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COMMODITIES · BEGINNER · LESSON 3 OF 15

Who Moves the Market

Producers, users, merchants, speculators and investors: who trades commodities, why they trade, and how you can see what the big players are doing

12 min read 8 quiz questions with answer key

COMMODITIES · BEGINNER · LESSON 3 OF 15

Who Moves the Market

IN ONE SENTENCE

Commodity markets bring together two kinds of traders. Hedgers, such as farmers, miners, airlines and food companies, trade to protect themselves from price moves they already face. Speculators, such as funds and individual traders, take on that risk in the hope of profit. Merchants, long-term investors, central banks and governments also play big roles, and a weekly US report shows how the largest groups are positioned.

Two reasons to trade: protect or profit

Every trade in a commodity market has a buyer and a seller, and each of them trades for one of two reasons.

- **Hedgers** already face a price risk in their business. A wheat farmer loses if the price falls before harvest. A bakery loses if the price of wheat rises. Each can use the market to lock in a price and **reduce** that risk. This is called **hedging**.
- **Speculators** have no physical business in the commodity. They **accept** price risk because they expect to profit from price moves. Hedge funds, trading firms and individual traders are all speculators.

The two groups need each other. A farmer who wants to sell next autumn's crop today needs someone willing to buy it today. Sometimes that is a bakery or a mill, but often it is a speculator who thinks the price will rise. Speculators make it easier and cheaper for hedgers to trade, and in return they take on the risk that hedgers want to pass on.

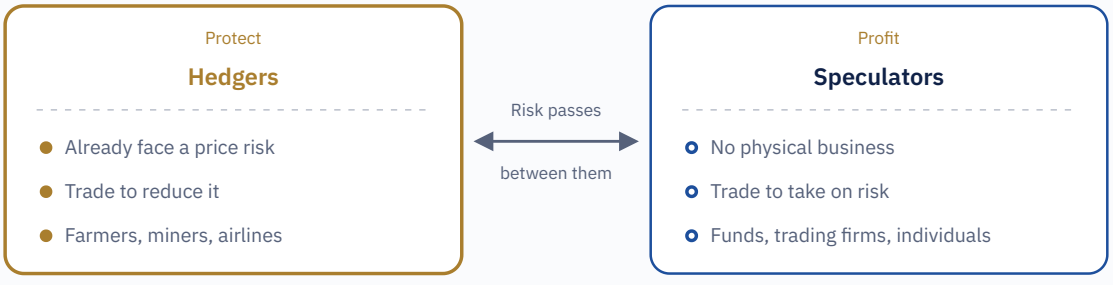


Figure 1. Hedgers trade to reduce a price risk they already have. Speculators take that risk on in the hope of profit.

Producers: afraid of falling prices

Farmers, mining companies and oil producers all sell a commodity. Their biggest risk is that the price falls before they can sell. A farmer pays for seed, fuel and fertiliser in spring but sells the crop months later. A copper mine has fixed costs whatever the copper price does.

To protect themselves, producers can agree today on the price they will get later, usually by **selling futures contracts**. If the market price then falls, they lose on the crop but gain on the futures. If it rises, they gain on the crop but lose on the futures. Either way, the final result stays close to the price they locked in. Lessons 4 and 5 explain how futures work.

Hedging is not free and it is not always used. A producer who hedges gives up the chance of profiting from a price rise, and many producers hedge only part of what they expect to sell.

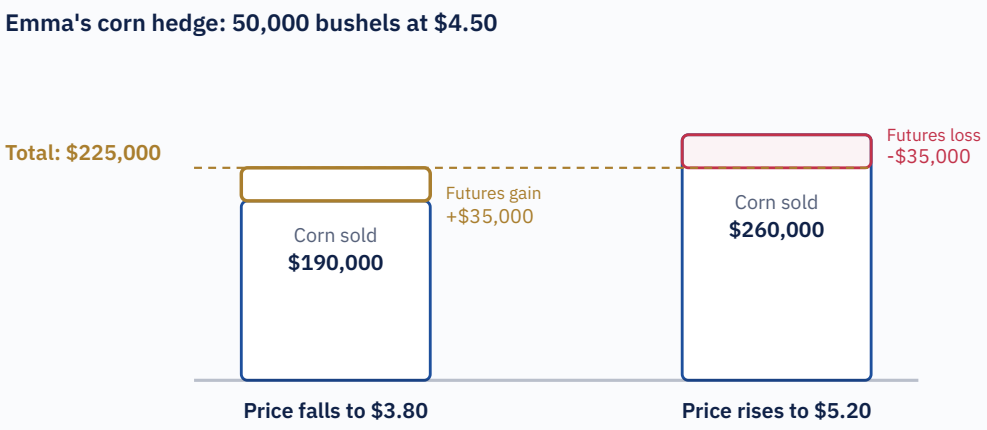


Figure 2. Emma's hedge: whether the corn price falls or rises, her crop plus her futures result add up to about the same total.

EXAMPLE: EMMA LOCKS IN HER CORN PRICE

Emma farms corn in the United States. In spring she expects to harvest **50,000 bushels** in the autumn, and the futures price for December delivery is **$4.50** a bushel. She sells 10 corn futures contracts of 5,000 bushels each, locking in about 50,000 × $4.50 = **$225,000**.
If the price falls to $3.80 by harvest, she sells her corn for $190,000, but her futures gain $0.70 × 50,000 = $35,000. Total: **$225,000**. If the price instead rises to $5.20, she sells her corn for $260,000, but her futures lose $35,000. Total: again **$225,000**. Whatever happens, she knows her income and can plan. (This simple example ignores fees and small differences between local and futures prices.)

Users: afraid of rising prices

On the other side are the businesses that **buy** commodities: airlines buying jet fuel, food companies buying wheat and sugar, refiners buying crude oil, cable makers buying copper. Their risk is the opposite: a price rise that eats into their profits. They can hedge by **buying futures** to lock in today's price for the fuel or ingredients they will need later.

Whether to hedge is a business choice with trade-offs, and companies decide differently. US airline Southwest Airlines ran a well-known fuel hedging programme for many years, but it ended the programme in 2025 and now says it is fully exposed to changes in fuel prices, like most of its competitors. The company expects to use about **2.2 billion gallons** of jet fuel in 2026. At that size, every **1 cent** rise in the price of a gallon adds about **$22 million** to its yearly fuel bill.

When fuel prices jumped in 2026, unhedged airlines felt the full increase, while airlines with hedges in place were partly protected. When prices fall, the reverse is true. That is the trade-off every user faces.



Source: Southwest Airlines 2025 annual report (Form 10-K)

Figure 3. For a large user of a commodity, even tiny price changes add up. Southwest Airlines no longer hedges its fuel.

Merchants and processors: the middle of the chain

Between the mine or the farm and the final user sit companies that buy, store, move, blend and process commodities. **Merchants**, also called trading houses, buy from producers and sell to users around the world. In energy and metals, well-known names include Vitol, Trafigura and Glencore. In grains, the four largest merchants, ADM, Bunge, Cargill and Louis Dreyfus, are often called the "ABCD" companies.

Merchants earn money from logistics and timing: buying where a commodity is cheap and selling where it is needed, storing it when it is plentiful and selling it when it is scarce. Because they hold large stocks, they hedge most of their price risk with futures. **Processors** such as refineries, flour mills, soybean crushers and metal smelters do the same: they care most about the difference between what they pay for raw materials and what they earn for the products they make.

Merchants and processors see physical supply and demand up close, which is why their activity is watched closely by other traders.

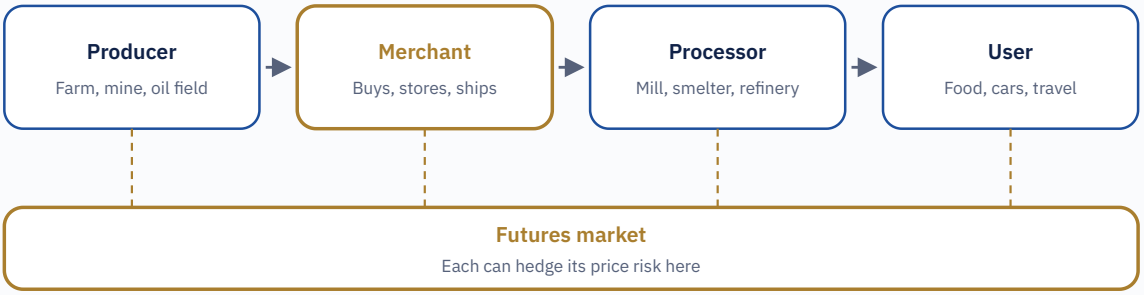


Figure 4. A commodity passes from producer to user through merchants and processors. Each of them can hedge in the futures market.

Speculators: taking the risk others want to shed

Speculators range from very large to very small:

- **Hedge funds and commodity trading advisors (CTAs).** Many follow trends: they buy when prices are rising and sell when they are falling. Others trade based on supply and demand research.
- **Trading firms and banks** that trade for their own account, often for very short periods, and help keep prices flowing.
- **Individual traders**, who mostly trade smaller contracts, CFDs or funds.

Speculators bring **liquidity**: they are the reason a farmer or an airline can usually find someone to trade with quickly and at a fair price. But when many speculators bet in the same direction, they can push prices further than supply and demand alone would. When such a crowded position reverses, prices can move very fast. That is why traders watch how speculators are positioned, as explained below.

Investors, funds and central banks

Some participants are neither hedgers nor short-term speculators. They hold commodities for the long term:

- **Index investors** put money into funds that follow a broad commodity index, to spread their savings beyond stocks and bonds or to protect against inflation. Bloomberg estimated that about **$108.8 billion** was tracking its commodity index in late 2025.
- **Gold investors** buy bars, coins and exchange-traded funds (ETFs). According to the World Gold Council, gold ETFs took in **801 tonnes** in 2025, and total investment demand reached **2,175 tonnes**.
- **Central banks** hold gold as part of their reserves. They bought **863 tonnes** in 2025, one of the biggest sources of demand in the gold market.

Banks that sell commodity products to investors, called **swap dealers**, usually hedge those products in the futures market, so investor money ends up affecting futures prices too.

Seeing who holds what: the COT report

In the United States, the **Commodity Futures Trading Commission (CFTC)** publishes a weekly report called the **Commitments of Traders (COT)**. It shows how large traders are positioned in each futures market, based on data as of **Tuesday**, and it is usually released on **Friday at 3:30 p.m. New York time**.

The detailed version of the report, called the Disaggregated COT, sorts large traders into four groups:

- **Producer/Merchant/Processor/User:** businesses that produce, process, pack or handle the physical commodity and use futures to manage their risk.
- **Swap Dealers:** mostly banks that offset the risk of products sold to clients.
- **Managed Money:** hedge funds, commodity trading advisors and similar professional money managers.
- **Other Reportables:** other large traders that do not fit the groups above.

Positions too small to be reported are grouped as **non-reportable**, mostly smaller traders. The CFTC classifies traders by their main business, not by the purpose of each trade, so the groups are a good guide rather than an exact map. Intermediate Lesson 4 shows how traders read the report.

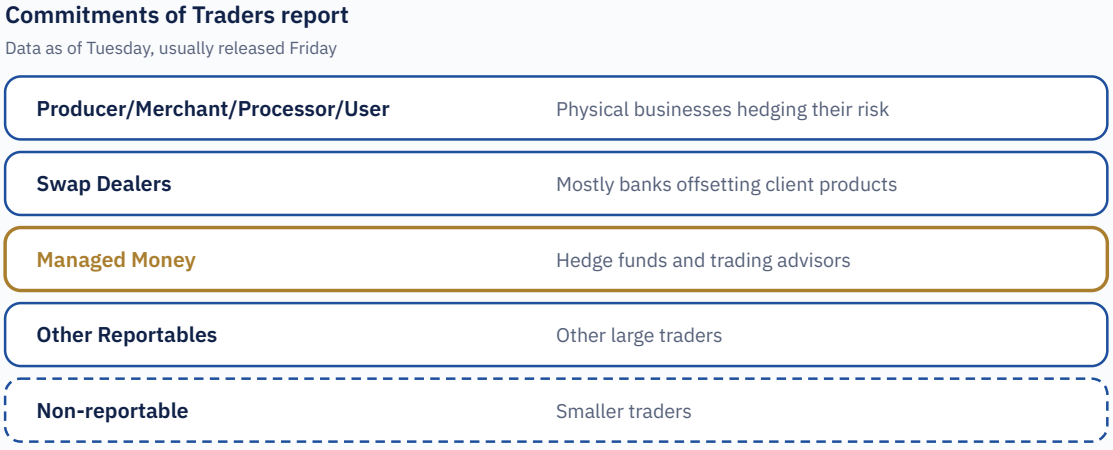


Figure 5. The weekly COT report groups large traders by their main business.

Forces outside the trading floor

Some of the biggest price movers do not trade every day at all:

- **Governments and producer groups.** OPEC+ decides how much oil its members aim to produce. Governments can ban exports, change taxes and tariffs, or release emergency stocks. In June 2026, for example, the IEA estimated that about 44 million barrels of a 62 million barrel drop in OECD oil stocks came from government stock releases.
- **Weather.** A drought, a frost or a hurricane can change the supply of crops, natural gas and oil in days.
- **The US dollar and interest rates.** Most commodities are priced in dollars, and interest rates affect the cost of holding stocks of a commodity. Lesson 14 explains these links.

Traders on the exchange react to all of these forces. So when a price moves, the question to ask is not only "who is buying?" but also "what changed in the real world?"

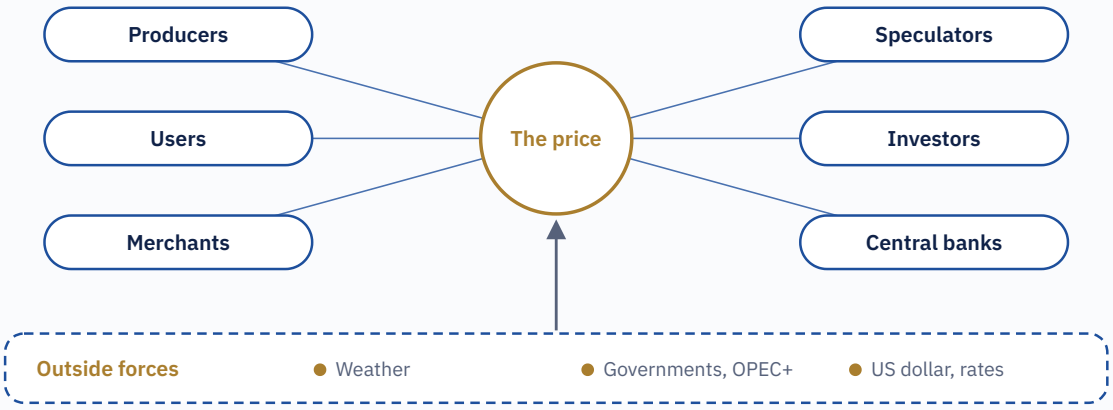


Figure 6. Many groups trade around the price, while weather, governments and the US dollar shape it from outside.

Why this matters for traders

- **Know who is on the other side.** Hedgers trade to reduce risk and are not trying to predict the next move. Speculators are. Big moves often come when one of the two groups changes its mind.
- **Hedging flows are predictable.** Farmers sell around planting and harvest, and producers often sell into price rallies to lock in good prices. This can slow down a rising market.
- **Crowded trades reverse fast.** When managed money holds a very large position in one direction, a surprise can trigger a rush for the exit. The COT report helps you spot this.
- **Watch the outside forces.** An OPEC+ meeting, a weather forecast or a government decision can matter more than any chart pattern on the day it happens.

Key terms

Hedger	A business that trades to reduce a price risk it already faces, such as a farmer, miner, airline or food company.
Hedging	Taking a position that gains when your business loses from a price move, so the overall result stays close to a planned price.
Speculator	A trader with no physical business in a commodity who takes on price risk in the hope of profit.
Merchant	A company that buys, stores, moves and sells physical commodities between producers and users. Also called a trading house.
Processor	A business that turns a raw commodity into a product, such as a refinery, flour mill or metal smelter.
Liquidity	How easily and cheaply you can buy or sell without moving the price much.
Swap dealer	Usually a bank that sells commodity products to clients and offsets the risk in the futures market.
Managed money	In the COT report, professional money managers such as hedge funds and commodity trading advisors.
Commitments of Traders (COT)	A weekly CFTC report showing how large traders in US futures markets are positioned, based on Tuesday's data and released on Friday.
CFTC	The Commodity Futures Trading Commission, the US regulator of futures and options markets.

Key takeaways

1. Traders either hedge, to reduce a price risk they already have, or speculate, to profit from price moves. Markets need both.
2. Producers fear falling prices and usually hedge by selling futures. Users fear rising prices and usually hedge by buying futures.
3. Merchants and processors sit in the middle of the chain, earn from logistics, timing and margins, and hedge most of their price risk.
4. Speculators bring liquidity but can push prices further when many of them bet the same way. Long-term investors and central banks are also big buyers, especially of gold.

5. The weekly CFTC Commitments of Traders report shows how producers and merchants, swap dealers, managed money and other large traders are positioned.

Test yourself

Circle one answer for each question. The answer key with explanations is on the next page. You can also take this quiz online at markettalks.info and see your score instantly.

1. What is the main difference between a hedger and a speculator?

- A Hedgers always make money, speculators always lose
- B Hedgers trade to reduce a price risk they already face; speculators accept price risk to seek profit
- C Speculators must take delivery of the commodity
- D There is no difference

2. A copper mining company is worried that the copper price will fall before it sells next year's output. What can it do?

- A Buy copper futures
- B Sell copper futures to lock in a price
- C Buy gold futures
- D Nothing, mines cannot hedge

3. Emma locks in $4.50 a bushel on 50,000 bushels. At harvest the price is $3.80. What is her total result, ignoring fees?

- A $190,000
- B $225,000
- C $260,000
- D $35,000

4. Which business is most likely to hedge by buying futures?

A. An oil producer
B. A wheat farmer
C. An airline that needs jet fuel
D. A gold mine

5. Southwest Airlines expects to use about 2.2 billion gallons of jet fuel in 2026 and no longer hedges. Roughly how much does a 1 cent rise per gallon add to its yearly fuel bill?

A. $2.2 million
B. $22 million
C. $220 million
D. $2.2 billion

6. What do speculators bring to commodity markets?

A. Physical delivery of goods
B. Liquidity, making it easier for hedgers to trade
C. Fixed prices
D. Government regulation

7. In the Disaggregated COT report, which group includes hedge funds and commodity trading advisors?

A. Producer/Merchant/Processor/User
B. Swap Dealers
C. Managed Money
D. Non-reportable

8. When is the weekly COT report usually released, and which day's data does it show?

A. Monday, showing Friday's data
B. Friday, showing the previous Tuesday's data
C. Every day, showing that day's data
D. Once a month

Answer key

1 B

Hedgers trade to reduce a price risk they already face; speculators accept price risk to seek profit

A hedger, such as a farmer or airline, already faces a price risk from its business and trades to reduce it. A speculator has no physical business in the commodity and takes on risk in the hope of profit.

2 B

Sell copper futures to lock in a price

A producer fears falling prices, so it can sell futures. If the price falls, the gain on the futures offsets the lower price for its copper.

3 B

$225,000

She sells her corn for $190,000 and gains $35,000 on her futures, so the total is $225,000, the amount she locked in.

4 C

An airline that needs jet fuel

Users of a commodity fear rising prices, so they buy futures to lock in today's price. Producers such as oil companies, farmers and mines usually sell futures instead.

5 B

$22 million

2.2 billion gallons × $0.01 = $22 million. Small price changes add up to large amounts for big users of a commodity.

6 B

Liquidity, making it easier for hedgers to trade

Speculators are often the ones who take the other side of hedgers' trades. That liquidity makes it quicker and cheaper for farmers, miners and airlines to hedge.

7 C

Managed Money

Managed Money covers professional money managers such as hedge funds and commodity trading advisors. Producers, merchants, processors and users form their own group.

8 B

Friday, showing the previous Tuesday's data

The CFTC usually releases the COT report on Friday at 3:30 p.m. New York time, based on positions as of the Tuesday of the same week.

SOURCES

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