



UNIVERSITY OF ZURICH  
DEPARTMENT OF BANKING AND FINANCE

BACHELOR THESIS

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Basics of Agricultural Commodity  
Trading and Analysis of the  
Assumptions of the Swiss Citizens'  
Initiative "Stop Speculation"

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11th March 2016

## Abstract

Within the last decade two massive food price bubbles occurred, leading to a considerable price insecurity. In reaction to this abnormal price development, a widespread debate was stimulated, leading to political answers directed at the financial market. One of these political reactions was the launch of a citizens' initiative aiming to suspend all financial institutions of the agricultural commodity market. This leads to the questions whether speculators are the major cause for this hazardous price insecurity and whether the initiative is an appropriate solution to face this problematic. The conclusion is drawn that there is still no widely accepted evidence about the causes for this price insecurity and that the initiative is missing its mark.

# Executive Summary

Agricultural commodity trading has a bad reputation in the press and among the public opinion. The root of this poor reputation took place in the time between 2007 and 2009. The issue was further reinforced in the period between 2010 and 2012. These two periods have been characterized by an abnormal volatility and increase in agricultural commodity prices. As an illustrating example, the price of rice increased by 180% during this time. This irregularity and price increase led approximately tens of millions of people into poverty or even worse to hunger and malnutrition (Feder 2015). Those occurrences resulted in animated discussions about the cause. Besides the usual suspects, such as an increasing demand for biofuels or the climate change, the finger has been pointed at 'food speculators'. I.e. at those players in the food market that operate just for profit and do not always show interest in the possible negative consequences of their actions, namely less food security for the poorest part of the world population. Consequences of these argumentations against food speculators have been political discussions and, in some cases, introductions of new national laws.

In 2015, an increased interest in the topic was observed in Switzerland, leading to a new law being introduced by the Swiss parliament in June of the same year. More specifically the law regulates the agricultural commodity market with position limits. In fact, if specific situations occur, the government now has the power to set position limits with regards to derivatives. Parts of the public opinion and of the press have been arguing that this is just a preventive step, taken to hinder a coming citizens' initiative aimed to restrict some agents freedom on the market (NZZ 2015a). This initiative was launched by a left wing party and is called 'No speculation with food' (in German: „Keine Spekulation mit Nahrungsmitteln“)(Admin 2015b). More precisely, the goal is to suspend all participants who act as pure financial speculators from the agricultural commodity market.

Albeit a lot of people are aware of this topic, it seems that just a few of them really know the characteristics and functions of the agricultural commodity market. Therefore, the first chapter of this thesis explains the basics of this market and the financial instruments. Their functions and characteristics are described, as well as the market as a whole, including its development and participants. The second chapter scrutinises the increased prices and their increased volatilities during both price peaks. The aim of this chapter is to analyse the causes for this remarkable price behaviour, to finally evaluate the effect of 'food speculators' in the agricultural market. In order to do this, the literature used by the committee of the initiative to formulate their arguments, will serve as basis for the following discussion. The third chapter describes an assortment of regulatory tools aimed at improving the control of the financial market and the current regulatory situation of different countries. This is done to later evaluate the citizens' initiative appropriately. This initiative is finally the subject of the fourth and last chapter. The initiative, its committee and the voting events are explained and a conclusion about the usefulness of the initiative is drawn.

The results of this thesis are leading to the conclusion that the current literature can not answer the question about the influence of 'food speculators' conclusively. However,

on account of the specific design of the citizens' initiative, it is nonetheless possible to make a clear statement about its usefulness. The thesis concludes that there is no gain generated in adapting the suggested regulation, since its approach is too strict.