Why study commodities?

“The history of commodities tells the story of civilization itself. Ever since man first appeared on earth, his existence has been defined by a perpetual and brutal quest for control over the world’s natural resources. Civilizations rise and fall, nations prosper and perish, and societies survive and subside based on their ability to harness energy, develop metals, and cultivate agricultural products—in short, based on their capacity to control commodities.”

- Amine Bouchentouf, Commodities for Dummies
Mr. Webster, a definition, please.

1: an economic good: such as
   a: a product of agriculture or mining.
      agricultural commodities like grain and corn
   b: an article of commerce especially when delivered for shipment
      reported the damaged commodities to officials
   c: a mass-produced unspecialized product
      commodity chemicals    commodity memory chips

2a: something useful or valued
    that valuable commodity, patience also : THING, ENTITY
   b: CONVENIENCE, ADVANTAGE... the many commodities incidental to the
      life of a public office

3: a good or service whose wide availability typically leads to smaller profit
   margins and diminishes the importance of factors (such as brand name)
   other than price

4: one that is subject to ready exchange or exploitation within a market
   ... stars as individuals and as commodities of the film industry
Three classes of commodities

In relation to their VALUE:

1. Monopoly value, whose supply cannot be increased; possibly, the works of a deceased artist.

2. Cost of production increases as additional supply is produced, such as agricultural or mineral produce.

3. Supply can be increased, without increasing their cost of production, e.g. manufactured commodities.

- Millicent Garrett Fawcett, Political Economy for Beginners
Trade in the Ancient World

• For as long as humans needed or wanted something that others had and they did not
• Bartering developed into exchanges using common currencies--bronze, copper ignots, eventually coins
• Early trade was primarily in luxury goods—precious metals, spices, fine textiles; expanded to olives, fish paste, etc.
• International trade led to trade emporiums and colonies
Egypt

- Rich in natural resources, but still not self-sufficient
- Trade began c. 6000 BCE; cash not introduced until the Persian Invasion of 525 BCE
- Unit of value was a deben; approx. 90 g of copper (weight); could also be priced in terms of silver/gold
Egypt

- Gold, jewelry, papyrus, linen, wheat, and grain
- At first, primarily along the Nile
- First Dynasty: trade with the Levant, Libya, Nubia, Canaan, Syria
  - Yam (in Nubia) was very important for wood, ivory and gold
- Routes and wants/needs continued to expand; New Kingdom depended on resulting wealth to build great monuments
- Slaves often used to mine commodities such as gold
Egypt’s expanding trade
Joseph’s Granaries

- Designation for the Egyptian pyramids often used by early travelers
- King had responsibility to care for the people/owned everything
- Genesis 41: "he gathered up all the food of the seven years when there was plenty in the land of Egypt, and stored up food in the cities ... And Joseph stored up grain in great abundance, like the sand of the sea, until he ceased to measure it, for it could not be measured"
- "So when the famine had spread over all the land, Joseph opened all the storehouses and sold to the Egyptians"
- 2008: official announcement of discovery of 7 grain silos at Tell Edfu
Commodities—vital to the story of civilization

• The Silk Road – video

• Wars
  • Opium Wars
  • First Anglo-Dutch War
  • American Revolutionary War
Opium Wars

• Two wars fought between British and China in mid-1800s
  • British wanted access, and China wanted to remain isolated
  • Trade imbalance—demand for silk, porcelain and tea in Britain; almost no demand for British commodities in China
  • Influx of opium to China through East India Company/traders
  • First war: British defeated Chinese and occupied Shanghai; forced open 5 ports
  • Second war: British sought to open all of China; allies in France, US and Russia—opened more than 80 seaports and guaranteed free passage
First Anglo-Dutch War

- “We cannot make war without trade, nor trade without war.” – Jan Pieterszoon Coen, Governor General, Dutch East India Company in the Indies
  
  - First half of 17th century: Dutch overtook Portugal as main European traders in Asia; spices
  
  - Navies built stronger; British declared war on Dutch in 1652
  
  - English navy gained control of seas surrounding England, resulting in trade monopoly with all British colonies
  
  - Subsequent second and third wars
American Revolution

• For colonists: freedom from British taxes and full independence
• Europeans: lucrative trade routes and commodities; French naval support
• Don’t underestimate the role of tobacco
Other wars
Because of commodities?
Trade of old
Let’s start talking markets today

• Commodity market: market that trades in the primary economic sector rather than manufactured products; e.g. cocoa instead of candy bars
• Hard commodities: mined, such as precious metals
• 1864 in the US: wheat, corn, cattle, and pigs on the Chicago Board of Trade (CBOT)
• Commodities Exchange Act: Other food commodities added, such as rice, mill feeds, butter, eggs, Irish potatoes and soybeans, 1930s-40s
• Broad consensus on product variations is required to operate correctly
Next week:

• Development and operation of modern commodities markets
  • Who and Where
• Trading strategies and instruments
  • Why and How