crisis in 2008. Therefore, compared with developed countries, the impact of commodity futures price fluctuations in emerging nations is more significant, such as China and India. This paper studies the determinants of Commodity Futures Volatility in these markets. The results of this study are useful to research the price fluctuation of commodity futures in emerging countries [6].

Carter explains the commodity futures markets with financial futures and options. We need to do a large number of researches to understand essential economic issues, such as the impact of government farm plans on commodity futures. Furthermore, we need to solve some problems. For example, why are there a large number of unexplained price fluctuations in markets such as pigs or orange juice [7].

Ao and Chen discussed that there are some different explanations for price volatility in futures markets. Due to the beginning of the 21st century, the international commodity market has experienced significant price fluctuations because of demand, supply shocks, and other reasons. Therefore, it is essential to understand the price fluctuations of commodities in the global economy. In conclusion, compared with western countries, commodity futures trading in china is mainly domestic trading, but it has an increasing impact on the global market, especially copper and iron [8].

Consumer worry over gasoline and food costs has frequently led to requests for governments and competition agencies to probe the sectors for anti-competitive behavior and to control industry pricing. However, the political landscape provides a strong force that determines product pricing. This paper aims to investigate the impact that politics and political party agendas have on the prices of commodities within Australia.

## **2. EVENT DESCRIPTION**

In Australia, successive political parties have implemented significant. The intense reform to strengthen market functioning. As a result, increased competitiveness has helped Australia in a variety of areas. This is due, in part, to the economic changes made by Australia during the last decade. All political parties have expressed a desire to enhance economic performance by encouraging competition in formerly limited markets [9]. In recent years, several broad-based economic changes have been implemented, including applying the anti-competitive behavior clause in third-party administrators to unincorporated companies and government investigation panel concluded, in particular, that the influence of restrictive covenants in leases, as well as planning and zoning regulations, has to be modified.

Furthermore, several particular sector reforms were implemented in industries like electricity, gas, water, and communications, formerly natural monopolies. In reaction to widespread outrage, Australia's leading political party asked the government to conduct a formal investigation into the competitiveness of retail pricing for ordinary foodstuffs [10]. The primary source of the protest was community worry over the rising expense of living. The research indicated that supermarket retailing

is functionally and competitively significant but that certain specific characteristics restrict the amount of price competition in Australia. These included entrance and growth obstacles for rivals, as well as restricted pricing competition from independent grocers.

This is because big price changes create a high amount of uncertainty among producers and customers. Producers are more concerned about the potential of low pricing because a lower income may jeopardize their long-term sustainability. Meanwhile, when food costs are high, impoverished households' capacity to secure their nutrition and other fundamental necessities (such as education and health care) might be jeopardized. Furthermore, when prices are volatile, farmers are less likely to invest in productivity-boosting assets, which may push them to make suboptimal long-term investment decisions. Following a brief overview of the causes of price and income volatility for farmers, as well as the options for dealing with it, the policy instruments of the major agricultural countries and regions, namely those of the European Union, the United States, Brazil, China, and Australia, will be evaluated. Special consideration will be given to governmental assistance for farm insurance systems.

A strong competition policy framework, according to Australia, is a critical instrument for maintaining the efficient and successful operation of markets, especially commodities markets. A framework of this type comprises market examination to determine whether structural obstacles exist, solid and effective competition legislation, and additional policy instruments to overcome obstructions to investigation panel reforms for effective and transparent operation. Such a framework will reduce the need for economic regulation and other tools for monitoring market behavior.

Concerns over price volatility in Australia, particularly in the retail gasoline sector, might lead to requests for new restrictions or modifications to competition rules. Although fluctuating prices may not always indicate a problem with competition, a lack of public knowledge regarding the underlying reasons for price volatility might lead to such impressions. In response to public concerns about price volatility, Australia tries to ensure that markets are typically efficient through various methods that foster competition. Politics, therefore, plays an essential role in encouraging competition and safeguarding consumers from anti-competitive behavior.

### **3. INFLUENCE**

#### ***3.1. Impact on Australia***

Geopolitics has an important influence on the price fluctuations of commodities trading in Australia. According to the article, Junyu Assets supported that the

trading between China and Australia promotes the development of the export economy in Australia. However, due to the tension of the relationship between China and Australia, the demand for commodities products has dropped significantly in China. For example, coal and iron ore are the two most significant types exported by Australia. Two-thirds of China's iron ore comes from Australia. Therefore, the deterioration of the relations between China and Australia may weaken the supplier status of Australia. However, Brazil, another major supplier of iron ore, is challenging to maintain iron ore exports to China. China may not impose tariffs on Australia for iron ore. Australia is one of the main channels for China to import coal. Due to the impact of China and Australia relations, China has gradually reduced the imports of Australian coal in August 2020. The stocks of Australian coal companies start to plummet. According to data on coal export from Queensland ports in Australia displayed by Argus, from January to March 2021, coal exported 47.46 million tons in Queensland. Compared with the 51.6 million tons from the previous year, the amount of coal export will decrease 8.0%. On March 29, 2021, the Australian government work report showed that the total amount of thermal coal exports for the financial year from 2020 to 2021 fell from 21 billion dollars to 15 billion dollars.

#### ***3.2. Impact on China***

Due to the relations between China and Australia, the total amount of coal and Iron ore imports have significantly changed in China. According to a news of People.CN, after Australian coal has been rejected, the coal imports of Australia have dropped from 36.1 million tons to zero from 2019 to 2021. Indonesia has maintained its status as the country's largest source of imported coal. Imports have shown a steady increase, from 76.69 million tons in 2019 to 85.05 million tons in 2021. Furthermore, Canada, the United States, Colombia, and South Africa have also become the primary sources of imported coal in China. Previously, in China, Mongolia was the second-largest import country of coking coal. After the coking coal import of Australia reduced to zero in 2021, Mongolia became the largest importer of coking coal in China. Of the 1.07 billion tons of iron ore resources imported by China in 2019, about 670 million tons came from Australia, and about 230 million tons came from Brazil. In other words, China is the only option for Australia's exports, but Australia is not the only option for China. For example, Brazil is more likely to provide China with a large number of iron ore resources. The Australian Finance and Economics media reported that China is looking for an import market to replace Australian iron ore in the long term. Brazil, which is the biggest competitor of Australia, may occupy more iron ore market. According to data, the iron ore of Brazil's exports to China was about 22.77 million tons in June.

Although only 20% of Australia, the growth rate was still high and increased 35% compared with the last year.

### **3.3. Impact on other countries**

The deterioration between China and Australia has a significant impact on other countries. From the figure, compared with 2020, the coal exports of Indonesia, Russia, and Mongolia to China have increased. Previously, Mongolia was the second-largest import of coking coal in China. After the coking coal import of Australia returned to zero. Mongolia became the largest import of coking coal in China this year. Although the coal export of Mongolia has been blocked in recent months because of Covid-19 and the amount of coal exported to China has decreased. However, if the Covid-19 has terminated or improved the vaccination rate and achieved universal immunization, Mongolia's coal export to China will increase steadily.

## **4. TREND ANALYSIS**

### **4.1. Influence of Covid-19**

The Covid bring a huge influence on the price of the product. In the future, the covid could be ending. If covid is ended, the price of oil and another product might be decrease or getting normal. The transportation fee might be getting cheaper, and the speed will increase after COVID-19. Unprecedented but not Unpredictable: Effects of the COVID-19 Crisis on Commodity-Dependent Countries. The use of OPEC+ oil supply led by Arabia and Russia, as well as the temporary use of OPEC's spare capacity, are possible sources to bridge the expected global supply gap.

### **4.2. Oil price in the future**

In the future, the oil supply country might influence the price of oil. The stability of the governments of these countries has a crucial influence on the pricing of commodities. Due to the impact of a series of emergencies such as war and political instability, economic and financial slowdown, terrorist attacks, and natural disasters, crude oil prices have experienced several drastic fluctuations in the past few decades.

Dynamic Characteristics of Crude Oil Price Fluctuation and National policies such as the tram plan will also affect the price of crude oil. These countries may force people to use or buy trams to reduce carbon emissions by increasing taxes on crude oil. The price of bulk commodities in the future will increase or decrease with future government policies. We can predict the price of bulk commodities by predicting future national government policies.

### **4.3. Trade with China**

In 2020, the situation changed significantly. By the end of this year, Australian industry will be either hit or hit threats of interference from China include beef, barley, education, tourism, timber, cotton, coal, wine, lobster, and sheep. 94% Australian public wants the government to find other markets to reduce the economic dependence on China. However, China and Australia still need each other in the future, China can't stop the import of iron ore, and Australia still needs international students from China. In the short term, both are trying to find another market. China had a new agreement with Indonesia to buy US\$1.5 billion worth of Indonesian thermal coal between 2021 and 2023. The Australian ore is by far the cheapest and closest source of high-quality iron ore for China's mills. The person who takes the risk and the effect by the relationship between two countries are buyers rather than any party. So the demand for Australian iron ore can't be changed. Even Chinese government has the limit to using iron ore and finding another ore, the demand for ore is still high.

In the future, the demand for ore can't be changed, but it doesn't mean the trade war will be stopped. The Chinese government will publish some laws to restrict goods from Australia. Goods like beef, wood, and seafood will be restricted by reasons like biological protection, radiation, and packaging. Meanwhile, the price of ore will increase against Chinese restrictions.

## **5. CONCLUSION**

All in all, the article details the fluctuations in commodities in Australia and the cause for this result from the deterioration in Australia's political environment. Hence, this paper presents a deeper exploration of the implications and future perspectives. On the other hand, the author mainly describes that the price fluctuation of commodities is caused by political problems. Geopolitics has an important influence on the price fluctuations of commodities trading in Australia, China, and other countries, such as the import of coal and Iron ore. Because of the pandemic of Covid-19, it has a significant influence on the price of the commodities. The trade war will still happen between China and Australia. The relationship between those two countries will influence by future covid-19. Oil could be changed by another clean energy which is the government's regulation. Countries cannot stop the trade, but they could find a different supplier which could be three world countries.

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