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A STUDY OF COMMODITY MARKET IN INDIA

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Abstract

A commodity is any good produced by human labor not natural and offered as a product for general sale on the market.

This paper discusses about the structure of commodity market in India, what are the different ways of investing in commodity, how it works .The commodities market will have three broad categories of market participants apart from brokers and the exchange administration - hedgers, speculators and arbitrageurs. Brokers will intermediate, facilitating hedgers and speculators. The government has now allowed national commodity exchanges, similar to the BSE & NSE, to come up and let them deal in commodities in an electronic trading environment, in this regard, four commodity exchanges have been approved to commence business in this regard. They are: 1) Multi Commodity Exchange (MCX) located at Mumbai 2) National Commodity and Derivatives Exchange Ltd (NCDEX) located at Mumbai 3) National Board of Trade (NBOT) located at Indore 4) National Multi Commodity Exchange (NMCE) located at Ahmedabad

Keywords

Commodity Markets, Commodity Exchanges, Market Participants

Introduction

A commodity market is a market that trades in primary economic sector rather than manufactured products. Soft commodities are agricultural products such as wheat, coffee, cocoa, fruit and sugar. Hard commodities are mined, such as gold and oil.

The commodities market works just like any other market. It is a physical or a virtual space, where one can buy, sell or trade various commodities at current or future date.
One can also do commodity trading using futures contracts. A futures contract is an agreement between the buyer and the seller, wherein the buyer promises to pay the agreed-upon sum at the moment of the transaction when the seller delivers the commodity at a pre-decided date in the future.

A farmer can thus buy wheat futures to fix a price at which he would want to sell a certain amount in future. Similarly, a trader might buy or sell wheat futures for delivery on a future date at a price decided now.

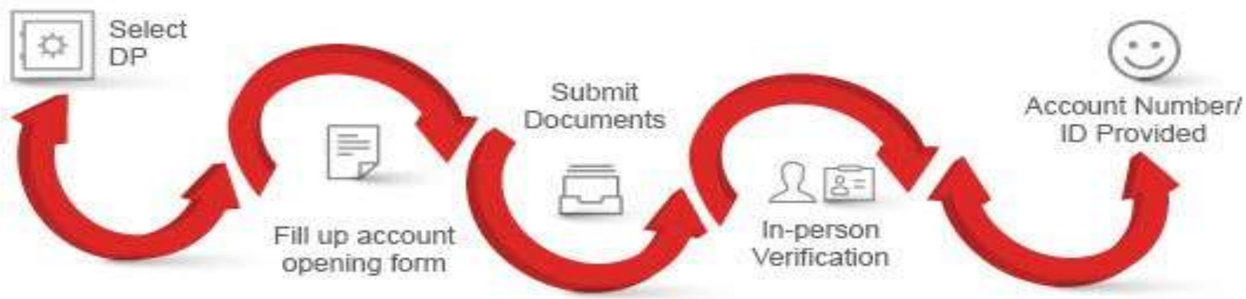
Trading in commodity futures

There are three options:

- ✓ The National Commodity And Derivative Exchange,
- ✓ The Multi Commodity Exchange Of India Ltd And
- ✓ The National Multi Commodity Exchange of India Ltd.

Procedure to start trading in commodity futures

- ➢ Should open a Bank account.
- ➢ Separate commodity demat account from the National Securities Depository Ltd to trade on the



For Example

100 gms of gold may be worth Rs 72,000.

The margin for gold set by MCX is 3.5%. So you only end up paying Rs 2,520.

So you bought the Gold Futures contract when it was Rs 72,000 per 100 gms.

The next day, the price of gold rose to Rs 73,000 per 100 gms.

Rs 1,000 (Rs 73,000 – Rs 72,000) will be credited to your account.

The following day, the price dips to Rs 72,500.

Rs 500 will get debited from your account (Rs 73,000 - Rs 72,500).

Selection of broker

Following is the list of brokers investor can choose among them.

- SSKI (Sharekhan)
- Sunidhi Consultancy
- Refco Sify Securities
- ISJ Comdesk (ISJ Securities)
- ICICI commtrade (ICICIdirect

Objectives of study

- To study the how to make investments in commodity market.
- To study the different segments of Indian Commodity Markets
- To study How commodity market works.
- To study the history and evolution of Indian Commodity Market.
- To study the different forms of investing in Indian commodity markets

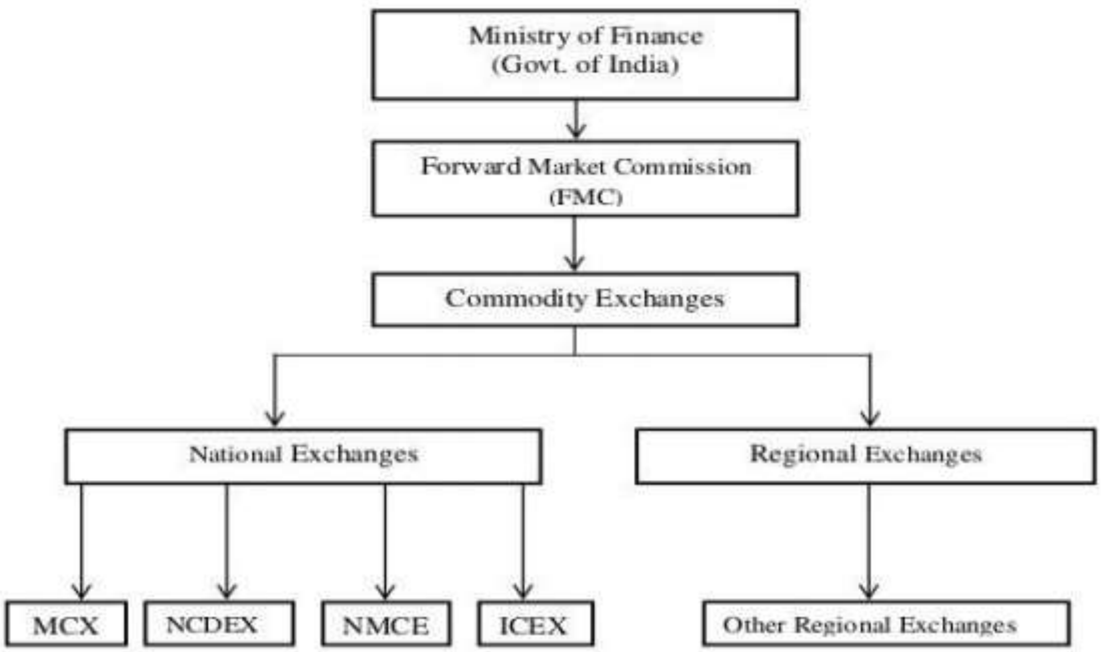
Review of Literature:

After Studying the literature available on the commodity market in general, we get a theoretical explanation for the emergence of commodity market. There are many studies which examines the market efficiency and price forecasting. Sumit Gupta (2008) explains the economic functions of the commodity futures market, regulations of the commodity derivative market and the present scheme of regulation in Indian commodity derivatives market and the economic functions of the commodity futures market includes market creation by entering into futures contract. The regulation of commodity market is required to ensure that market efficiently performs the twin economic functions of price discovery and price risk management to properly integrate spot and futures prices, to provide protection against risk of volatility in prices. Pravakar sahoo and Rajiv Kumar (2009) has evaluated that trading in commodity derivatives on exchange platform is an instrument to achieve price discovery, better price risk management besides helping macro economy with better resource allocation. The govt. has proposed to impose transaction tax by 0.017% of trading volume in the 2008-2009 budgets. He examine the efficiency and futures trading price nexus for 5 top selected commodities namely gold, copper, petroleum crude, soya oil and chana in commodity futures market in India. He suggests that commodity futures market is efficient for all 5 commodities. Further he has not supported that futures market leads to higher inflation due to lack of evidence.

Research Methodology

The data for the paper was selected from secondary sources. Secondary data was collected from different sources like Websites, Research papers text book related topics, magazines, reputed journals, newspapers, and various internet sources like www.mcxindia.com, www.ncdexindia.com, www.nmceindia.com, www.fmce.gov.in and other publications. The various reports and records issues as maintained by Government of India (GOI) are also used in this study.

Structure of Commodity Markets in India



Different types of commodities traded

Different participants in commodity markets

There are different participants in the commodity markets who are classified into three categories as follows:

1) Hedgers

This category of people use derivatives to either raise or reduce the risk associated with the price of the asset.

2) Speculators

They use derivatives to get extra leverage by laying a bet on future movements in the price of an asset.

3) Arbitrageurs

They use derivatives primarily for the purpose of taking advantage of inconsistency between the prices of an asset prevailing in the two markets, by taking opposite positions.

Conclusion

India is one of the top producers of a large number of commodities ranging, with a long history in its trading commodities and commodity derivatives. These markets have been experiencing ups and downs since its inception, but with strengthening of the working our country has been able to bring a degree of stability to this market. It has been progressing in terms of technology, transparency and trading activity with the removal of government protection from a number of commodities. This action of our government has thus, allowed the market forces i.e. supply and demand, to rule the commodity. Thus the step proves to be a big lesson for all the developing economies that the pricing and price risk management should be left to the market forces rather than to be dependent on the administered price mechanism. As the management of price risk is going to assume greater importance in future with the promotion of free trade in the world.

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Bio

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