



Exploitation of commodity markets and its influence on future trade

Snehal Satyeprem Ghumare, Sourabh Dinkarrao Mohite

Department of Accounts, D P Mohite & Company, Aurangabad, Maharashtra, India

Abstract

The exploitation of commodity markets is a pervasive issue in global trade, with far-reaching consequences for prices, supply chains, and overall economic stability. Commodity markets, which deal with raw materials like oil, metals, agricultural products, and energy, are central to the global economy. These markets are crucial not only for producers and consumers but also for investors and policymakers. However, the manipulation and exploitation of these markets by powerful stakeholders—be it through speculative trading, cartel behaviour, or unfair pricing—pose significant challenges. This paper examines the exploitation of commodity markets in the context of its impact on different market participants, strategies used to exploit the market, regulatory responses, and the broader consequences for future trade and market fairness. By analysing specific case studies and exploring potential strategies for mitigating these negative impacts, the paper aims to offer insights into creating more stable, transparent, and equitable commodity markets.

Keywords: Commodity, exploitation, monitoring

Introduction

Commodity markets play a crucial role in the global economy by facilitating the exchange of raw materials and essential goods, from agricultural products to energy resources and metals. These markets not only support the livelihoods of producers and consumers but also underpin a vast network of industries that rely on these commodities for production and manufacturing.

The exploitation of these markets poses significant challenges that can disrupt pricing mechanisms, diminish market efficiency, and threaten overall economic stability. Market manipulation can lead to inflated prices, making essential goods less affordable for consumers and affecting their purchasing power. Producers may struggle to plan effectively when prices fluctuate unpredictably due to manipulative practices, leading to inefficiencies in production and potential losses.

Understanding the complexities of market exploitation is critical for policymakers, regulators, and market participants alike. Effective oversight is necessary to create a level playing field that encourages fair competition. Regulators must implement robust frameworks that not only detect and deter manipulation but also promote transparency and accountability within the markets.

Objectives

1. To know effects of market exploitation on stakeholders.
2. To gain knowledge of effect of market exploitation on future commerce and on economic stability.

Definition of Market exploitation

Market exploitation refers to the manipulation or unethical practices within a market that take advantage of participants or distort the natural supply and demand dynamics.

Types of Market exploitation

1. Price Exploitation

Price exploitation involves coordinated agreements among market participants to artificially control prices, often through collusion or other deceptive practices. This

manipulation can lead to inflated prices that do not reflect genuine supply and demand, harming consumers and distorting market signals. Such practices can create an environment where fair competition is stifled, leading to reduced trust in market mechanisms.

2. Spoofing and Layering

Spoofing and layering are tactics employed by traders to create a false impression of market activity. Spoofing involves placing large orders with no intention of executing them, only to cancel them before they are filled. This creates an illusion of increased demand or supply, influencing other traders' perceptions and decisions.

Layering takes this a step further by placing multiple orders at different price levels, which also misleads market participants about the actual market depth and interest. Both practices can lead to volatility, disrupt normal trading activities, and ultimately harm market integrity.

3. Insider Dealing

Insider dealing refers to the unethical practice of trading based on privileged, non-public information that can affect a security's price. Individuals with access to confidential information—such as company executives, board members, or employees—can exploit this knowledge to make trades before the information is publicly disclosed. This not only undermines fair competition but can also lead to severe penalties for those involved, as regulators seek to maintain market fairness and transparency.

4. Market Cornering

Market cornering occurs when an individual or group acquires a significant or controlling interest in a commodity, enabling them to influence its price. By controlling a large share of the supply, the cornering entity can manipulate market dynamics to their advantage, often leading to inflated prices. This practice can severely disrupt normal trading conditions and create artificial scarcity, affecting producers, consumers, and other market participants.

Consequences of Commodity Market Exploitation

Market exploitation can have significant repercussions for various stakeholders:

1. Producers

- **Price Volatility:** Producers, especially in agriculture or resource extraction, are highly vulnerable to price fluctuations. Exploitation practices such as price manipulation, hoarding, or speculative activities can result in erratic market prices. This can destabilize production strategies as producers may struggle to predict future revenues, affecting their ability to plan for long-term investment, production expansion, or even basic operational costs. For example, small farmers might reduce output or abandon farming altogether if prices plummet below sustainable levels.
- **Profit Margins:** Unfair market practices can erode the profit margins of producers, especially when intermediaries or large corporations exploit their market dominance. Producers often bear the brunt of price swings but do not see equivalent benefits when prices rise due to intermediaries capturing most of the profits.

2. Consumers

- **Affordability:** When commodity prices are artificially inflated due to speculative actions, consumers end up paying more for essential goods, such as food, energy, or raw materials used in everyday products. This can disproportionately affect low-income populations, for whom staple goods constitute a significant portion of household expenses. Higher prices for basic commodities can lead to food insecurity, reduced access to energy, and a lower standard of living for vulnerable populations.
- **Diminished Purchasing Power:** Commodity market exploitation that leads to price hikes can also erode consumer purchasing power. As the cost of essential goods rises, people have less disposable income to spend on other goods and services, affecting broader economic activity and growth.

3. Investors

- **Market Instability:** Exploitation of commodity markets can reduce the transparency and reliability of market mechanisms. This erodes investor confidence, particularly among those seeking long-term stability. When market manipulation leads to price swings that aren't based on fundamental supply and demand, investors may be discouraged from participating, reducing overall liquidity and market depth.
- **Risk of Loss:** Exploitative practices such as "cornering" a market or price fixing can lead to significant losses for investors who are unaware of manipulative activities. Investors might make decisions based on distorted market data, resulting in misallocations of capital and poor returns on investment.

4. Regulators

- **Challenges in Enforcement:** Regulatory bodies face significant challenges in identifying and prosecuting exploitation in commodity markets. Manipulative practices can be difficult to detect, particularly in

globalized markets where trades occur across borders. The complexity and opacity of financial instruments, such as derivatives or futures, can further hinder regulators' efforts to monitor and control exploitation.

- **Weakened Supervision:** When regulatory agencies fail to keep pace with market developments, their ability to enforce fair trading can be compromised. This can lead to weakened trust in markets and in regulatory institutions themselves, diminishing their credibility. Over time, this could prompt calls for stricter regulations, potentially stifling market efficiency or innovation.

Case Studies of Market Exploitation

Instances like the exploitation of energy markets and precious metals illustrate the intricacies and effects of market exploitation on global trade. Case studies offer valuable insights into the techniques employed, regulatory reactions, and lessons derived from previous occurrences.

Regulatory Frameworks and Responses

Robust regulation is vital for identifying and preventing market exploitation. Regulatory actions include:

1. Legal Frameworks

Governments and financial regulatory bodies establish legal frameworks that define and prohibit market exploitation and insider trading to ensure a fair and transparent marketplace. These laws include provisions from acts such as the Securities Exchange Act of 1934 in the U.S., the Market Abuse Regulation (MAR) in the EU, and other national equivalents. Such legislation targets practices like insider trading, where individuals with privileged access to non-public, material information exploit this advantage for personal gain, or market manipulation, where individuals or entities attempt to artificially affect the price of securities. Legal frameworks set the boundaries for permissible trading behaviour, establish disclosure requirements for insiders, and promote the publication of financial information to foster transparency. Violations of these laws can lead to severe consequences, including fines, imprisonment, and disqualification from serving as directors or officers of publicly traded companies.

2. Surveillance and Monitoring

Advanced surveillance and monitoring systems are deployed by regulatory bodies like the U.S. Securities and Exchange Commission (SEC), the European Securities and Markets Authority (ESMA), and exchanges such as the New York Stock Exchange (NYSE) and Nasdaq. These systems leverage algorithms, artificial intelligence (AI), and big data analytics to analyse vast amounts of real-time trading data. By using automated systems, regulators can detect anomalous trading patterns, suspicious spikes in stock prices or volumes, and activities that could indicate insider trading or market manipulation. This continuous monitoring not only helps in identifying violations as they occur but also in creating a deterrence effect, discouraging would-be offenders from attempting illegal trading activities. The rise of blockchain technology also allows for more transparent and traceable trading practices, potentially enhancing the detection of fraud in financial markets.

3. Enforcement Actions

To ensure the effectiveness of regulatory frameworks, regulatory agencies must engage in enforcement actions against violators. These actions may include fines, suspension or revocation of trading licenses, civil lawsuits, or even criminal prosecution. For example, the SEC can impose both civil penalties and recommend criminal charges for insider trading violations, while the Financial Conduct Authority (FCA) in the UK can impose hefty fines and ban individuals from holding senior positions in financial institutions. Publicized enforcement actions serve as a deterrent to other market participants, signalling that violations of market integrity will be met with swift and significant consequences. This enforcement maintains trust and confidence in the financial markets, which is critical for their smooth functioning and investor protection.

Impact on Future Commerce and Economic Stability: Market exploitation erodes trust in financial markets and can distort resource allocation, impeding economic growth and efficiency. Tackling market exploitation is essential for promoting fair competition, attracting investment, and encouraging sustainable economic development in the future.

Mitigation Strategies and Recommendations

To reduce the effects of market exploitation, stakeholders can consider:

1. **Increased Transparency:** Enhancing Market Data and Reporting to Improve Visibility Increasing transparency in financial markets is essential for fostering trust and integrity. By enhancing market data and reporting requirements, regulatory bodies can improve the visibility of trading activities and financial conditions of companies. This involves:
 2. **Mandating Real-Time Reporting:** Regulations may require firms to disclose trade data in real time, allowing market participants to access timely information about market conditions. Real-time data on trade volumes, prices, and order types helps all participants make informed decisions.
 3. **Strengthening Disclosure Obligations:** Companies are often required to provide regular updates on their financial health, including quarterly earnings reports and disclosures of material events. Enhanced disclosure requirements can also involve reporting on potential conflicts of interest and related-party transactions, which can obscure the true financial state of a company.
 4. **Utilizing Technology for Data Sharing:** Technological advancements, such as blockchain and distributed ledger technology, can facilitate more transparent and secure data sharing across platforms. These technologies can enable the real-time tracking of transactions, making it easier to identify irregularities and maintain accurate records.
 5. **Public Access to Information:** Regulatory agencies often maintain public databases that allow investors to review company filings, trading activity, and compliance histories. This public access empowers investors to conduct their due diligence and reduces the risk of manipulation by increasing scrutiny.

Education and Awareness

Raising awareness about market manipulation and its consequences is critical for creating a more informed marketplace. This includes:

1. **Training Programs and Workshops:** Regulatory bodies and industry associations can develop educational programs targeting various stakeholders, including investors, brokers, and corporate executives. These programs can cover topics like recognizing manipulative practices, understanding regulatory frameworks, and knowing reporting obligations.
2. **Public Awareness Campaigns:** Conducting awareness campaigns through various media channels can help educate the general public and market participants about the signs of market manipulation, such as pump-and-dump schemes or spoofing, and the legal repercussions of engaging in such activities.
3. **Developing Resources and Toolkits:** Providing access to guides, FAQs, and other resources can equip market participants with the knowledge needed to navigate complex regulations and report suspicious activities. These tools can help demystify the reporting process and empower individuals to take action against manipulative behaviours.
4. **Collaboration with Educational Institutions:** Partnering with universities and educational organizations can create curriculum initiatives focusing on ethical trading practices, compliance, and the importance of market integrity. Educating future financial professionals about these issues can lead to a more ethically responsible workforce.

Global Collaboration

Given the global nature of financial markets, effective regulation requires collaboration across jurisdictions. This includes:

1. **Harmonizing Regulations:** Countries can work towards aligning their regulatory frameworks to ensure consistency in how market abuses are defined and penalized. This reduces the chances of regulatory arbitrage, where companies might exploit weaker regulations in one jurisdiction.
2. **Sharing Intelligence and Best Practices:** Regulators can establish networks for sharing intelligence about market manipulation schemes and trends. Collaborating on best practices helps agencies learn from each other's experiences, making enforcement efforts more effective and efficient.
3. **Joint Investigations and Enforcement Actions:** Collaborative efforts can lead to joint investigations, particularly in cases involving cross-border fraud. By working together, regulatory agencies can leverage resources and expertise, ensuring that perpetrators are held accountable regardless of where they operate.
4. **International Treaties and Agreements:** Establishing formal agreements between countries can enhance cooperation in enforcing laws against market manipulation and insider trading. Such treaties can

provide a framework for mutual assistance, including the exchange of information and extradition of offenders.

- 5. Participating in Global Forums:** Engaging in international forums, such as the International Organization of Securities Commissions (IOSCO) or the Financial Stability Board (FSB), allows regulators to discuss emerging issues, develop cooperative strategies, and collectively address challenges posed by globalization in financial markets.

Conclusion

The exploitation of commodity markets presents considerable challenges for future trade, affecting prices, market efficiency, and overall economic stability. Robust regulation, vigilant monitoring, and international collaboration are crucial for identifying and preventing manipulative behaviours, ensuring the integrity of the markets.

By effectively addressing these issues, stakeholders can foster fair and transparent commodity markets that not only support sustainable economic growth but also contribute to a stable financial environment. Just as a well-tuned engine operates smoothly, a properly regulated market can drive prosperity and confidence among producers, consumers, and investors alike. Ultimately, a collective effort toward these goals can lead to a healthier economic landscape for all.

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