Who trades commodities, and why most of it is not speculation

> **HEDGER**
>
> A market participant with an existing physical exposure - crops in the ground, fuel to buy, metal to mine - who trades futures to remove price risk rather than to take it. Hedgers are the reason commodity futures exist, and their flow expresses business logic, not market opinion.

Commodity futures were not invented for traders. They were invented for farmers.

A farmer with wheat in the ground carries an enormous, involuntary bet on the September price. Selling futures today turns an unknown harvest price into a known one. The farmer is not bearish on wheat - the farmer is exiting a gamble they never chose. That trade, repeated across every producer and consumer of physical goods, is the core of these markets.

The cast

Producers sell forward: farmers, miners, drillers. Locking in a sale price turns next year's revenue from a hope into a number a bank will lend against.Consumers buy forward: airlines locking fuel, food companies locking grain, utilities locking gas. Their customers want stable prices; the hedge is how that promise gets kept.Merchants trade the physical itself: buying where it is cheap, storing it, shipping it, and hedging every leg on the exchange while the cargo moves.Speculators - funds, prop desks, and you - take the price risk everyone above is paying to shed.

Speculators are the product, not the problem

For the farmer to sell September wheat today, somebody must buy it, and the millers of the world do not always want the other side at that moment. The speculator bridges the gap. In expectation, hedgers pay a small premium for certainty - which is why taking the other side can be a business rather than a coin flip. That is the honest description of what a commodity speculator is paid for: warehousing risk that businesses want gone.

Respect the commercials

The hedgers on the other side of your trade are not naive. An oil major's trading desk sees physical cargoes, pipeline schedules and refinery runs that no chart shows you. A grain merchant knows what is actually in the silos. When positioning data shows commercials heavily on one side of a market, it is not a signal to copy them blindly - their positions hedge business exposures you cannot see - but it is a reason for humility about what the price already knows.

Most of the volume around you is business logic: revenue being locked, costs being capped, cargoes being hedged leg by leg. Price opinion - the thing you are there to express - is the minority of the flow.

Knowing which kind of participant is moving a market, and why, is worth more than most indicators. That is a skill this track builds deliberately.

Check your understanding

1. A farmer sells wheat futures against a growing crop. What view are they expressing?

a. Wheat prices will fall
b. None - they are converting an unknown harvest price into a known one
c. The harvest will be poor

Answer: b. The farmer already holds an involuntary long position: the crop. Selling futures removes a gamble rather than making one. Reading hedging flow as directional opinion is a beginner's error.

2. What is a commodity speculator economically paid for, in expectation?

a. Predicting prices better than hedgers
b. Carrying price risk that producers and consumers pay to be rid of
c. Providing exchanges with fee revenue

Answer: b. Hedgers accept slightly worse expected prices in exchange for certainty. The other side of that certainty is the speculator's compensation - a real economic service, not a loophole.