

Did Wall Street Play a Role in this Year's Wheat Price Crisis?

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In late March, as Russia’s invasion of Ukraine entered its second month, U.N. agencies began to issue [dire warnings](#) regarding the world’s food supply. The war, they said, was pushing food-insecure countries to the brink of a “devastating” hunger crisis, with the combination of brutal fighting in Ukraine and unprecedented economic sanctions on Russia threatening to disrupt as much as a third of the world’s wheat exports. Just two weeks after the war’s start, spot prices for a bushel of wheat [skyrocketed](#) from less than \$8 to nearly \$13.

The [World Food Programme said](#) the soaring prices were placing 345 million people at risk of “acute food insecurity,” with an additional 50 million drifting toward a state of emergency — particularly in North Africa, a region that relies on wheat imports from the two nations. Coming on the heels of a supply chain-disrupting pandemic, the situation was a “[perfect storm](#),” as U.N. Secretary-General Antonio Guterres said in early June.

Since March, the price of wheat has [fallen precipitously](#). As of July 26, a bushel was trading at \$9.37, [according to the website Macrotrends](#) — a drop of nearly 30% in just over four months. This whiplash-inducing turnaround hasn’t entirely rescued food-insecure countries; prices are still much higher than before the pandemic. But some of the worst-case projections now look far less likely to occur than they appeared in March.

However, the wild fluctuations in wheat prices during the unfolding war have exposed the fragility of the global food system, laying bare the vulnerability of a delicate international trade network and supply chain that can be near-instantaneously upended by conflict and other unforeseen events — including the intensifying impacts of climate change.

And with geopolitical conflict and climate change threatening to disrupt the production of wheat and other staple foods in the 21st century, understanding the links between financial industry profits and world hunger is a necessity.

Western diplomats have been eager to blame Russia's war of aggression for the jarring rise in wheat prices, but some analysts say the causes are more complicated, blaming unregulated financial speculation for at least part of the recent crisis. Absent reforms to the way food is produced and how prices are set, more shocks are almost certain to be in store no matter what happens in Ukraine.



Russian soldiers guard an area next to a wheat field in Ukraine. Image by manhhai via [Flickr](#) (CC BY 2.0).

Power and grain

The wheat trade has long been associated with the [rise and fall of great international powers](#) and the development of national economies. The emergence of the United States as a global economic powerhouse in the 19th century was partly due to a massive boom in wheat production, which in turn fueled the growth of major European cities. And long before Vladimir Putin issued the order to invade Ukraine, Catherine the Great fought the Ottoman Empire for control of its fertile soil, establishing the port city of Odessa as a hub for lucrative commercial wheat exports to Western Europe.

Later, the failure of the Soviet Union's collective farming schemes led to the socialist nation reaching out to the United States — at that point still the world's largest wheat producer — to establish trade ties in the 1970s. After the fall of the Berlin Wall in 1991, Russia underwent one of the most [significant agricultural transitions in modern history](#), going from a net importer of wheat to the world's largest exporter.

Russia maintains that position today, with nearly 40 million metric tons of its wheat sold on world markets in 2021, according to [U.S. Department of Agriculture figures](#). Its closest competitors that year were the European Union and the U.S., at 30 million and 27 million metric tons, respectively, with Canada and Australia not far behind. Ukraine is also one of the world's largest exporters, selling about 19 million metric tons between July 2021 and

June 2022.

Most of the 800 million tons or so of wheat produced globally is consumed at home in the countries where it's grown. Every year, around a quarter of that total is exported to other countries that consume more wheat than they grow, especially in North Africa and the Middle East. Together, Russia and Ukraine accounted for nearly 30% of those exports.



After 1991, Russia underwent one of the most significant agricultural transitions in modern history, going from a net importer of wheat to the world's largest exporter. Image by oec.world.

While wheat production in the world has steadily increased over the past two decades, helping contribute to an overall decline in global food insecurity, in recent years, unpredictable weather patterns — increasingly linked to climate change — have made harvests less reliable.

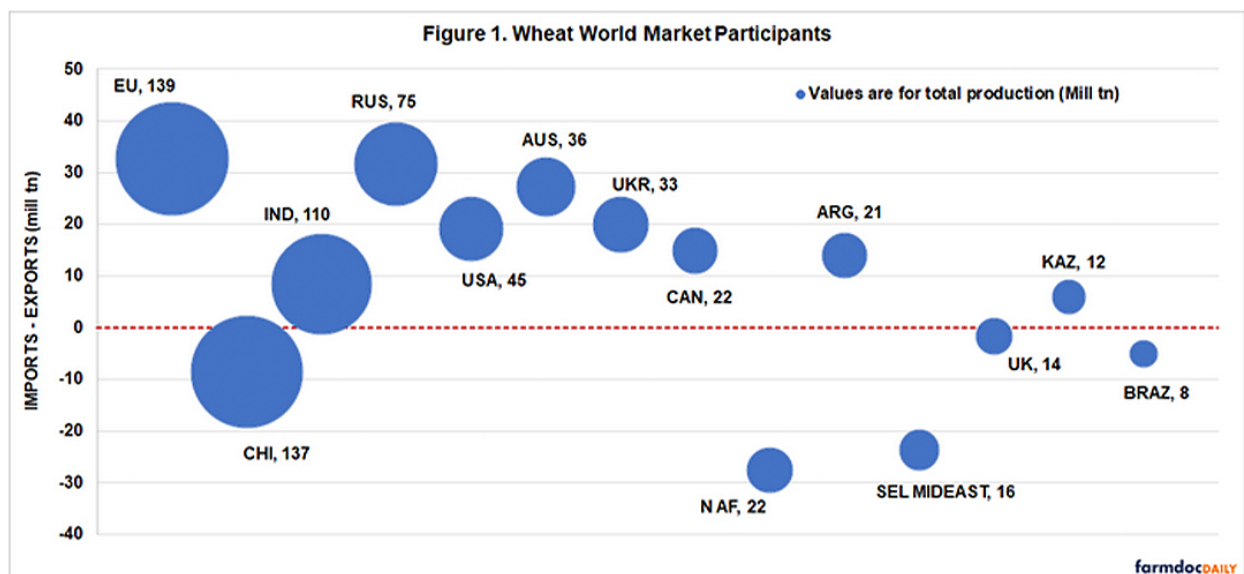
Despite the war in Ukraine, the USDA [projects](#) that overall global wheat production this and next year will be about the same as last year. But droughts in the [U.S.](#) and [India](#) damaged wheat harvests this year, and [one 2019 study](#) said that similar droughts could happen in 60% of the world's wheat-growing areas in the coming years as climate change ramps up.

“We are facing highly unpredictable and likely precipitous kinds of ruptures rather than

it just being a little bit hotter every year,” said Sophia Murphy, executive director of the Minnesota-based Institute for Agriculture and Trade Policy. “Food has always been highly weather dependent.”

More recently, commercial distribution networks that move wheat and other foodstuffs from one point on the globe to another were disrupted by the COVID-19 pandemic.

“The recent rise in prices is linked to the pandemic and was to do mostly with transportation issues,” Murphy said. “So bottlenecks emerged as systems shut down in various ways and countries lost their purchasing power, with ports and ships being affected by the lack of personnel. There was a whole shock to the global distribution system we rely on.”



Global wheat production by nation. Image by Farmdoc Daily.

The start of the Ukraine-Russia war pushed those trends into crisis, which was made worse by an increase in the cost of fertilizer resulting from economic sanctions against Russia — the world’s biggest exporter of fertilizer. In a nine-day period after Russian tanks rolled across the Ukrainian border, wheat prices on the Chicago Board of Trade [shot up by 54%](#), demonstrating how critical the two countries have become in world food markets.

In North Africa and the Middle East, which together imported nearly 85 million metric tons of wheat in 2020/21, the rise in wheat prices has placed enormous pressure on low-income households. Bread provides [30% of the calories consumed in Egypt](#), for example, and 80% of its wheat is imported from Russia and Ukraine. While rural populations further south in Africa often grow and consume wild rice and other grains like sorghum, bread is a staple food in many African cities, making their residents vulnerable to global wheat market price hikes.

“Twenty-five years ago it wouldn’t have been the same because [Russia and Ukraine] wouldn’t have been as important to the global supply,” Murphy said.

But some analysts say the startling speed and extent of the price increase in March can’t be explained by the war alone, nor supply and demand on agricultural markets. While U.S. politicians have taken to describing rising food and other commodity costs as the “Putin

price hike,” some observers see a more familiar hand also at the lever: Wall Street.

Projected changes in global wheat production

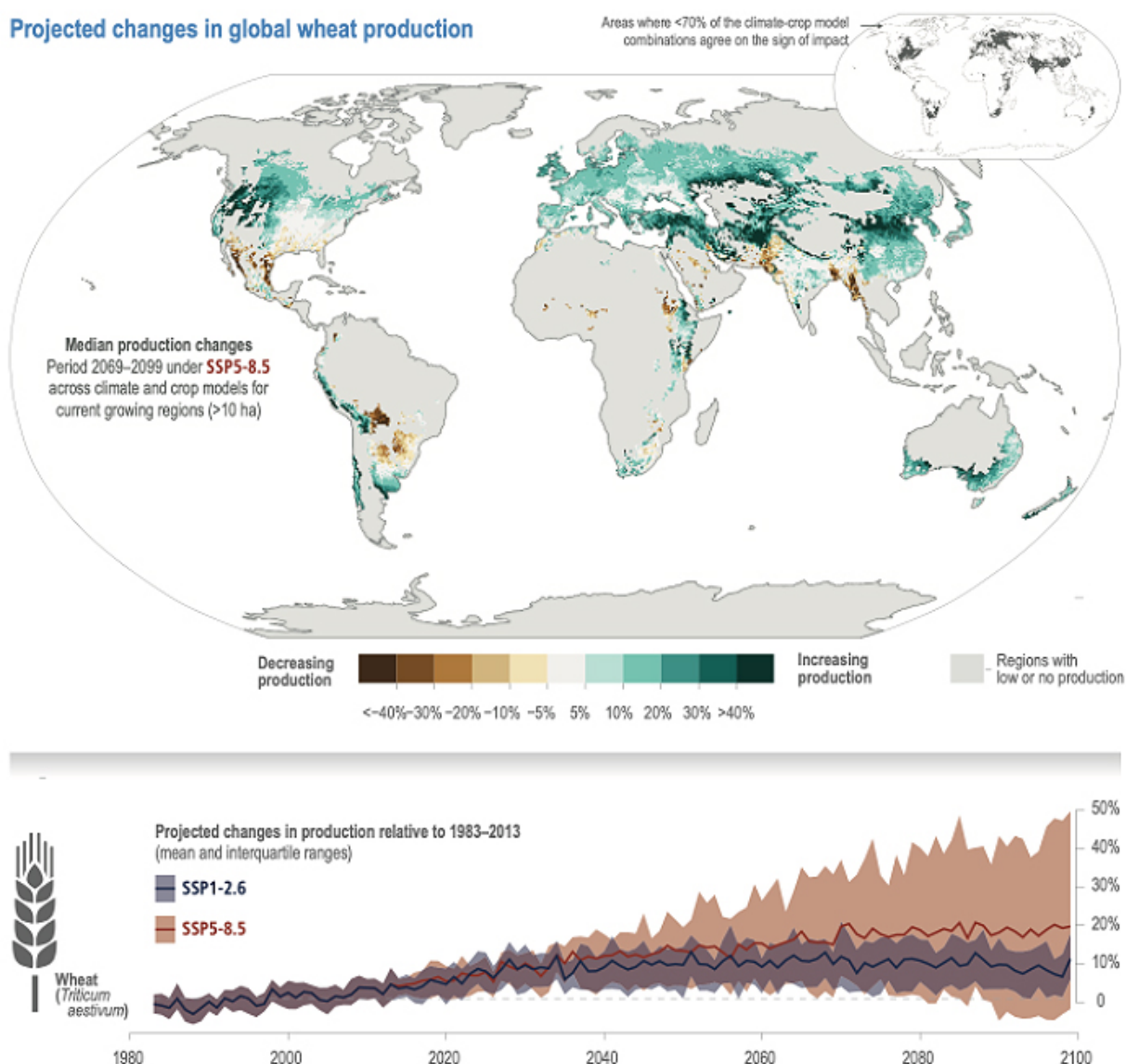


Figure AI.23 | Projected changes in global wheat production. Map shows median yield changes (2069–2099) under SSP5-8.5 across climate and crop models for current growing regions (>10 ha). The time series in the lower graph is shown as relative changes to the 1983–2013 reference period under SSP1-2.6 and SSP5-8.5. Shaded ranges illustrate the interquartile range of all climate and crop model combinations (5 GCMs x 8 GGCMs). The solid line shows the median climate and crop model response (and a 30-year moving average). All data are shown for the default (CO₂) (Jägermeyr et al. 2021). [5.4.3.2]

Gambling on conflict, climate change, and starvation

While most people understand the bite of higher food prices, few recognize the role the financial industry plays in setting those prices. Spot prices for all commodities — iron, oil, and also wheat — are heavily influenced by what’s called the “[futures market](#).” And that market, some experts say, is in turn shaped by bets Wall Street places on commodity prices in the form of “swaps,” most of which are held by their overseas subsidiaries and are largely unregulated.

Healthy futures markets are necessary for the production and distribution of commodities. By locking in a price at a set date for delivery of goods, producers know what they’ll make in exchange for their work and investment. If the actual price is higher than the price in the futures contract, their counterparty gets to pocket the profit.

In the case of wheat, this means farmers know they'll be able to sell their harvest at a profit and then plant the next crop.

But since the 1990s, a parallel, [opaque market for swaps](#) has emerged alongside the futures market. Worth hundreds of trillions of dollars, commodities swaps don't involve the delivery of actual goods and are in essence [a form of gambling](#) on their future price. But because of its huge size, the swaps market can exert a gravitational pull on commodity futures markets, pushing consumer prices higher than supply and demand would normally dictate.

"We're in a market where speculators are driving prices up," said Michael Greenberger, former head of the Division of Trading and Markets at the U.S. Commodity Futures Trading Commission.

For more than a decade, Greenberger has been [sounding the alarm](#) over a [loophole in the Dodd-Frank Act](#), a U.S. law that covers Wall Street trading, that he says allows U.S. banks to dodge regulations on swaps, as long as they're sold by their overseas subsidiaries and aren't legally guaranteed by the parent institution.

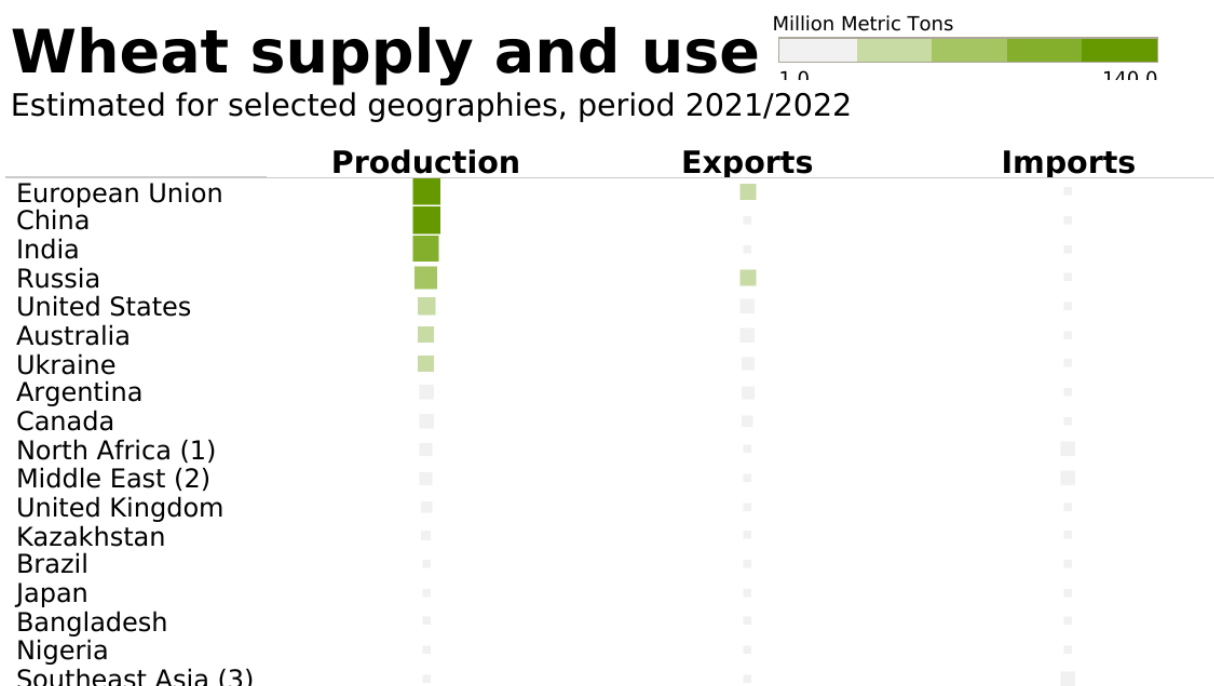
According to Greenberger, a major factor in price inflation, including for wheat, is this unregulated speculation, which can rake in huge profits for banks at the expense of global consumer well-being. Typically, spot prices for a commodity are linked to its price on the futures market, meaning that when the latter soars, so do the prices that consumers and business have to pay.

"Commodity markets are supposed to be hedging markets for people who are dealing with the commodity involved," he told Mongabay. "In the case of wheat, it would be farmers and people buying wheat. But if we looked at it, there would be banks in there with no interest in what the price of wheat is, writing swaps and controlling this price."

Greenberger hasn't been alone in noticing the disconnect between market fundamentals and the price of commodities like wheat this year. After Russia first invaded Ukraine, mania in futures markets reached such a fever pitch that at one point some farmers [couldn't sell their harvests](#) because wheat buyers refused to pay prices they felt were out of touch with reality.

Wheat supply and use

Estimated for selected geographies, period 2021/2022



(2) Lebanon, Iraq, Iran, Israel, Jordan, Kuwait, Saudi Arabia, Yemen, United Arab Emirates, and Oman.
Source: USDA 2022

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Wheat supply and use across the world in 2021-22.

“Increased financial investment on grain futures markets coincided with a sharp increase in the price of grain, far beyond what supply and demand conditions would indicate in that moment,” explained Jennifer Clapp, a member of the International Panel of Experts on Sustainable Food Systems (IPES-Food) and professor at the School of Environment, Resources and Sustainability at the University of Waterloo in Canada. “While it is hard to say precisely what impact financial speculation has had on the markets, it almost certainly played a role pushing price trends beyond what the prevailing supply and demand conditions would indicate.”

Reporting for The Young Turks earlier this year, Jonathan Larsen [made the case](#) that exploitation of this loophole is a major factor pushing up commodities prices across the board, from oil to other foodstuffs. If true, it would mean that the Ukraine war isn’t entirely to blame for a potential rise in global hunger and starvation — Wall Street might be simultaneously worsening the crisis and [profiting from it to boot](#).

“It’s a very distracted time,” Greenberger said. “And it’s too easy to say the war in Ukraine has unbalanced all these markets, [or that] supply chains and the ports are shot, and that there’s a supply and demand reason for these prices going up. My own best guess is anywhere from 10% to 25% of the price, at least, is dictated by deregulated speculative activity.”

While the role that commodity swaps have played in driving the price of wheat higher is hard to quantify, there’s no question that the underlying cause is Russia’s invasion, along with COVID-19-related supply chain issues and other factors.

“The war in Ukraine is very important, and does explain much of the increase in prices we saw between February and May of this year,” said Patrick Westhoff, director of the Food and Agricultural Policy Research Institute at the University of Missouri. “However, the weather, global demand, exchange rates, and a host of other factors have played a

role as well.”



Wheat sacks in a warehouse in Portland, Oregon, U.S. Image by OSU Special Collections & Archives via [Flickr](#).

Since early March, the price of wheat itself has tracked major developments on the ground in the Ukraine war by little, if at all. After the [United Nations announced a deal](#) between Russia and Ukraine to allow wheat exports through the Black Sea on July 22, [according to the website Macrotrends](#) the price remained largely unchanged, going from \$9.55 per bushel on July 21 to \$9.38 on July 25.

In contrast, the price plummeted from a March 8 high of \$12.84 to \$9.24 by June 24, at the same time that stocks and other equities collapsed due to fears of a global recession and hawkish U.S. Federal Reserve interest rate policies. The [drop in wheat spot and future prices](#) during this period — just as a Russian offensive in Ukraine’s breadbasket Donbass region began — strongly suggests that tanks and artillery weren’t the only forces affecting food markets.

In the long run, Westhoff told Mongabay, price spikes from speculative betting frenzies tend to settle down as market fundamentals reassert themselves. But during those periods of distortion, prices can skyrocket — which is precisely what may have happened earlier this year.

“I would suggest that more than just the Ukrainian crisis was at play, whether it’s some combination of other fundamentals or just the whims of people trading that particular day of the week,” he said.

For millions of people across the world, those whims could be determining whether they can afford to eat or not. Barring a reform that closes the Dodd-Frank loophole, in the future, *any*

crisis — be it war, great power standoffs, or an environmental disaster — could become a driver of runaway speculation, bringing with it increased market volatility, and potentially food shortages and starvation.



Experts suggest that the Ukraine war isn't entirely to blame for a potential rise in global hunger and starvation — Wall Street might be simultaneously worsening the crisis and profiting from it to boot.

Image by Carlos Delgado via Wikimedia Commons (CC BY-SA 3.0).

Planting the seeds of a new system

Beyond the immediate causes of the rise and fall of wheat prices this year lies a deeper, fundamental question regarding the resilience of global food systems. The underlying weaknesses in globalization and price setting that have been exposed by the current Ukraine crisis will almost certainly be tested in new and unpredictable ways by climate change.

In good times, the abundance of cheap wheat on international markets can be positive for importing countries. But the past two years are a stark reminder that market conditions can change fast, just as they did in the [commodity price crisis](#) of the late 2000s. That crisis led in part to the [political upheavals](#) of the so-called Arab Spring that rocked the Middle East and North Africa, eventually playing a role in the onset of multiple conflicts, many of which continue to smolder more than a decade later.

One lesson that is being learned: in precarious times, a nation's food security depends on local production. Already, some of the countries most affected by this year's rise in wheat prices have begun discussing ways to boost local crop yields and shift to native grains. Egypt plans to [increase the amount of wheat](#) planted on its own soil, and consumers in Africa are substituting expensive wheat imports with [locally produced agricultural staples](#) like sorghum and [cassava](#). But building a new, locally focused food system won't happen cheaply or without sustained effort.

"We need to invest in diversifying the places that food comes from," Murphy of IATP said. "So that's looking ahead to climate change and different changes in production.

We saw with the COVID pandemic that in some places, the local system was resilient and able to respond and shift what it was producing to meet demand.”

And while the Ukraine war’s impact on wheat exports has captured headlines, extreme weather is also exerting its own destabilizing pull. According to a briefing paper put out in June by the Energy and Climate Intelligence Unit, a U.K.-based nonprofit, projected losses in 2022’s wheat harvests due to drought in the U.S., India and France are expected to amount to 12.4 million tons — significantly more than the 9 million ton shortfall from Ukraine as a result of Russia’s invasion.



A boy carries fresh bread in Egypt. Bread provides 30% of the calories consumed in Egypt and 80% of its wheat is imported from Russia and Ukraine. North Africa and the Middle East together imported nearly 85 million metric tons of wheat in 2020/21. Image by Nasser Nouri via [Flickr](#) (CC BY-NC-SA 2.0).

On the other hand, some studies suggest climate change may counterintuitively prove to be a boon to wheat production — at least in the short term. A [2021 paper](#) found that while unchecked warming could cause as much as a 24% decrease in maize harvests, wheat yields could rise by 17% as higher latitudes become more suitable for cultivation.

That contradiction highlights the uncertainty in accurately forecasting climate change impacts on global food systems, and the need to plan cooperatively for multiple scenarios. Given the difficulty in predicting how those impacts will play out, understanding the role that financial speculators play in times of crisis is a matter of urgent public interest — as is whether stricter regulations could prevent the kind of price spikes of basic foodstuffs like wheat that occurred earlier this year.

Escalating instability already seen over the first two decades of the 21st century make clear that the unexpected is becoming the norm for global food markets. It also presses home a case that some food advocates have been making for decades: The globalized system of production and distribution may have generated a world of abundance, but also one that’s dangerously fragile.

“More robust food systems — systems that are more resilient in the face of shocks — need to be based on the principle of diversity, rather than concentration and financialization,” Clapp of IPES-Food wrote. “That means more diverse production systems, more diverse trade and marketing systems, and more diverse diets. These kinds of diversity can ensure that there is enough slack in food systems to provide alternatives when things in one part of the system are disrupted.”



Genetic diversity of sorghum (left) and millet (right). Experts say crop diversity can ensure that there is enough slack in food systems to provide alternatives when things in one part of the system are disrupted. Image by ICRISAT via [Flickr](#) (CC BY-NC 2.0).

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Featured image: Somali workers unload a ship carrying sacks of wheat donated by European communities at the port of Mogadishu, Somalia. Image by Expert Infantry via [Flickr](#) (CC BY 2.0).

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