

# Commodity market as a strategy game for giants

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## **Abstract**

*Commodities are marketable goods and services which are seen today as a means of hidden control over exchange and production processes, used by the most powerful nations and transnational companies, unknown or not entirely known clusters, to influence the people's lives and develop the global consumption of nothing.*

*Theoretically, in the commodity market case, the capitalism shows its complexity fetish, surpasses the ideological barriers and over the last two centuries, from Marx's theory on depersonalized economy onwards, not only that the areas of the commodities consumption have changed, but the changes show the power shifts in the world and the strategy games played by the giant nations' investors through FDI, financial markets and other funds.*

*The paper premises regards the investors speculation that has led to great crisis, not only in the already well known case of oil, but also in the food commodities, and has influenced the golden run for minor minerals and has forced the state to intervene in order to ensure food security or diminished famine.*

**Key Words:** *commodity market, strategy, financial market, speculation, trade.*

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### **I. An age of uncertainties but also opportunities**

Commodity trading is one of the oldest forms of human activity. It is central to the global economy. Yet up to now there has been remarkably little research into this important area (Pirrong.C, 2014: 33). The strategic position of the commodities in our every day life is definitory because of all the raw materials that we use daily, which are literally played on the commodities markets, without our impact on it. Nonetheless, commodity trading is controversial, especially in times like the present, and the recent past, in which prices have been high. But this is nothing new. Adam Smith noted the same phenomenon when writing in 1776 about criticisms of commodity trading dating back to the 14th century, criticisms early similar to those heard today ( Pirrong.C, 2014: 30).

The functions of the commodities are influencing the demand for this products and continuing the cause-effect chaine, in its turn the demand intensifies the national and international power relations, the living standards, the rural-urban exod process, the inter-ethnic conflicts, famine, and after 2007-08 economical events it affects entire societies, where the state has to intervene and save not only the people, but also the speculators. Virtually all agricultural, energy, and industrial commodities must undergo a variety of processes to transform them into things that we can actually consume. These transformations can be roughly grouped into three categories: transformations in space, transformations in time, and transformations in form (Pirrong.C, 2014: 4).

The problem is that in time, very few people, funds or transnational companies, from the top trading countries, like USA, BRICS or after the recent Ukrainian events, the BICS, the Asian Tigers or EU, control this market of resources which in time, by speculating as much as it happened between 2003-2008, may lead to new crisis and again new tragical events, this time with a more food necessary profound effects on the population.

On a more positive note, pervasive insecurity and boundless complexity, coupled with a stream of constant, interconnected dangers, also create possibilities – a potential for ordinary people to exercise a little or even a great deal of influence in shaping the future lives of humanity (R. Cohen, P. Kennedy, 2007: 27)

Uncertainty as a space to shape the future from such crisis always appears as a big amount of resources owner(s) that use the resources in order to control de international events, as it happens right now with Russia or Russian companies and its selling all policy, therefore the future seems to hold more surprises than we ever expect. The global commodity boom of the past decade has turned little-known trading houses into multinational giants with assets across many continents and made their executives staggeringly rich (Reuters, Lucky Nicholson, 2013: 3).

Being a huge resource field or owning huge natural resources, and luckily being placed in a geostrategic position may signifie that you can create your own "silk road" and if not control, at least influence your partners and your partners' partners businesses. And since the economical aspect in influencing the golden run for every state political power, the time is the only thing that stays between want and concrete. Global changes, problems and even current and likely future crises demand that we extend our state-centric theories, deine new research agendas and develop an agreed comparative method. In short, the interdependence of the local, national and international demands a global outlook ( R. Cohen, P. Kennedy, 2007: 30).

## **II. A shifting landscape. Commodities**

Commodity is a term that defines a marketable good which is produced with the purpose of satisfying a necessity or a desire. The term has its roots in the Latin "commoditatem", which means "adaptation", but its French derivate, "commodité", has been used, in this case, and its meaning suggested profit or benefit. Agricultural, energy and industrial commodities undergo

a variety of processes to transform them into things we can consume. Commodity trading firms (CTFs) add value by identifying and optimizing transformations in commodities that reconcile mismatches between supply and demand: in space - using logistics; in time - through storage; in form - with processing. Physical and regulatory bottlenecks may act as constraints on these transformations (Pirrong C, 2014: 6).

In the past, commodities markets were more regional. Now products that once could only be sold in New York or London can be offered in Asia and the Middle East. International commodity trading companies are sophisticated sales and marketing arms set up by much major oil, gas and mining companies that work to sell product to the highest bidder (KPMG, 2012:4). One of the commodities principles, exchangeability principle says that the goods on the market are to be treated with no difference related to its provenience place, because the need for such products is universal, for example, oil, gold, aluminum, corn, coffee, wheat, rice, soybean and others.

The features of commodities are related to price, environmental sustainability and animal welfare. The price is negotiated on the market, and of course, the trader and the market place play are important because, for example, the trader may represent a brand, thus the quality that the certain brand advertises. The commodities are divided in "soft commodities" and "hard commodities". "Soft commodities" are those which are grown, as tea, soybean, rice, wheat, corn, coffee, salt, and "hard commodities" are those which are extracted through mining, as coal, copper, aluminum, crude oil, silver, gold and other minor minerals. But there is another category of commodities which includes oil, gas, coal, electricity and other similar products and which is regarded as a "hot spot" category because of its direct effects on the international events as "Yum Kippur war", on the country's economy and indirectly on the people's lives.

If the first elements mentioned in this third category may be preserved in reserves, as it happened frequently after OPEC domination (Robert Bejesky, 2011:196), the electricity has a more specific feature because it cannot be stored and used in case of shortages, and it has to be immediately used, by households or public institutions/companies. And as an example of the fast working way of the markets, some products that initially were considered not part of the commoditization process, as medicines or nanomaterials, because of the availability and of the bulk sell are now market participants in this process.

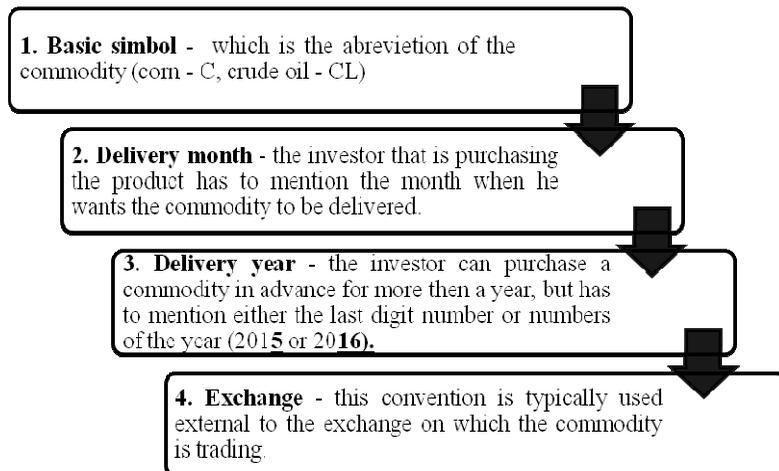
There are big trading commodities companies which, more or less, depending on a case by case situation, have the power to influence through the prices the countries economy, some of these giants are: Vitol, Wilmar International, Cargill, Noble Group, Glencore International AG, Salam Investment and others. As there are giants on the commodity market, there are also some places, like commodities exchange markets, which include Chicago Board of Trade (CBOT), Chicago Mercantile Exchange (CME), Global Board of Trade (GBOT), London Metal Exchange (LME), New York Mercantile Exchange (NYMEX). The commodity markets are very flexible and able to stretch the price on offer and demand of the investors, which can evaluate the situation of the commodities price index. This index has shown a rise on all commodities, in the last years, on average of at least 25 times, only from 2003 to 2008 (Rabah A, Bruckner M, 2011: 3).

## **II.1 How do we value commodities?**

Even though the commodities influence on the geostrategic decisions taken by major international organizations and countries (Nye S. Joseph, 2010:143) it's a very broad and complex one because the commodities are at the heart of the global economy, there are, still, several elements through which we can learn how to read some of the commodities features when the investors are using it. Basically, the investors speak about the "*future contracts*", with a predetermined date and with the price that

will be delivered at the already established data, but there exists a practices of the investors that bought the contract before the receiving data to sell the contract to other investors.

There is another element of the commodities, opposite to the future contracts called "*spot prices*" through which the buyer pays for the immediate delivery of the product. Another practice in this field the "*process of purchasing or selling stoks*" of companies that are more affected by the commodities in question. For example, one could bet on the increase price of the oil commodities and buy stocks of the companies that has such products.



**fig 1.** *Elements of the Commodities future Ticker*

One of the best know theoretical approaches associated with the commodities reflects Karl Marx interest in this problem, associated it with the decentralized economy and the forces of production. But over the time some other thinkers have tried to explain the commodity issue, whether it was related to the economy demand and offer, with the effect of the commodities on business and political relations, or with the social and indirect effects of this issue. The ultimate commodity, as Marx has already

suggested in the "Economic and Philosophic Manuscripts" of 1844 is money. Under capitalist conditions it serves both as an index of value of all the other commodities and as capital, that is as self-expanding an conventional exchange-value attribute of a commodity. Exchange value refers to the nature or being or use of a commodity but simply to its social form (D Boucher, P Kelly, 2009:5).

Adam Smith, David Ricardo, Karl Rodbertus-Jagetzow are the just some of those academics which have tried to offer an explanation, but since in the commodity market the speculation has risen considerably and the investors may be anyone, the tehnological investments and the time spent to finalized such commodities have raised interdisciplinary questions, which are not just approached by economist or political specialists, but also by sociologs, specialists in resources, as energy, gold, IT specialist, Human Rights specialist etc.

Commodities may be for some just a new battle field in a globalised economy, but for others may actualy be a new Eldorado. Over the last two centuries the center of power has shifted, there you can find the biggest amount of commodities imported from all over the world, from 1860 up to 1950 the Western Europe has its peak, from 1950 until the late 1980s Nord America has played it's role. And for the last four decades, since China has implemented its capitalist policies and since the Asian Tigers's economies exploded, maintaining a 8% growth for decades, the commodity center has changed again.

In the last century there were several commodities booms, first in 1915-17, second in 1950-57, third in 1973-24, fourt in 2003-08 when the precentages in the price value has increase, at least, tripled. And the state has intervened in the national food security in many countries, like Kazakhstan, one of the world's largest grain producer, Argentina, Russia, India as the third largest rice producer in the world, Egypt, Indonesia, as the largest rice consumer, and protest over food commodities prices and quality have been taking place in other countries, like Mexico,

Haiti, Ivory Coast, Morocco, Senegal, Vietnam, Cambodia, Indonesia.

Meanwhile the world stocks are declining, therefore the maize, rice, grain and soya production does not cover anymore the consumption, without considering what it will happen in case of disasters, because of the possible shortages. The Giants' money have created this dependency which is making the first to win more from this situation than the poorest resource full low income countries, which most of the time don't have the strength to cope with the overwhelming soft and hard means of influence that the rich countries have. Such strong mutual attraction can be found in the commodities trade between USA and China (S.Nye, 2010:148) which shown a promising growing perspective, if we consider that the USA has send in 2009 to China its top six largest exports which were consisting in: soybean, cotton, corn, wheat, tobacco and nuts (source USDA: US Census Bureau).

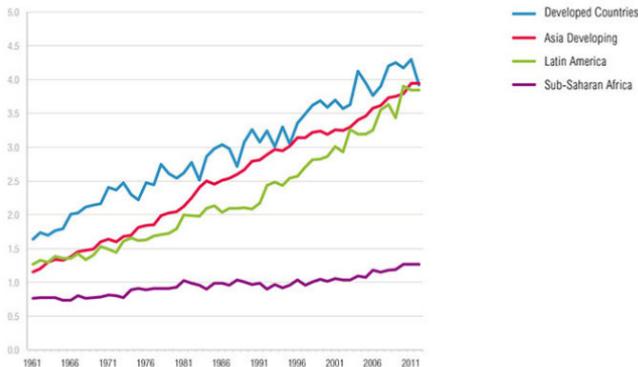
As well as the market commodities and trading places show, Europe is represented by Switzerland as major place of trading commodities in the entire world, with over 35% trading in oil, agriculture products and 60% in covering the mineral and metals fields, than the European Union itself, which plays a 10% role both in agriculture, metal and minerals trading in the world, supported by the London trading market, which its the second most strong market of commodities after Switzerland.

The role of the financial markets has grown significantly from the Second World War onwards and in states like USA has existed since 1865 and developed impressingly in 2000 when the market has been liberalized through the pass of the US Commodity Futures Trading Modernization Act which has opened the doors to trade commodities futures without any limitation concerning transparency issues, supervision of the authorities to all types of investors, from hedge funds, pension funds to investment banks.

### III. Global Trading Analystis - an ongoing process

Consumption rates have been growing extremely rapidly over the past thirty years. In industrialized countries, consumption per head has been growing at a rate of 2.3% annually, in East Asia growth has been faster - 6.1% annually. By contrast, the average African householders consume 20 per cent less today than it did thirty years ago. There is a widespread concern that the consumption explosion has passed by the poorest fifth of the world's population. The inequalities in consumption between the world's rich and poor are significant (Giddens A, 2010: 943).

#### Cereal Yields (in metric tons per hectare)



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Sources: <http://ow.ly/rp1fMN>

**fig 2.** *Cereal Yields* (in metric tons per hectare)( Ranganathan, 2012)

As we can see in fig 2, the cereal demand has grown from 1961 until 2011 in the developing countries, almost 2 and a half times, in the Asian trade countries and Latin American countries around 2 times and in the poorest area of the world, in the Sub-Saharan Africa has barely moved. After 2008 China's impact on the commodity market has risen, but it cannot compare itself

with the USA's longer and persistent impact, but if we take China as a part of a major group, as BRICS, the perspective changes. And even though the Chinese people say that they have done in 40 years, more than the western societies have done in 400 years, the Chinese trade deficit from 2011 and 2012 shows that China's economy grows slower than before, showing also the features of a very complex and diversified first class economy.

For those who are now aware of the mutual attraction between the Giants, the United States of America are supporting the Chinese commodity trade offering to this country a very big quantity of soybeans, cotton, wheat and corn crops.

Figure 3. China's Share of Global Commodity Trade (Net imports percent of world imports)<sup>17</sup>

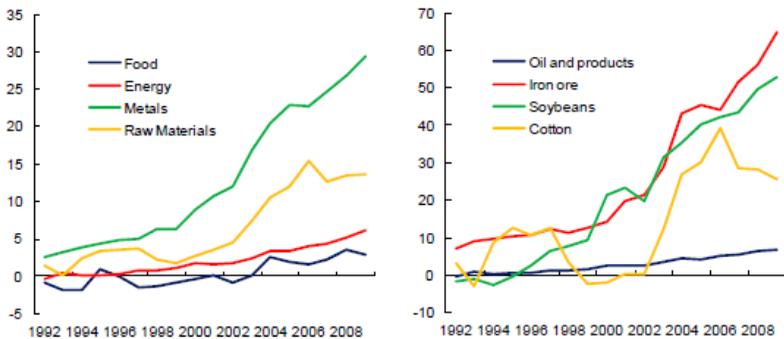


fig3. "China's Share of Global Commodity Trade" (Shaun K. Roache, 2012:70)

According to the same IMF Report, China has succeeded from 1992 until 2008 to at least triple its share of global food commodity, growing from less than -1% up to 3%, also the share of Chinese energy has grown from almost nothing up to more than 5%, likewise it happened with the raw materials and energy, but in the last category of commodities, the Chinese share in a decade and a half, has went up 15 times in the case of the raw materials and 25 times in the case of the energy. And right now,

besides Russia and its energy reserves, there is no other state or international organization that can supply on the Chinese demand, not even the OPEC member states.

In this case only the oil and oil products have grown slowly, from nothing up to 5%. We can see now that the late 1970 and 1980 capitalist policies lead the country to its development. Massively the world's resources are heading towards the Chinese harbours, factories and after the elaboration process of production are sent back to the harbors and from there all over the world, of course, at a double, tripled or even bigger price than that of the raw materials.

#### **IV. Conclusion. Is the commodity a real player in the world's future or is just a blip?**

The commodity word is not just a business man job, or the economist study object, the resources have always, over the man's history, played a great role in the groups structure, in their future. Eventough the inter-disciplinarity between economy, sociology, politics, international relations and other fields requires a great deal of patience to prove who's right and wrong in the international conflict scene, the very pessimistic scenario of a very possible world food and water crisis, and of a even closer new economical crisis thanks to the financial markets speculation shows a scary and still, a taken into account perspective of the academics, non-governmental organisation, think tank groups and other international organisations.

The world's poorest countries have little choice but to use, sell or rent the resources that it have in order to survive, and as a result, there is a big international pressure on the already resource shrinking base as international events, as civil and military conflicts, shortages, environmental issues, population growth, rich people or international funds interests and others affect all the commodity categories prices and our lives in which there is an ongoing need of participating.

In contrast with the American way of solving the problems, the European Union hasn't got yet a Federal Trading

Commission that would monitor and report on the market commodity and other aspects fluctuation, less to ask the public critique reviews. And still we are represented by several big European markets, as Switzerland and London in a big proportion, and by the EU trading market in a smaller proportion at the international level. In this west-east balance is very possible to appear an Caucasian market lead by the Russian Federation and as a result the prices may grow fast and will affect directly the national economies and the people's pockets which has a direct effect on supporting new parties and people which represent an extreme or another at the international level.

Commodities should be our big concern; instead the economic media crisis and the IMF loans are more important for the regular people these days. But the specialists, the academics, the people should discuss, present and brain storm ideas on how to survive with the skyrocketed prices of the food commodities which affect directly everyone one of us, we have to focus on these "little things" that need badly for solutions.

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