

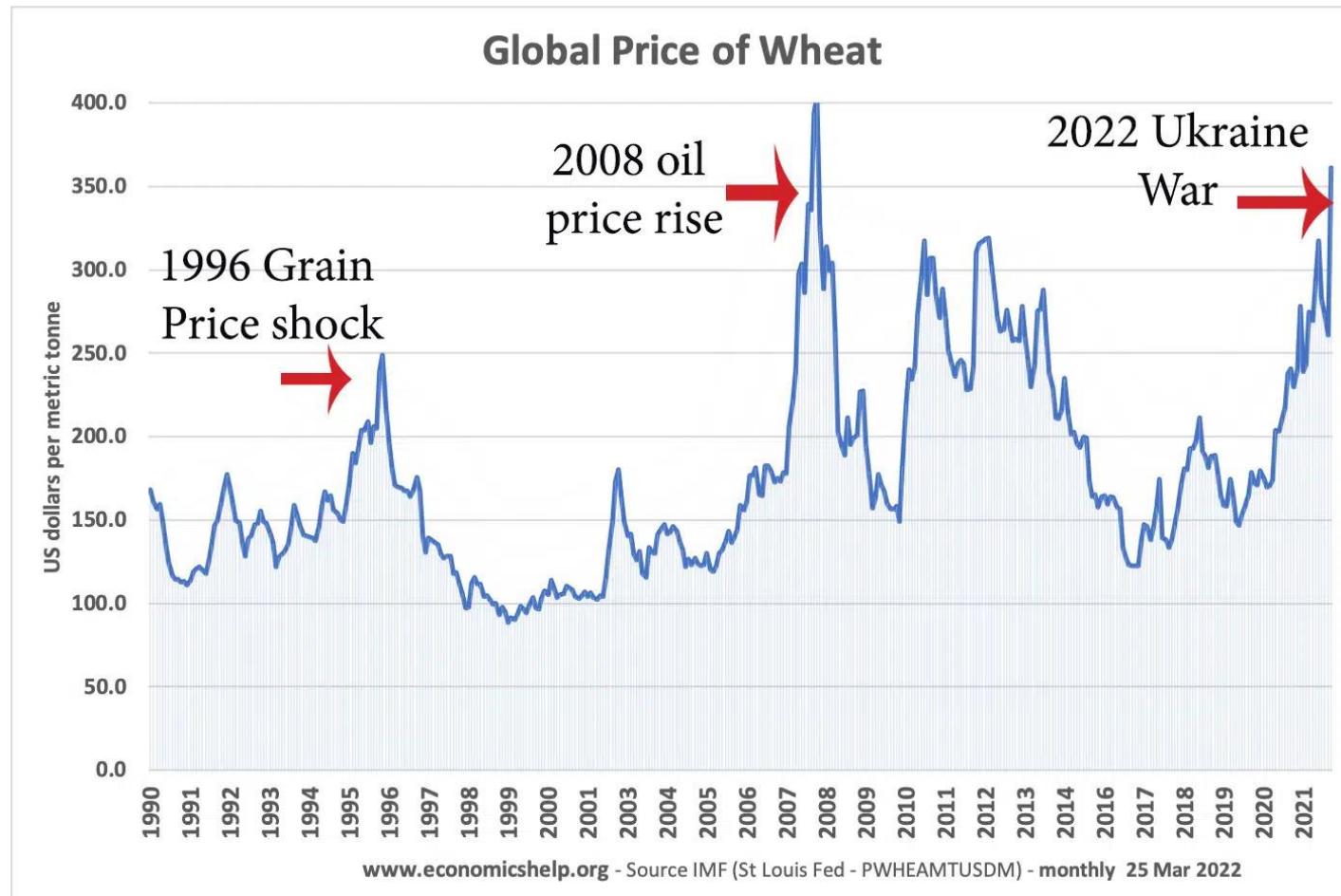
Enrichment and impoverishment through food financialization

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Spikes and volatility of food prices are not new..



Not everyone is losing

Analyses tend to ignore
underlying financial processes:
a) speculation and b)
financialization of food system

Who is profiting from the food crisis?

Speculation,
rent-seeking and
rent-extraction
in our food
sector



Authors: **Dr. Sophie van Huellen** and **Dr. Tomaso Ferrando**
Study commissioned by **Martin Schirdewan**, MEP,
Co-President of THE LEFT in the European Parliament.

Speculating on food

Surge in financial interest goes hand in hand with volatility of prices



% of speculative positions in total OI

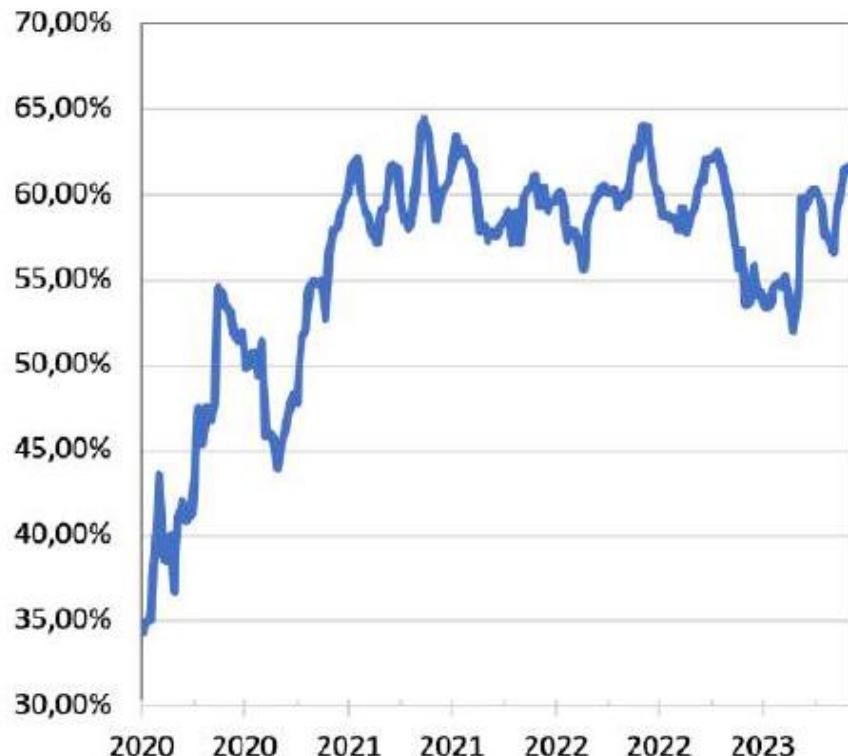
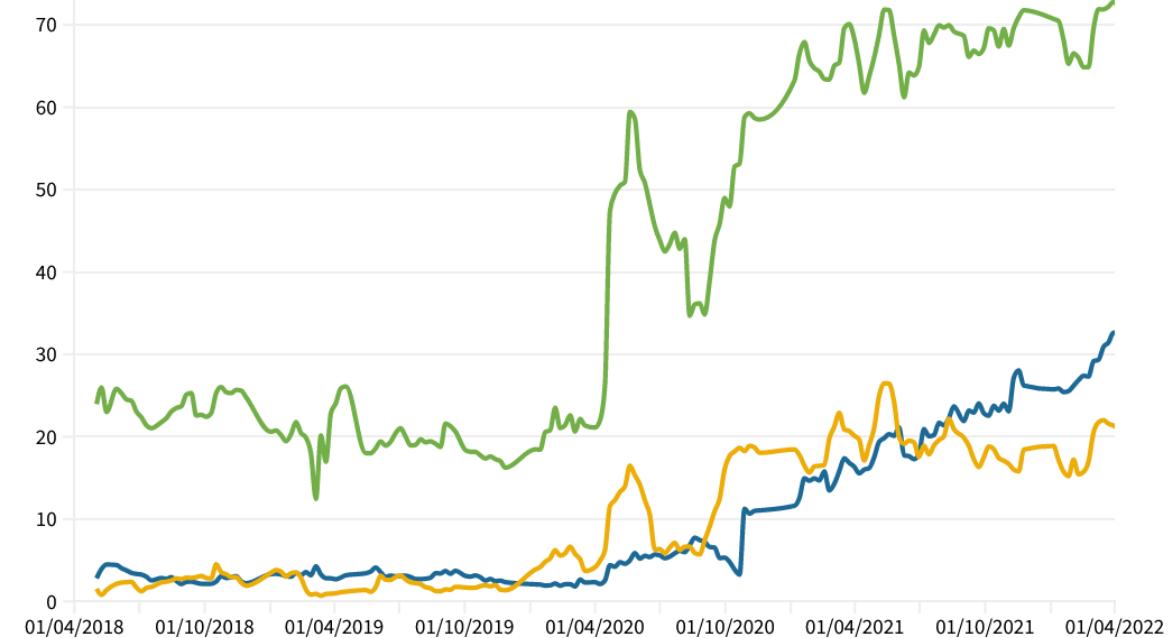


Figure 17. Speculative Positions in the Paris Wheat Market

Note: Open interest is the number of contracts traded at any point in time.

Source: EURONEX Derivatives Weekly Position Reporting (various reports, authors' calculations).

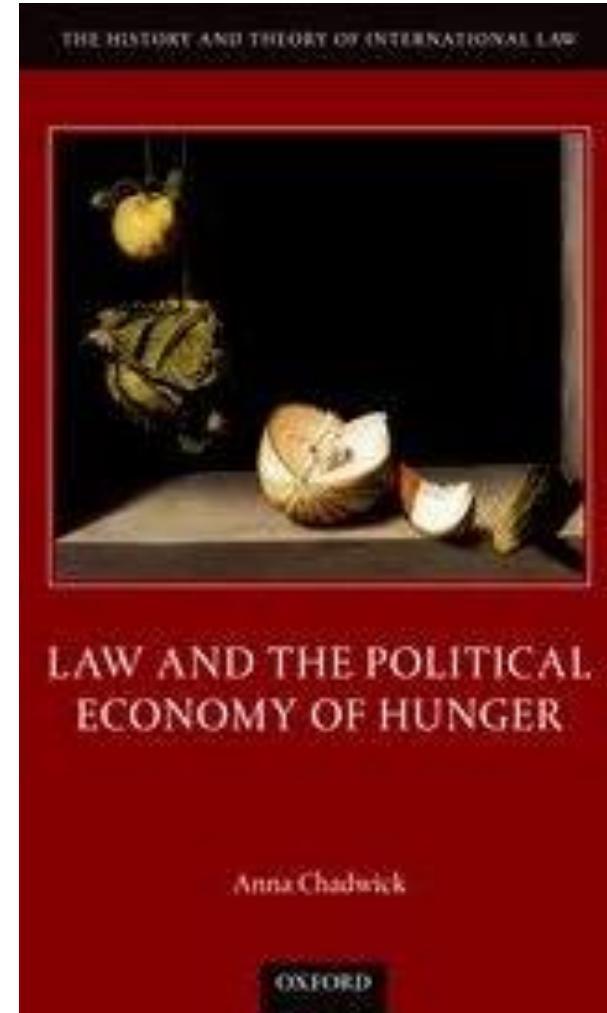
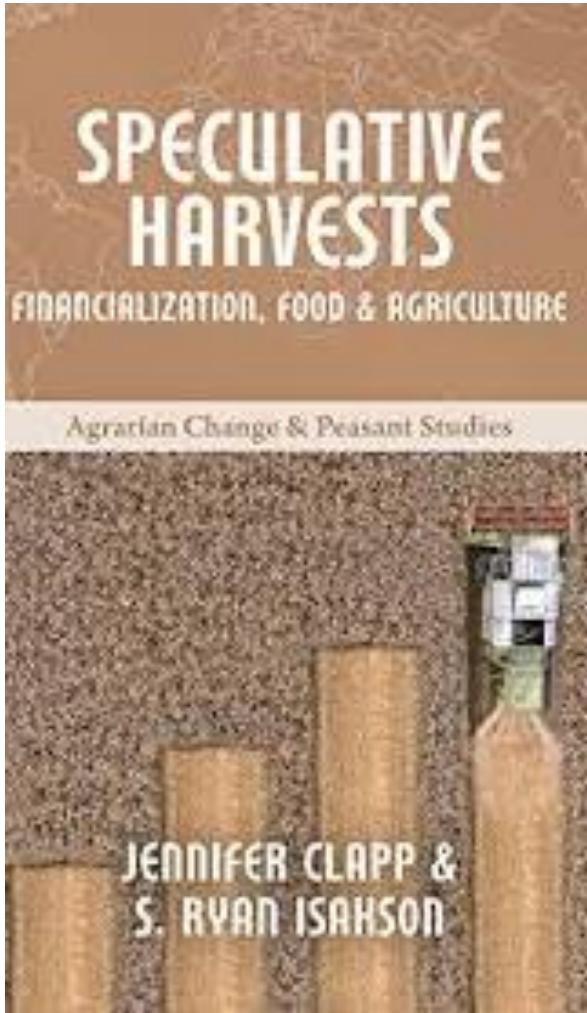
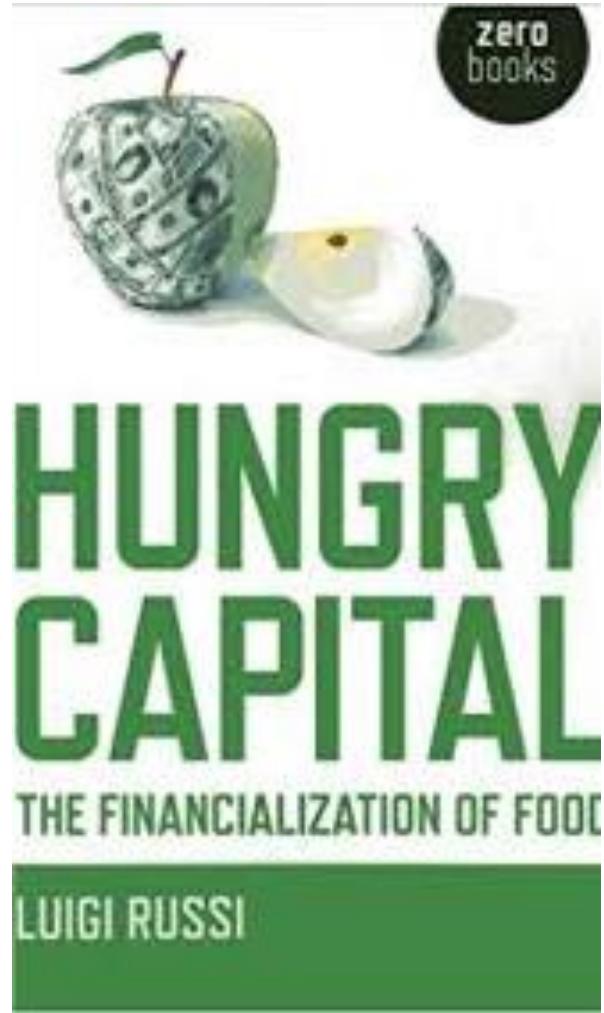
■ Investment firms ■ Investment funds ■ Total speculative*



Source: Euronext • Total speculative interest includes investment firms, investment funds, other financial institutions and commercial non-hedgers

Food is just another commodity

- **18 key agricultural commodities:** corn, oats, rough rice, soybean, soybean meal, soybean oil, wheat, cocoa, coffee, cotton, sugar, lean hogs, bacon, live cattle, feeder cattle, wool, palm oil and rubber
- **Food actors and speculators look at the same price – but with different eyes**
- **95% futures on coffee do not have any underlying transaction – only financial players (e.g. speculators)**
- **Every day, an amount of Chicago Soft Red Winter futures is traded on the market that is equal to the value of the annual production..**



We have been
here...

In 2009, a US Senate study found **commodity index traders increased their holdings from about 30,000 daily outstanding wheat contracts in 2004 to 220,000** contacts in mid-2008 at the Chicago Mercantile Exchange, the largest wheat futures market, before dropping to about 150,000 contracts at year's end.

Overall, **index traders held between 35 percent and 50 percent of outstanding wheat contracts on the Chicago exchange since 2006.**

"It is another case of **speculative money** overwhelming a market, and federal regulators failing to take the steps needed to protect the market. It is time for the CFTC (Commodity Futures Trading Commission) to change course, rein in commodity index traders, and clamp down on excessive speculation that is disrupting commodity prices." Carl Levin, chairman of the Senate Permanent Subcommittee on Investigations

There also was "substantial and persuasive evidence" showing that **by purchasing so many contracts, index traders boosted demand, increasing the gap between futures and cash prices and making it difficult for prices to converge** when futures contracts expired.

And finance ministers from the Group of Eight nations -- Canada, France, Germany, Italy, Japan, Russia, Britain and the United States -- said at their recent meeting that volatile commodity prices put their economies, which have shown growing signs of heading toward recovery, at risk.



Christian Odendahl ✅ · 19 May

Our cover this week.

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...each crisis as a financial opportunity....that can become a self-fulfilling prophecy (or a black swan)..

In the EU

In the Paris milling wheat market, the benchmark for Europe, **speculators' share of buy-side wheat futures contracts has increased from 23% of open interest in May 2018 to 72% in April 2022.**

By April this year, **seven in 10 buyers of futures wheat contract were speculators** in the form of investment firms, investment funds, other financial institutions and commercial non-hedgers whose aim was to profit from the rise in prices.

Between January 2020 and March 2022, **investment funds increased their net buying positions by almost four times**, data from Euronext, Europe's leading commodity exchange, show

Investment firms increased their presence in the buy side of the wheat futures market in Paris from 4% of open interest in 2018 to 25% in April this year. During the same time, investment funds increased their presence from 1% to 21% of open interest.

Source, The Wire, Betting on Hunger, 6 May 2022

In USA markets...

Speculators' long positions currently make over 50% open interest in Hard Red Winter and Soft Red Winter.

Managed money have been buying long futures contracts of Soft Red Winter wheat following Russia's invasion of Ukraine. Together with swaps dealers, they owned 58% of long futures-only contracts, their highest combined share since 2014, just as Chicago wheat hit its peak in early March.

Money managers also hold record levels of Minneapolis wheat futures and options, **increasing their net positions by 180% between mid-February**, before the war started, to April 19. The net long of 19,867 contracts means that money managers had entered legal agreements to buy 99.335 million bushels of hard red spring. That equals almost 20% of the total harvested crop of 2021.

As in 2010, requests have been advanced



foodwatch International ... · 20 Jun ·

Ahead of **#G7** summit: foodwatch calls
for strict regulation of food
speculation: [foodwatch.org/en/press/
2022/...](https://foodwatch.org/en/press/2022/)



Investors on the stock exchange make a
quick buck with bets on maize and wheat
whilst people in countries like Yemen or
Ethiopia can no longer afford basic foods.
This gambling at the expense of the
poorest has to stop!



Jörg Rohwedder, foodwatch International



2



6



9



But responses are often the same..

“Commodity prices **first and foremost** reflect the **crunch in supply** caused by the crisis in Ukraine. Fundamental misperceptions exist about the connection between speculation, derivatives and volatility and price increases in commodities markets. In fact, **derivatives are vital tools to enable firms to manage the risk associated with volatility in prices”**

Source, Policy Maker interviewed by Lighthouse Reports, Hunger Profiteers, 2022

“Many fear that by implementing rules to prevent speculators from driving up commodity prices, the risk is that markets becomes less efficient. Fewer speculators would mean fewer traders willing to absorb risk. This could boost costs for some businesses and lead to higher prices for consumers”,

Reuters, 2009



Maximo Torero @Maxim... · 08 Apr ·
Global food prices jumped to their highest levels ever in March because of the war in Ukraine. [@FAO](#)'s Food Price Index averaged 159.3 points, which was 12.6% higher than it was in February, and 33.6% higher than in March 2021.

3 68 110



Tomaso Ferrando @ferr... · 09 Apr ·
What about speculation, continuing using food for biofuels, food waste? These are not linked with the spike in prices? The invasion has its role, but the overall system is rigged. Including that price of food depends on financial markets..

1 2 6



Maximo Torero @Maxim... · 09 Apr ·
To have speculation we will need to observe a significant accumulation of stocks and this is not the case up to now. Also, speculation generates liquidity what is a problem is excessive speculation which is what we observed in some months in 2008 and 2011.

2

Academics and experts claim the opposite

“Such wild swings in prices obviously cannot be explained by short-term supply and demand factors or any other ‘real economy’ tendencies. Instead, these acute price movements are clearly the result of speculative activity in these markets.” Jajathi Gosh, 2008

“Investors’ expectations create conditions where the future price is higher than the price of the underlying commodity. If market participants believe that the price of a certain product will rise at a later date, this will also be reflected in the price of futures. This is a contango.”

“A common case of contango tends to occur with gold, for two reasons: in times of crisis, it becomes a safe haven, pushing futures prices higher. Secondly, due to the storage costs of this metal, which are very high.

“Contango situations provide **the wrong signals to the market**, which then strengthen its upward tendency and leads to a condition of continuous increase in prices” Luigi Russi, 2009

Law as part of the problem, not only of the solution

- **Commodity Future Modernization Act 2000:** United States federal legislation that ensured financial products known as over-the-counter derivatives are unregulated...
- **EU's Markets in Financial Instruments Directive (MiFID) II:** In January 2014, the EU agreed to introduce controls to regulate excessive price speculation by limiting the use of financial instruments linked to commodities – such as sugar, wheat and corn – which has been blamed for food price increases.
 - Small cosmetic changes to MiFID II in 2023 (thanks to coalition)
- Countries (i.e. Ivory Coast and Ghana) have tried to **reduce impact of speculation by means of LID**, for example
- However, limits were reviewed again in more recent legislative interventions, both in the USA and the EU
- Some sources propose more access to financial tools for small-scale farmers and the whole food chain (insurances, etc). Ryan?



Not only about speculation...
Controlling, investing and
profiting from concentrated
global food chains

Food Chain

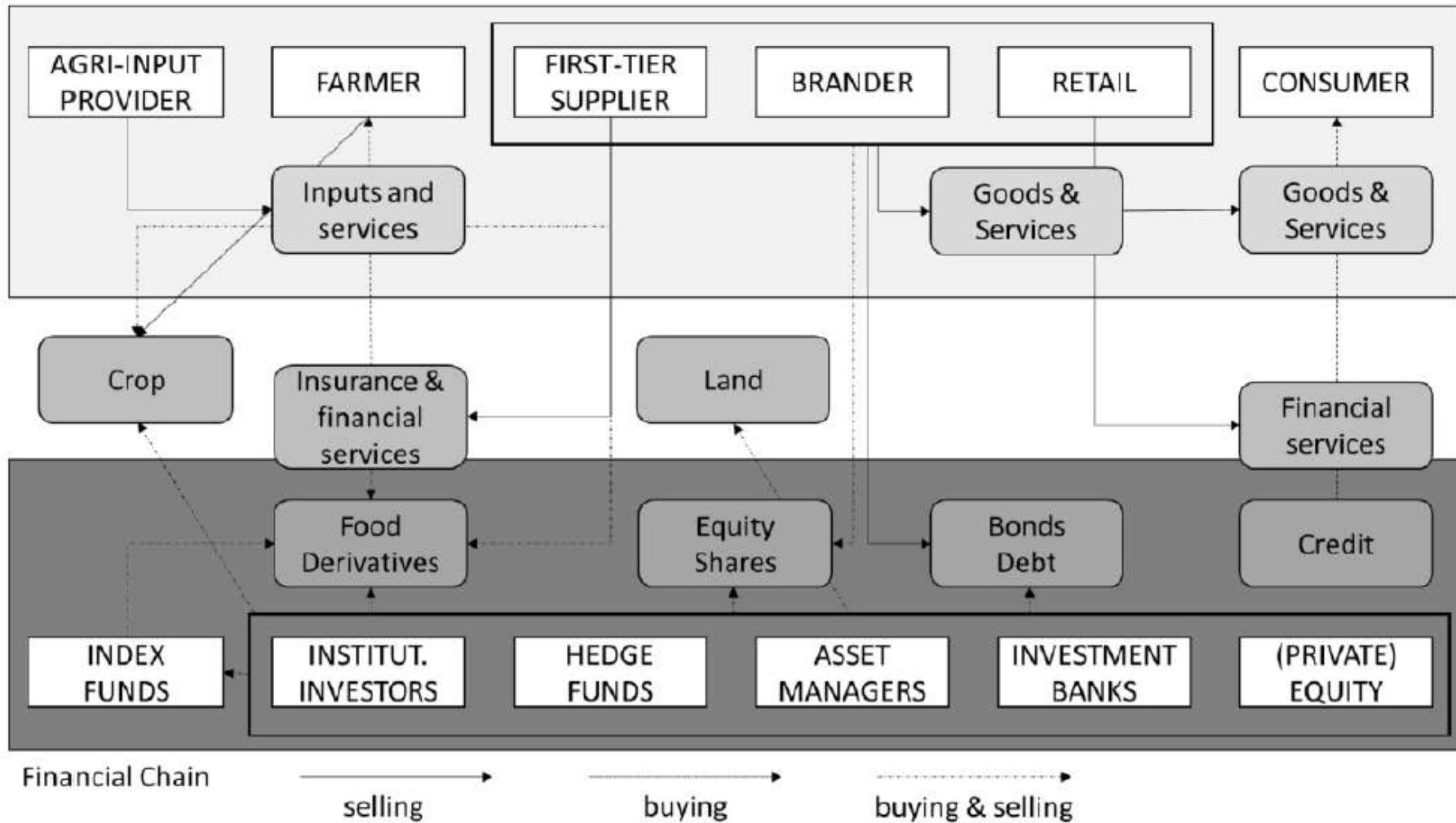


Figure 4: Map of a financialised food system.

Source: Adopted from van Huellen and Abubakar (2021) and amended by authors.¹⁵

[News](#)[Products & Services](#)[Insights & Innovation](#)[Sustainability](#)[Culture & Careers](#)A photograph of a young woman with short dark hair, wearing a yellow ribbed sweater, smiling broadly while holding a sandwich. She is positioned in front of a window with a view of greenery and a brick wall. A small potted plant is visible in the foreground on the left.

Nourishing Potential.

Look in your fridge and—whether you're in Dallas or Delhi—

Their commodity inventory position increased 6-fold (fair value accounting) as a result of both quantities and price increases between 2020 and 2021, indicating a strategy of buying (hoarding) in the expectation of further rising prices.

Bunge reported an 18% increase in inventory value due to rising prices

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DOW JONES
NEWSWIRES

Bunge Boosts Full-Year Outlook On Strong 1Q Results

April 27, 2022 at 7:05 a.m. ET

By Dean Seal

Print AA



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One Bunge Everywhere
We connect farmers to consumers to deliver essential food, feed and fuel to the world

Home > Investing > Barron's > Markets

BARRON'S

Bunge Beat Earnings Estimates and Raises 2022 Outlook

Last Updated: April 27, 2022 at 10:23 a.m. ET
First Published: April 27, 2022 at 7:43 a.m. ET

By Lina Saigol & Teresa Rivas

Print AA

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NEWSWIRES

Bunge 1Q Results Beat Analyst Forecasts

Published: April 27, 2022 at 6:54 a.m. ET

Print AA

By Dean Seal



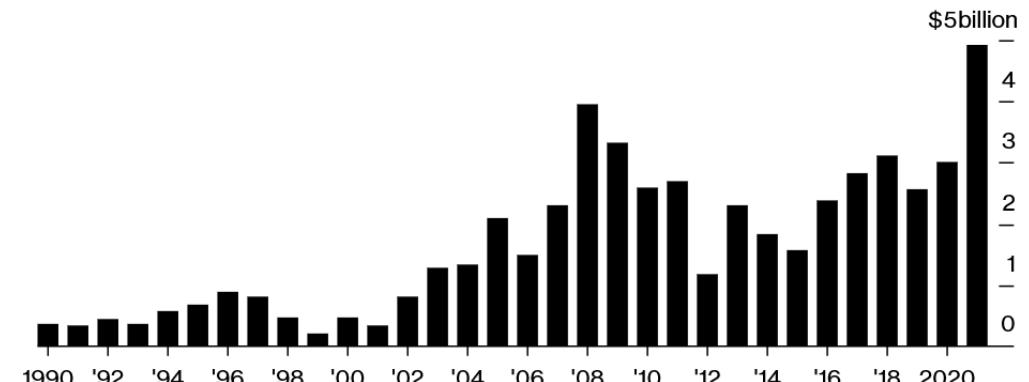
Crop Giant Cargill Reports Biggest Profit in 156-Year History

- Company had almost \$5 billion in net income during fiscal 2021
- Record bottom line posted in private report seen by Bloomberg



Profit Bonanza

Cargill rakes in record profit from booming demand for food during pandemic



Sources: Company annual reports, bond prospectus and 'The World for Sale'
Cargill's fiscal year runs to the end of May.

Louis Dreyfus Company Reports Strong 2021 Financial Results

Net sales amounted to US\$49.6 billion, up 47.7% compared to 2020, while Segment Operating Results rose 17.6% year-on-year to US\$1,834 million, as the company once again leveraged its global footprint and market intelligence to mitigate risk, deliver for customers and capture profitable origination and sales opportunities.

This performance drove EBITDA to US\$1,623 million, up 22.6% compared to the same period in 2020.

It's not only trade..



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23,67 EUR

+8,48 (55,83%) ↑ últimos 6 meses

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And along the chain.. But not labour

Branders: While not reaching the highs of traders, branders have reported high profits in 2021 and 2022, despite rising costs. These profits are secured by passing on costs to consumers, which is made possible by their market dominance.

Retailers: Retailers have also been able to record substantial profits over the past three years despite rising costs. As traders and branders, they are able to pass on rising costs to consumers, while securing a substantial profit margin. Retail sales increased 1.5% in 2020 and 6.8% in 2021 compared to the previous year in the 27 EU states.

Profits are extracted by financial sector or few private individuals

These profits are extracted into financial markets via dividend payments and share buybacks if corporations are listed. If they are privately owned, dividend payments benefit a single or small group of high-wealth individuals.

Investment advisors, hedge funds, and asset management firms are by far the largest group of shareholders of publicly listed food corporations, and thereby the main beneficiaries of the record profits generated by these corporations.

They take up a minimum **80%** of total shareholder ownership of non-restricted shares in four of the largest food and beverage producers: Nestle, Mondelez, Unilever, and Coca-Cola. This group of financial entities has extracted **3.1 billion Euro in dividends** from the four European corporations we analyzed.

Nestle, for example, disbursed a total of **19.3 billion Swiss Franc (20.1 billion Euro)** to shareholders via dividend payments, interest payments and share buybacks in 2022, exceeding profits generated that year by 3.6 billion Swiss Franc (3.75 billion Euro). BlackRock extracted an approximate **536.8 million Euros** in dividend payments from Nestle alone, while Vanguard extracted **243.8 million Euros**. Notably, **disbursement of profits to financial markets dwarfs income tax payments**. Income tax paid by Nestle in 2023 amounted to 2.73 billion Swiss Franc (2.86 billion Euro), just above 14% of the total payouts to financial markets the same year.

	Shareholder	Ownership (in %)	Position (in million)	Non-restri. (in %)	2022 Earnings (in million)
Nestle SA					
1	BlackRock	6.76%	180.43	17.41%	536.8
2	Vanguard Group	3.07%	81.97	7.91%	243.8
3	NBIM	2.89%	77.20	7.45%	229.5
4	UBS Group	1.89%	50.46	4.87%	150.1
5	Credit Suisse	1.65%	43.94	4.24%	120.6
Danone SA					
1	BlackRock	7.61%	51.55	12.42%	94.4
2	Artisan Partners Limited Partnership	7.02%	47.56	11.46%	87.0
3	Capital Research Global Investors	5.18%	35.10	8.46%	64.2
4	Amundi Asset Management	4.14%	28.08	6.77%	51.3
5	MFS Investment Management	4.05%	27.46	6.62%	50.2

Towards a just food transformation?

The referendum that could force commodity traders to leave Switzerland

19/02/2016 BY JADE CANO

Food price crisis: the role of speculation and concrete proposals for action in the aftermath of the Ukraine war

- Food is a financial commodity or not?
- Challenging the narrative of natural/exogenous crisis
- Position limits not enough
- Tax windfall revenues (like energy markets)
- Public money divested from hunger
- Breaking up oligopolies and concentrated markets
- Unfair trading practices
- Living income and living wage
- Intl commodity agreements?
- Guaranteeing Accessibility via taxing capital gains
- Avoid investing in (financial) quick fixes