

ISO Summer Series

Fund Activity in the Sugar Market

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July 2nd 2020



*MECAS studies
Available from the Secretariat
Costs GBP 395*

Agenda

- 1 Sugar Market Overview*
- 2 Funds – who / what are they?*
- 3 Evidence of engagement*
- 4 Conclusion / Q&A*

Fund Activity in the Sugar Market



May 2020

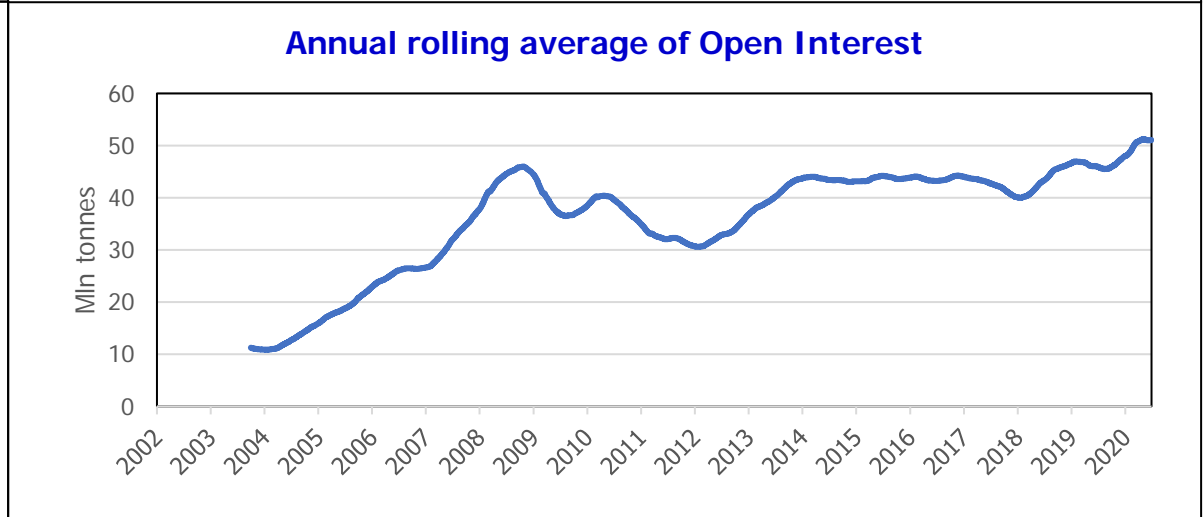
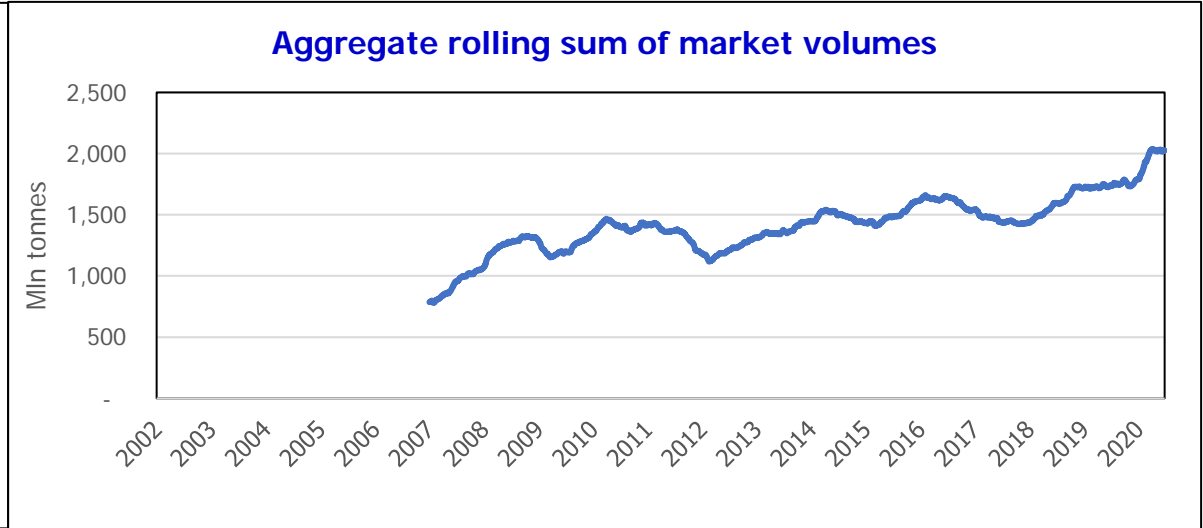
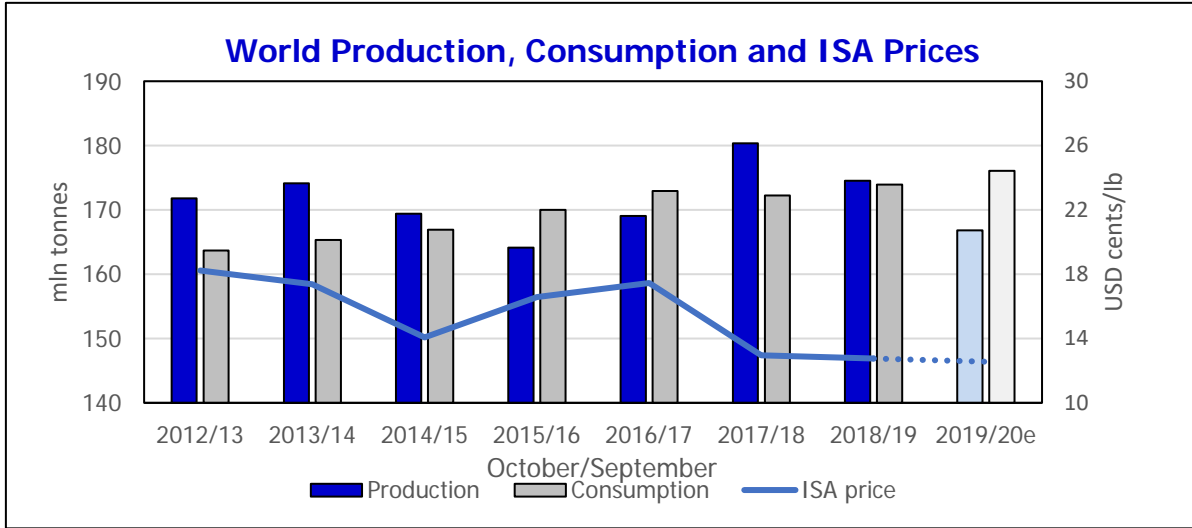
MECAS (20)06



International Sugar Organization



Physicals vs Futures



Physicals vs Futures



Trade



OI

Volume



Notes

- Market volume includes liquidations
- Market volume includes spread trading
- Physical hedges can be multi-year

But

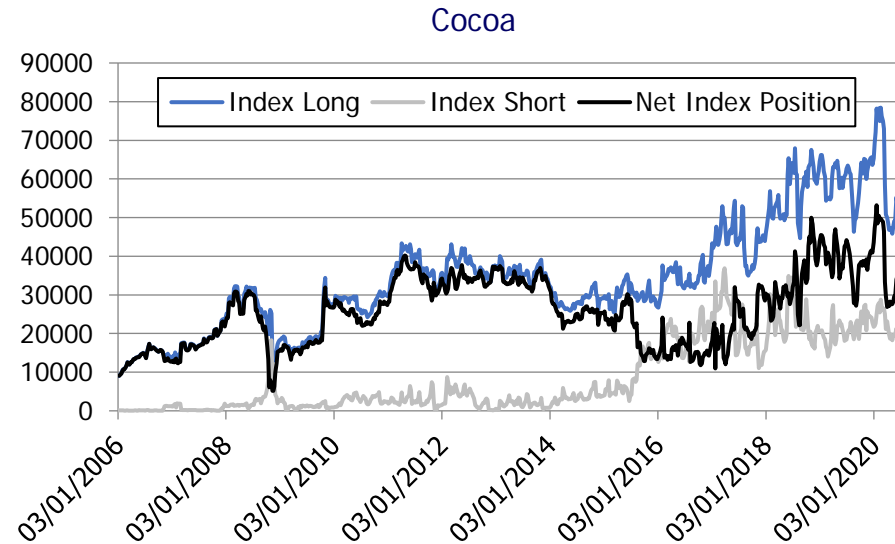
- Movement in OI is slow, except at expiry
- Physical transaction strings are getting shorter
- OTC / NDF structures



Commitment of Traders Report

CIT report

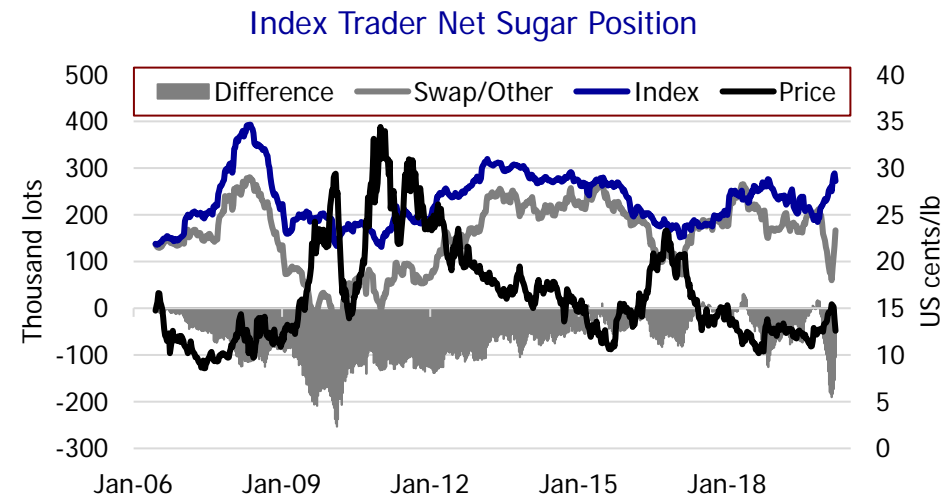
- Commercial
- Non Commercial
- Non reportable
- Commodity Index



Disaggregated Futures and Options report

- Producers, Merchant, Processors, Users
- Money Managers
- Swap Dealers
- Others

Disaggregated F&O	CIT	Short/Long	Correlation Coefficient
PMPU	Commercial	Short	0.661
Money Managers	Non commercial	Long	0.210
Swap / Others	Index	Long	-0.570
MM/Swap/Other Spread	Non Com Spread	Long	0.306



Exchanges

(thousand lots)	2017		2018		2019	
	ADV	OI	ADV	OI	ADV	OI
Energy	2731	33906	2747	35019	2655	37433
Ags and Metals	374	3391	427	3643	442	3836
Financials	2536	24025	2770	29061	2460	29369
Interest Rates			2329		2026	
Other Financials			438		434	
Total F&O			5975		5557	
Cash Equities	1521		1735		1740	
Equity Options	2375		3386		3172	

USD mln / USD	2017	2018	RPC 2018	2019	RPC 2019
Energy F&O	909	965	1.40	992	1.48
Ags and Metal F&O	216	251	2.34	251	2.25
Financial F&O	326	354	0.49/1.05	332	0.52/1.20
Equities & Options	286	327	0.05/0.126	298	0.046/0.12
Fixed Income & Credit	139	240	0.39	364	0.38
OTC & Others	50	49		45	
Other Revenue	202	234		260	
Total	2128	2420		2542	

- Weekly CFTC report covering more markets
- 2000 78
- 2009 122
- 2018 243
- 2019 260
- Volume earns exchange fees – \$2.10 per lot, of which \$0.10 is a give-in fee
- OI earns interest on initial margins – frequently above \$1,000 per lot - offsetting between contracts is possible
- Major developments
 - Electronic trading
 - Longer opening hours
 - The era of the algo

Fund participation

Where are Adam, Harding and Lueck ?

The 2008 study – Clean Energy Brazil

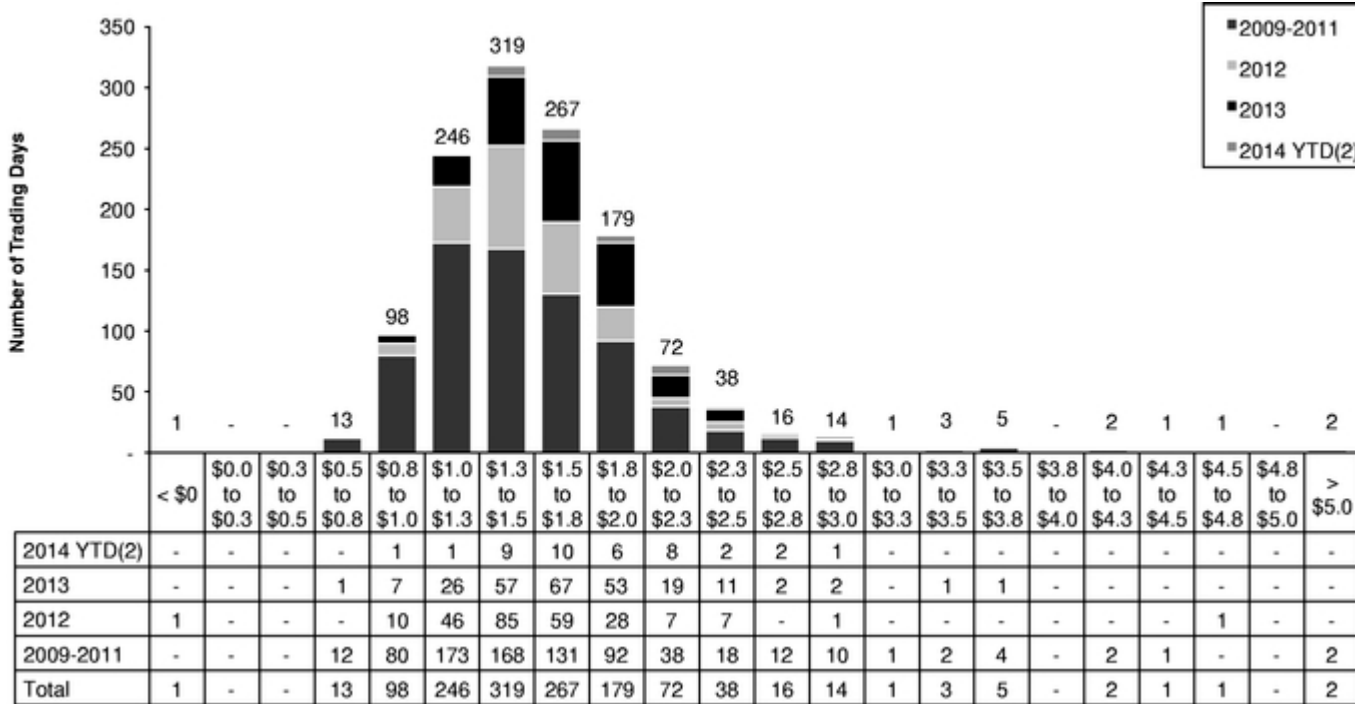
The end of an era –
 Clive Capital, Armajaro, Moore Capital,
 Blenheim Capital, Tiger management,
 Touradji Capital, Brevan Howard,
 Dequesne, Amaranth Associates

Replaced by an almost-nameless entity

2019 /2018 Ranking		Name	AUM (USD bln)	Gain in 2019 (USD bln)	Gain since start (USD bln)	Start date
1	1	Bridgewater	131.9	0.6	58.5	1975
2	2	Soros Fund	27	-	43.9	1973
3	3	Citadel	29.7	4.9	35.6	1990
4	7	Lone Pine	24	7.3	33.2	1996
5	4	DE Shaw	26.4	2.8	31.9	1988
6	5	Bauport	29	2.4	29.8	1983
7	8	Viking	23.8	4.3	29.7	1999
8	10	Elliott Associates	39	3.2	28.3	1977
9	6	Och-Ziff / Sculptor	34	1.3	27.5	1994
10	9	Appaloosa	11	1.5	26.7	1993

Insight – Virtu IPO document

Daily Adjusted Net Trading Income Distribution(1)
(in millions)



Profits of USD2 bln over 5 year period

Market-make in over 10,000 contracts daily

Executes between 2.5 to 3.5 mln trades per day

Self-clearing

Highly dependent on / exposed to computer technology and disruption

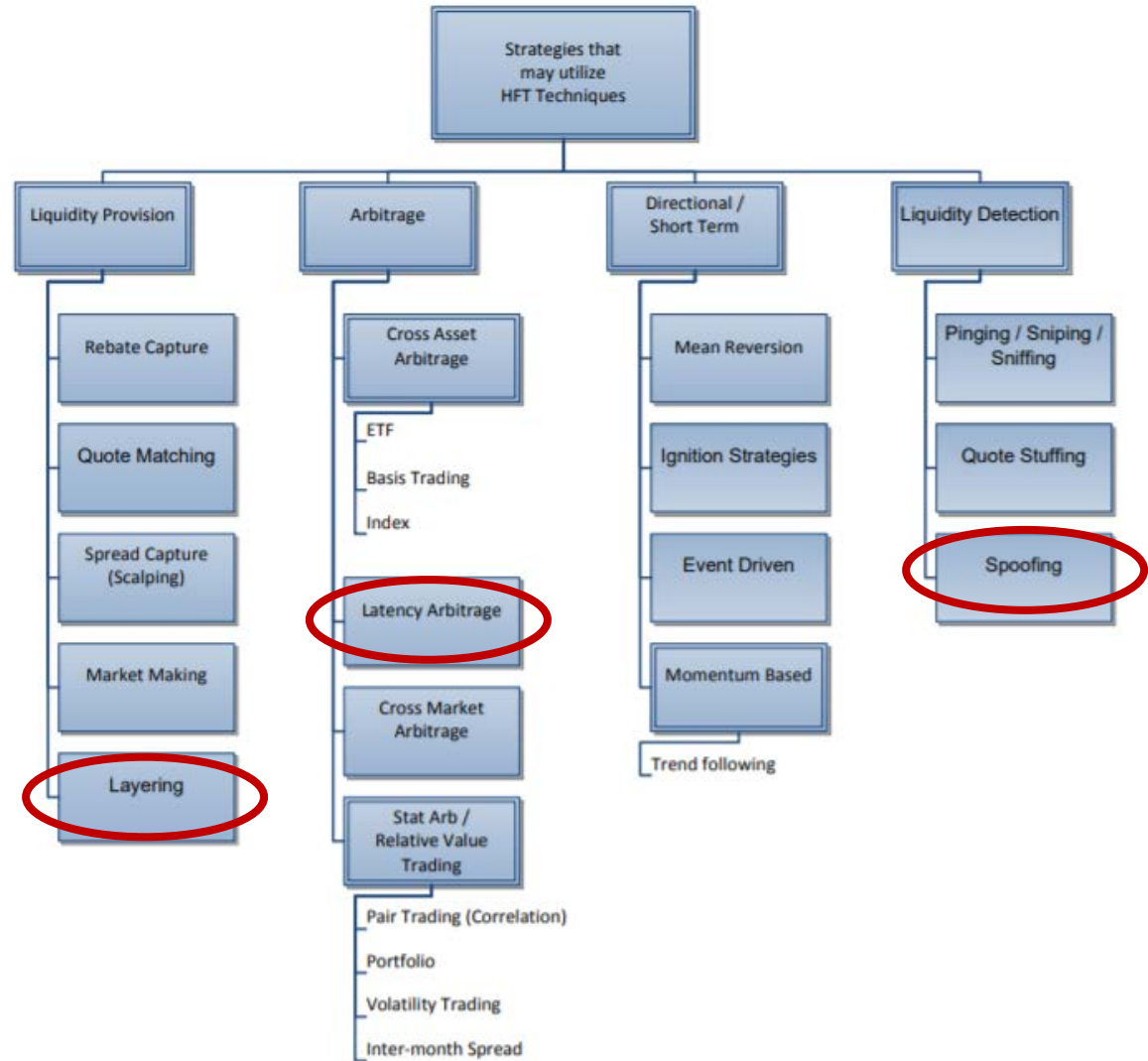
Changing market approach

Hedge funds

Long / Short
 Discretionary / Fixed share
 Specific market groupings
 Event-driven

HFT

Liquidity Provision
 Arbitrage
 Directional / Short term
 Liquidity detection



HFT – CFTC Enforcement

November 2019

High-frequency trading firm Tower Research Capital will pay \$67.4 million to settle allegations of spoofing by three former traders, the largest settlement to date associated with the illegal activity.

According to the charges from the US Commodity Futures Trading Commission (CFTC) and the US Department of Justice, for almost two years Tower Research placed thousands of orders to buy or sell equity index futures products traded on CME with intent to cancel prior to execution.

October 2019

The order finds that from at least March 2016 through May 2019, the defendants fraudulently solicited clients and prospective clients to trade commodity interests by claiming they had developed proprietary software called SoPhyA, which achieved profits of 49 percent on futures trading from February 2016 through November 2017 for one of their commodity pools. According to the order, however, only \$155,000 of the \$6,894,979 in client funds received by the defendants was ever put into any trading accounts and the balance was either misappropriated for non-trading uses or returned to other clients in a manner akin to a Ponzi scheme. The court also found Bretas misrepresented to NFA that one of the defendants' commodity pools was a private equity fund created to develop intellectual property sold to other businesses. Bretas was also found to have set up a fictitious email account to mislead NFA staff into believing they were communicating with a purported lender to the pool.

June 2020

According to the complaint, from at least 2015 until 2019, the defendants fraudulently solicited and misappropriated at least \$345,000 from U.S. residents for pooled investments in commodity futures contracts. The defendants, however, failed to trade the vast majority of pool participants' funds as promised, misappropriated most of their money, and concealed their fraud by sending false performance reports and account statements to pool participants.

HFT – key features

Operational

Algorithmic decision-making / Speed into exchange

Input data in the same timeframe

Human intervention limited – parameter setting, resolution of system errors

Target function

Liquidity creation for benefit of exchange and own operations

Trend stretching – seeking out breaking points

Depth of orderbook – Pinging, quote stuffing, spoofing

Primary target remains an paradox –

Sell to those who want to buy, in order to buy it back after having uncovered more sellers (than buyers) or visa versa

Essentially, its strategy relies on seeking-out market-chasing behaviour or financial-stress

Possible situations

High volume / low OI change markets

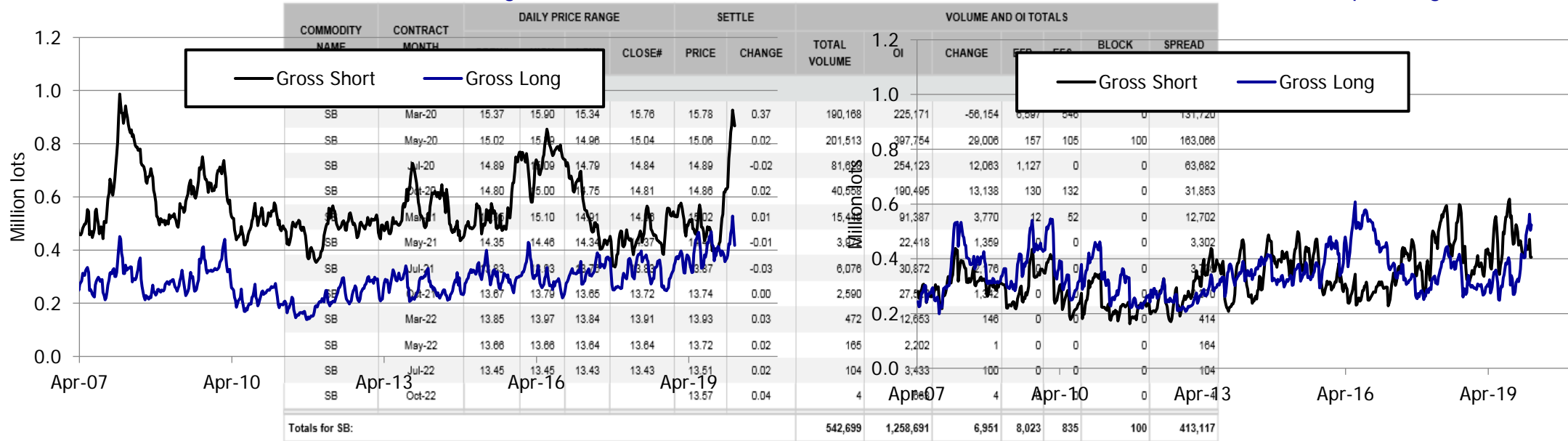
Skewed Positions

Futures Daily Market Report for Sugar No 11

12 Feb 2020

Commercial Positions in Sugar

Non-Commercial Gross Positions incl Spreading



NOTE: The information contained in this report is compiled for the convenience of subscribers and is furnished without responsibility for accuracy and is accepted by the subscriber on the condition that errors or omissions shall not be made the basis for any claim, demand or cause of action.

NOTE: OI information is not available until the next business day.

NOTE: Volume is aggregated and representative of each Futures market strip including applicable TAS and TIC trading activity.

NOTE: Spread Volume includes futures/options combinations, spreads, and defined strategies.

Open and Close prices reflect the first and last trade in the market and do not correlate to any opening or closing periods.

Sugar as a Market

- Sugar has a high export share relative to grains
- Sugar producers have high internal cash requirements
- Sugarcane producers have multi-year commitments

Product	Global Production	Global Exports	Export Share
Maize	1112.2	163.8	14.7%
Wheat	763.2	172.1	22.6%
Rice	499.4	44.2	8.9%
Soybeans	345.4	152.6	44.2%
Sugar	166.7	59.3	35.6%

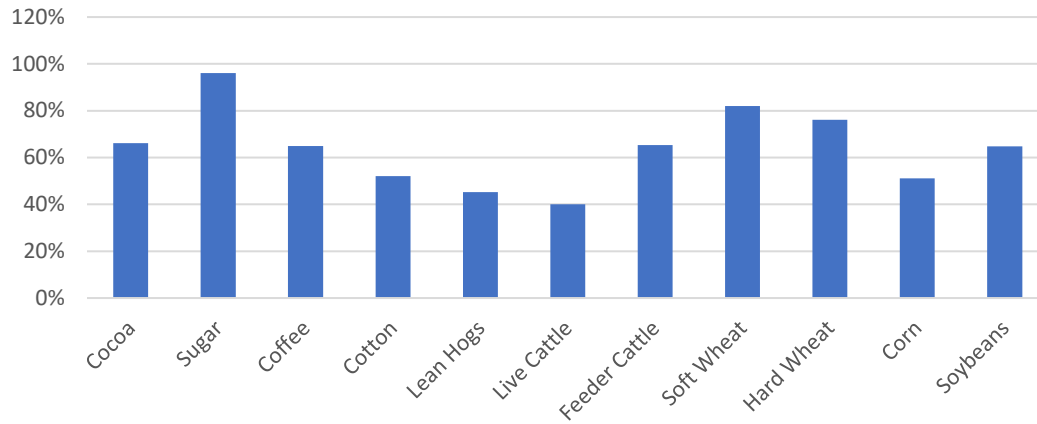
- Sugar futures participants are limited in number
- Use of broker and trade house structures

But this does not take away from a volatile market where margin stress in a key decision-metric
 And market dominance has seemingly shifted away from physical participants

	Total traders	Long Non-Com	Short Non-Com	Spread Non-Com	Long Com	Short Com	Ttl Rep Long	Ttl Rep Short
end-2019								
Sugar	269	83	69	90	90	84	225	198
Coffee	410	145	85	124	129	122	344	284
Cocoa	220	90	51	80	56	47	196	142
Feeder C	194	51	50	64	43	53	139	143
Live C	422	122	87	112	107	171	288	330
Lean Hogs	329	108	97	106	70	80	244	233
FOJ	83	23	26	9	25	10	54	43
RR	57	25	8	3	13	14	41	23
Cotton	277	108	71	83	62	64	213	187
Soybeans	545	154	116	163	155	215	395	428
Corn	759	159	125	141	323	347	562	548
H Wheat	282	101	52	79	78	83	221	183
S Wheat	366	132	87	112	67	119	253	276

CFTC evidence of Covid-19 impact

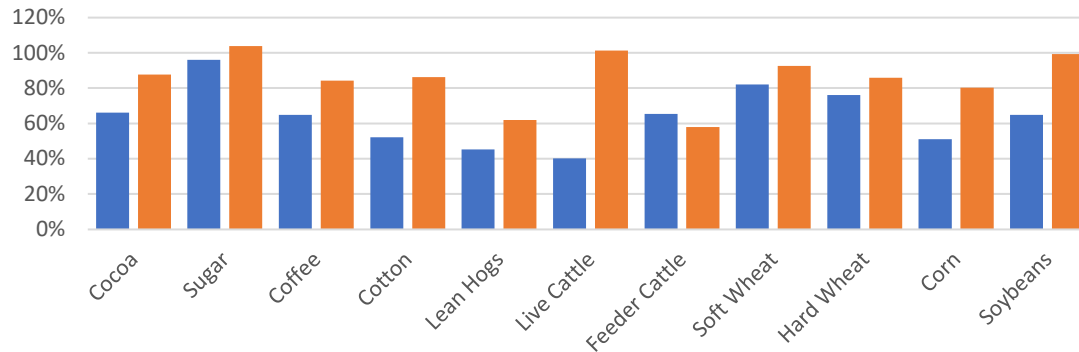
Standard deviation of gross long & short vs 2019



From March to June, movement in gross long and short

Sugar remains volatile in terms of positioning – from long, to short, back to long

Standard deviation of gross long & short vs Prompt futures volume



Other commodities are more one-directional eg. Coffee, Corn

Market volumes also reflect this

Detailed conclusions in Study

Dominant trader in the market relies on ad-hoc or stress-induced trading

Market tactics are predominantly intra-day

Cheap / fast access to exchange provides a gateway to high volumes

Commercial traders are less-flexible and more-margin exposed

Market management is limited to CFTC monitoring and Exchange rules

Thank you

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for copy of this study*

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