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[Beyond futures: What water means to us](#)

By: Yijia Chen, CFA | & Jade Huang | March 22, 2021

Washington - History was made in December 2020 when the first water futures index began trading on the Chicago Mercantile Exchange. The underlying index tracks the price of water rights leases and sales transactions across the five largest and most actively traded regions in California. Since inception, the futures price has increased 10.24% as of February month-end, compared to 2.38% price increase of S&P 500 in the same time window.¹

Amid the heat waves, wildfires and long-lasting droughts in California, the index and futures provide a price indicator of water as a scarce commodity and as a financial product similar to oil and gold. However, the financial product has faced much criticism from the civil society and academia since its launch.

Water is more than a financial investment

As investors, we remain cautious with such types of financial instruments and its implications because it only reflects a small fraction of the true value of water. Global water challenges involve many environmental and social issues across spatial and temporal scales, with significant regional differences, and are much broader and more complicated than just water scarcity. Such major impacts are not factored in the index or futures pricing.

Beyond value

To better understand the real value of water, on this year's Water Day, UN-Water is launching its 2021 World Water Development Report. "Valuing Water" highlights four main factors: water to people, water to the economy, water to the environment and water to the societies.

Access to clean water and sanitation are recognized as basic human rights by the United Nations, and they are also among the most pressing water-related challenges. This isn't just a problem in developing countries. After the February winter storm in Texas, as the snow melted and the lights flashed back on, many residents learned the hard lessons of what life is like without clean water. The physical water scarcity was not the issue, but the challenge was gaining access to clean water for basic health and sanitation. Without water service, people were forced to boil melting snow for drinking, which was an emergency solution but cannot guarantee clean and safe water.

Humans are not the only water users in the world. Water nurtures all life on this planet, and the availability of water is a key driver of aquatic ecosystems, their forms and functions that are equally critical to human's survival. However, the increasing demand for water, along with other unsustainable human activities, has diminished the amount and quality of water for ecosystems, negatively impacting flora and fauna that depend on water. For example, a 2020 research report shows populations of migratory freshwater fish species have declined by an average of 76% from 1970 to 2016, including a 93% collapse in Europe and an 84% decrease in Latin America and the Caribbean.² The main threats include overextraction of water, pollution, hydropower, overfishing and climate change. All of these are inextricably linked to human use and impact.

Bottom line: Valuing water risk has never been more important. In addition to traditional metrics, financial products in the marketplace today should take into account the environmental and social value of water.

1. Price data was extracted from FactSet on March 1, 2021.

2. "The Living Planet Index (LPI) for migratory freshwater fish - Technical Report," World Fish Migration Foundation, The Netherlands, 2020.



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