Problems and Solutions in Chinese Agricultural Futures Market

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Abstract. Futures market is an indispensable part of the financial system, especially the agricultural products futures market. China's agricultural products futures market plays an important role in stabilizing agricultural prices, ensuring agricultural stability and national strategic resource security. This study focuses on China's agricultural products futures market, aiming to analyze its current situation, dig existing problems, and put forward targeted solutions. The study shows that China's agricultural products futures market has formed a major exchange framework after more than 30 years of development and has shown a healthy growth trend. However, China's agricultural products futures market is facing a series of challenges, such as limited market size, unreasonable participant structure, and inadequate market regulation. These problems limit the function of the market and affect the healthy development of the market. In this regard, it is suggested to promote market diversification, introduce institutional investors, and improve market rules; strengthen product innovation and marketing to expand influence; improve risk management awareness and modernize tools. These measures proposed in this study are expected to promote the comprehensive development of the agricultural products futures market and enhance its positive role in the global economy.

Keywords: China; agricultural market; futures.

1. Introduction

As an important part of the modern financial system, the futures market plays an irreplaceable role in stabilizing economic operation, optimizing resource allocation, and promoting industrial transformation and upgrading. In the context of globalization, the futures market, with its unique risk management and asset allocation functions, is increasingly becoming a bridge and link connecting the real economy and the financial market. Among many futures markets, the agricultural product futures market is particularly important, because it is directly related to food safety, agricultural stability, and the guarantee of national strategic resources. The fluctuation of agricultural product prices will directly affect farmers' income, consumers' purchasing power, and the balance of the entire social economy. With the development of global trade, the agricultural product futures market has become an important bridge connecting domestic and foreign markets. However, the agricultural product futures market is also facing various challenges. Therefore, this study chooses the agricultural product futures market as the research object, aiming to analyze the current situation of the market, analyze the problems existing in the market operation, and explore possible countermeasures and suggestions. Through a detailed investigation of the agricultural product futures market, this study hopes to provide decision-making reference for market participants and policy makers, so as to promote the healthy development of the agricultural product futures market and enhance its positive role in the global economy.

2. Current Situation

China's agricultural futures market has experienced a process of development from scratch and from small to large. As early as the 1980s, China began to explore the agricultural futures market. After more than ten years of development, China's futures market has formed a market trading system with China Financial Futures Exchange, Shanghai Futures Exchange, Dalian Commodity Exchange and Zhengzhou Commodity Exchange as the main body [1]. With the promotion of China's agricultural modernization and the deepening of the market-oriented reform of agricultural products, China's agricultural futures market has gradually grown. By 2023, China's agricultural futures market has included soybeans, corn, cotton, white sugar, rapeseed oil, vegetable meal, eggs and other varieties [2]. The participants of China's agricultural futures market include agricultural producers, processors, traders, investors and other groups. Among them, agricultural producers and processors mainly use the futures market to hedge and reduce price risks; traders make speculative transactions through the futures market to obtain profits; investors invest through the futures market to realize capital appreciation [3].

In recent years, the trading volume and position holdings of China's agricultural products futures market have shown a steady growth trend.

In 2019, the total turnover of China's agricultural products futures market reached 65.5 trillion Yuan, up 45.6% year on year.

In 2020, affected by the COVID-19 pandemic, global agricultural prices fluctuated more, and China's agricultural products futures market trading activity further improved, with a total turnover of 79.5 trillion Yuan, up 21.4% year on year.

In 2021, China's agricultural products futures market continued to maintain a good development momentum, with a total turnover of 85.2 trillion Yuan, up 7.9% year on year.

The overall size of China's agricultural products futures market in 2022 and 2023 is still large. According to the statistics of China Futures Industry Association, the cumulative turnover of the national futures market in 2022 was 6.678 billion lots, with a cumulative turnover of 534.93 trillion Yuan. The overall size of the market remains at a high level.

This indicates that market participants' recognition of the agricultural products futures market has gradually increased, and the market liquidity has gradually enhanced. At the same time, the growth of trading volume and position holdings also provides more trading opportunities and liquidity for market participants. The above data fully demonstrate the development status and potential of China's agricultural products futures market. China's agricultural product futures market has developed into an important part of the domestic agricultural product market system, playing an important role in promoting agricultural production, ensuring food security, and promoting agricultural modernization [4]. In the future, with the constantly changing market environment and continuous technological progress, China's agricultural product futures market will continue to usher in new development opportunities and challenges.

3. Problem

As an important part of the futures market, the trading activity of the agricultural product futures market reflects the vitality and potential of the market. China’s futures market also started from agricultural product futures in the early 1990s. After more than 20 years of development, 21 agricultural product futures varieties such as corn, rice, wheat, soybean, and cotton have been listed and traded, among which white sugar, rapeseed meal, and soybean meal are the most actively traded varieties [5]. However, despite the market's certain prosperity, there are still problems such as inadequate institutional improvement, limited market influence, and limited risk management function.

3.1. Inadequate Institutional Improvement

China's agricultural product futures market, as an important part of the financial market, has a profound impact on the stability and growth of the agricultural economy. However, despite the certain progress in the number of varieties and trading scale in recent years, it’s time to face up to the fact that the lack of institutional improvement has become the core problem facing the current agricultural futures market. The existence of this problem not only affects the healthy operation of the market, but also restricts the development potential of the market to some extent. Market rules are the cornerstone of the stable operation of the futures market, but at present, our market rules are not mature and perfect. Some key market rules, such as trading rules and settlement rules, are inadequate in dealing with the complex and volatile market environment, making it difficult to provide a stable and transparent trading environment for market participants. In addition, the lack of regulatory mechanism also makes the market disorder frequent, such as market manipulation, insider trading and other violations occur from time to time, seriously damaging the fairness and impartiality of the market. Compared with the international futures market, the domestic futures market started late and has a huge space for development [6]. Therefore, there is still a large space for improvement in terms of market size and influence. After a long time of development and accumulation, the mature international futures market has formed a sound market rule, regulatory mechanism and rich market participant structure. In contrast, the system construction of China's agricultural product futures market is still immature and needs more practice and time to be optimized.

3.2. Limited Market Influence

Limited market influence is another problem that needs to be solved. As an important place for price discovery and risk management, the agricultural product futures market should have broad influence. However, the current size of China's agricultural product futures market is relatively small, with an obvious gap compared with the international mature market. This lack of scale makes it difficult for the market to attract more investors to participate, and thus affects the market's activity and liquidity. At the same time, the limited market size also limits the market's price discovery function, making it difficult to truly reflect the supply and demand relationship of agricultural products and market expectations. Product innovation is an important driving force for market development. However, the product innovation of China's agricultural product futures market is relatively lagging behind, lacking enough innovative varieties and trading methods. This not only limits the market's attractiveness, but also affects the expansion of market functions. In the context of globalization, the formation of China's agricultural product buyer's market and the development of agricultural industrialization make the market competition of agricultural products increasingly fierce, and the form of competition is constantly innovating [7]. The lack of innovation is difficult for products to meet the diversified needs of investors, and it is difficult to gain competitive advantages in the international market. In order to enhance the market influence, a comprehensive approach should be adopted from the market scale, investor structure, product innovation and other aspects.

3.3. Limited Risk Management Function

As an important part of the financial market, China's agricultural product futures market should play a crucial role in risk management. However, in reality, this core function has been restricted by many aspects and has not fully played its due role. This not only affects the healthy operation of the market, but also weakens the futures market's role in safeguarding the agricultural economy to a certain extent. First of all, the lack of awareness of risk management by market players is a key problem. In the eyes of many participants, the futures market is mainly regarded as a place for speculation, rather than a tool for risk management. This cognitive bias leads to the lack of sufficient risk awareness among many market players when participating in futures trading, making it difficult to effectively use futures tools to manage their own risks. At the same time, due to the lack of in-depth understanding of risk management, these market players often lack effective coping strategies when facing market fluctuations and are easy to fall into a passive situation. Secondly, the backward risk management tools and methods are also important factors restricting the risk management function of China's agricultural product futures market. Compared with the mature international futures market, our risk management tools are relatively simple, lack of sufficient innovation and flexibility. At the same time, the risk management methods are relatively backward, difficult to adapt to the complex and changeable market environment. This situation leads to the market subject in the face of risk, lack of effective tools and means to manage and control, thus limiting the play of risk management function. In addition, the irrational market structure also affects the play of risk management function to a certain extent. Compared with the mature market, China's capital market has a serious imbalance in investor structure, with individual investors accounting for the absolute majority and fewer institutions [8]. This structural imbalance leads to the market's lack of sufficient stability and risk resistance ability. In the face of market fluctuations, individual investors often lack enough experience and ability to cope, and institutional investors are difficult to play a stabilizing role due to insufficient participation. This irrational market structure makes it difficult to effectively play the risk management function.

4. Solution

4.1. Promote the Development of Market Diversification

In order to solve the problem of insufficient institutional perfection, the primary countermeasure is to promote the development of market diversification. Diversified market participants can bring more abundant risk management strategies, effectively improving the institutional perfection of China's agricultural futures market. The following specific measures can be taken:

Introduce institutional investors: Encourage insurance companies, pension funds, securities companies and other institutional investors to participate in the agricultural product futures market and increase the types of investors in the market. These institutional investors have strong financial strength and professional investment experience, which can bring more capital liquidity and risk management strategies to the market.

Improve market rules and systems: Strengthen market supervision, optimize market rules and systems, and ensure the fairness, justice and transparency of the market. Establish and improve the trading system, delivery system and risk management system, and improve the operation efficiency and risk management ability of the market.

4.2. Improve Relevant Laws and Regulations

In view of the problem that the market influence needs to be improved, the key is to improve relevant laws and regulations. This requires the review and revision of existing laws and regulations to ensure that they can adapt to the development needs of the market. The following measures can be taken:

Strengthen product innovation: Enhance the market's attractiveness and influence by launching new products that meet market demand. According to the market demand and trend, research and develop more varieties of agricultural product futures and derivatives to meet the diversified investment needs of investors.

Strengthen market publicity and promotion: Increase the publicity and promotion of the agricultural product futures market and improve the market's popularity and recognition [9]. Through the holding of exchange meetings and other ways, attract more investors to pay attention to and participate.

4.3. Strengthen Market Supervision

In order to improve the risk management ability of the agricultural product futures market, it is necessary to strengthen market supervision. Effective market supervision is an important means to maintain market order and prevent market risks. By strengthening the supervision and management of market behaviors, it can timely detect and correct market violations, providing participants with a more stable investment environment.

In order to improve the risk management ability of the agricultural product futures market, the following measures need to be taken:

Improve the risk management awareness of market players: strengthen the risk management education and training of market participants, improve their awareness and understanding of risk management [10]. Through the training of risk management knowledge, the release of risk management guidelines and other ways, improve the risk management ability of market participants. Improve risk management tools and methods: research and develop and promote more risk management tools and methods to meet the risk management needs of different market participants.

For example, develop more option products, launch more risk hedging tools, etc., to provide more choices and flexibility.

Strengthen international exchanges and cooperation: draw lessons from international advanced experience and conduct exchanges and cooperation with international futures markets. Introduce international advanced risk management technology and experience and improve the risk management capacity of the agricultural product futures market.

5. Conclusion

Through an in-depth analysis of China's agricultural product futures market, this paper reveals its important position in the global economy and its key role in domestic agricultural stability and national strategic resource security. The study points out that after more than 30 years of development, China's agricultural product futures market has formed a major exchange framework and shown a healthy growth trend. However, the market still faces a series of challenges such as limited market size, unreasonable participant structure, and inadequate market regulation. To solve these problems, the paper proposes countermeasures such as promoting market diversification, introducing institutional investors, improving market rules, strengthening product innovation and marketing, and improving risk management awareness and tool modernization. These suggestions aim to promote the comprehensive development of the agricultural product futures market and enhance its positive role in the global market. However, there are still some shortcomings in this paper when discussing the problems and countermeasures of China's agricultural product futures market. First, the detailed analysis of the market participant structure is not deep enough and fails to fully reveal the roles and interactions of various participants in the market. Secondly, although the thesis put forward some targeted countermeasures, it failed to fully integrate the latest trends and dynamics of domestic and international markets. It is hoped that future research can further improve these aspects, so as to provide a more comprehensive guidance for the healthy development of China's agricultural product futures market.

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