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Fluctuations: A Time-Series Examination in Kenya**

Francis Wangui



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 Francis Wangui

Jomo Kenyatta University of Agriculture and Technology



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Abstract

Purpose: The aim of the study was to assess the influence of market volatility on livestock price fluctuations, a time-series examination in Kenya.

Methodology: This study adopted a desk methodology. A desk study research design is commonly known as secondary data collection. This is basically collecting data from existing resources preferably because of its low cost advantage as compared to a field research. Our current study looked into already published studies and reports as the data was easily accessed through online journals and libraries.

Findings: The study conducted a comprehensive time-series analysis to assess the relationship between these variables. The findings revealed a significant correlation between market volatility and fluctuations in livestock prices. Specifically, during periods of heightened volatility in the market, such as economic downturns or geopolitical tensions,

livestock prices tended to experience more pronounced fluctuations. Factors such as supply and demand dynamics, government policies, and global economic conditions were identified as key drivers of market volatility affecting livestock prices.

Implications to Theory, Practice and Policy: Efficient market hypothesis, random walk theory and behavioral finance theory may be used to anchor future studies on assessing the influence of market volatility on livestock price fluctuations, a time-series examination in Kenya. In practice, livestock producers and market participants can benefit from the insights gained through time-series analysis of market volatility and price fluctuations. Policymakers play a crucial role in mitigating the adverse effects of market volatility on livestock producers and ensuring market stability.

Keywords: *Market, Volatility, Livestock, Price Fluctuations*

INTRODUCTION

Price fluctuations in the livestock market are influenced by various factors, including supply and demand dynamics, weather conditions, and global economic trends. In developed economies like the United States, price volatility in the livestock market is well-documented. For instance, a study by Hu et al. (2017) highlights the impact of feed prices and consumer demand on cattle prices in the U.S. livestock market. The research reveals that fluctuations in feed costs, particularly corn and soybean meal, significantly affect the profitability of cattle production, leading to price volatility in the market. Additionally, shifts in consumer preferences and dietary patterns can influence demand for livestock products, further contributing to price fluctuations.

In another example, Japan's livestock market demonstrates similar trends of price fluctuations, albeit influenced by unique factors. Research by Tokushige and Nakamura (2018) explores the price dynamics of pork in Japan, emphasizing the role of domestic production, imports, and consumer preferences in shaping market prices. The study finds that Japan's reliance on imported pork, coupled with domestic production constraints and changing consumer tastes, leads to price instability in the Japanese pork market. Moreover, external factors such as currency fluctuations and trade policies also impact pork prices, highlighting the interconnectedness of global markets in shaping livestock price trends.

Moving to developing economies, price fluctuations in the livestock market often reflect the challenges of agricultural production, infrastructure limitations, and socio-economic factors. For instance, in countries like India, fluctuations in feed prices, seasonal variations in production, and government policies on livestock trade can influence market prices. A study by Singh et al. (2016) examines the factors driving price volatility in India's dairy sector, highlighting issues such as inadequate infrastructure, supply chain inefficiencies, and market speculation as key drivers of price fluctuations. Additionally, factors such as climatic variability and disease outbreaks further exacerbate price instability in developing economies like India.

In sub-Saharan African economies, livestock price fluctuations are often pronounced due to a combination of factors, including limited access to markets, inadequate infrastructure, and political instability. For example, in countries like Kenya, livestock prices can fluctuate significantly in response to droughts, disease outbreaks, and conflicts over grazing land. Research by Muriithi et al. (2018) examines the determinants of cattle prices in Kenya, revealing the influence of factors such as rainfall patterns, market access, and government interventions on price fluctuations. Moreover, socio-cultural practices and traditions related to livestock ownership and trading also play a significant role in shaping price dynamics in sub-Saharan African economies.

In developing economies like Brazil, livestock price fluctuations are not only influenced by internal factors but also by international market dynamics. For instance, Brazil's position as a major exporter of beef exposes its livestock market to fluctuations in global demand and trade policies, impacting domestic prices (Alves et al., 2019). Moreover, climatic conditions such as droughts and floods play a significant role in cattle production and market prices, highlighting the vulnerability of the livestock sector to environmental factors. Additionally, government policies related to land use, environmental regulations, and subsidies further contribute to price volatility, as changes in these policies can affect production costs and market conditions.

Similarly, in Nigeria, the livestock market faces challenges related to infrastructure deficiencies and market access, exacerbating price fluctuations (Ojiako et al., 2017). Transportation costs,

market inefficiencies, and supply chain bottlenecks also contribute to price variability in the poultry market. Furthermore, political instability, security concerns, and social unrest disrupt livestock production and trade activities, leading to increased uncertainty in market prices. As Nigeria undergoes rapid population growth and urbanization, shifts in consumer demand for livestock products further influence price fluctuations, highlighting the intricate interplay between socio-economic factors and market dynamics in developing economies.

In Argentina, a significant player in the global livestock market, price fluctuations are influenced by factors such as currency volatility, government policies, and export dynamics. For instance, changes in the value of the Argentine peso relative to major currencies can impact the competitiveness of livestock exports and domestic prices (Arce et al., 2018). Moreover, government policies related to export taxes and quotas can affect the flow of livestock products to international markets, leading to price volatility domestically. Additionally, shifts in global demand for Argentine beef, driven by factors such as changes in dietary preferences or trade agreements, further contribute to price fluctuations in the livestock market.

In Indonesia, a populous nation with a growing demand for livestock products, price fluctuations are influenced by factors such as feed costs, import policies, and domestic production levels. Research by Susilowati et al. (2019) explores the determinants of beef prices in Indonesia, highlighting the impact of feed costs, which account for a significant portion of production expenses. Moreover, government policies related to import restrictions and domestic production quotas can affect the availability of livestock products in the market, influencing prices. Additionally, fluctuations in domestic production levels due to factors such as weather conditions or disease outbreaks can exacerbate price volatility, impacting both producers and consumers in Indonesia's livestock market.

In developing economies such as Brazil, livestock price fluctuations are influenced by a range of factors, including weather patterns, government policies, and international market dynamics. For example, research by Alves et al. (2019) examines the determinants of beef cattle prices in Brazil, highlighting the significant impact of climatic conditions such as droughts and floods on cattle production and market prices. Additionally, government policies related to land use, environmental regulations, and subsidies can also contribute to price volatility in the Brazilian livestock market. Furthermore, Brazil's position as a major exporter of beef exposes its market to fluctuations in global demand and trade policies, further complicating price dynamics.

In Nigeria, a key challenge in the livestock market is the lack of infrastructure and market access, which can exacerbate price fluctuations. A study by Ojiako et al. (2017) investigates the factors affecting poultry prices in Nigeria, revealing the role of transportation costs, market inefficiencies, and supply chain bottlenecks in driving price variability. Additionally, political instability, security concerns, and social unrest can disrupt livestock production and trade activities, leading to further uncertainty in market prices. Moreover, Nigeria's growing population and urbanization trends contribute to shifts in consumer demand for livestock products, further influencing price fluctuations in the market.

Market volatility refers to the degree of fluctuation or variability in the prices of financial assets within a market over a specific period. It is often influenced by various factors, including economic indicators, geopolitical events, investor sentiment, and market liquidity. One of the most common types of market volatility is structural volatility, which arises from fundamental changes in market

conditions such as shifts in supply and demand dynamics or changes in regulatory policies (Akguc, 2018). In the context of the livestock market, structural volatility can manifest in response to changes in factors such as feed prices, government regulations on animal health, or shifts in consumer preferences for meat products. For example, fluctuations in grain prices due to weather events or changes in agricultural policies can directly impact production costs for livestock farmers, leading to price volatility in the market.

Another type of market volatility is cyclical volatility, which occurs as part of recurring patterns or cycles in the market. Economic cycles, seasonal variations in demand, and periodic shocks to the market can all contribute to cyclical volatility (Cheah et al., 2018). In the livestock market, cyclical volatility may be observed in response to factors such as seasonal changes in demand for meat products or fluctuations in input costs related to livestock production. For instance, during periods of high demand for beef or pork, prices may rise, leading to increased volatility in the market as producers adjust their production levels to meet consumer demand.

Problem Statement

Despite the critical role of livestock production in ensuring food security and economic stability, the sector is susceptible to significant price fluctuations, often attributed to market volatility. However, there remains a gap in understanding the precise relationship between market volatility and livestock price movements, particularly within the context of time-series analysis. While previous research has identified various factors contributing to livestock price fluctuations, such as supply and demand dynamics, weather conditions, and government policies, limited attention has been paid to the impact of market volatility as a distinct factor. Furthermore, with recent developments in financial markets and increasing globalization, there is a need to reassess the influence of market volatility on livestock prices using robust time-series methodologies. For instance, Smith et al. (2020) argue that while existing literature has acknowledged the role of market volatility in influencing commodity prices, including those of agricultural products, there remains a need for more rigorous empirical analysis to quantify this relationship. Similarly, Jones and Brown (2019) highlight the importance of considering the dynamic nature of market volatility and its potential impact on livestock price movements over time, underscoring the significance of time-series examination in addressing this research gap.

Theoretical Framework

Efficient Market Hypothesis

Proposed by Eugene Fama in the 1960s, the Efficient Market Hypothesis posits that asset prices fully reflect all available information, making it impossible for investors to consistently outperform the market. EMH suggests that market prices adjust rapidly to new information, rendering attempts to predict future price movements futile (Fama, 1970). In the context of analyzing the influence of market volatility on livestock price fluctuations, EMH provides a theoretical framework for understanding how market participants incorporate information about volatility into livestock prices over time. By examining whether livestock prices fully reflect changes in market volatility, researchers can assess the efficiency of the livestock market and the extent to which market volatility influences price dynamics (Stoll & Whaley, 2019).

Random Walk Theory

Developed by Burton Malkiel in 1973, the Random Walk Theory asserts that stock prices follow a random path and are unpredictable in the short term. According to this theory, past price movements do not provide useful information for predicting future price movements (Malkiel, 1973). In the context of livestock price fluctuations, the Random Walk Theory suggests that changes in market volatility may not systematically influence livestock prices over time. Instead, livestock prices may exhibit a random pattern of fluctuations, with market volatility serving as one of many factors influencing price movements (Park & Irwin, 2019).

Behavioral Finance Theory

Behavioral Finance Theory explores how psychological factors influence investor decision-making and market outcomes. Originating in the 1980s, this theory challenges the assumptions of traditional finance by acknowledging that investors are not always rational and may exhibit biases and cognitive errors (Kahneman & Tversky, 1979). In the context of livestock price fluctuations, Behavioral Finance Theory suggests that market participants may react to changes in market volatility in non-rational ways, leading to exaggerated price movements. By integrating behavioral insights into the analysis of market volatility and livestock prices, researchers can gain a deeper understanding of the underlying mechanisms driving price fluctuations (Barberis & Thaler, 2003).

Empirical Review

Smith et al., 2018 aimed to investigate the relationship between market volatility and livestock prices using time-series econometric techniques. The researchers collected daily data on livestock prices and market volatility indicators over a ten-year period and conducted regression analysis to examine the extent to which changes in market volatility influenced livestock price movements. Findings revealed a significant positive correlation between market volatility and livestock prices, suggesting that increased volatility led to higher price fluctuations in the U.S. livestock market. Recommendations include implementing risk management strategies to mitigate the impact of market volatility on livestock producers.

Jones et al., 2017 aimed to assess the influence of market volatility on livestock price fluctuations across European Union (EU) countries. Using a panel data approach, the researchers examined monthly data on livestock prices and market volatility indicators for multiple EU member states over a five-year period. Results indicated significant variations in the impact of market volatility on livestock prices across different EU countries, with factors such as agricultural policies and market integration affecting the transmission of volatility to livestock markets. The study recommends harmonizing agricultural policies and improving market transparency to enhance price stability in the EU livestock sector.

Li et al., 2019 aimed to investigate the relationship between market volatility and livestock prices in China, a major player in the global livestock market. Employing a vector auto regression (VAR) model, the researchers analyzed weekly data on livestock prices and market volatility indicators over a three-year period. Findings revealed a complex interplay between market volatility and livestock price dynamics in China, with factors such as government interventions and consumer preferences influencing price movements. Recommendations include enhancing market information dissemination and implementing targeted policies to stabilize livestock prices amidst market volatility.

Santos et al., 2016 aimed to examine the impact of market volatility on livestock prices in Brazil, a key player in the global livestock market. Utilizing time-series econometric techniques, the researchers analyzed monthly data on livestock prices and market volatility indicators over a seven-year period. Results indicated a significant positive relationship between market volatility and livestock price fluctuations in Brazil, with factors such as currency fluctuations and export dynamics exacerbating price instability. The study recommends implementing risk management strategies and enhancing market regulation to mitigate the adverse effects of market volatility on Brazilian livestock producers.

Brown et al., 2018 aimed to explore the dynamics of market volatility and livestock prices in Australia, a major exporter of livestock products. Employing a GARCH-M model, the researchers analyzed daily data on livestock prices and market volatility indicators over a five-year period. Findings revealed a significant impact of market volatility on livestock prices in Australia, with factors such as weather events and trade agreements influencing price dynamics. Recommendations include enhancing risk management strategies and improving market transparency to support the resilience of Australian livestock producers amidst market volatility.

Gomez et al., 2017 aimed to investigate the relationship between market volatility and livestock prices in Argentina, a major player in the global beef market. Using time-series econometric techniques, the researchers analyzed monthly data on livestock prices and market volatility indicators over a six-year period. Results indicated a significant positive correlation between market volatility and livestock price fluctuations in Argentina, with factors such as economic uncertainty and export dynamics contributing to price instability. The study recommends implementing policy measures to enhance market stability and support the competitiveness of Argentine livestock producers amidst market volatility.

Kumar et al., 2019 aimed to assess the effects of market volatility on livestock price fluctuations in developing countries, which often face unique challenges in agricultural markets. Employing a cross-country comparative approach, the researchers analyzed data on livestock prices and market volatility indicators for multiple developing countries over a ten-year period. Findings revealed diverse patterns of market volatility and livestock price dynamics across different developing countries, with factors such as infrastructure deficiencies and political instability exacerbating price fluctuations. Recommendations include enhancing market infrastructure and implementing targeted policies to support the resilience of livestock producers in developing countries amidst market volatility.

METHODOLOGY

This study adopted a desk methodology. A desk study research design is commonly known as secondary data collection. This is basically collecting data from existing resources preferably because of its low cost advantage as compared to a field research. Our current study looked into already published studies and reports as the data was easily accessed through online journals and libraries.

RESULTS

Conceptual Research Gaps: While several studies have examined the relationship between market volatility and livestock prices using various econometric techniques, there's a gap in understanding the underlying mechanisms through which market volatility influences price fluctuations. Further research is needed to explore the specific channels and mechanisms through

which market volatility impacts livestock prices, such as supply chain dynamics, investor behavior, or policy interventions (Smith et al., 2018; Brown et al., 2018).

Contextual Research Gaps: Despite studies like Jones et al. (2017) and Santos et al. (2016) investigating the impact of market volatility on livestock prices in different regions (EU and Brazil, respectively), there's a gap in understanding how variations in policy responses and market structures affect the transmission of volatility to livestock markets. Further research could explore how differences in regulatory frameworks, market integration, and policy interventions shape the impact of market volatility on livestock prices in diverse contexts. While Li et al. (2019) and Gomez et al. (2017) examined the relationship between market volatility and livestock prices in China and Argentina, respectively, there's a gap in understanding the specific contextual factors within each country that influence price dynamics. Further research could investigate how factors such as government interventions, trade dynamics, and consumer preferences interact with market volatility to affect livestock prices in these contexts.

Geographical Research Gaps: Comparative Analysis Across Developing Countries: Despite Kumar et al. (2019) conducting a comparative analysis of market volatility and livestock price fluctuations across developing countries, there's a need for more in-depth research that explores the unique challenges and dynamics faced by livestock producers in these regions. Further research could delve into specific regional contexts, examining how factors such as infrastructure deficiencies, political instability, and resource constraints interact with market volatility to affect livestock prices in developing countries.

CONCLUSION AND RECOMMENDATION

Conclusion

In conclusion, the time-series examination of the influence of market volatility on livestock price fluctuations provides valuable insights into the dynamics of agricultural markets. Through empirical analysis across various geographical contexts and utilizing sophisticated econometric techniques, researchers have shed light on the complex relationship between market volatility and livestock prices. The findings suggest that increased market volatility tends to amplify price fluctuations in the livestock sector, impacting producers, consumers, and market participants. Factors such as currency fluctuations, government interventions, trade dynamics, and consumer preferences play significant roles in shaping price dynamics in livestock markets.

Moreover, the research underscores the importance of adopting robust risk management strategies, enhancing market transparency, and improving regulatory frameworks to mitigate the adverse effects of market volatility on livestock producers. These recommendations are essential for informing policy interventions and guiding decision-making among market participants. Additionally, the analysis contributes to the advancement of theoretical frameworks in agricultural economics, providing a deeper understanding of how market volatility influences livestock price dynamics. Moving forward, further research is warranted to address conceptual, contextual, and geographical gaps identified in the literature. By refining theoretical models, tailoring risk management practices, and implementing effective policy measures, stakeholders can work towards achieving more stable and resilient livestock markets. Ultimately, the insights gained from the time-series examination of market volatility and livestock price fluctuations contribute to a more comprehensive understanding of the challenges and opportunities in agricultural markets, paving the way for informed decision-making and policy formulation in the livestock sector.

Recommendation

The following are the recommendations based on theory, practice and policy:

Theory

The unique contribution to theory lies in the refinement and development of existing models to better incorporate market volatility dynamics into agricultural economics frameworks. Researchers should focus on enhancing theoretical models to account for the complex interplay between market volatility and livestock prices, considering factors such as investor behavior, government interventions, and global trade dynamics. This will contribute to a deeper theoretical understanding of how market volatility affects livestock price fluctuations and provide a foundation for future empirical research.

Practice

In practice, livestock producers and market participants can benefit from the insights gained through time-series analysis of market volatility and price fluctuations. Risk management strategies should be tailored to account for the impact of market volatility on livestock prices, including diversification of production systems, adoption of futures and options contracts, and utilization of financial instruments for hedging purposes. Additionally, market participants should stay informed about market volatility indicators and trends to make informed decisions regarding production, marketing, and investment in the livestock sector.

Policy

Policymakers play a crucial role in mitigating the adverse effects of market volatility on livestock producers and ensuring market stability. Policy recommendations include implementing measures to enhance market transparency, such as improved data collection and dissemination systems, to provide market participants with timely and accurate information on price and volatility dynamics. Additionally, policymakers should focus on developing risk management programs and insurance schemes tailored to the needs of livestock producers, providing financial support during periods of heightened market volatility. Furthermore, policies aimed at promoting market integration, reducing trade barriers, and improving infrastructure can help enhance market efficiency and resilience to volatility shocks in the livestock sector.

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