



# INFLATION: WHEN SPECULATORS PROFIT FROM THE FOOD CRISIS

## ***Food Speculation: Repeated Crises with (Striking) Similarities***

*In an alarming backdrop of escalating food prices, CCFD-Terre Solidaire and Foodwatch shed light on the unacceptable practices of speculators who profit from the crisis and exacerbate food insecurity, both in France and around the world. Backed by figures drawn from an analysis of the weekly CoT reports from the Paris Stock Exchange (Euronext) and the latest publications addressing the issue, CCFD-Terre Solidaire and Foodwatch reveal that speculation, invisible to the general public, is increasing the prices of agricultural commodities and our food. Despite the persistent warnings from both organizations to the French President, Emmanuel Macron, and the mobilization of nearly 120,000 citizens, the implementation of regulatory measures to limit excessive speculation on financial markets is still pending.*

# CONTEXT

In April 2023, food price inflation surged by +15%<sup>1</sup> in France within a year, with bread increasing by 12%, pasta by 20%, meat by 15%, and fresh vegetables by 29%. Costs are rising, especially following the soaring grain prices in 2022. Already rising sharply at the end of the COVID-19 pandemic, the Russian aggression in Ukraine has propelled wheat prices to unprecedented levels, reaching €440 per tonne<sup>2</sup>. While the cost of wheat has since decreased<sup>3</sup>, price volatility and the resulting crises continue to disproportionately impact the poorest households and countries reliant on these imports.

Hunger is still on the rise globally with 9.8% of the world's population, or nearly one in ten individuals<sup>4</sup>, experiencing undernourishment<sup>5</sup>. In France, the number of people relying on food assistance has reached 2.4 million, a figure three times higher than a decade ago<sup>6</sup>. Thus, both in the North and the South, **States fail to guarantee the right to food for their populations** and ensure their access to nutritious and sustainable food.



## LACK OF MARKET REGULATION PREVENTS STATES FROM GUARANTEEING THE RIGHT TO FOOD FOR THEIR POPULATIONS

However, the surge in prices is not solely attributable to the sanitary crisis or a major geopolitical event. **The actors who dominate the financial markets for agricultural commodities exacerbate the effects of crises through speculation on hunger, and profit from such situations.** This alarming trend is all too familiar, facilitated by the gradual deregulation of markets that has paved the way for the financialization of our food and its detrimental consequences.

These financial actors – banks, investment funds, insurance companies, and others – **are speculating on food commodities, and placing bets on a matter as crucial as food security.**

Based on CCFD-Terre Solidaire's analysis of Matif wheat prices



## FINANCIAL ACTORS ACCOUNTED FOR 70% OF PURCHASES IN THE WHEAT MARKET, AND 80% OF PURCHASES WERE PURELY SPECULATIVE

For the first week of June 2022

(*Marché à terme international de France* is the French futures market now called Euronext), in June 2022, financial actors accounted for nearly 70% of purchases in the wheat market, and 80% of purchases were purely speculative. Despite their significant involvement, financial speculators are largely absent from the debate on food price inflation. These actors make money off the food crisis by taking advantage of a deregulated and not so transparent system.

The figures speak for themselves: on a global scale, the top ten investment funds in the grain and soya bean financial markets accumulated profits of nearly \$2 billion in the first quarter of 2022<sup>7</sup>. Similarly, the twenty largest agribusiness companies also made record profits over the past two years, distributing over \$53 billion to their shareholders<sup>8</sup>.



## OVER THE PAST TWO YEARS, THE TWENTY LARGEST AGRIBUSINESS COMPANIES HAVE DISTRIBUTED \$53 BILLION IN PROFITS TO THEIR SHAREHOLDERS

<sup>1</sup><https://www.insee.fr/en/statistiques/7614514>

<sup>2</sup>Wheat reached nearly €440 per tonne in the week of the 8th of March 2022, an increase of nearly 70% since the beginning of the year - [https://www.lemonde.fr/economie/article/2022/03/09/war-in-ukraine-alert-on-record-prices-of-the-ble\\_6116739\\_3234.html](https://www.lemonde.fr/economie/article/2022/03/09/war-in-ukraine-alert-on-record-prices-of-the-ble_6116739_3234.html). It reached a new peak at €438 per tonne in the week of the 16th of May 2022, compared to a quotation of €230 per tonne in May 2021.

<sup>3</sup>On the 30th of May 2023, the Euronext wheat price for September 2023 was €225 per tonne. According to France Agrimer, the cost of producing a tonne of wheat hovers around €200 per tonne, which can reach, depending on the year, €250 per tonne: [https://www.franceagrimer.fr/content/download/66895/document/2021\\_06\\_15\\_Rapport\\_OFPM\\_2021.pdf](https://www.franceagrimer.fr/content/download/66895/document/2021_06_15_Rapport_OFPM_2021.pdf)

<sup>4</sup><https://ccfd-teresolidaire.org/tout-ce-qu'il-faut-savoir-sur-les-mots-de-la-faim/>

<sup>5</sup><https://www.fao.org/publications/home/fao-flagship-publications/the-state-of-food-security-and-nutrition-in-the-world/2022/en>

<sup>6</sup><https://www.banquealimentaire.org/etudes-profil-2023-qui-sont-les-personnes-accueillies-laide-alimentaire>

<sup>7</sup>Lighthouse study, April 2023, <https://www.theguardian.com/world/2023/apr/14/hedge-funds-profit-ukraine-war-food-price-surge> and <https://www.lighthousereports.com/investigation/exposed-the-hedge-funds-cashing-in-on-the-food-price-spike> co-published with the Guardian: <https://www.theguardian.com/world/2023/apr/14/hedge-funds-profit-ukraine-war-food-price-surge>

<sup>8</sup>Ibid.





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# HOW FINANCIAL ACTORS PROFIT FROM THE MARKET VOLATILITY OF AGRICULTURAL COMMODITIES AND FOOD CRISES?

Based on public data from the *Autorité des marchés financiers* (AMF – French financial markets authority)<sup>9</sup>, CCFD-Terre Solidaire analyzed the influence of financial actors on the prices of Matif wheat, between January 2020 and September 2022. The following were compared:

- └ the positions adopted by commercial players, in terms of purchases and sales of wheat lots on the market, with those of the different categories of financial players involved in this market;
- └ the shares of purchases and sales that were allocated, on the one hand, to risk management operations for operators linked to wheat production and the real market, and, on the other hand, to transactions attributed to speculation.



## MARKET REGULATION MEASURES PROVED INSUFFICIENT TO LIMIT SPECULATIVE ACTIVITIES DURING THE CRISIS

First observation: market regulation measures<sup>11</sup> proved insufficient to limit speculative activities during the 2022 crisis. As in 2008 and 2011, food crises continue to serve as lucrative opportunities for some actors, which is simply unacceptable.

Second observation: a significant lack of transparency – the data is largely insufficient, and the indicators too imprecise to identify all the actors involved and accurately evaluate the share of their speculative activities in the evolution of prices, whether upwards or downwards:

- └ Comparing the open positions of operators from week to week is not satisfactory, it would be necessary to have at least daily data on traded volumes by type of operator;
- └ The quality of the data is insufficient, the lack of transparency of the different categories of players hinders their distinction in operations and the comprehensive analysis of their actual evolution in the markets.



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# FUTURES MARKETS AND FINANCIALISATION OF AGRICULTURAL COMMODITIES: EXPLANATIONS

Futures markets operate as parallel markets to physical ones, providing a platform for numerous actors to collectively negotiate in advance future delivery prices. Rather than engaging in direct exchange of commodities, these markets facilitate the trading of contracts for the purchase or sale of goods, at a fixed volume and price, for a later date<sup>12</sup>.

These markets are intended to provide price insurance for commercial actors<sup>13</sup>, enabling them to cover their future sales or purchases at predetermined prices. Although such markets have existed for a long time, it was during the 1990s to the early 2000s that they opened up to agricultural commodities in France<sup>14</sup>. This period also witnessed a growing deregulation of agricultural and trade policies.

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<sup>9</sup> Particularly the weekly reports of the COT (Commitment of Traders) or Commodities Reporting Contracts, available here: <https://live.euronext.com/fr/product/commodities-futures/EBM-DPAR/price-ble-of-milling-matif>

<sup>11</sup> Particularly position limits, which impose a limit on each market operator when buying or selling batches of wheat.

<sup>12</sup> Options and swaps can also be traded, see:

<https://agriculture.gouv.fr/vers-la-definition-dun-nouveau-cadre-de-regulation-des-marches-derives-de-matieres-premieres>

<sup>13</sup> Farmers, cooperatives, traders, agri-food companies, or feed manufacturers

<sup>14</sup> Wheat arrives on the *Marché à terme international de France (Matif)* in 1998

# HOW FUTURES MARKETS WORK: AN EXAMPLE OF A FARMER-LED OPERATION



Imagine that a wheat producer in France wants to make sure to sell their upcoming harvest two months in advance. The Matif presents an offer of €300 per tonne. The farmer then enters into a sales contract on the Matif at €300 per tonne, for 50 tonnes of wheat, with delivery scheduled in two months' time.

## Case 1

*In two months, the price of wheat has fallen to €250/T*



**+50** €/T

The farmer buys back the contracts previously sold on the Matif, at €250/T, resulting in a gain of  $300 - 250 = €50/T$  on the futures market. The farmer then sells their wheat on the physical market, at €250/T, and **ultimately receives €50 (gains on the futures market) + €250 (sale on the physical market) = €300/T of wheat.**

## Case 2

*In two months, the price of wheat has risen to €350/T*



**-50** €/T

In the same way, the farmer buys back the contracts he had sold on the Matif, at €350/T: resulting in a loss of  $300 - 350 = -€50/T$  on the futures market. The farmer then sells their wheat on the physical market, at €350/T and ultimately receives **-€50 (losses on the futures market) + 350 (sale on the physical market) = €300/T of wheat.** The futures market thus compensates for variations in the physical market.



**+50** €/T **TOTAL** **300** €/T



**-50** €/T **TOTAL** **300** €/T



**THROUGH EXCESSIVE SPECULATION, THESE ACTORS SEIZE A PORTION OF THE VALUE OF FOOD AND GENERATE PARTICULARLY HIGH PROFITS IN TIMES OF CRISIS.**

The volatility of agricultural commodity prices<sup>15</sup> makes this market very attractive for speculative activities. The more prices fluctuate, the more financial players<sup>16</sup> in these markets capitalise on making bets, whether higher or lower, and thereby secure profits. The significant influx of financial actors into these markets raises a fundamental question: through excessive speculation, these actors capture part of the value of food and generate particularly high profits in times of crisis.



**SUBSTANTIAL INVESTMENTS MADE BY FINANCIAL ACTORS CAN RESULT IN AN ARTIFICIAL SURGE IN DEMAND, LEADING TO PRICE ESCALATION THAT ADVERSELY IMPACTS FOOD SECURITY**

Advocates of market deregulation argue that these speculative operations are essential to ensure sufficient market liquidity. However, this argument can in no way justify the excessive speculation observed in the agricultural commodity markets, and the absence of sufficiently restrictive rules. Trading volumes now reach levels several times higher than the actual volumes of existing goods, and the ceiling (per operator) set by the AMF<sup>17</sup> is still too high to limit the runaway markets. Thus, the substantial investments made by financial actors can result in an artificial surge in demand, leading to a disproportionate price escalation that adversely impacts food security.



## WHO BETS ON FUTURES MARKETS, ESPECIALLY DURING TIMES OF CRISIS?

Initially created for commercial actors, futures markets have been largely invested by financial players, whose specific categorisation remains somewhat unclear. The AMF defines three categories of financial actors: investment firms or credit institutions, investment funds, and other financial institutions. These actors account for the vast majority of speculation on the financial markets.

Between January 2020 and September 2022, **financial actors witnessed a notable rise in their share of total positions in the European wheat market, surging from a quarter to nearly half. Moreover, they accounted for a significant 70% of buy positions at the start of June 2022.** Their overall positions increased by 140% during this period, with purchases escalating by as much as +163.5%



**Investment firms or credit institutions:** between January 2020 and September 2022, their speculative purchases increased by +870% and accounted for nearly a third of total speculative buying positions.

**Investment funds:** over the same period, their speculative purchases increased by +96.8%.

**Other financial institutions:** during the COVID-19 pandemic, they massively speculated on purchases (+138% between January 2020 and January 2021), but their weight is relatively low thereafter.



**Commercial actors – linked to the physical market:** between January 2020 and September 2022, they went from 77% to 56% of total market positions, with a particularly significant decrease in buy positions: -39.5%, reflecting a combination of risk hedging and speculation activities.

<sup>15</sup>Food is not a market like any other: supply depends on climatic events, droughts, floods, and diseases, which cannot be controlled, and faces a relatively inelastic demand. It is not easy to substitute one food for another: agri-food processing does not always allow this and above all, they do not have the same nutritional, organoleptic or cultural value, we cannot change eating habits with each crisis.

<sup>16</sup>The growing role of financial investors in the commodities market is the result of the emergence in the 2000s of new types of investment vehicles, such as listed index funds. According to the European Commission, investments by financial actors in raw materials rose from €13 billion in 2003 to nearly €205 billion in 2008: [http://aei.pitt.edu/38031/1/COM\\_\(2011\)\\_25.pdf](http://aei.pitt.edu/38031/1/COM_(2011)_25.pdf) In June 2022, 80% of purchases on Matif wheat were speculative purchases (sources: COT Euronext reports)

<sup>17</sup>See <https://www.afte.com/lamf-revise-les-limites-de-position-applicables-sur-les-derives-de-matieres-premieres-agricoles-0>

# Evolution Of The Weight Of Financial Actors On The European Wheat Market Between 2020 And 2022



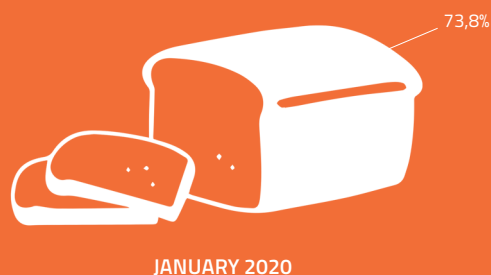
AT THE BEGINNING OF JUNE 2022,  
NEARLY 80% OF BUY POSITIONS  
WERE SPECULATIVE



Share of commercial actors in the market (purchase positions)



Share of financial actors in the market (purchase positions)



## WHAT ARE THE PRACTICAL IMPLICATIONS?



**COUNTRIES MADE DEPENDENT ON GRAIN IMPORTS FACE DIFFICULTIES IN PROVIDING FOOD TO THEIR POPULATIONS, ESPECIALLY IN THE MIDDLE EAST AND EAST AFRICA**

On the one hand, futures markets deviate from their intended purpose of hedging price risk. On the other hand, the actions of financial actors in these markets influence the price of agricultural commodities, beyond the actual supply and demand, or even the value of these materials (such as production costs, environmental quality, etc.), which nonetheless constitute the basis of our food system.



### For commercial operators in the markets:

The significant price fluctuations and the unpredictable behaviour of financial actors disrupt commercial actors: the market becomes incomprehensible and any participation more expensive and riskier.



### For populations:

The cost of agricultural commodities on futures markets has a direct impact on food prices. The rising cost of food places an increasing burden on household expenses, making daily life financially unsustainable for many. The most vulnerable populations are increasingly reliant on food aid, and countries made dependent on grain imports face difficulties in providing food to their populations<sup>18</sup>, particularly in the Middle East and East Africa. Moreover, price volatility extends beyond these regions and affects other markets such as corn, rice, soya beans, and more.

<sup>18</sup>In East Africa, up to a third of grain consumption comes from wheat or wheat products, 84% of which is imported (largely from Ukraine and Russia), the price of bread has increased by 70% in Lebanon and almost doubled in Sudan (source: IPES Food report, Another perfect storm, 2022)

# CONCLUSIONS



In times of crisis, food speculation intensifies and exacerbates price fluctuations: by betting massively on a rise in prices, financial speculators in fact trigger what economists refer to as a self-fulfilling prophecy<sup>19</sup>.



The current system allows financial actors to profit from crises by magnifying price surges, and thus capture the value of food, precisely when its access becomes increasingly challenging.



Political leaders have failed to draw lessons from past crises and demonstrate the courage to better regulate agricultural commodity markets. Meanwhile, the development of IT tools as well as algorithmic<sup>20</sup> and high-frequency trading<sup>21</sup> raises further concerns about the need for strengthened regulatory measures.

## OUR DEMANDS, WIDELY SUPPORTED BY CITIZEN<sup>22</sup>

### 1 Significantly lower position limits to stop excessive speculation



Position limits impose restrictions on the trading volumes carried out per actor on the financial markets. The current limits are too high and can be evaded by companies that have several subsidiaries, thereby increasing their quotas. These limits must be lowered and controls strengthened.

### 2 Exclude financial investors who excessively speculate on agricultural commodity markets, or restrict their access to a minimum



Limitations must be imposed on the speculative activities of institutional investors and investment funds in these markets. At the very least, it is essential to increase the deposit requirements for guarantees and margin calls – bonds paid to access the market – which are required of them.

### 3 Make markets more transparent



The opacity of markets and the lack of transparency on operations make it exceedingly challenging to evaluate the impact of speculation on the surge in food prices. Reports issued by the AMF<sup>23</sup> do not provide sufficient information in terms of quantity (limited to weekly data) or quality (anonymisation of operators and opacity surrounding actor categories, from which index funds remain undistinguished<sup>24</sup>). The framework for analysing markets, actors, and activities needs to be reassessed to enhance the quality and accessibility of published data.

The right to transparency should also extend to physical markets: operators who market food commodities must publicly disclose the status of their stocks to prevent market panic.

The absence of transparency cultivates a climate of impunity, allowing speculators to operate to the detriment of our food security.

<sup>19</sup>In 2014 already, 3/5 of the stock market professionals questioned on this subject confirmed that speculation led to rising prices: <https://www.foodwatch.org/fr/actualites/2014/speculation-et-faim-dans-le-monde-sont-liees-confirmant-75-des-professionnels-de-la-bourse>

<sup>20</sup>Algorithms are developed to automatically trigger buying or selling operations: this raises the question of the amplification of mimicry behaviours (purchases triggered precisely because other purchases have been triggered).

<sup>21</sup>With high-frequency trading, lots can be traded in a millionth of a second

<sup>22</sup>Our petition, supported by more than 100,000 citizens: <https://www.foodwatch.org/fr/sinformer/nos-campagnes/politique-et-lobbies/lobbies-et-multinationales/stop-aux-speculateurs-de-la-faim-alimentons-les-gens-pas-les-profits-speculation-alimentaire>

<sup>23</sup>Link to TOC reports: <https://live.euronext.com/fr/product/commodities-futures/EBM-DPAR/contract-specification> However, these reports provide more information than in the Chicago market, where the obligation to declare is triggered only above a certain threshold of positions.

<sup>24</sup>or Index Funds, which account for almost half of the long positions in the Chicago market – see Lighthouse survey

# AT WHAT LEVELS TO ACT?

## At French and European levels:

France should encourage a comprehensive reform of the European Directive on the regulation of financial markets, MiFID 2. **It must weigh in the ongoing dialogues, to encourage the implementation of more ambitious regulatory measures.**

## At international level:

The UN body responsible for food security matters, the CFS, needs adequate funding and reinforcement to fulfill its role and undertake substantial work in regulating agricultural commodity markets.

Other entities such as the G7 or the G20 must make clear commitments to regulate food speculation.



**Despite the mobilisation of over 120,000 citizens who participated in a petition launched by Foodwatch and CCFD-Terre Solidaire,** political inaction prevails as no ambitious measures have been implemented to limit these abuses. In an open letter, we challenged President Macron<sup>25</sup>, highlighting the risks of presenting agri-food multinationals as the primary solutions to the current crisis, without demanding commitments from them, such as not contributing to the harmful effects of food speculation.

While responsibility and urgency are above all political, it is also important to advocate for a shift in the burden of proof to strengthen regulations for agricultural commodity markets: financial actors and agri-food multinationals must commit not to contribute to excessive food speculations, ensure transparency in their operations, and demonstrate that their activities do not harm food safety.

<sup>25</sup>[https://www.foodwatch.org/fileadmin/-FR/Documents/Lettre\\_foodwatch\\_Emanuel\\_Macron\\_Speculation\\_Novembre\\_2022.pdf](https://www.foodwatch.org/fileadmin/-FR/Documents/Lettre_foodwatch_Emanuel_Macron_Speculation_Novembre_2022.pdf)

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**foodwatch** 

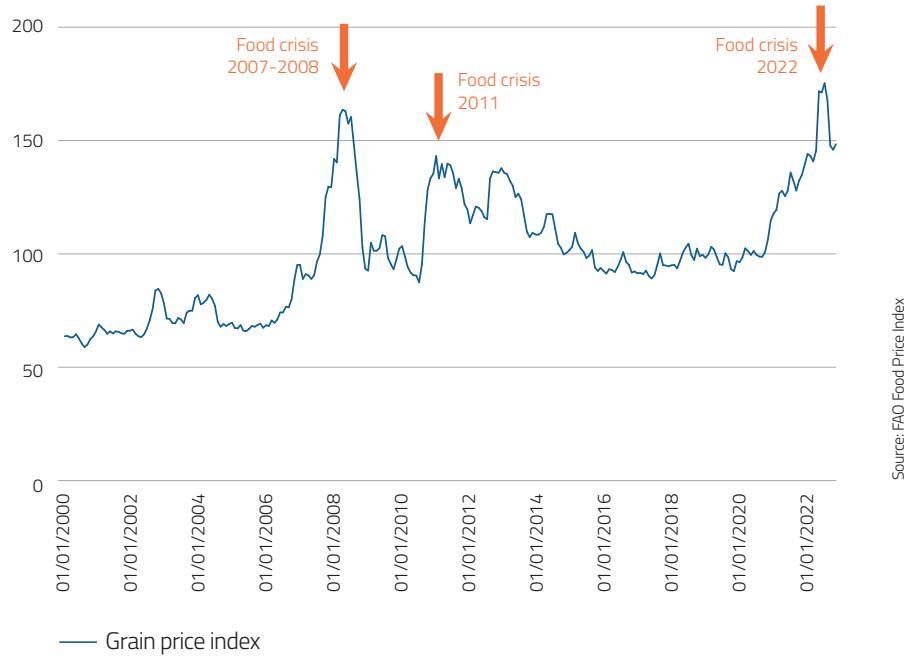
[foodwatch.fr](http://foodwatch.fr)



# ANNEXES

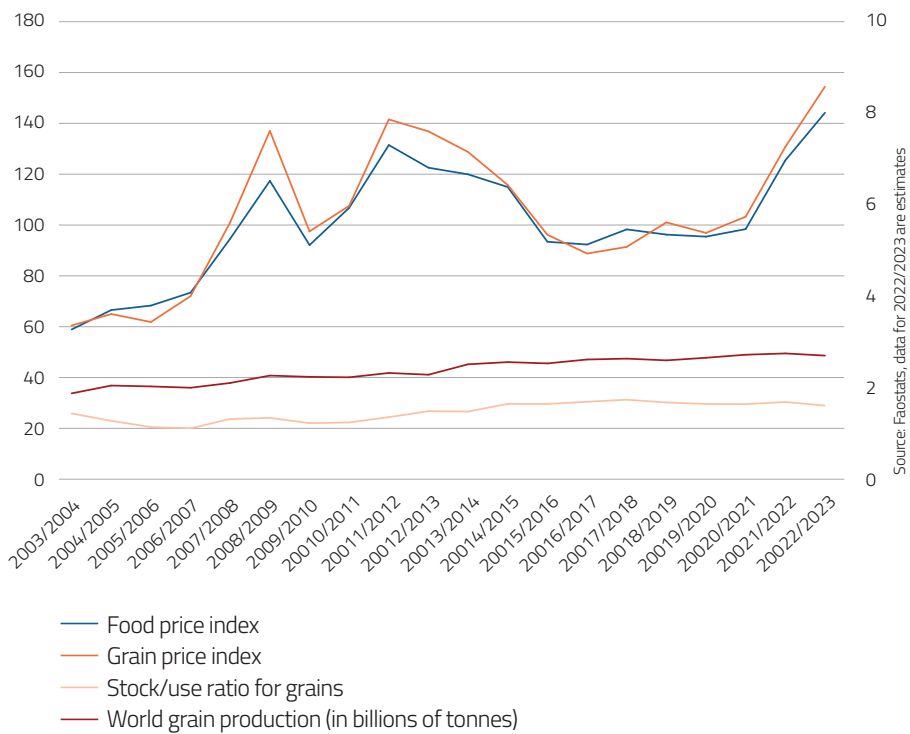
## CHART 1

Evolution of grain prices on international markets since the 1st of January 2000



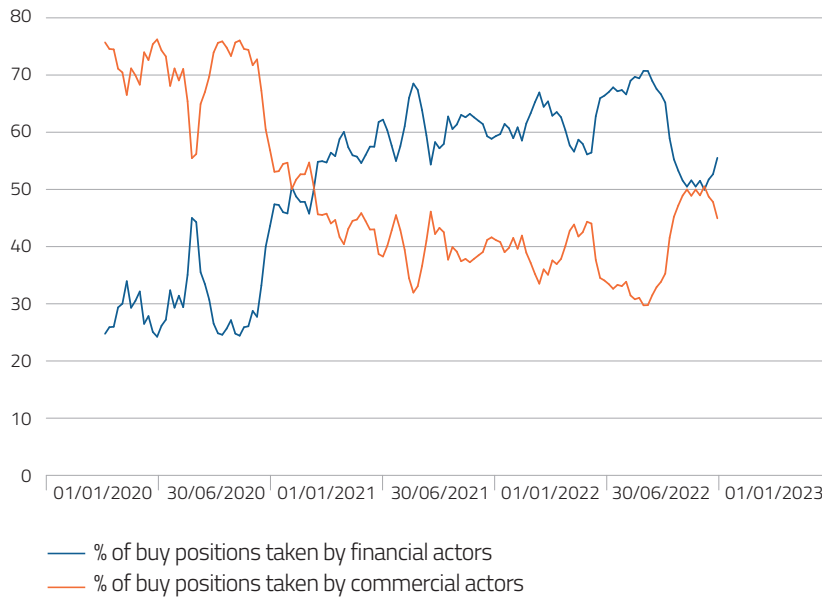
## CHART 2

Comparative trends in grain production, grain use/stock ratio and food prices at international level



### CHART 3

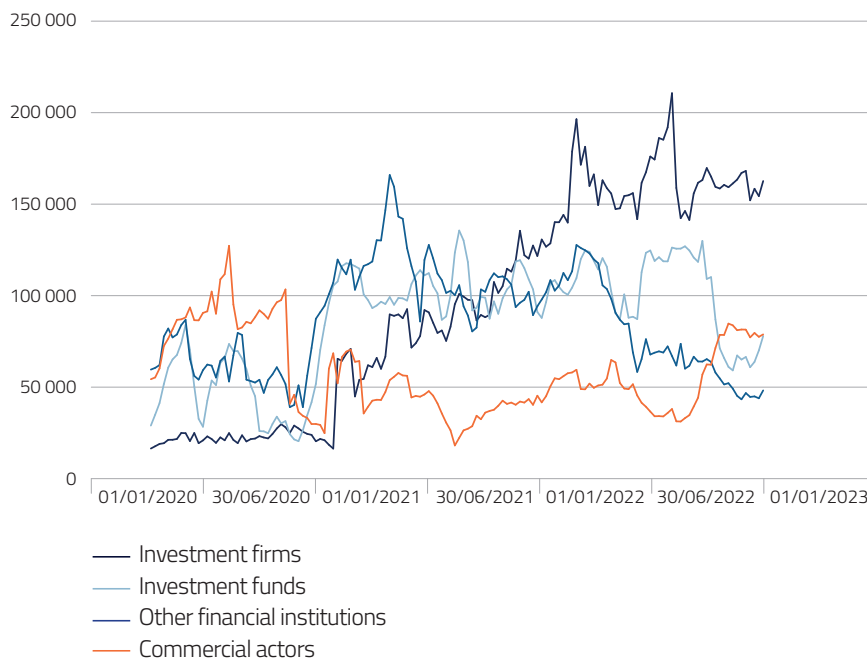
#### Evolution of Matif wheat price buying positions by type of actor



Source: authors' calculations, based on data from COT reports published by Euronext

### CHART 4

#### Evolution of speculative buying positions on Matif wheat prices by type of actor (in absolute numbers)



Source: authors' calculations, based on data taken from COT reports published by Euronext