

Do You Know Your Onions?



Corn, soybeans, onions - Pick the odd one out.

Due to the fairly big clue in the headline, hopefully you said the odd one out is onions. And you would be right, but not for the reasons you might think.

Bitcoin has made, and lost fortunes, and has led to a bandwagon of crypto evangelists. GameStop shares went through a period of insane rises and drops, thanks to an inspired group of Reddit enthusiasts.

Onions have also made people millionaires and subsequently cost them their homes and businesses.

However, unlike Bitcoin and GameStop, or most investments you can think of, the price of onions was manipulated to such an extent in the USA that the Senate had to intervene!

In 1958, they enforced an act to prohibit trading in onion futures on commodity exchanges. Here is why;-

How One Man Tried to take over The Onion Industry, And Nearly Succeeded



It was spring, 1955, and Vincent Kosuga was an onion farmer in New York State with a big plan.

Kosuga wanted to be more than an onion farmer. He wanted to be the onion king, in control of the entire onion industry in the United States.

This onion farmer was not satisfied with just owning the onions he personally grew. He wanted to own the onions other farmers grew, both now and in the future.

To achieve this, he needed to manipulate the futures market.

A Simple Introduction To Futures.

Futures contracts are made in an attempt by producers, suppliers and buyers of commodities to avoid market volatility and lock in prices.

A buyer and a seller agree on a contract price for an item at a future date. Initially, futures were used for agricultural products and other commodities, but now can apply to financial products, shares, foreign currency, and interest rates.

The buyer of the future product is said to be the long position holder, and the selling party is said to be the short position holder.

Peeling Off the First Layer.



Kosuga wanted to control the price of onions by buying as many future onions as possible.

To do this, he partnered with a futures trader in Chicago, Sam Siegel, and entered into contracts with onion farmers to buy their onions.

It didn't take long for the two men to corner the onion market.

By the winter of 1955, onion futures contracts were the most traded product on the Chicago Mercantile Exchange. They accounted for 20% of its trades, and the two men owned 98% of the available onions in Chicago.

Kosuga had to build a warehouse to hold the 30 million pounds (13,600 Tonnes) of onions he now owned!

With a monopoly over onions, Kosuga and Siegel could now set the price, and they dramatically raised the price of onions to \$2.75 a bag. At the same time, the duo began selling their onions on the futures market, effectively taking short positions.

That Wasn't Enough for The Would Be Onion King.



In March of 1956, Kosuga started the second part of his scheme.

He began flooding the Chicago market with his onions. There were so many of them that the loading docks were full of 50-pound bags of onions, and lorries, loaded with onions, filled the dockyard.

Not content with having onions blocking all Chicago transportation, Kosuga wanted to give the illusion there was a never-ending supply. To do this, he would ship out any old onions, wash and repacked them, and then send them back to Chicago. This gave the impression there was a never-ending supply of fresh onions arriving in the city.

Onions Can Make You Cry.

This ridiculous oversupply of onions sent the price down to just 10 cents a bag. To put that price into perspective, the mesh bag they were stored in cost 20 cents.



All the traders who had taken long positions, i.e., agreed to buy onions from Kosuga at \$2.76 a bag lost a huge amount of money.

They were stuck with onions of no value and many of them were dumped in the Chicago River.

While the traders were crying, it was tears of joy for Kosuga. His onion futures scheme made him \$8.5 million, the equivalent of \$87 million today.

Not bad for onions.

The Moral of The Story - Don't Put All Your Eggs In One Basket - Or Onions In One Bag.

Many onion farmers across the country went bankrupt due to this scheme and complaints were made to Congress.

The Commodity Exchange Authority said Kosuga and Siegel had “a conspiracy to depress the prices in order to cover their short position.”



Kosuga was unrepentant and believed he had done nothing wrong, saying, “If it’s against the law to make money, then I’m guilty.”

There was an investigation, and the U.S. Senate Committee on Agriculture and House Committee on Agriculture held hearings on the matter.

Gerald Ford, future U.S. President, but at the time a Congressman, sponsored a bill known as the Onion Futures Act, which banned futures trading on onions.

So, onions are the only agricultural product in which it is illegal to trade futures in the USA. This is all thanks to Vincent Kosuga, and to this day, it makes it harder for onion farmers in the USA to plan their crops and agree prices accurately.



Vincent Kosuga subsequently returned to New York with his tail between his legs, where he opened a restaurant next to his farm, ironically called ‘Ye Jolly Onion Inn’.

He also focused heavily on philanthropy, so hopefully the onion profits went to some good use in the end.

A Hollywood Ending?



What do onions and movies have in common? Well, since 2010, they have at least one thing in common.

In 2010, Congress amended the Onions Futures Act to add one more futures contract that could not be traded: Hollywood box office receipts.

“No contract for the sale of motion picture box office receipts or onions for future delivery shall be made on, or subject to the rules of any board of trade in the United States.”

This means you can’t bet on whether a movie based on the Onion Entrepreneurs will be a box office hit.

I’m not putting all my onions in that bag.