

Brokers and Traders on the Influence of Financial Speculation on Commodity Prices – Survey Result



Background

Methodology and Sample size

Telephone Interviews and a total of 180 interviews

Profile of people interviewed

Commodity traders, Analysts and Brokers

Timeframe of data collection

March and April 2014

Targeted Regions



How the interviews were conducted

1. Collection of Data/Preparation of Database

Data was collected through various sources like LinkedIn, Hoovers and each country's commodity website where list of traders and members were available.

2. Data was then separated country wise.

The data was then filtered country wise to make the process easier.

3. Reaching out to respondents.

Interviewer introduced themselves, stated the reason for call and asked for an appropriate time to speak with the respondent.

4. Screened the respondents

Before conducting the actual interview, they were screened on the basis of the experience in the industry. People who had less than 4 years of experience were not included.

5. Final interview was conducted

The interview was conducted and appropriate data was collected.

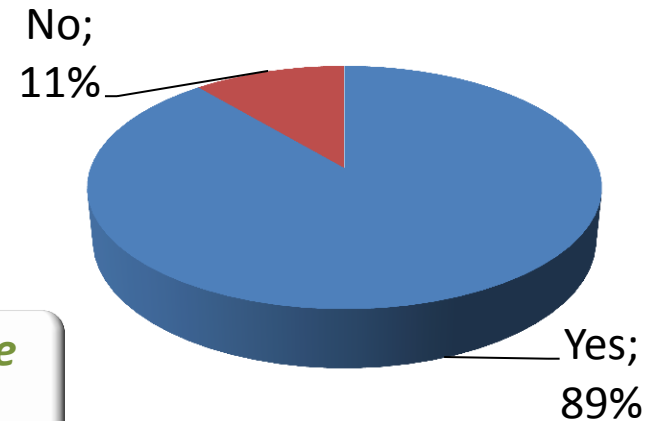
Summary

The research was focused around identifying the affect of speculative activities in the commodities sector on the commodity futures market and whether it further results in any impact on the spot prices.

The respondents were asked the following two questions:

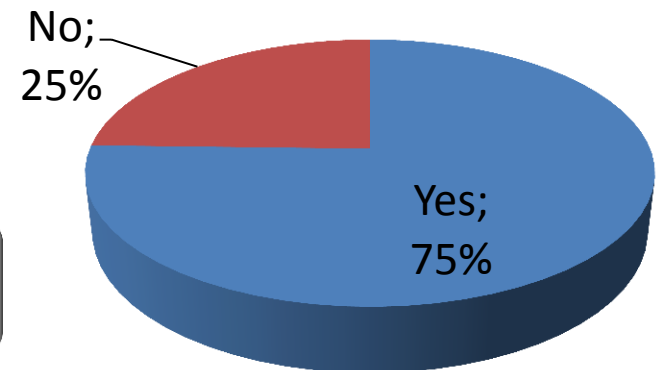
→ Do speculative activities in commodity futures markets have an influence on the futures prices for commodities (e.g. agricultural commodities and crude oil)?

89% of the respondents have confirmed that speculative activities do influence futures prices



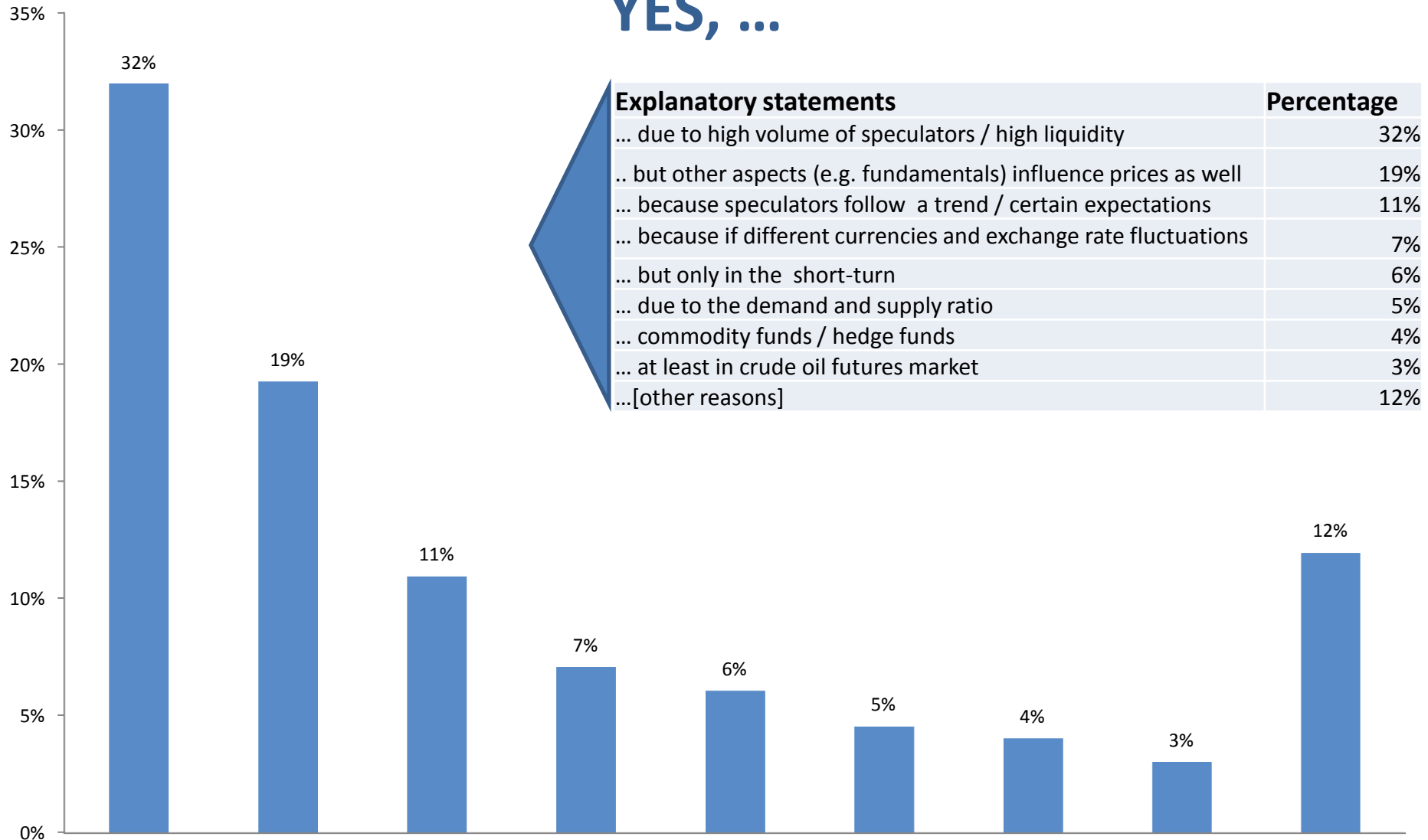
→ If so, does this distortion in futures prices affect the spot prices?

75% of the respondents confirmed that this distortion does affect spot prices.

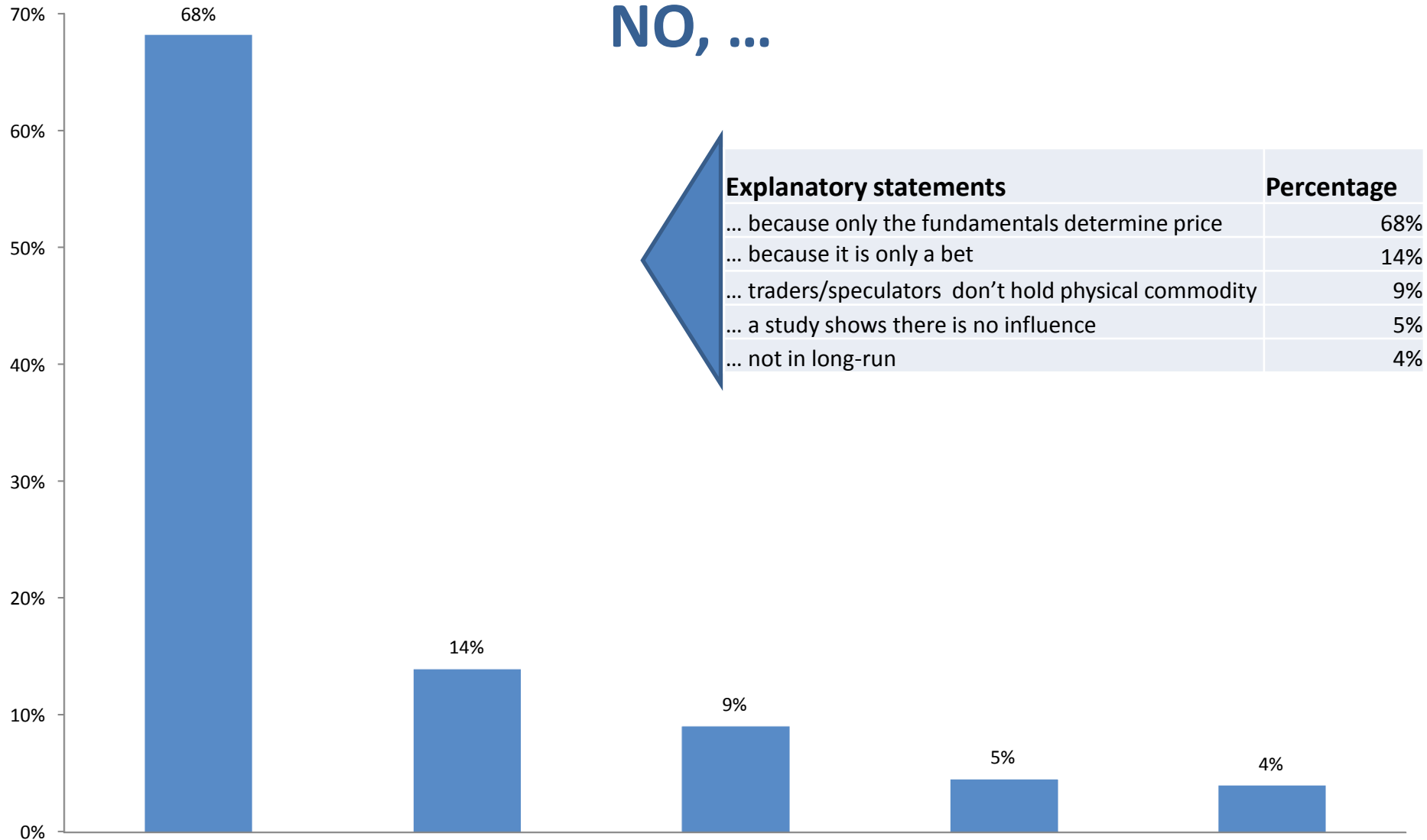


Do speculative activities in commodity futures markets have an influence on the futures prices for commodities (e.g. agricultural commodities and crude oil)?

YES, ...



Do speculative activities in commodity futures markets have an influence on the futures prices for commodities (e.g. agricultural commodities and crude oil)?





NO, ...


Explanatory statements	Percentage
... because only the fundamentals determine price	68%
... because it is only a bet	14%
... traders/speculators don't hold physical commodity	9%
... a study shows there is no influence	5%
... not in long-run	4%

Respondent's Feedback


Some of the answers that we captured are as follows:

 *“Yes. As prices have become more volatile and less predictable, the futures market has lost its price discovery and risk management functions for many market participants. Any regulatory reform affecting those funds will affect commodity markets. According to me, speculation is a major contributor to extreme price volatility, which is changing agriculture commodity markets to such a degree that both farmers and consumers are losing out.”* – Senior Commodity Trader from Shanghai

 *“Yes. The volume on daily basis which are traded is just one of reasons. Other reasons include fear from market for example in a supply situation; speculation can push lot of buyers to jump in and move prices up and down. Plus this will also increase volatility.”* – Crude Oil Trader from London

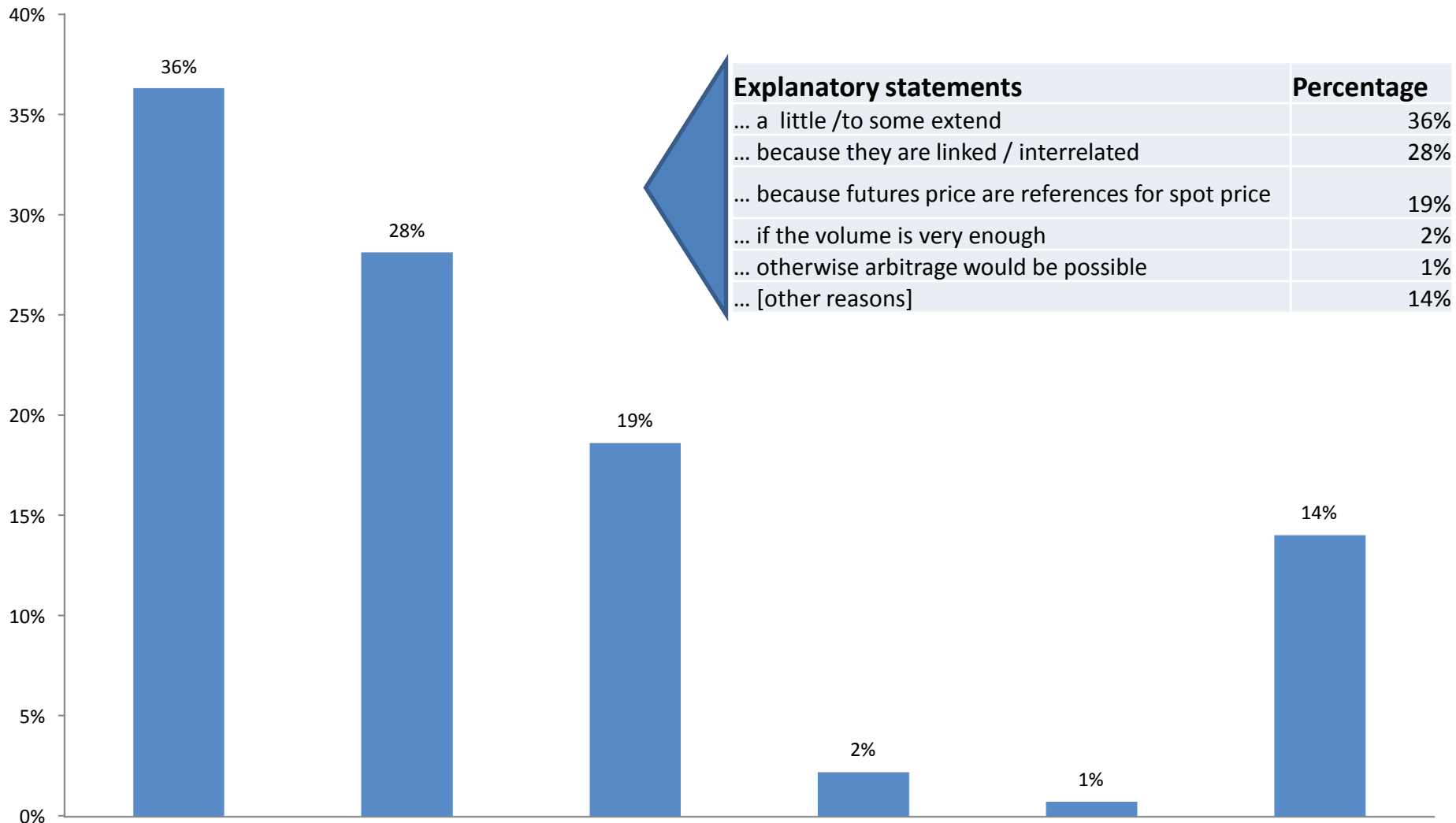
 *“Yes. I guess based on some law force, there is fluctuation in the market. But there is lot of political involvement as well. For example drought in Brazil and the domestic sugar price in India show clear political involvement.”* – Soft Commodities Trader from Dubai

 *“No. A long term study is already done which shows there is no influence.”* – Soft and Agriculture Broker from London

 *“Yes. There are lots of speculators in the market and lot of speculative activates take place thus it is obvious that it will create an influence but only at some point.”* - Broker from Chicago

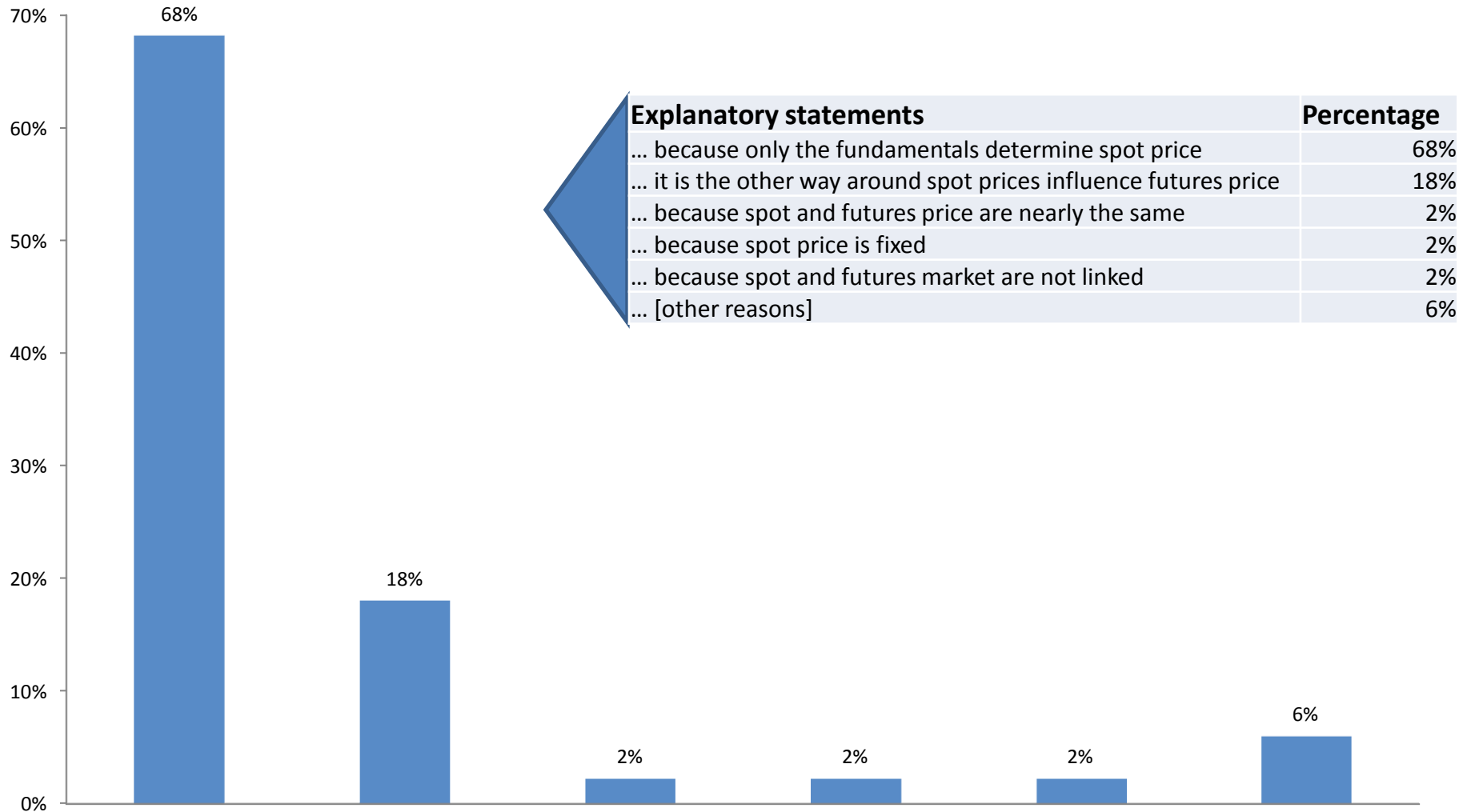
If so, does this distortion in futures prices affect the spot prices?

YES, ...




If so, does this distortion in futures prices affect the spot prices?


NO, ...




Respondent's Feedback


Some of the answers that we captured are as follows:


 *“Yes. Well the world is looking at the futures exchanges that make a direction to the price. Today’s farmers just do the same, so when they see an exchange price rising they are looking at that lot of political reasons and of course supply and demand relation.” – Trader from Germany*

 *“Yes, because for the most part, there is fairly high degree of correlation between the futures and spot prices. The future prices are re-influenced by the activities in the market, so spot prices are affected.” – Trader and Senior Analyst from New York*

 *“Yes it does, I think it’s used as a reference for trading.” - Commodity Broker from Abu Dhabi*

 *“No. My understanding is that spot prices will always reflect supply & demand of the physical market .So speculative will only increase the liquidity which is eventually good for the market.” – Agri Commodity Broker from London*

 *“No. Actually, futures price is based on the spot price. For example if gold is trading at 1200\$ for now and in future it will be traded at 1203\$, then this will create difference.” - BDM/Broker from Dubai*

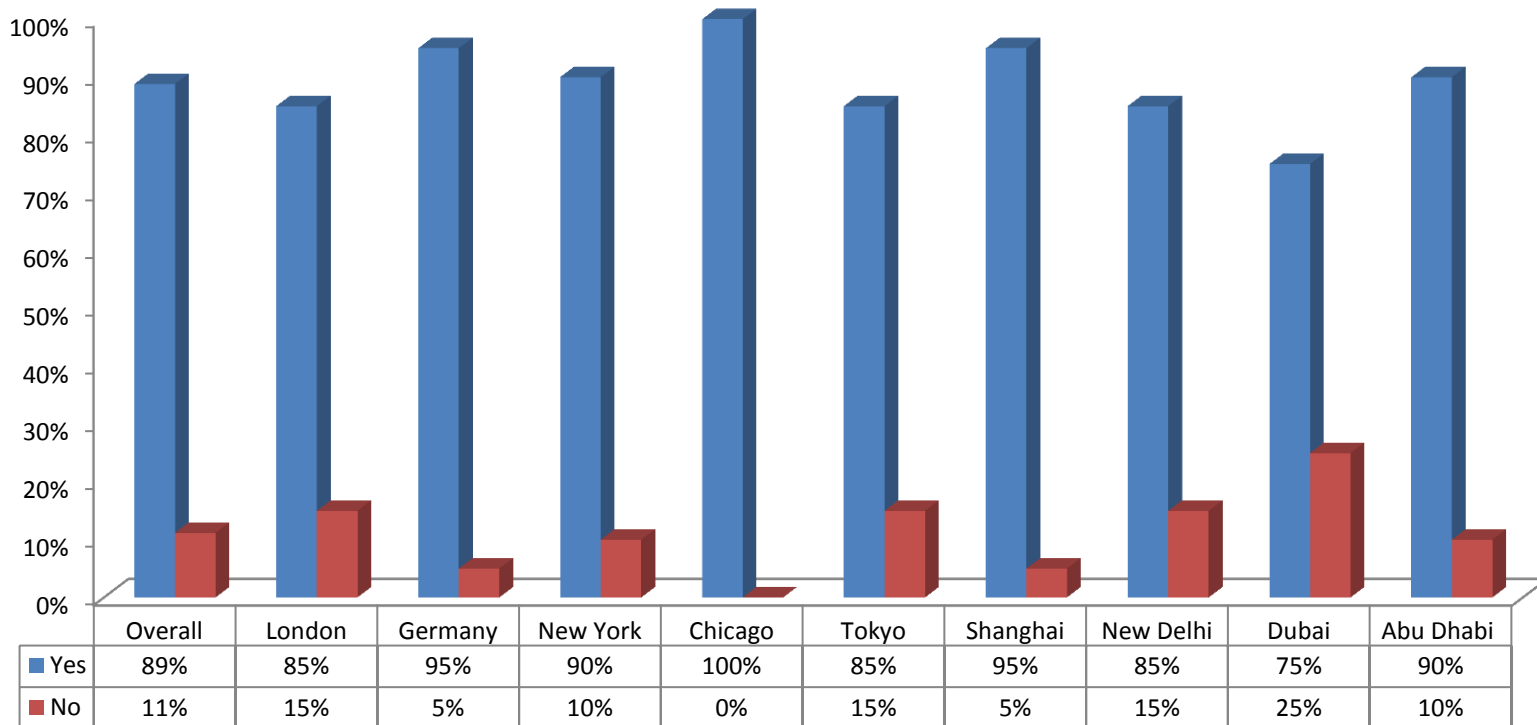
 *“Yes. Because we do business based on the futures market price; so definitely it has an effect on cash prices. We do business against nearest delivery market price. That is a huge factor affecting the cash market. Market is subject to commodity prices. Even, though the nearest position spot price is also dependent on futures price. When futures prices goes up the spot prices are also up & when future prices goes down then spot price also goes down.” – Trader from Tokyo*

Overall and the locations covered



Overall and Locations covered:

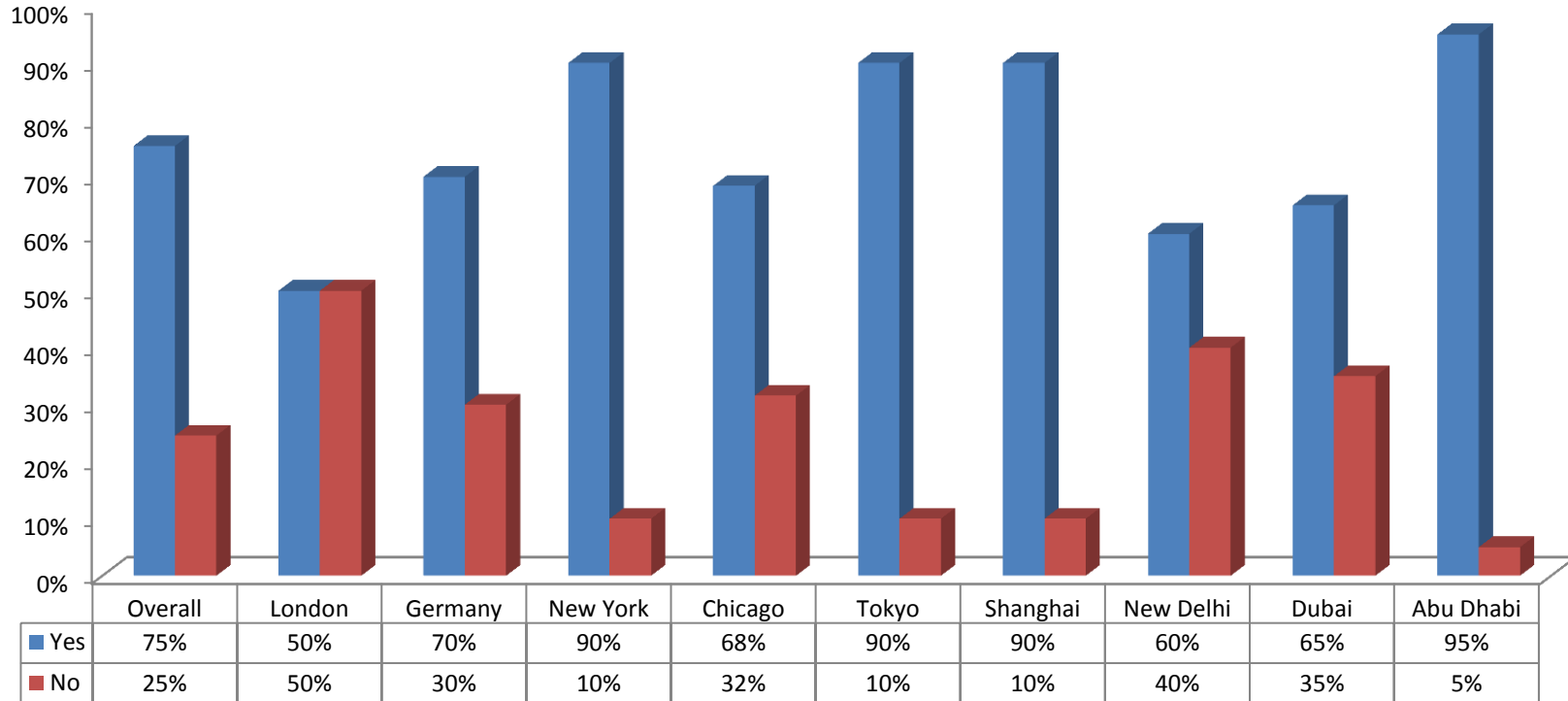
Do speculative activities in commodity futures markets have an influence on the futures prices for commodities (e.g. agricultural commodities and crude oil)?



An average of 89% of the respondents in all the cities have confirmed that speculative activities do influence futures prices

Overall and Locations covered

If so, does this distortion in futures prices affect the spot prices?



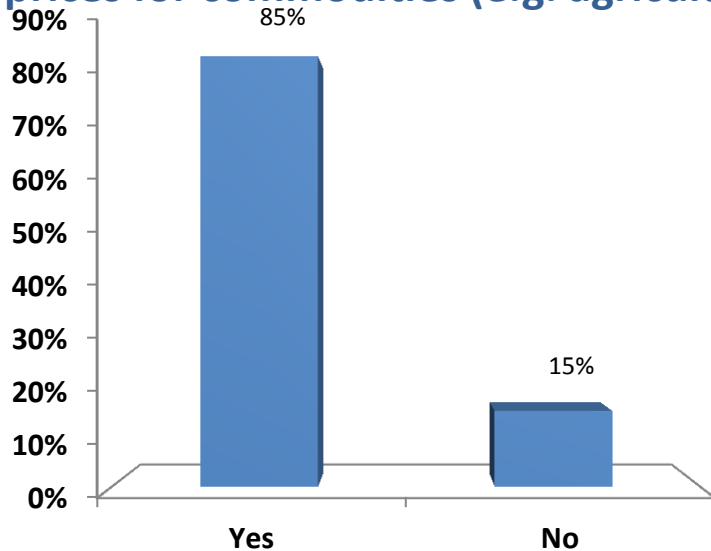
- *An average of 75% of the respondents in most of the cities confirmed that this distortion does affect the Spot Prices.*
- *This number has gone above 90% in New York, Chicago, Shanghai and Abu Dhabi.*

Country Level



UK - London

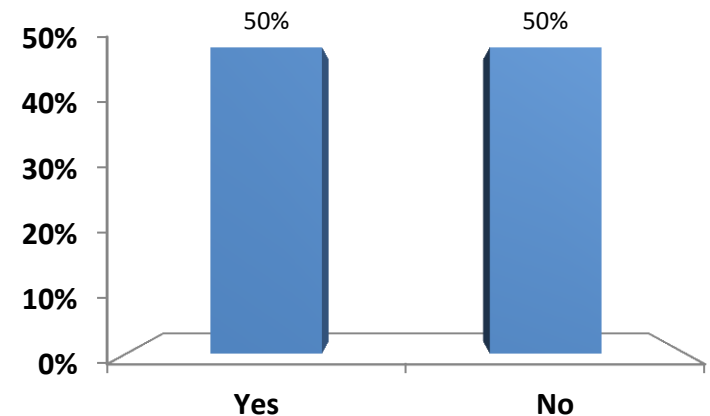
Do speculative activities in commodity futures markets have an influence on the futures prices for commodities (e.g. agricultural commodities and crude oil)?



In London most of the people agree that speculations in commodity futures markets have an influence on the futures prices for commodities.

If so, does this distortion in futures prices affect the spot prices?

The opinions are mixed when we talk about futures price affecting the spot price.



Respondent's Feedback

Some of the answers that we captured are as follows:

 ***“Yes. The liquidity brings more speculative activities. More liquidity is more likely to bring markets moving.”*** – Commodity Broker

 ***“Yes. Because large cash flows are likely to affect the price.”*** – Oil Trader

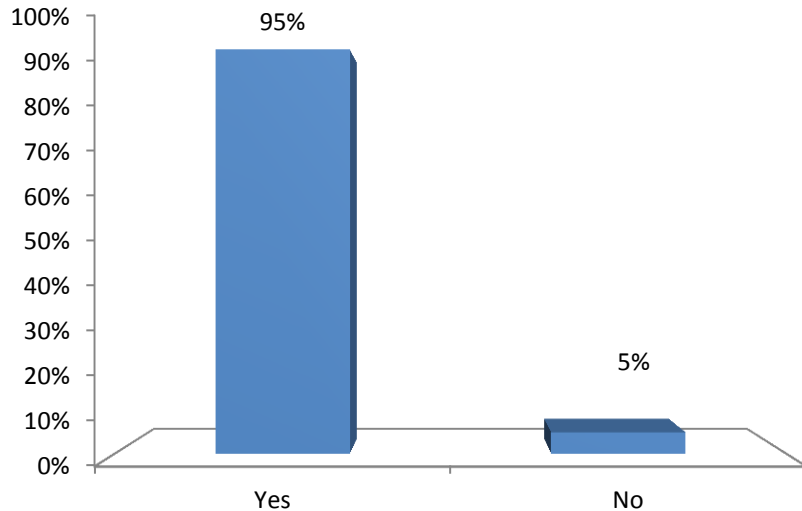
 ***“No. A long term study is already done which shows there is no influence.”***- Softs and Agricultural Broker

 ***“I would say that the spot prices might affect the future prices but cannot think of a specific reason.”*** - Trader

 ***“No. My understanding is that spot prices will always reflect supply & demand of the physical market.”***- Agri Commodity Broker

Germany

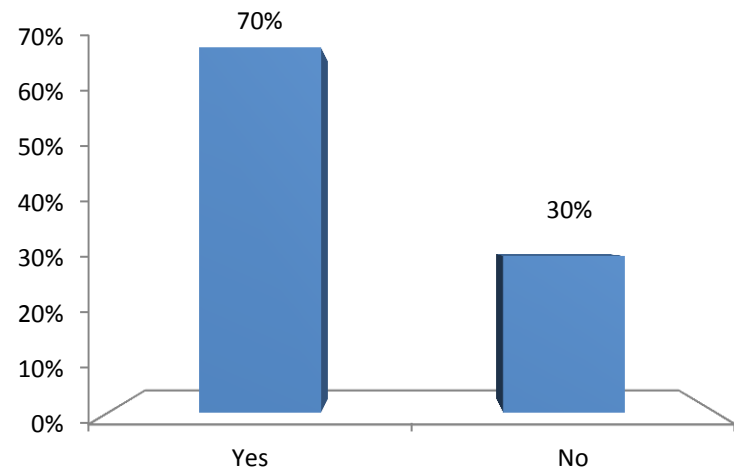
Do speculative activities in commodity futures markets have an influence on the futures prices for commodities (e.g. agricultural commodities and crude oil)?



- In Germany 95% of the people agree that speculating activities in the commodity futures markets have an influence on the futures prices for commodities*

If so, does this distortion in futures prices affect the spot prices?


- 70% of the people think that distortion in futures prices affect the spot prices*




Respondent's Feedback

Some of the answers that we captured are as follows:

 ***“Yes. To a certain extent, just because of the amount of volumes being traded.”*** - Trader

 ***“Well there is always an influence but still it depends on the condition. One of the reasons could be because of the political situation as we are seeing in Ukraine. Commodities are becoming more and more expensive as there is a difference between physical and futures price.”*** – Commodity Broker

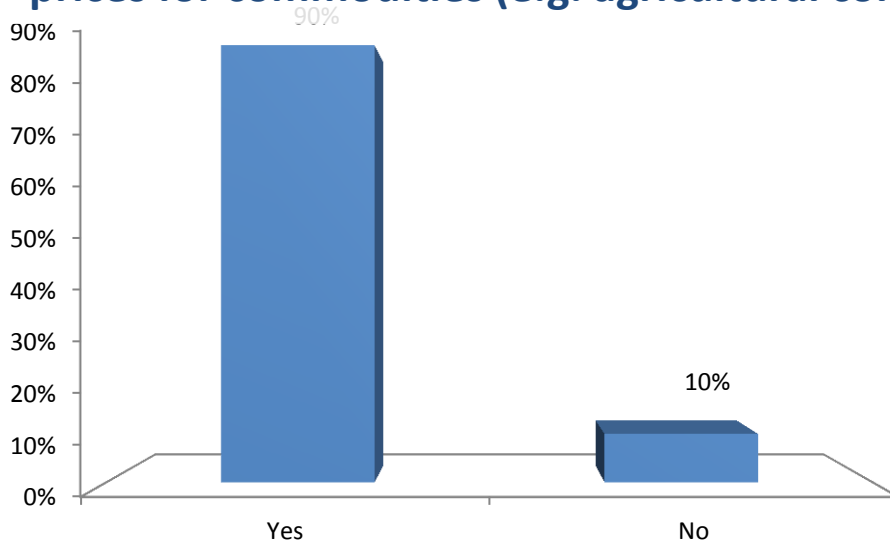
 ***“Yes. Businesses like stock or commodities exchange are more or less the same, only the market influences futures price.”*** - Broker

 ***“Yes. There are various reasons like weather condition or shortage of skilled employees which affect the spot prices.”*** - Trader

 ***“No, futures prices do not affect the spot prices in the commodity market. We have another volume which can move the cash market.”*** – Market Supervisor

USA - New York

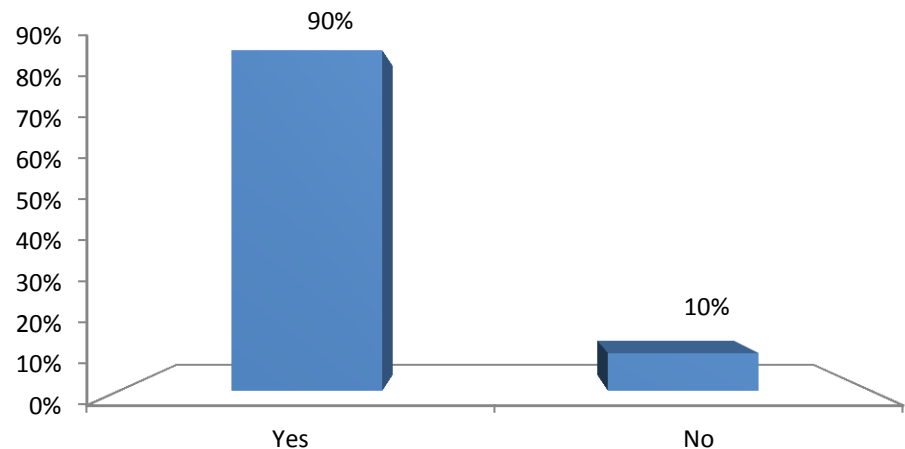
Do speculative activities in commodity futures markets have an influence on the futures prices for commodities (e.g. agricultural commodities and crude oil)?



90% of respondents in New York believe that speculating activities in the commodity futures markets have an influence on the futures prices for commodities.

If so, does this distortion in futures prices affect the spot prices?

90% of respondents from New York believe that distortion in futures prices does affect the spot prices.



*Base - 20 interviews

Respondent's Feedback

Some of the answers that we captured are as follows:

➔ ***“Yes. Because the entire current market all kind of investments is based on quite a bit of money and they can move the market.”*** – Commodity Derivatives Broker

➔ ***“Yes. The influence on the price is only for short term and usually at the end of the day, the price will still find its inflection point, but by then we would have changed the prices. So, it could be either daily or weekly moves that get influenced by the speculative market.”*** – Commodity Broker

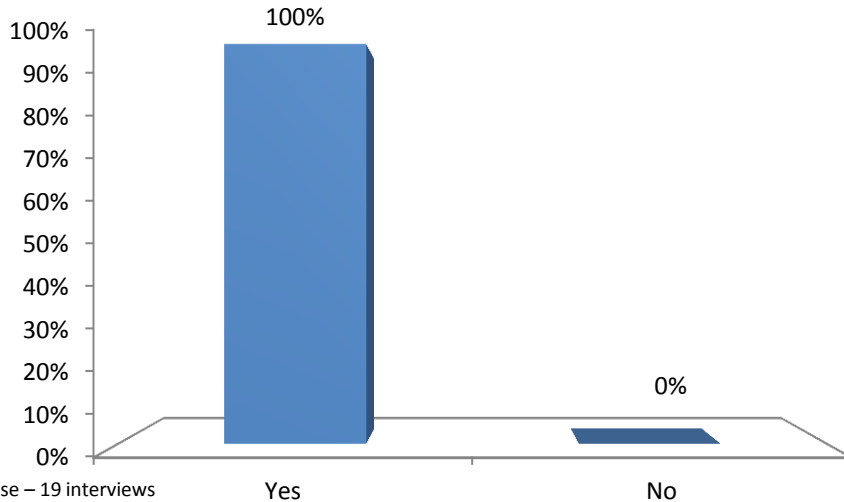
➔ ***“No. It actually depends on the hedging and also on the demand of the market.”***- Director

➔ ***“Yes. The role of financial investors has become more important. Due to their financial strength, they can move prices in the short term. This leads to increased volatility, which may harm markets and drive hedgers with an interest in commodities away from commodity derivatives markets.”*** – Crude Oil Broker

➔ ***“No. I do not think so. Futures price is just an imitation of the spot prices, plus the cost of carrying which includes interest rate and other charges. So the futures prices affect is almost negligible on the spot prices.”*** - Director

USA - Chicago

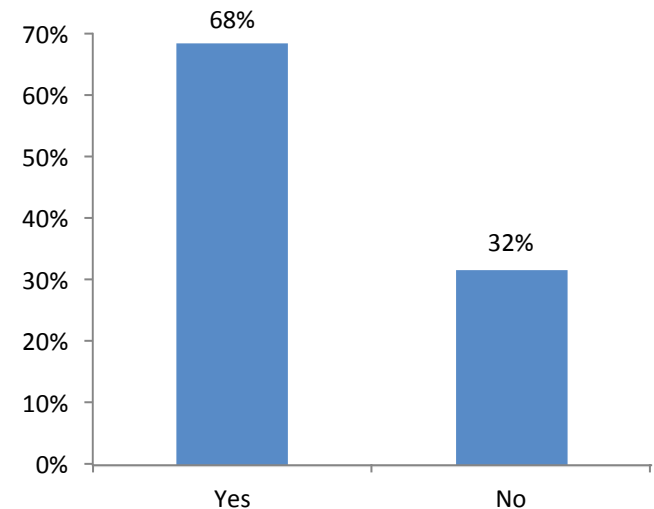
Do speculative activities in commodity futures markets have an influence on the futures prices for commodities (e.g. agricultural commodities and crude oil)?



In Chicago every respondent believes that speculating activities commodity futures markets have an influence on the futures prices for commodities.

If so, does this distortion in futures prices affect the spot prices?


- *Whereas only 63 % of people believe that a distortion in futures prices does affect the spot prices.*
- *Remaining 37% do not agree with that statement.*





*Base – 19 interviews

Respondent's Feedback


Some of the answers that we captured are as follows:

 *“Yes. There are lots of speculators in the market and lot of speculative activates take place thus it is obvious that it will create an influence but only at some point.”* - Broker

 *“Yes. Demand and supply are the major factors in agricultural commodities. The market is fluctuating every hour so it creates high influence on the future prices.”* - Trader

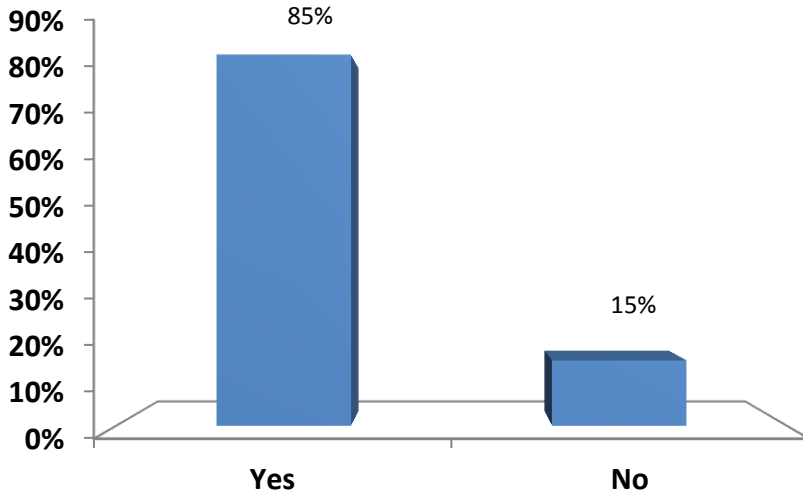
 *“Yes. Speculation is a great part of the future market. Markets are all under anticipation. They are affected by the rumors that are spread.”* - Broker

 *“Usually not because this is not major factor in long run. It is a short term factor.”* - Broker

 *“No. I don't think so, spot prices here are maintained based on the actual supply and demand numbers, so now I don't think that is a big influence. I think it influences the daily small fluctuations and I think that the market does not have a way of finding, which they call true value of the overall supply and demand.”* - Senior Commodity Broker

Japan-Tokyo

Do speculative activities in commodity futures markets have an influence on the futures prices for commodities (e.g. agricultural commodities and crude oil)?

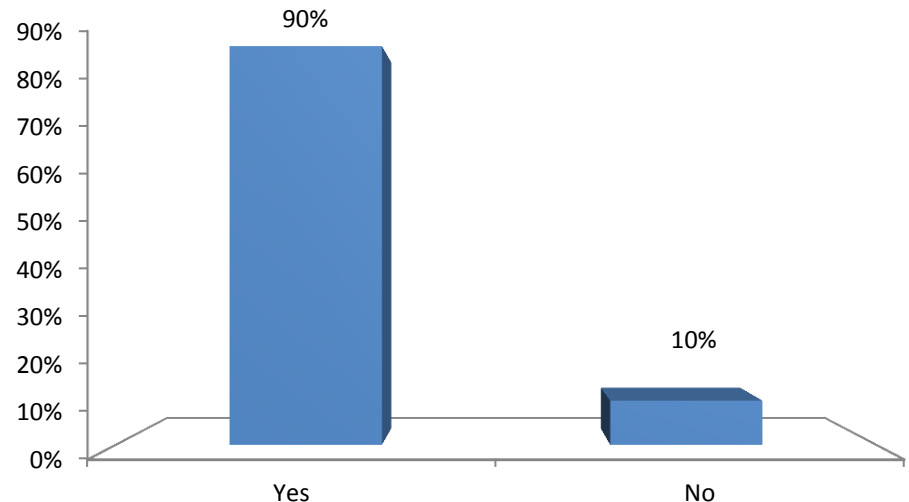


In Tokyo 85% of respondents believe that speculating activities in the commodity futures markets have an influence on the futures prices for commodities.

*Base – 20 interviews

If so, does this distortion in futures prices affect the spot prices?

Where as the ration of people who believe that distortion in futures prices does affect the spot prices is 90%.



*Base – 20 interviews

Respondent's Feedback

Some of the answers that we captured are as follows:

→ ***“Yes. The increasing reports of excessive speculation have affected the futures prices. Speculation in agriculture and energy commodities does increase volatility in futures prices.” – Commodities Broker***

→ ***“Yes. The factors which create an influence include demand and supply, political economy, US economy, job (unemployment) ratio, foreign currency, stock exchange and many others.” - Trader***

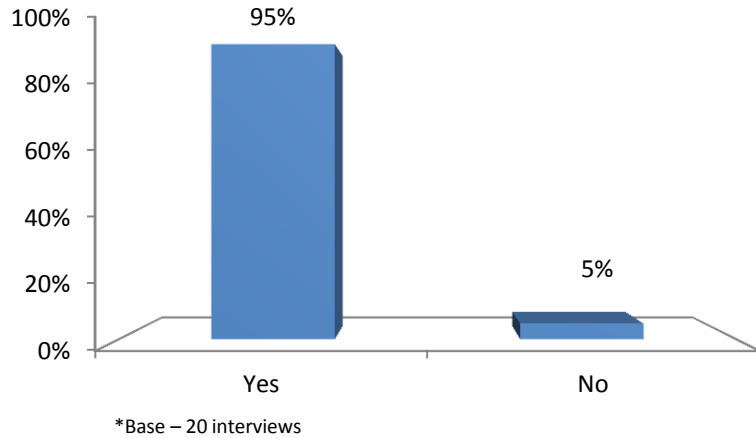
→ ***“No. Futures market is related to trading houses and high net worth individuals and it does not have influence as speculation is not a steady business.”- Commodities Broker***

→ ***“Yes. Cash trading of coffee is done based on futures price that is why speculators activities affect the cash trading. Cash price is based on futures, we cannot calculate cash price every day. Result in growing economy, grows the demand.”- Trader***

→ ***“Yes. The distortion is due to demand and supply ration. The prices will go up if the demand goes up. Japanese product compared to china market faces this distortion.”- Broker***

China-Shanghai

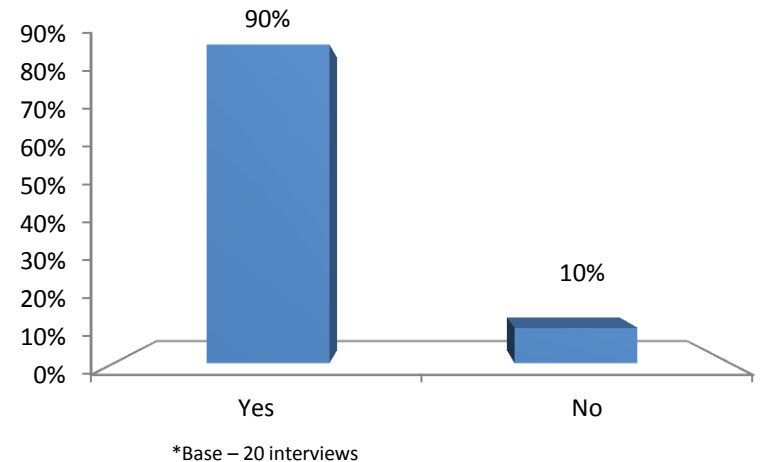
Do speculative activities in commodity futures markets have an influence on the futures prices for commodities (e.g. agricultural commodities and crude oil)?



In Shanghai almost all i.e. 95% of respondents believe that speculating activities in the commodity futures markets have an influence on the futures prices for commodities.

If so, does this distortion in futures prices affect the spot prices?

And 90% of the people believe that distortion in futures prices does affect the spot prices.



Respondent's Feedback

Some of the answers that we captured are as follows:

“Yes. Because the commodity gets changed with the futures so the price is decided by the futures, so there is definitely a great influence, I think the futures is more popular in china market.” - Trader

“Yes it does. Speculators have lot of money. They stock commodities and wait till the prices go up. It creates a disturbance in demand-supply ratio.”- Head of Department

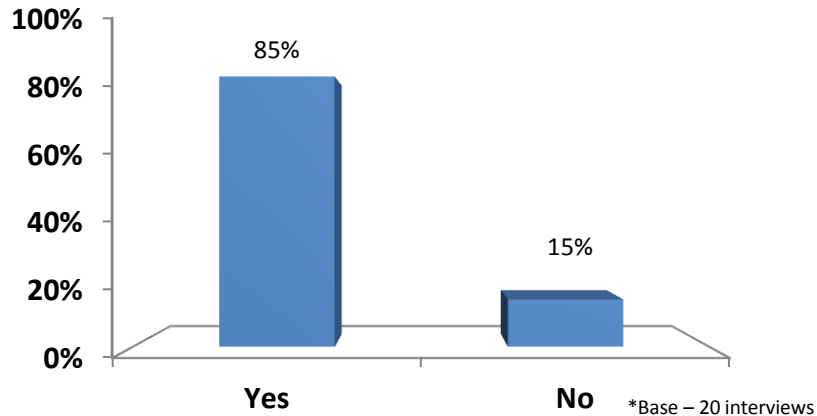
“No. Because every year it varies, in China, this year the prices are going down because demand from the global market is going low, and before Chinese new year the prices are expected to go up, production is low and the demand is high, and after Chinese new year it totally changes, and all the grain price are going down about 30-40% and demand is also very little. Our inventory patterns are high, but because of the weather and supplier do not want to reduce price, the cost is high but market is really bad. Actually, in china there is low domestic demand and 95% of the total production is for export and due to high competition with other countries like Argentina, India, South Africa, Canada & US and the price factor is very low compared to China, as our products have low labor cost, but the economy is developing very fast and we have traded in bulk, the price is also growing.”- Trader

“Yes. The price expectation and the futures contracts become an influence on the spot or current prices as well. The distortion in prices seen in the spot markets, relative to the economic fundamentals, extends to the futures markets as well.” – Broker

“Spot market influences the futures prices. You have contract which will expire but in futures market you never sell it out. In other words you have to buy actual commodity at the end of the month and eventually at the end of month, futures price gets converts into spot market price.”- Quantitative Analyst

India-New Delhi

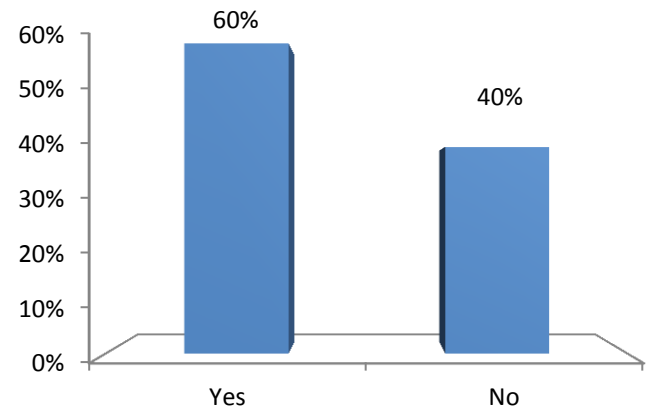
Do speculative activities in commodity futures markets have an influence on the futures prices for commodities (e.g. agricultural commodities and crude oil)?



Again in New Delhi 85% of respondents believe that speculating activities in the commodity futures markets have an influence on the futures prices for commodities.

If so, does this distortion in futures prices affect the spot prices?

But the ratio of the people who believe that distortion in futures prices does affect the spot prices and those who do not is 60:40



*Base - 20 interviews

Respondent's Feedback

Some of the answers that we captured are as follows:

“Yes. There is a little influence. Speculators increase their storage above the capacity of their market to earn money so that the price could be empowered by them. Influence on price also depends on weather conditions in agricultural commodity, infrastructure factors in metal commodity and currency also plays a very big role in commodity market.” – Commodities Manager

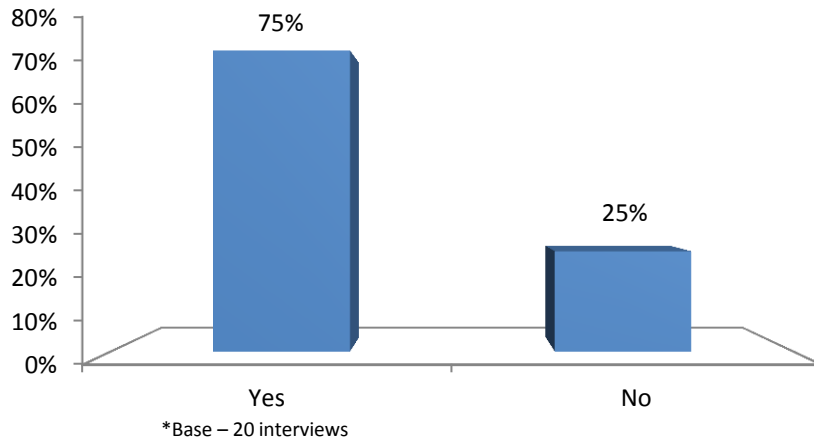
“Yes. A standard measure of liquidity in commodities futures markets is the open interest in any particular commodity market. Financial speculation is the cause of the problem of rising prices.”- Senior Analyst - Commodities

“Yes. Rupee and dollar comparison will be the most effective reason for the influence on the futures prices as most of the time payments are done in US dollars. Only corporate houses are responsible for speculations. Normal brokers are not responsible for most of the speculations.” – Commodity Trader

“Yes. Speculation in connection with the financial crisis is the most decisive factor. Commodity prices can be seen in the futures market becoming a source of monetary wealth accumulation.” – Commodities Manger

“If you go to Abhijeet Sen's Community report then you will see it does not influence on the future price of the commodities. Speculation only builds up volume but not necessarily raise the price in commodity. But if you hold the physical commodities then the price might change.” – Commodity Derivatives Trader

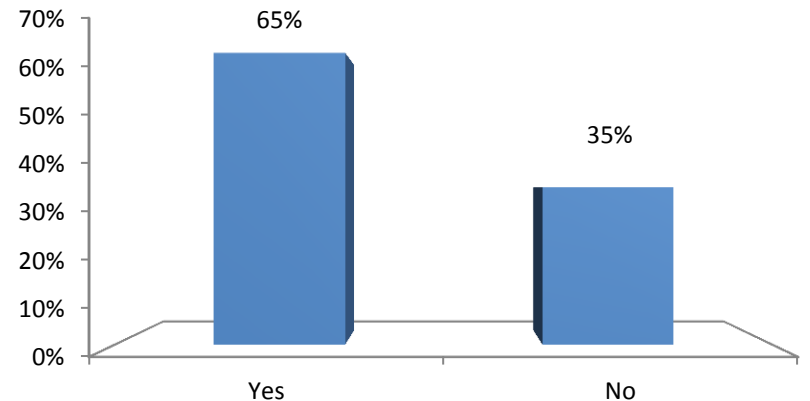
Do speculative activities in commodity futures markets have an influence on the futures prices for commodities (e.g. agricultural commodities and crude oil)?



- *In Dubai only 75% of respondents believe that speculating activities in the commodity futures markets have an influence on the futures prices for commodities.*
- *It is lowest percentage in terms of people agreeing with this statement across different geographies.*

If so, does this distortion in futures prices affect the spot prices?

65% of respondents agree that distortion in futures prices affect the spot prices.



*Base – 20 interviews

Respondent's Feedback

Some of the answers that we captured are as follows:

“Yes. When traders deal in more contracts than it will definitely have more effect on the pricing. But basically it is mainly based on demand and supply. It is demand and supply ratio which influences futures price.” – Commodity Broker

“Yes. It has a big impact on the future price. The factors which always influence the futures market are supply & demand, weather and political situation. These are the fundamental reasons that influence future market.” – Grain Trader

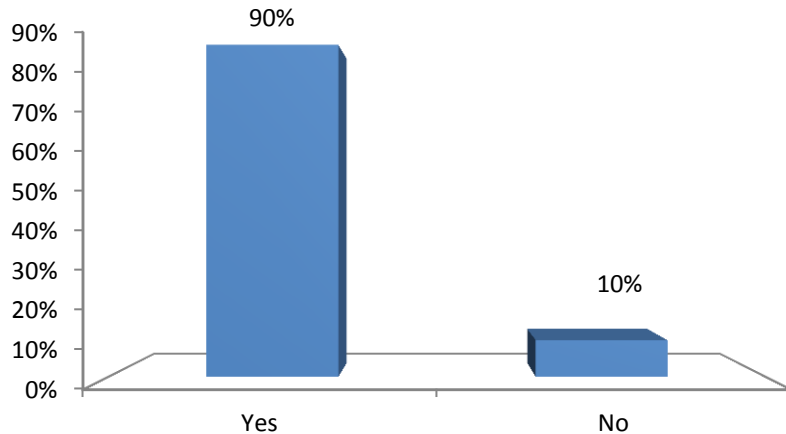
“No. It depends mostly on the demand worldwide. It is not like one person or few persons are doing speculation on particular thing. It's not like a stock which can be manipulated by a few institutions or something. Though speculation plays a good role but does not in commodity market.”- Commodity Broker

“Yes. If you see during the 3rd week of February the futures were trading at 485, then during the second week of March futures price came near 450-451, 446. And today market trading was near 463 but the day before yesterday market was trading at 447. Thus all these reasons affect the spot prices. Continuous fluctuation of nearly \$13 to \$25 generates an effect.” – Soft Commodities Trader

“No in actual sense spot prices affect futures price. Future prices are derived from spot prices. This is spot contract which is always less than futures. Future prices are practically higher than spot prices. Future prices depends upon spot prices and are underlying contract of spot market. So when spot prices move, futures price moves with them.” – Chief Operating Officer

Abu Dhabi

Do speculative activities in commodity futures markets have an influence on the futures prices for commodities (e.g. agricultural commodities and crude oil)?

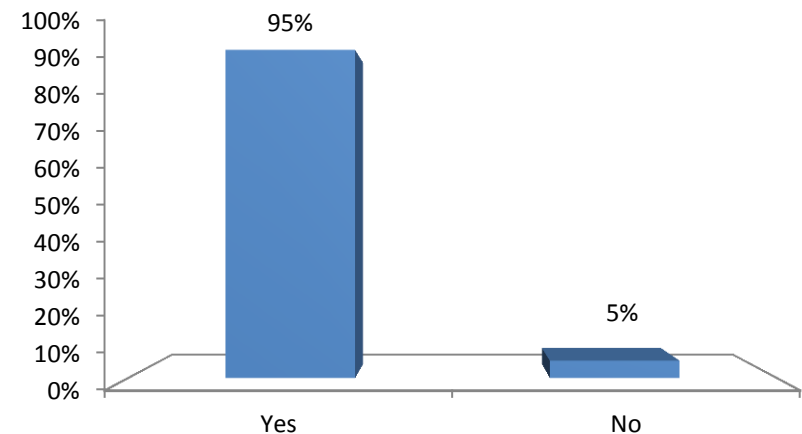


*Base – 20 interviews

In Abu Dhabi 90% of respondents believe that speculating activities in the commodity futures markets have an influence on the futures prices for commodities.

If so, does this distortion in futures prices affect the spot prices?


Whereas people who agree to the statement that distortion in futures prices affect the spot prices is 95%.





*Base – 20 interviews

Respondent's Feedback

Some of the answers that we captured are as follows:

 *“Yes, definitely. Here we can see that in agricultural commodities there is so much speculation happening. And, sometimes the forward market commission is also interfering in this futures commodity market. Sometimes, they even ban few commodities from the futures commodity market. So definitely, speculation affects the futures market.”* – Risk Manager

 *“Yes. Speculation may have inflated prices above levels justified by market fundamentals, it has been suggested that speculation may have impacted markets through increased levels of price volatility and lack of convergence between spot prices and the prices at which near-dated futures prices close out.”* - Trader

 *“No. I don't think it caters to the region that much. I think awareness and platforms are the factors which create an influence because the speculators can come from any region. And as long as the platform is available, they will be there. And there are number of traders in the region who are keen on investing but they are not aware of the platform. I think they are not major players but they would route their trades to another region to do the trade from the local funds.”* – Commodity Broker

 *“Yes. Because some analysts or people tend to follow future prices as a leading indicator to know the prices of spot can be. Sometimes, futures prices might move before spot prices, and speculators and traders might take that as an indication to enter in the same direction as futures.”* - Commodity Broker

 *“No. I don't think there is such question for the commodity market. Moreover, there is no straightforward trend for the market that can affect the spot price.”* – Trading Head

About SIS International Market Research

SIS International Research is a leading global Market Research & Market Intelligence firm providing comprehensive research services and strategic analysis of information. They have served many of the world's largest and most influential companies, serving over 70% of the Fortune 500.

Founded in 1984, SIS International Research offers many other innovative products and services for client's decision-making. SIS International Research has conducted research projects in over 120 countries and continues to expand its coverage. SIS International Research continuously covers the following regions:

- **North America**
- **Eastern, Western and Central Europe**
- **Asia**
- **Middle East and Africa**
- **Latin America**

