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"FILE ON 4"

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ACTUALITY – CHICAGO MARKET

ROBINSON: Prices have been rocketing on the commodity markets of the world. The soaring cost of food has sparked protests and riots, and oil at $125 a barrel is causing economic turmoil. Many claim these rises are justified by massively growing demand from China and India, but some are now asking if commodity markets have lost touch with reality.

BROCK: It's beyond crazy, I mean, it literally is beyond crazy. And it's a lot like the high-tech mania back in 2000 - the more it goes up, the more people are attracted to it.

ROBINSON: Just like happened in the property market recently.

BROCK: Exactly right.

ROBINSON: Tonight we investigate this unprecedented surge in commodities and we ask whether the same hedge funds and banks who were behind the sub-prime crisis could end up delivering yet another shock to the world's weakened financial system.

SIGNATURE TUNE

ACTUALITY IN GHANA MARKET

ROBINSON: People here in Ghana, on the bulge of the West coast of Africa, are at the sharp end of the commodity price explosion. At Auntie Maggie's tiny bread stall in the sprawling Kaneishi Market in the capital city, Accra, shoppers are shocked by what they now have to pay for a loaf of bread.

MAGGIE: Two Ghana Cedis.

ROBINSON: Two Cedis for one loaf? And what did it cost before last year?

MAGGIE: Last year one Ghana Cedi.

ROBINSON: So why is the bread so much more expensive?

MAGGIE: The flour, the flour.

ROBINSON: The flour?

MAGGIE: It is too much, so we can't buy. The price is too high.

ROBINSON: With dozens of bakers in the market, there's no shortage of competition for Auntie Maggie's bread. But the cost of flour means they're all now charging around two cedis a loaf. Two New Ghana Cedis is equivalent to around two US dollars – or one pound sterling. That's around 10% of a typical worker's weekly salary! So some people now buy bread by the slice.

ROBINSON: Do you buy here every day?

WOMAN: Yes, every day. See this slice of bread I bought.

ROBINSON: So this is just two slices of bread you've bought?

WOMAN: Yes, it's too much! We can't afford it, but we have to eat. That's why we've been managing it, you see, yeah.

ROBINSON: The high price of bread means Auntie Maggie's turnover is down.

MAGGIE: Everybody will buy, one Ghana Cedi, everybody will buy. But when it's two Ghana Cedis, it's very hard for somebody to buy. They can't buy. They've been say, "It's the government. It's the government." It's not the government. It's no good, it's no good. We beg you.

SHOPPER: I beg you

MAGGIE: We need your help. Everything should come down. It should be reduced.

ROBINSON: So this is not the fault of Ghana, these prices?

MAGGIE: No, this is not the fault of Ghana – the price.

ROBINSON: There are four big flour mills in Ghana which compete keenly on price. But all face the same problem: a huge increase in the cost of their imported wheat. Most of that has to be passed on. Edward Bonya, sales manager for Takoradi Mills – one of the big four – spends a lot of time these days explaining the situation to his customers.

BONYA: Wheat is not produced in Ghana. We also buy it from America or Canada. So as and when the price is going up, we are forced to also increase the price of flour. So it's not our making.

ROBINSON: So who do they blame, your customers?

BONYA: Our customers are blaming the producers of wheat in America and Canada. We try to find out what is actually happening. Until we get down to the problem, we cannot blame anybody.

ACTUALITY IN TAKORADI MILLS

ROBINSON: Here we are Michel, so you've got the spreadsheet up of your sales.
At the head office of the Takoradi flour mill, Michel Ghanjar, the Lebanese-born Operations Director, showed me what higher prices have done to sales over the past year.

GHANJAR: If we take the total sales for the month of March 2007, showing the total figure of 220,000 bag. Compare to March 2008 - 140,000 bag. So 220, 2007 March to 140, March 2008.

ROBINSON: That's 80,000 bags less.

GHANJAR: Exactly, exactly.

ROBINSON: Michel Ghajar is married to a Ghanaian and has lived in the country for seventeen years. He's worried about the impact of high wheat prices on his firm and on his adopted country.

GHANJAR: I don't think the price of the wheat should be like this. I think it's too high. Nobody can afford it. Before, everybody could afford bread. I mean, nobody could say that today I could not buy bread because it is too expensive. But since February, March now we realise 40% of our production is down, and the losses, we're talking about huge losses. We're not talking about hundreds of thousands, we're talking about millions. By the second quarter of the year, maybe up to $5 million losses we have.

ROBINSON: How long can you go on like this?

GHANJAR: I don’t know, maybe another two or three weeks ...

ROBINSON: Two or three weeks!

GHANJAR: Maybe another month. God knows. Let’s wait and see.

ROBINSON: You are that close to the edge?

GHANJAR: We are close, yes. We are almost there. And I am afraid to lose my job. I don’t know if my son, I can send him to school maybe next four or five months. I am an expatriate, maybe I have a good salary. But still, if the business is not running well for Takoradi flour mill, me too, I will lose my job. My worker will lose his job, the baker in town will lose his job and God knows where it will finish. What is the end of it?

ROBINSON: Takoradi Mills is owned by Armenian-born Serge Bakalian. His family started the firm in the 1970s. After a lifetime in the milling business, Serge knows all about the way the price of wheat is affected by real world events like drought or rain. But this time, he says, prices have been pushed up way beyond anything these basic fundamental factors could justify:

BAKALIAN: It is definitely not the right price. The wheat prices have been exaggerated.

ROBINSON: How much?

BAKALIAN: We had to buy a shipment right now at over $800 a ton.

ROBINSON: How does that compare with a year ago, say?

BAKALIAN: A year ago, April, the prices had already started going up and we were about $280.

ROBINSON: So $280 to $800?

BAKALIAN: Yeah.

ROBINSON: What do you say the price should be now?

BAKALIAN: I think half of that. I think $350, $400, $450 would be fair.

ROBINSON: Seriously? So why is the market giving $800?

BAKALIAN: Because a few people like to speculate. Obviously it takes a spark to start a fire. Australia has had a drought last year and they lost 50% of their crop. Canada had losses of 30% because they had wheat that got damaged by excessive water. A lot of people started speculating on that shortage and obviously that helped to push the prices up to where they were. I'm very upset actually, because countries in the sub-Saharan region are actually suffering. I think it's quite disgusting, to be honest with you.

ROBINSON: The price of wheat is beyond the control of Takoradi Mill or Ghana. It's mostly determined by events nearly 6,000 miles away on the other side of the Atlantic at the Chicago Mercantile Exchange – the world's biggest market for agricultural commodities.

ACTUALITY AT CHICAGO MERCANTILE EXCHANGE

ROBINSON: It's quite a market, as markets go. This is an amazing room right in front of me. About 500 traders who suddenly burst into life when the bell went, screaming and shouting at one another, and basically what they're doing is they're yelling, "I wanna buy, I wanna buy, I wanna sell, I wanna sell," and if they're lucky they do a trade and someone says okay. And round the room, on the walls are hundreds and hundreds of prices flipping up and down all the time, and trading's hardly started and the price of corn's already gone up and down, and soyabeans has gone down and up, and the fact is that this is how prices are made.

HOLLANDER: It's an auction room – people are offering to buy or to sell these futures contracts at a certain price right now. If they have their hands pushing away from them they're selling it, hands towards them they're buying it. And they want to get it done for their customers somewhere in the world.

ROBINSON: Glenn Hollander is the third generation of his family to trade on the Chicago market. Most traders here deal in what are called commodity futures – contracts to buy or sell a commodity like wheat or corn at a specified future date. What's decided here is the price.

HOLLANDER: That guy is trying to sell some July corn to somebody across the pit at the current price, which is $6.21 a bushel.

ROBINSON: That's a high price.

HOLLANDER: That's a high price.

ROBINSON: A year ago, a bushel of corn cost just $3.70. But since then prices here have exploded. Richard Brock heads a well-known commodity consultancy advising buyers and sellers on the Chicago futures exchange. He thinks the cause of the price surge is a wall of new money which has been flooding into commodities.

BROCK: You go back a year and a half, two years ago, there was a lot of media hype, that people were saying everybody needs to be investing in commodities because they're going up. And the reality is, up until this point they've been right. And so you saw a huge amount of cash going in because everyone was convinced they were going to go on up forever.

ROBINSON: Where is that money coming from? Where is all this new cash?

BROCK: Well, it's coming from all over the world. I don't think it's US money. I think a lot of it is probably money that's been generated by the growth in China. I think some of it is probably coming from Arab oil money. When you're seeing flows of over $5 billion a month, it's coming from large sources.

ROBINSON: Much of this new money has been channelled through a handful of so-called commodity index funds, which promise to track the value of baskets of commodities. To do that, whenever these funds get money from investors, they have to invest it into commodities. The more they get, the more they are forced to buy. Over the past year, Richard Brock says, the index funds have doubled in size to a staggering $250 billion.

BROCK: The public has no idea how much money is in these funds, it's enormous. They own about 20% of the US corn market, they currently own a position in soft red winter wheat, which is traded in Chicago, that's over 2.6 times the crop.

ROBINSON: What impact did that have?

BROCK: Well, the wheat market hit all time new world highs last year. Three to four times the normal price of wheat.

ROBINSON: And did that have to do with the fundamentals of wheat, I mean, the prices that were reached there?

BROCK: The fundamentals were important to start the bull market, and so what the funds have done is they've distorted the market signals.

ACTUALITY IN CAR

ROBINSON: As prices soared in Chicago, the cost of food has risen around the world.

ACTUALITY OF SAT NAV

ROBINSON: It's obviously no surprise that people in Ghana and elsewhere are complaining about the sharply rising price of their basic food. But what is a surprise is it seems even some of the beneficiaries of these new high prices – the farmers – think something's gone wrong with the markets. So I've driven south from Chicago, here deep into the flat, fertile farmlands of central Illinois to try to find out why.

ACTUALITY OF SAT NAV

NIEMEYER: Hello, how are you doing?

ROBINSON: I'm doing very well, Garry.

NIEMEYER: Glad to meet you. Did you have any trouble finding our place?

ROBINSON: Not at all. The sat nav did it for us.

NIEMEYER: Okay.

ROBINSON: Garry Niemayer is a corn farmer and a prominent member of the American Corn Growers Association. Late spring rains have delayed his planting this year, but some corn is already in the fields and starting to break ground.

ACTUALITY IN FIELD

ROBINSON: Wow, so this is it – a real field and real corn.

NIEMEYER: It's about an inch high (laughs).

ROBINSON: When was that planted?

NIEMEYER: About the 25th of April.

ROBINSON: Okay, and now we're the 10th May. When's this stuff going to get harvested, when are you going to be able to sell it?

NIEMEYER: We normally harvest around September, so that leaves a lot of time ….

ROBINSON: Five or six months.

NIEMEYER: Five or six months for all kinds of problems.

ROBINSON: You'd think Garry Neimeyer would be delighted how high prices for corn have got. Instead he's uneasy. He thinks something wrong and, after the damaging bubbles in dot.com and housing, he fears that yet another bubble could now be inflating in commodities.

NIEMEYER: A lot of times you just sense things aren't right but you can't put your finger on it necessarily. The price of corn has gone up $2 a bushel and just think about that a second. The price of corn has gone up $2 a bushel since January of this year, from about four to about six. I have farmed since 1970 and I haven't seen corn sell for much more than $3 a bushel in the whole time frame. It has a feel of a bubble in the sense that it just doesn't back off. If you look at a commodity chart for corn, it's straight line straight up.

ROBINSON: So the prices go on increasing?

NIEMEYER: They're continuing to increase and it seems like every day we see the funds bought five thousand more contracts today. And it just seems like it's groundhog day – I don't know if you're familiar with that movie – the day that just kept repeating itself day after day after day. And every day the funds buy more.

ROBINSON: The price of a commodity should respond to the fundamentals of supply and demand. And there's certainly been increased demand for corn like Garry's, because of America's policy to use corn to produce the fuel substitute ethanol. But he says that doesn't justify the high prices, because American farmers have increased their corn yields and there's no shortage of supply. In fact, last year's corn crop was a record. So much was grown that, by the year end, more than 10% of it was still in store.

DOLBEARE: This bin is the largest round bin in the world when it was built seven years ago. It holds approximately four trainloads of corn.

ROBINSON: Greg Dolbeare runs a complex of huge corn silos – elevators as they're called here – a few miles down the road from Garry Niemeyer's farm. Greg buys corn from local farmers and sells it by the trainload to feed cattle on ranches far south in Texas or Mexico.

DOLBEARE: We opened this door yesterday to start emptying it further than what it is. That bulkhead has been in place for two years and we just opened it up yesterday.

ROBINSON: Wow, this is quite a store. Can we go in?

DOLBEARE: You can, but you're going to get dirty if you wade in this corn. That's two year old corn there.

ROBINSON: Two years old? Why? Why's it so old?

DOLBEARE: Last year we didn't, we only emptied it as far as you see, and then the top half was refilled with new corn. So now we're going to get rid of the two year old corn.

ROBINSON: It's like a cathedral actually. How tall is that window?

DOLBEARE: 95 feet.

ROBINSON: 95 feet?

DOLBEARE: We call these elevators the cathedrals on the prairie.

ROBINSON: I can see why, because it's a massive, massive space and there's no shortage of corn, clearly because here it is.

DOLBEARE: Yes, we have about half the corn left that we took in last fall, so there still is plenty of corn around.

ROBINSON: There's grain in the store – there's no shortage, anyone can get grain, but the price still goes up?

DOLBEARE: Ye, but it's a sign of the times. We know there's a lot of speculators in the market right now.

ROBINSON: So you think that's the reason?

DOLBEARE: Oh most definitely. More buyers than sellers. In spite of the large supply of corn we have. The market is brutally honest. And the honest truth is it's worth $6 today because somebody is willing to buy it at that level.

ROBINSON: We're looking at this huge pile of corn. So why is it being pushed up when the fundamentals say we've got corn?

DOLBEARE: Well if I could answer that, you know, I'd be Jesus Christ returned to earth. (LAUGHS)

ROBINSON: At the Chicago Mercantile Exchange, Executive Chairman Terry Duffy rejects any suggestion that the index funds have somehow pushed prices on his market too high. He says there may well be corn in the stores now, but what about projected higher ethanol production in the future? His market sets the prices of 80% of the entire world's grain production and Mr Duffy insists that these prices reflect basic economics.

DUFFY: It's a simple fundamental equation here of supply and demand, so to say that index funds are the reason why the price of grain is going up is absolutely ludicrous in my opinion. You have so many different factors. You have major crop failures around the world. You had a crop failure in Australia, you had freezes in China. We have billions of people who have a different appetite for food than what they had a few years back, and it doesn't take much to change this equation dramatically. So again it cannot be blamed on the index funds.

ROBINSON: Those reasons are true, no one's denying it, but what they're saying is that the price movement is much bigger than justified by those things you point out.

DUFFY: Well, again, you look at some of the best experts we have seen, they're not saying it's index funds that are causing the prices to go up. They're citing fundamental reasons why grain is doing what it's doing today.

ROBINSON: What people are saying is that the mechanism of that market right now to do the things you describe to the benefit of the producer, the trader and the consumer are now being distorted by several factors - and one of them is this cash?

DUFFY: Now wait a minute, Michael. Go back …

ROBINSON: It's got more volatile, for example.

DUFFY: But you're saying the futures market should do that for all those participants, I agree, but it shouldn't be at the expense of the speculator each and every time, otherwise you're not going to have any speculators in the marketplace. That's communism at its best, right?

ROBINSON: Consultant Richard Brock disagrees that prices are the product of fundamental questions of supply and demand. And he's by no means alone in fearing that money from commodity index funds and from other large speculative investors like hedge funds is creating a dangerous bubble in commodity prices:

BROCK: This speculative bubble is going to hurt everyone long term. It's a lot like the hi-tech mania back in 2000. The more it goes up, the more people are attracted to it and what'll happen is the majority of people will get in at the top of the market, and my thought is we're probably getting fairly close to that, because the mania is so rampant worldwide right now. It's the top news story almost every night, is the commodity markets and food prices and ethanol etc, you know. And once everyone knows it, the game is normally pretty close to over. The laws of economics have not been repealed. Keep the

BROCK cont: price of a commodity too high for too long, someone finds a way to either grow more of it, use less of it, or use something else. Now we're going to overproduce, it'll come down a lot faster than it went up.

ROBINSON: Central bankers and policymakers across the world are still struggling to deal with the damaging economic consequences of the housing bubble's collapse last year. The last thing they now need is another bubble bursting. But Terry Duffy says that any suggestion that he presiding over a price bubble on the Chicago exchange is simply nonsense.

DUFFY: The price is the price, there's no question about it. There's many reasons why fundamentally – and I'm not an economist, but I think that they've all been well publicised why the prices are doing what they're doing.

ROBINSON: But the price is the price, but the price can still be wrong. And the price was the price for houses when housing was going up in a bubble, the price was the price for dot.com when dot.com was going up in a bubble. It doesn't mean, just because the price now is the price it is today that that's the right price.

DUFFY: Well there's no question about it, but the price in housing at the time was the price what the market beared.

ROBINSON: But it was too high, we now know it was too high, it was a bubble.

DUFFY: But it's not so much that the price was too high. It's that basically how people were buying the homes. Banks were loaning money to people that were not well equipped to pay them back. So that's completely different than the price of a commodity such as grain. So I actually don't see the comparison as being the same.

ROBINSON: Some American politicians are not so sure. They're starting to ask questions about why commodity prices are rising so fast. And, with their constituents complaining about high prices in the shops, they've started holding hearings on Capitol Hill.

ACTUALITY AT US PETROL STATION

ROBINSON: There's plenty of grumbling here in America about the cost of food, but that's nothing compared to this now. The cost of petrol, it's shot up in the last year and it's now an unheard of $4 a gallon – enough to make fewer Americans drive gas guzzlers and more of them take public transport. But the pain petrol causes here is nothing compared to what it's doing overseas.

ACTUALITY AT BUS TERMINAL

ROBINSON: Back in Ghana, alongside the Kaneishi market, is a crowded bus terminal filled with the 30-seater minibuses pretty well everybody here, including local journalist Evans Mensah, uses to get around.

MENSAH: Well this is one of the major bus terminals in Accra.

ROBINSON: Yellow buses.

MENSAH: The yellow buses. They call it a tro-tro. Tro-tro used to be the money we spent – like a cent.

ROBINSON: Tro-tro buses are the backbone of Ghana's public transport system. But they're not cheap any more. Because, over the past year, the world oil price has doubled to a record $125 plus a barrel. In a corner of the terminal, a group of tro-tro drivers were taking a break between shifts. Can you tell me what's happening to your fares? People tell me your fares have gone high. What's happening?

DRIVER: They increase the fuel.

ROBINSON: The fuel costs? How much has the fuel cost gone up?

DRIVER: The diesel is 55.

ROBINSON: 5.5 Cedis for 1 gallon?

DRIVER: 1 gallon.

ROBINSON: Okay. Last year how much was it?

DRIVER: Last year is 48,000.

ROBINSON: 4.8 – so it's gone up 20%, something like that.

DRIVER: Something like that.

DRIVER 2: Passengers are fighting with us because of the price, you understand? And the passengers are not coming. Please please please try to make the fuel price to come down. Dollar price is too high. It's too high and we want the price to come down. We drivers we are worried, we are worried.

ACTUALITY ON BUS

ROBINSON: Nowadays, a short ride on a tro-tro bus costs the equivalent of 30 US cents.

MAN: In general transport we have great hardship here.

ROBINSON: Does that make a difference to you?

MAN: It makes a lot of difference. Transport alone can take half your salary alone.

ROBINSON: Half your salary?

MAN: Half your salary can is spent on transport alone.

MAN 2: Every three months or four months you have to increase the petrol, so we don't understand, so it's a very very bad thing that we are experiencing in our country.

ROBINSON: What difference does these high prices make to you?

MAN 2: It's causing a lot of hardship in the country.

ROBINSON: The higher fuel cost doesn't just hit people in the tro-tro bus. It hits them in the market too – especially people who can't afford bread any more. Because higher petrol prices mean even the cost of the cheapest, most basic Ghanaian-grown food, like the cassava root, has shot up. The cassava Ruby Donkor sells on her tiny market stall has to be brought to market from far outside Accra.

DONKOR: The sellers who bring them increase the price more than it was at first.

ROBINSON: The sellers charge you more?

DONKOR: Yes.

ROBINSON: How much more?

DONKOR: They used to sell it 150 but now they have increased it to 250.

ROBINSON: So it's gone up nearly double?

DONKOR: Yes, they've doubled it.

ROBINSON: And why are they charging more? What's happened?

DONKOR: They are saying it's the petrol.

ROBINSON: Nii Moi Thompson, Ghana's leading economist, says it's no surprise that the rocketing price of oil has hit the country so hard.

THOMPSON: A gallon of petrol is about $5 now in Ghana, in a country with an annual per capital income of just $500, and even that's stretching it, it's just under $500, but let's …

ROBINSON: $500 per capita income? $5 a gallon? So one gallon is 1% of the average income.

THOMPSON: Yes. Which is quite high. And then you relate that to the US, where the price a gallon, the average is around $4 and you're looking at a per capita income of over $40,000, so that it's really a fraction. As much as they complain, it's really a fraction of their per capita income.

ROBINSON: A tiny fraction.

THOMPSON: A tiny fraction compared to Ghana where it's huge, over a percent. And if you multiply that by the number of gallons you have to buy, that's quite steep.

ROBINSON: So the impact on a country like Ghana is huge?

THOMPSON: It's huge, big time.

ROBINSON: There's little that Ghana can do about high oil prices – far bigger forces are at work in financial markets. As with food, the price of oil has also been boosted by a flood of new money. The investment is justified, commodity champions say, pointing to that endlessly rising demand for oil from the huge populations of fast-growing China and India. But seasoned oil analyst Mike Rothman is unconvinced. He believes prices have been driven far higher than the fundamentals justify by large investors desperate for alternatives to weakened stock markets and the falling US dollar.

ROTHMAN: The financial flows into energy have been pretty dramatic, and it appeared that oil has become a store of value trade as people were concerned about weakness in the greenback or general economic malaise, and normally that type of trade is done with gold.

ROBINSON: You're worried about the currency, you buy gold?

ROTHMAN: Right. You want a piece of metal as opposed to a piece of paper. And what we saw happening instead is money managers buying oil instead of gold.

ROBINSON: You might think the oil producers of OPEC would rejoice in the massive windfall high prices is delivering them. But last week the Saudi Arabian oil minister publicly blamed turmoil in financial markets for high prices and denied that there was any shortage of supply. And Mike Rothman says senior OPEC members have repeatedly made it clear that, given the fundamentals of the oil market, they can't understand why prices are as they are.

ROTHMAN: I've been attending OPEC meetings since 1986 and you know something's amiss when you have senior and let's just say well positioned people in the key oil-producing countries asking you, "What is going on here with the oil price? Because it doesn't make sense to us." That's to me as telling as anything else.

ROBINSON: We're looking now at $120 a barrel. How much too high do you think that is?

ROTHMAN: From where I think OPEC will try to defend the market, you're talking about somewhere in the 60 to 70 dollar per barrel range.

ROBINSON: And is that the price you think oil should be now?

ROTHMAN: I think that's where we're going to ultimately head. It's really quite difficult to make the case on a supply/demand basis for crude to have gone from $65 this past July to $125 recently and say it's because the oil balance became tighter. That just doesn't quite fly.

ROBINSON: A serious future shortage of supply is precisely the argument advocates of high oil prices advance. Only high prices, they say, will produce the necessary new exploration and produce more supply. Jim Rogers, the former business

ROBINSON cont: partner of George Soros, predicted the rise in commodity prices back in the 1990s and now runs the world's third biggest commodity index fund. He dismisses OPEC's insistence that there is plenty of oil to meet future demands.

ROGERS: I know what OPEC says, but there are people who suspect that OPEC is not telling the truth, let's put it that way. You know, Saudi Arabia has been claiming for twenty years in a row that they have 260 billion barrels of oil in reserve. Twenty years in a row. When people like me go to them and say, "What are you talking about? How can it be the same number for twenty years in a row?" they say, "You either believe us or you don't." Where is all this oil that OPEC claims is out there? We'd like to see it.

ROBINSON: They say they can deliver at any time anybody wants it and they've endlessly made it clear they don't really understand what's going on with prices at these levels.

ROGERS: If they've got all this oil, why don't they sell it, why don't they bring it to market and drive down the price?

ROBINSON: Because they say nobody's asking for it.

ROGERS: Wait a minute. The market is $128 on Friday. Somebody's asking for oil. Index funds are having an effect in commodities, perhaps, because the fundamentals are right. There is no oil. There is no rice. Food inventories are the lowest they've been in sixty years.

ROBINSON: So you're satisfied that the prices are in fact right?

ROGERS: The prices, yes, if that's the way you want to put it, yes, the prices are right.

ROBINSON: But the impact of index funds trading on world commodity markets is not the whole story, because a vast amount of commodity trading takes place outside the markets and beyond the control of market regulators.

ROBINSON cont: The so-called over-the-counter market is made up of vast numbers of one-to-one trades – effectively private bets on commodity prices – often between huge financial institutions like hedge funds and investment banks. And according to Mike Rothman, this little-known and unregulated market has been growing exponentially.

ROTHMAN: The last data point we have which was for the middle of 2007, showed that there was about $7.1 trillion in exposure on US and foreign banks' portfolios to these over the counter commodity derivatives.

ROBINSON: $7.1 trillion?

ROTHMAN: Trillion, right, trillion.

ROBINSON: On the books of banks?

ROTHMAN: Right. So ….

ROBINSON: That's a staggering number.

ROTHMAN: It's kind of mind-boggling. If we assume that only half of those over the counter commodity derivative positions were in oil, even though there are suggestions it's higher, that exposure equates to about 48.5 billion barrels of oil, which is roughly a year and a half of what the world actually consumes, or for people who think about inventories, about 70 times the size of the current US strategic petroleum reserve.

ROBINSON: There's a vital difference between the over the counter market and regulated commodity exchanges like Chicago. Exchanges have strict rules requiring speculators and traders to show each and every day that they have sufficient money to cover any potential losses they might face. According to Dan Roose, an experienced commodity trader from Des Moines in Iowa, on the over the counter market, there are no such controls on the level of risk exposure, the amount of borrowing or the complexity of trades. In this market, he says, anything goes.

ROOSE: The big concern is the fact that it's kind of a black box. It's not transparent, it's not regulated. You don't really know what the exposure is. You know, when over the counters were first developed and started and first used, really the price movement was nothing like it is today, and now you just have these huge explosions one way and then, you know, the other and your risk is much greater than it's ever been.

ROBINSON: So huge potential losses could be built up there and nobody would know?

ROOSE: Right. Those are the type of things that are scary when you're out here looking at them. Particularly, you know, in this environment that we're in right now, where these price movements are just absolutely huge.

ROBINSON: Oil is easily the biggest of all the traded commodities, so what happens to the oil price really matters. And oil analyst Mike Rothman says when it comes to price movements, oil's got form.

ROTHMAN: One of the patterns that you see in oil prices over time, and this has really been the case since crude features started trading, when oil prices turn – either to the down side or the up side – they tend to be quick, quite abrupt and somewhat violent. You never get nice round turns in markets like you see when people talk about equities or other instruments. And one of the concerns is, if something cracks in this market, is it possible that you could get a fairly big skid to the downside and bring with that, for instance, you know, a bank or funds failing or having severe financial difficulties because of all the leveraging that's gone on in these instruments, and I think the answer is yes.

ROBINSON: Commodity trader Don Roose thinks it's all starting to have uncomfortable echoes of very recent financial history.

ROOSE: I would put it similar to the sub-prime situation that's going on around the world right now. That was never an issue until it started to become a problem, and when one institution had a problem and it affected another and another and another, and I think that's the same thing with the over the counter, because these contracts can be sold, subdivided to other entities. Also there's just a mirage of different things that

ROOSE cont: you can do with these over the counter contracts. I think that's the real issue. You know, you just don't know.

ROBINSON: And does it matter that you don't know?

ROOSE: Well I think it does, because you have an unknown risk out here and it's unknown how that will be protected if it gets away.

ROBINSON: It would be difficult for regulators to control such a vast, informal, international market. And there's little sign they plan to try. So it's pretty well impossible for regulators to know if nasty surprises might be lurking in the over-the-counter woodshed. But even if they are, commodity investment champion Jim Rogers is relaxed about any further shock to the financial system they might produce.

ROGERS: I don't find that terribly worrisome except, you know, maybe some of the investment banks will go bankrupt or some of the commercial banks will go bankrupt if they're extending loans which are ill-conceived.

ROBINSON: But if that happens then you can get the same sort of sub-prime domino effect. One bank goes bankrupt, another one can't be paid, and we have a repeat of sub-prime.

ROGERS: This over the counter commodities market, that's not a conceivable, everything is a conceivable problem, yes, and somebody can be on the wrong foot, but even if it is, so what? What's wrong with investment banks going bankrupt? What's wrong with 29-year-olds having to turn in their Maseratis?

ROBINSON: What they say is wrong is that you get a shock to the financial system and it makes the recession a whole lot worse.

ROGERS: Okay. We've been having shocks to the system since the beginning of time. Once upon a time it was in dot.com. We had huge shocks to the system with dot.com and you know what? The world survived.

ROBINSON: It's unlikely that many of the world's central bankers or economic policymakers would share Jim Rogers' relaxed approach to the prospect of a commodity price bust. In any case, they're all still busy dealing with the increasingly painful economic consequences of the record price boom. They're certainly hurting here in Britain and threatening to fuel inflation, but in countries like Ghana, they can be devastating. Back at Takoradi Flour Mill, late on a Friday afternoon, Michel Ghanjar was still going through his spreadsheets, trying to work out just how much he's suffering from a price boom he doesn't understand and doesn't think is based on anything real.

GHANJAR: I just want to show you this one, based on the vessel, the one we received. Total profit on bread, minus.

ROBINSON: Minus ¼ million Cedis?

GHANJAR: Minus $240,000.

ROBINSON: In one month you've lost?

GHANJAR: Lost. And this one, I mean, I won't show it to my boss today because it's Friday, we're going for the weekend. I think I will show it to him on Monday morning. So at least he will have a nice weekend.

ROBINSON: Bad news on Monday?

GHANJAR: Bad news on Monday.

SIGNATURE TUNE