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## AN ANALYSIS OF PAST AND PRESENT STATUS OF COMMODITY DERIVATIVES MARKET IN INDIA

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**Abstract:** *In this study an attempted to focus on development and present status of Commodity Derivatives Market in India. The emergence and growth of derivatives market has been witnessed by increased risk in the financial market. The derivatives market hedge the risk of traders, by providing a risk management tool in the market. It is characterized by high volatility in terms of prices and volume of contracts in the market. The commodity derivatives are the first instrument used to secure the farmers by protecting them against the price risk. A large volume of derivatives trading are linked to currency and interest rate derivative as compared to commodity derivative. However, commodity derivative market is very large as compared to underlying physical commodity market. India has a long presence of commodity derivatives trading. Commodity derivatives market has been functioning in India since 19<sup>th</sup> century. The first organized commodity derivatives market started in 1875 in India. However, by mid 1960s government took a drastic step by banning derivatives trade altogether. The commodity derivatives market remained virtually absent in next decades and it made the restart only in early 2000s. Since its reintroduction it is thriving and the current trend shows strong growth potential of the market, although, the actual growth trajectory will depend upon the attitude of the policy makers and the efficiency of the regulatory mechanism. Commodity derivatives market has occupied imperative position in Indian economy since the establishment of Forward Markets Commission (FMC) in April 2003. There are 6 national and 16 regional commodity exchanges recognized and regulated by this commission (FMC).*

**Keywords:** *Commodity Market, Commodity Derivatives Market, Forward Markets Commission.*

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## **INTRODUCTION**

Derivatives were developed centuries ago as financial instruments to hedge risk associated with price fluctuations. Although derivatives was initially conceived for the commodity market, in recent years there had been a tremendous development in financial derivatives market both in terms of trade volume and in the variety of instruments used. The expanding domain of the derivatives market is primarily induced by the huge volatility in the global financial and commodity market and facilitated by the revolution in information technology. Commodity derivatives markets trades in basic and raw products under standardized contracts in regulated commodity exchanges. Although commodity derivatives were traditionally developed for risk management however in recent years they are growing in popularity as investment tools. Thus a contemporary commodity derivatives market provides a risk adverse participant to secure his position as a hedger while at the same time allow speculators and arbitrageurs to operate to profit from the uncertainty that prevails in the market. commodity derivatives trade contracts for which the underlying assets is a commodity like, wheat, soyabean, cotton etc or precious metal like Gold and Silver.

Commodity derivatives made their appearance before financial derivatives in the world and also in India. Informal trading in commodity derivatives was there even in ancient India, but the formal market took shape in the late 19<sup>th</sup> century. However, the growth path of the Indian derivative market was not smooth. Trading remained banned for a long period of time since 1966 and it was reintroduced in the early 2000s. The commodity derivative market in India has achieved substantial development in term of transparency, technology and trading activities. The year 2002-03 was a watershed year in the history of commodities with the establishment & recognition of 3 national exchanges with online trading & professional management. At present, there is a three tier regulatory system for commodity derivatives market viz. the Central Government, Forward Markets Commission (FMC) & recognized exchanges. At present the Indian commodity derivatives market adopts a two-tier structure for the mechanism of the system, viz. Regional structures and Country wide structure. The regional exchanges are permitted to only a limited number of contracts whose membership is local. The country wide national exchanges are multi-commodity electronic exchanges with a decentralized ownership pattern. Currently there are 22 recognized commodity exchanges market working at country level in our country, out of



which 6 national commodity exchanges markets are the prime regulators. The 6 national commodity exchanges are; MCX, NCDEX, NMCE, ICEX, ACE, and UCX. Commodity Derivatives trading in India are currently permitted in 6 national and 16 regional level commodity specific exchanges. The commodity derivatives markets in India are regulated by the Forward Markets Commission of India established in 1953. The present study attempts to discuss the past and present status of commodity derivatives market in India.

## OBJECTIVES OF THE STUDY

The objectives of this study are as follows:

1. To study the commodity derivatives market in India.
2. To know the development of commodity derivatives market in India.
3. To analyze the present status of commodity derivatives market in India.

## REVIEW OF LITERATURE

**Vashishtha Ashutosh and Kumar Satish (2010)** in his paper *“Development of Financial Derivatives Market in India- A Case Study”* investigated the innovation of derivatives have redefined and revolutionized the landscape of financial industry across the world and derivatives have earned a well deserved and extremely significant place among all the financial products. Derivatives are risk management tool that help in effective management of risk by various stakeholders. Derivatives provide an opportunity to transfer risk, from the one who wish to avoid it; to one, who wish to accept it. India’s experience with the launch of equity derivatives market has been extremely encouraging and successful. They found that the derivatives turnover on the NSE has surpassed the equity market turnover. Significantly, its growth in the recent years has surpassed the growth of its counterpart globally. **R. T. Nirmal Kumar and Balaji .K (2011)** in his paper *“An Empirical Investigation on the Investors’ Perception towards Commodities Futures Trading in India with Special Reference to Puducherry, India”* examined the empirically investigates the Investors Perception towards commodities Futures trading in India. Since 2004, the development of commodity derivatives markets has been impressive. It was observed that though derivatives trading commenced in the securities market only in June 2000 it was growing at great speed while the commodity derivatives markets which were operational for about 48 years by then was only gradually waking up. It is very evident that Institutional players are restricted to participate in Commodities futures trading in India. Thus the major player in



Commodities Futures market is the Retail Investors. This study has been taken to identify the Investors perception towards Commodities futures trading and the level of awareness towards Commodities Futures trading. The research design chosen is descriptive. The data was collected using a questionnaire that consists of closed and open ended questions. Convenient sampling method is employed. The statistical analyses were performed by using Chi Square, Weighted average Method, One Way ANOVA and Rank Correlation. **Nissar A. Barua and Devajit Mahanta (2012)** in his study *“Indian Commodity Derivatives Market and Price Inflation”* investigated the acting on the premise that speculation in commodity derivatives market was inducing steep price rise in agriculture commodities, the government ordered delisting of futures contracts in red gram, black gram, chickpeas, wheat, rice, potato, refined soybean oil, and rubber. The ban resulted in a huge loss of trading volumes for the commodity derivatives exchanges, but did not have any significant impact on food prices despite claims by the government that the adoption of such a strategy would help to curb inflation as speculators in derivatives markets drive up prices beyond their true value. **Soumya Mukesh (2013)** in his study *“The Role of Derivatives in the Commodity Market”* examine that the Commodity derivatives have a crucial role to play in the price risk management process especially in any agriculture dominated economy. Derivatives like forwards, futures, Options, swaps etc are extensively used in many developed as well as developing Countries in the world. However, they have been utilized in a very limited scale in India. The production, supply and distribution of many agricultural commodities are controlled by the government and only forwards and futures trading are permitted in certain Commodity items. **Prashanta Athma and K. P. Venu Gopala Rao (2013)** in his paper *“Commodity Derivatives in India: A Study of MCX Comdex”* investigated the Comdex is a notional Index which is not traded unlike its counterparts on the National Stock Exchange of India Limited (NSE). Comdex acts a barometer reflecting the sentiments of the market participants in the various segments of commodity like Agriculture, Metal and Energy. The analysis of the data reveals that the markets are efficient in the price formation and transmission of information between both the markets. The Comdex reveals that the average Futures prices are greater than the average Spot prices due to the fact that the Comdex is a combination of both perishable and non perishable commodities. The Futures showed the leadership in the markets which is noticed in the CCF plot and is also supported



by the Multiple Regression where the Futures had a stronger influence in predicting the Spot prices and similar results were seen in the Vector Error Correction Model and the Granger Causality. **Nilanjana Kumari (2014)** in his paper *“Recent Trends in Commodity Markets of India”* examine that the India is one of the top producers of a large number of commodities ranging from agricultural to non-agricultural products, with a long history in its trading market. 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. 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. **Shalini H S and Raveendra P V (2014)** in his study *“A Study of Derivatives Market in India and its Current Position in Global Financial Derivatives Markets”* investigated the Financial derivatives have earned a well deserved extremely significant place among all the financial instruments (products), due to innovation and revolutionized the landscape. Derivatives are tool for managing risk. Derivatives provide an opportunity to transfer risk from one to another. They found the Notional value of option on the NSE increased from 1195.691178 lakhs USD I 2003 to 354648.1941 lakhs USD in 2012 and notional value of NSE futures increased from 14329.35627 lakhs USD in 2003 to 39228.38563 lakhs USD in 2012. **Pandy Periasamy (2015)** in his paper *“A Study on Performance of Indian Commodity Futures Market - In the Commodity Exchanges Perspective”* examined the Indian commodity exchanges have performed and still lot of hope for improvement in the years to come, but that connotation will lead to list so many factors in the Indian commodity derivative market. Though the study has clearly explained what the major contributions are done by the respective exchanges which commodities have contributed more in the total traded volume during the year which starts from April 2012 to March 2013. Now there are Five National level Commodity Exchanges in India, namely, MCX, NCDEX, NMCE, ACE, & ICEX which dominate the market. Almost 113 commodities (agricultural and non- agricultural) are traded in 19 exchanges. The volume of trade has increased from Rs. 34, 84,485 crore in 2006 to Rs. 170 lakh crore in 2013. Derivatives provide hedging opportunities and helps for price discovery.



## **RESEARCH METHODOLOGY**

The objectives of this study are to know the legal framework and recent developments in the Indian commodity derivatives market. The present study is conducted on commodity derivatives market in India. The study is descriptive in nature. The literature and data are mainly based on secondary a source, which has been collected from commodity market and their various publications, text books related topics, magazines, reputed journals, research paper & various internet sources like [www.mcxindia.com](http://www.mcxindia.com), [www.ncdexindias.com](http://www.ncdexindias.com), [www.nmceindia.com](http://www.nmceindia.com). [www.fmce.gov.in](http://www.fmce.gov.in) commodity market bulletins, annual reports of FMC and other publications. The various reports and records issues and maintained by the Government of India (GOI) are also used in the study. There is no tool applied to turnover of commodity derivatives market.

## **DEVELOPMENT OF COMMODITY DERIVATIVES MARKET IN INDIA**

The commodity derivatives market in India is as old as those of USA. The history of organized commodity derivatives in India goes back to the 19<sup>th</sup> century when Cotton Trade Association started futures trading in 1875, about a decade after they started in Chicago. The association started trading in cotton futures. Organized futures' trading in oilseeds was started in India with the setting up of Gujarat Vyapari Mandali in 1900. Subsequent to this many associations were floated at different points in time at different places to trade in derivatives in different commodities. Forward trading in wheat had been functioning at Hapur (UP) since 1913. Forward trading in Raw Jute and Jute Goods began in Calcutta with the establishment of the Calcutta Hessian Exchange Limited in 1919. Later East Indian Jute Association Limited was set up in 1927 for organizing futures trading in Raw Jute. These two associations amalgamated in 1945 to form the present East India Jute & Hessian Limited to conduct organized trading in both Raw Jute and Jute goods. Futures trading in bullion Bombay in 1920 and later similar markets came up at Rajkot, Jaipur, Jamnagar, Kanpur, Delhi and Calcutta. However, derivatives were considered speculative and detrimental to the commodity markets. The enactment of Defence of India Act, 1935 made futures trading subject to restrictions and prohibitions from time to time. In 1939, the options trading in cotton was banned by the Government of Bombay to restrict the speculative activity in cotton markets. In subsequent years, forward trading in various commodities like oilseeds, food grains, vegetable oils, sugar and cloth were also prohibited. The commodity derivatives



market in India underwent rapid growth between the period of First and Second World War. A large number of commodity exchanges trading future contracts in several commodities like wheat, rice, cotton, groundnuts, groundnut oil, raw jute, jute goods, castor seed, sugar, precious metal like gold, silver were flourishing throughout the country, before the outbreak of Second World War. Under the Defence Act of India, commodity trading came too prohibited during the Second World War.

After independence, the Constitution of India brought the subject of stock exchanges and futures markets in the union list. In December 1952, Forward Contracts (Regulation) Act, 1952 (FCRA) was enacted. This was followed by the setting up of Forward Markets Commission (FMC) in September 1953. FMC is the regulatory authority for commodity derivatives markets in India even today. In July 1954, the Forward Contracts (Regulation) Rules were framed. The (FCRA) Act envisages three-tier regulation: (a) The Exchange which organizes forward trading in commodities can regulate trading on a day-to-day basis; (b) the Forward Markets Commission provides regulatory oversight under the powers delegated to it by the central Government, and (c) the Central Government - Department of Economic (Affairs, Ministry of Finance) is the ultimate regulatory authority. The first organized future trading was started by India Pepper and Spices Trade Association (IPSTA) in Cochin in 1957. Forward trading was banned in 1960s except in pepper, turmeric, castor seed and linseed. This was due to wars, natural calamities and the consequent shortages. In 1977, the futures' trading in castor seed and linseed was also suspended. In 1980s, on the basis of the recommendations made by Khusro Committee forward trading in potato, gur and castor seed was allowed. But, it is only after the initiation of the liberalization process in the early 1990s, did these markets assume importance once again. The Government set up a committee under the chairmanship of Prof. K.N. Kabra in 1993 to examine the role of futures trading in the context of liberalization and globalization. The committee recommended the resumption of futures trading in 17 commodity groups. The suggestions by the committee also included the need for strengthening FMC and the amendment of FCRA. In response to these recommendations, the Government of India permitted the futures trading in all the commodities that the commission recommended except bullion and basmati rice. In 1998, forward trading in cotton and jute goods were permitted. The year 1999 saw the revival of the derivatives trading in some oilseeds. The National Agriculture



Policy in July 2000 announced that the government would like to encourage futures trading in a large number of commodities to minimize the wide fluctuations in commodity prices and also allow the hedging. The Finance Minister in his Budget Speech on February 28, 2002 indicated that the futures and forward trading would be expanded to include all agricultural commodities. The real respite for the derivatives markets in commodities came on April 1, 2003 when the Government of India issued a notification rescinding all previous notifications which prohibited futures trading in a large number of commodities in the country. This was followed by another notification in May 2003 revoking the prohibition of non-transferable specific delivery forward contract.

National level Multi Commodity Derivative Exchanges have witnessed remarkable growth since 2002. National-level commodity Derivative exchanges are: National Multi- Commodity Exchange of India Ltd. (NMCE), India's first demutualised, electronic, multi-commodity exchange, which have been working since 26<sup>th</sup> November 2002, Multi Commodity Exchange of India Limited (MCX), & National Commodity and Derivatives Exchange Limited (NCDEX), demutualised online multi- commodity exchange started since 10<sup>th</sup> November 2003, and 15<sup>th</sup> December 2003 respectively. Commodity derivatives have witnessed remarkable growth since 2003; nevertheless fingers were still being pointed accusing futures trading for rising inflation in agricultural commodities. Four essential commodities- wheat, urad, tur and rice faced futures trading ban toward the end of 2006-07. An Expert Committee was set up under the Chairmanship of Prof. Abhijit Sen to examine the extent to which futures trading had contributed to price rise in agricultural commodities. The Committee was unable to find any causal relationship between price rise and futures trading in view of the short time period during which the futures market have functioned & the complexities that arise because of a large number of variables that impact spot prices. A 4<sup>th</sup> National Commodity Exchange namely, Indian Commodity Exchange (ICEX), as nation-wide multi-commodity exchanges, which commencement in 2009. Ace Derivatives and Commodity Exchange Limited (ACE) was set up in 2010 as 5<sup>th</sup> National Commodity Exchange of India. It has registered office at Ahmadabad and corporate office at Mumbai. The Ministry of Consumer Affairs, Food & Public Distribution, Government of India, vide Notification dated 30<sup>th</sup> August, 2012, granted recognition to the Universal Commodity Exchange Ltd (UCX), Mahape, Navi Mumbai on a permanent basis in respect of forward contracts in all the



commodities in which Section 15 is applicable and the commodities to which neither Section 17 nor Section 15 of the Forward Contracts (Regulation) Act, is applicable. Universal Commodity Exchange Limited, (UCX) Mumbai, was set up in 2012 as 6<sup>th</sup> National Commodity Exchange of India. These exchanges can offer futures contracts in all the commodities subject to the approval of the Commission (FMC).

**Important Commodity Derivative Contracts:**

Derivatives are financial contracts, which derive their value from an underlying asset. The underlying asset can be equity, commodity, exchange, interest rates, real estate or any other asset. Broadly four types of derivatives are traded, namely forward, futures, options and swaps.

(1) **Forward Contracts:** Forwards, or forward contracts, are agreements to buy or sell an asset at a particular time in the future. A forward contract is an agreement to buy or sell an asset at a certain future time for a certain price. It is traded over-the-counter market-usually between two financial institutions, or between a financial institution and its clients. A forward contract is a customized contract between two parties, where settlement takes place on a specific date in future, at a price agreed today.

(2) **Futures Contracts:** A futures contract is an agreement for buying or selling a commodity for a predetermined delivery price at a specific future time. Futures are standardized contracts that are traded on organized futures exchanges that ensure performance of the contracts and thus remove the default risk. The commodity futures have existed since the CBOT was established in 1848 to bring farmers and merchants together. Futures are exchange traded contracts to sell or buy financial instruments or physical commodities for future delivery at a price agreed today. There is an agreement to buy or sell a specified quantity of financial instrument/commodity in a designated future month at a price agreed upon by the buyer and seller.

(3) **Option Contracts:** Like futures, options are also commodity option holder has the right, but not the obligation, to buy or sell a specific quantity of a commodity at a specified price on or before a specified date. Option contracts involve two parties- the seller of the option writes the option in favour of the buyer who pays a certain premium to the seller as a price for the option. There are two types of commodity options: 'call' option gives the holder a



right to buy a commodity at an agreed price, while a 'put' option gives the holder a right to sell a commodity at an agreed price on or before a specified date (called expiry date).

(4) **Swaps Contracts:** A swap is an agreement to exchange one set of cash flows for another. One common type of swap contract is the fixed or floating interest rate swap, in which the cash flows of a fixed rate asset are exchanged for those of a floating rate asset. Interest rate swaps are very versatile and can lead to creative investment strategies. For example, combining an interest rate swap with a fixed rate bond changes the asset mix from fixed to floating rate exposure quickly, efficiently, and with virtually no costs associated with transitioning a portfolio.

#### **Regulatory Body of Commodity Derivatives Market in India:**

The Forward Markets Commission (FMC) is a statutory body set up in 1953 under the Forward Contracts (Regulation) Act, 1952. Forward Markets Commission, is a regulatory authority for commodity derivatives market in India. It functions under the administrative control of Ministry of Finance (Department of Economic Affairs), with its headquartered at Mumbai and a regional office at Kolkata. The Forward Markets Commission is organized into ten administrative divisions to carry out its various tasks. The Act provides that the Commission shall consist of not less than two but not exceeding four members appointed by the Central Government, out of them one being nominated by the Central Government to be the Chairman of the Commission.

The FMC is a regulatory authority of commodity derivatives market in India. The Commission allows commodity derivatives trading in 22 exchanges in India, of which 6 are national exchanges. The major national exchanges are; MCX, NCDEX, NMCE, ICEX, ACE, and UCX. These on-line national commodity exchanges have been organized for conducting derivatives trading activities in all commodities, to which section 15 of the Forward Contracts (Regulation) Act, 1952 is applicable, and other commodities subject to the approval of the Forward Markets Commission. At present, there are three tiers of regulations of derivatives trading system in India, namely, government of India, FMC and commodity exchanges.

#### **Need of Commodity Derivatives Market in India:**

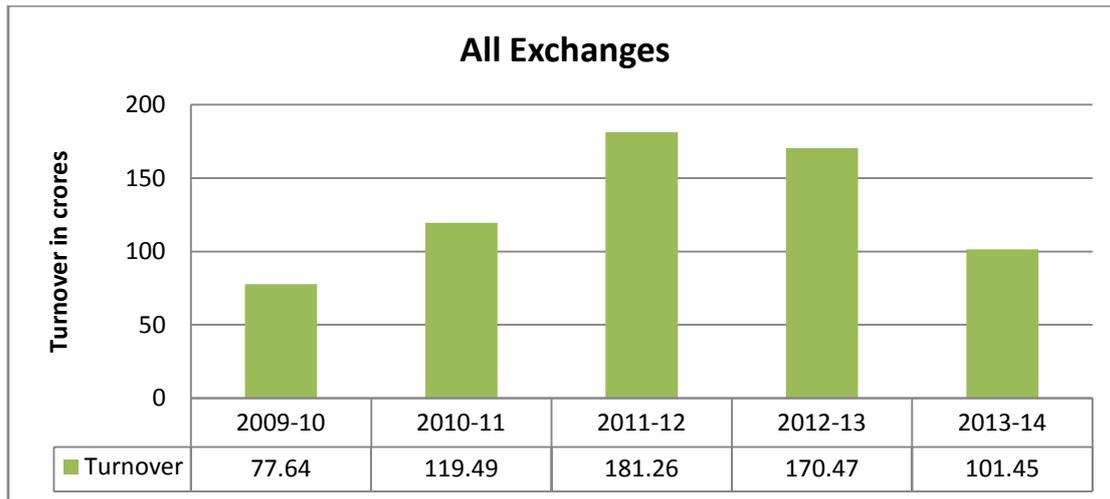
India is among top producers of most of the commodities, in addition to being a major consumer of bullion and energy product. Agriculture contributes about 22% of Gross



Domestic Product (GDP) of Indian economy. It employs around 57% of the labor force on a total of 163 million hectares of land. Agriculture sector is an important factor in achieving a Gross Domestic Product (GDP) growth rate of 8-10%. All this indicates that India can be promoted as a major centre for trading commodity derivatives. It is common knowledge that prices of commodities, metals, shares and currencies fluctuate over time. The possibilities of adverse price change in future create risk for business. It is important to understand why commodity derivatives are required and the role they can play in risk management. It is common knowledge that prices of commodities, metals, shares and currencies fluctuate over time. The possibility of adverse price changes in future creates risk for businesses. Derivatives are used to reduce or eliminate price risk arising from unforeseen price changes. A derivative is a financial contract whose price depends on, or is derived from, the price of another asset.

### **PERFORMANCES OF COMMODITY DERIVATIVES EXCHANGES IN INDIA**

One of the important recommendations of the Kabra committee was modernization of traditional commodity exchanges. The traditional commodity exchanges were extremely regional-centric. Hence, along with the removal of prohibition on futures trading, FMC took steps to set up modern electronic commodity exchanges on a national level. As of now, there are 22 exchanges where commodity derivatives are traded. Today six of these electronic commodity exchanges - National Multi Commodity Exchange Limited (NMCE), Multi Commodity Exchange Limited (MCX), National Commodity and Derivatives Exchange Limited (NCDEX), Indian Commodity Exchange Limited (ICEX) as nation-wide multi-commodity exchanges, Ace Derivatives and Commodity Exchange Limited (ACE) and the Universal Commodity Exchange Limited (UCX) - are national level commodity exchanges. NMCE was the first exchange to be granted permanent recognition by the Government; it commenced futures trading in 24 commodities in 2002. As of now, it offers futures trading in 67 commodities which include agricultural commodities, metals, spices, pulses, etc. NCDEX facilitates trading in 56 commodities currently through its members in 550 centers spread throughout India. NCDEX has emerged as India's 2<sup>nd</sup> largest commodity exchange. MCX is India's first largest commodity exchange.

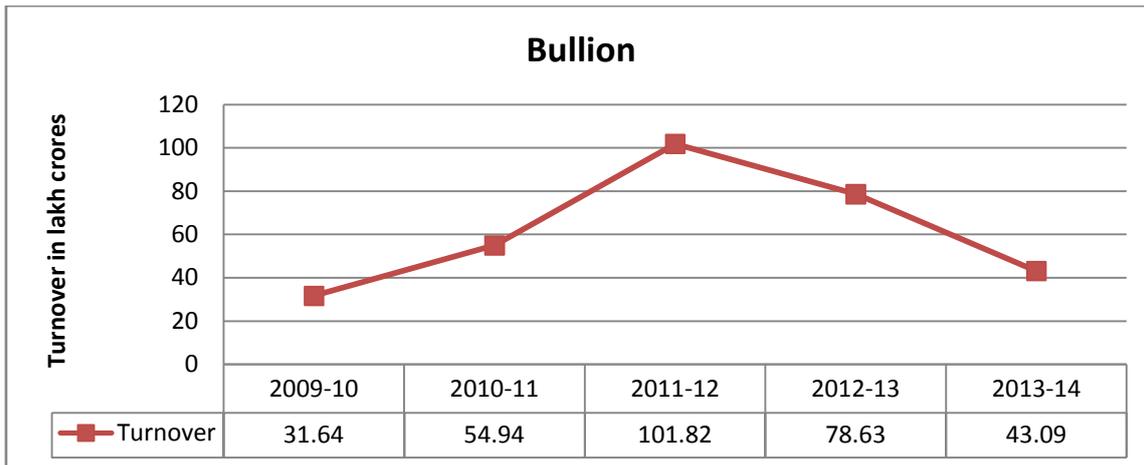


Source: [www.fmc.gov.in](http://www.fmc.gov.in) (Forward Markets Commission)

**Figure 1 Turnover of Commodity Derivatives Exchanges during 2009-10 to 2013-14**

The growth in the commodity derivatives trading witnessed in 2009-10 continued through 2011-12. The total value of trade increased sharply from Rs 77.64 lakh crore in 2009-10 to Rs 181.26 lakh crore in 2010-11, similarly value of trade decreased from Rs 170.47 lakh crore in 2012-13 to Rs 101.45 in 2013-14. The growth in the value of trading has been primarily propelled by Multi-MCX, NCDEX, and NMCE. These three commodity exchanges (MCX, NCDEX & NMCE) account for a large share of the number of contracts traded on the exchanges. As of year 2013-14, the exchange's turnover was around Rs 10144794.98 lakh crore. These exchanges have tried to address the key problems that have plagued the commodity exchanges of the country. These modern commodity exchanges facilitate online electronic trading that has nationwide reach. These demutualised commodity exchanges are technology driven and have adopted international best practices of risk management for trading, clearing and settlement. This has boosted commodity derivative trades in the country. The total one way turnover in value terms in commodity derivatives market registered an increase of about Rs. 77, 64,757.050 lakh crore in 2009-10 to Rs 181, 26,103.78 lakh crore in 2011-12, whereas value of trade decreased to Rs 17046840.09 lakh crore in 2012-13. As of 2013-14 the value of trade was at Rs 10144794.98 lakh crore. (FMC) As of (April-March) 2013-14, FMC reports that about 99.72% of the value of commodities derivatives trading takes place on these 6 national commodity exchanges.

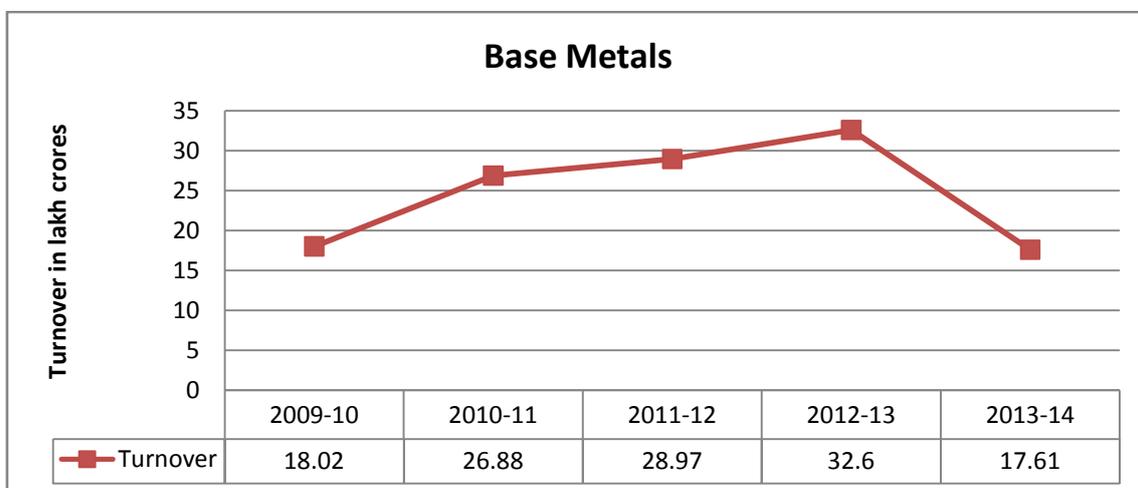
#### **Annual Growth of Commodity Groups in Indian Commodity derivatives market**



Source: [www.fmc.gov.in](http://www.fmc.gov.in) (Forward Markets Commission)

**Figure 2 Performance of Bullion**

The Figure 2 shows the annual growth of commodity derivatives market in India for period 2009-10 to 2013-14, which indicates an increasing and decreasing trend in value of traded commodities although it shows a mixed trend related to the trading the value of trade is increasing/decreasing in years. The total turnover of the bullion trading increased from Rs 31.64 lakh crore in 2009-10 to Rs 101.82 lakh crore in 2011-12, whereas bullion trading decreased from Rs 78.63 lakh crore in 2012-13 to Rs 43.09 lakh crore in 2013-14. In the year 2013-14 the bullion is the highest traded commodity with 43% share and value of Rs 43.09 lakh crore, followed by the energy products with value of Rs 24.72 lakh crore and share of 24%, base metals with a value of Rs 17.61 lakh crore and share of 17% and the agricultural products quote value of Rs 16.02 lakh crore sand 16% share.

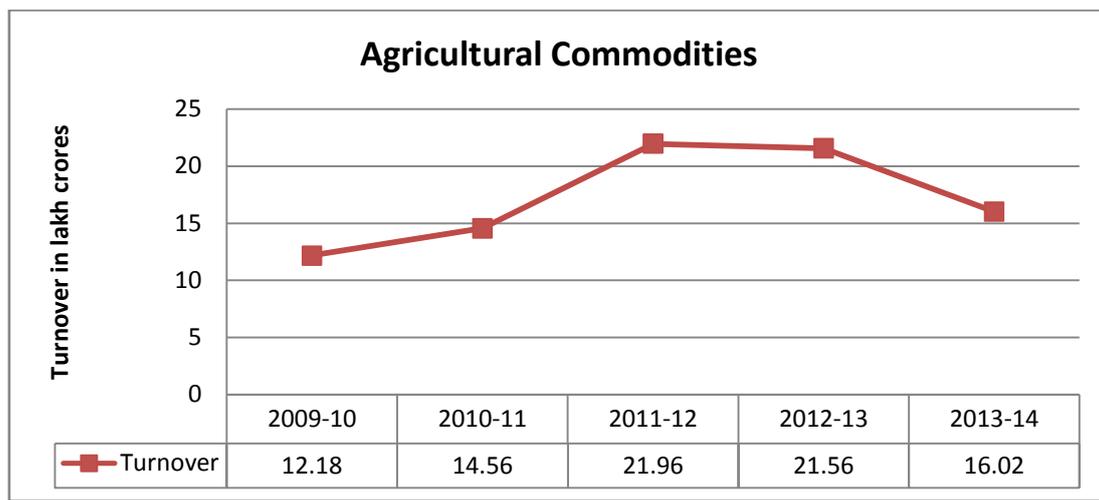


Source: [www.fmc.gov.in](http://www.fmc.gov.in) (Forward Markets Commission)

**Figure 3 Performances of Base Metals**



Figure 3 shows the share of commodity group in total volume of trade in the commodity derivatives trading for period 2009-10 to 2013-14. At present, futures contracts are available for over 113 commodities across the country. The above figure shows that base metals second highest commodities groups in India, continues to be the leading share holder in commodity derivatives market from the period 2009-10 to 2013-14. The share of base metals in 2009-10 was 18.02 lakh crore, which rose to 32.6 lakh crore in 2012-13, while base metals total value of trade decreased the share of 17.61 lakh crore in 2013-14.

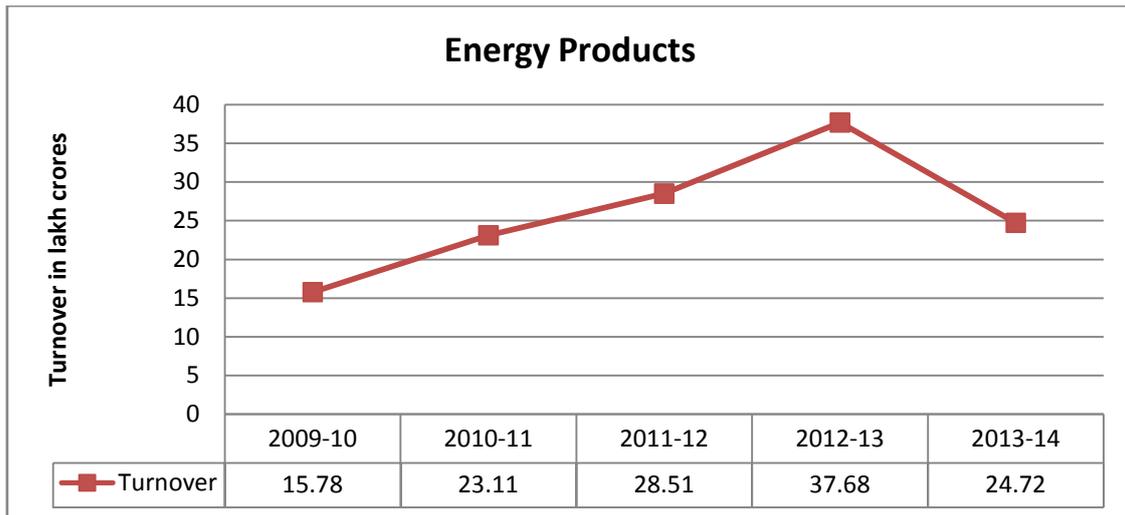


Source: [www.fmc.gov.in](http://www.fmc.gov.in) (Forward Markets Commission)

**Figure 4 Performances of Agricultural Commodities**

The figure 4 shows the value of trade in the total commodity derivatives market. It can be seen that the agriculture commodities increasing trend in 2009-10 as compared to 2013-14 in the value of trade. Agricultural commodities show an increasing trend in value of trade by 12.18 lakh crore in 2009-10 to 21.96 lakh crore in 2011-12. The total turnover of the agricultural commodities trading increased from Rs 12.18 lakh crore in 2009-2010 to Rs 21.96 lakh crore in 2011-2012, while value of trade decreased from Rs 21.56 lakh crore in 2012-13 to Rs 16.02 lakh crore in 2013-14.

The Figure 5 shows the comparative value of commodities traded in the commodity derivatives market for the period 2009-10 to 2013-14. During this period, forward trading was regulated in commodities at national and regional recognized commodity exchanges. It can be understood from the above figure that commodity derivatives are showing an increasing trend in terms of value of trade traded in the commodity derivatives market as compared to previous year.



Source: [www.fmc.gov.in](http://www.fmc.gov.in) (Forward Markets Commission)

**Figure 5 Performances of Energy Products**

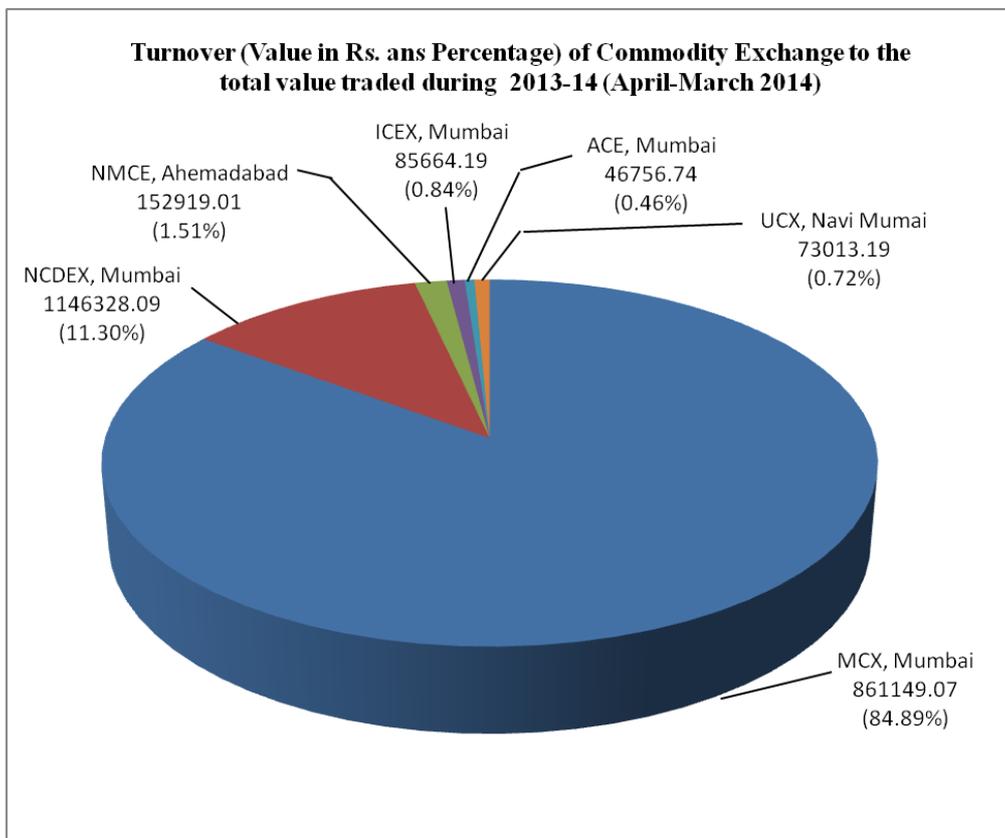
The total value of trade increased 15.78 lakh crore in 2009-10, 23.11 lakh crore, 28.51 lakh crore in 2011-12, 37.68 lakh crore in 2012-13, whereas value of trade decreased 24.72 lakh crore in 2013-14.

### **PRESENT STATUS OF COMMODITY DERIVATIVES MARKET IN INDIA**

The Forward Markets Commission (FMC) is the chief regulator of commodity derivatives markets in India. It is headquartered in Mumbai and this financial regulatory agency is overseen by the Ministry of Finance. The Commission allows commodity trading in 22 exchanges in India, out of which 6 are national exchanges. As on today forward trading in 113 commodities is regulated at the 6 National and 16 Regional Commodity Exchanges, 6 National Commodity Exchanges, viz. Multi Commodity Exchange of India Limited (MCX) Mumbai, National Commodity and Derivatives Exchange Limited (NCDEX) Mumbai, National Multi Commodity Exchange Limited (NMCE) Ahemadabad, Indian Commodity Exchange Limited (ICEX) Mumbai, Ace Derivatives and Commodity Exchange Limited (ACE) Ahemadabad, and Universal Commodity Exchange Limited (UCX) Mumbai. Besides, there are 16 regional commodity exchanges recognized for regulating trading in various commodities approved by the Forward Markets Commission under the Forward Contracts (Regulation) Act, 1952. The various commodity exchanges where the products are traded and retail investors can participate are National and Regional Commodity Exchanges. These exchanges are also regulated by the Forward Markets Commission. The registered brokers of the exchange are listed on the sites of these exchanges. India is among top producers of



most of the Commodities, in addition to being a major consumer of bullion and energy products. Agriculture contributes about 22% GDP of Indian economy. It employees around 57% of the labor force on total of 163 million hectores of land Agriculture sector is an important factor in achieving a GDP growth of 8-10%. All this indicates that India can be promoted as a major centre for trading of commodity derivatives. Commodity derivatives, which were traditionally developed for risk management purposes, are now growing in popularity as an investment tool. Most of the trading in the commodity derivatives market is being done by people who have no need for the commodity itself. The most critical function in a commodity derivatives exchange is the settlement and clearing of trades. Commodity derivatives can involve the exchange of funds and goods. The exchanges have a separate body to handle all the settlements, known as the clearing house.



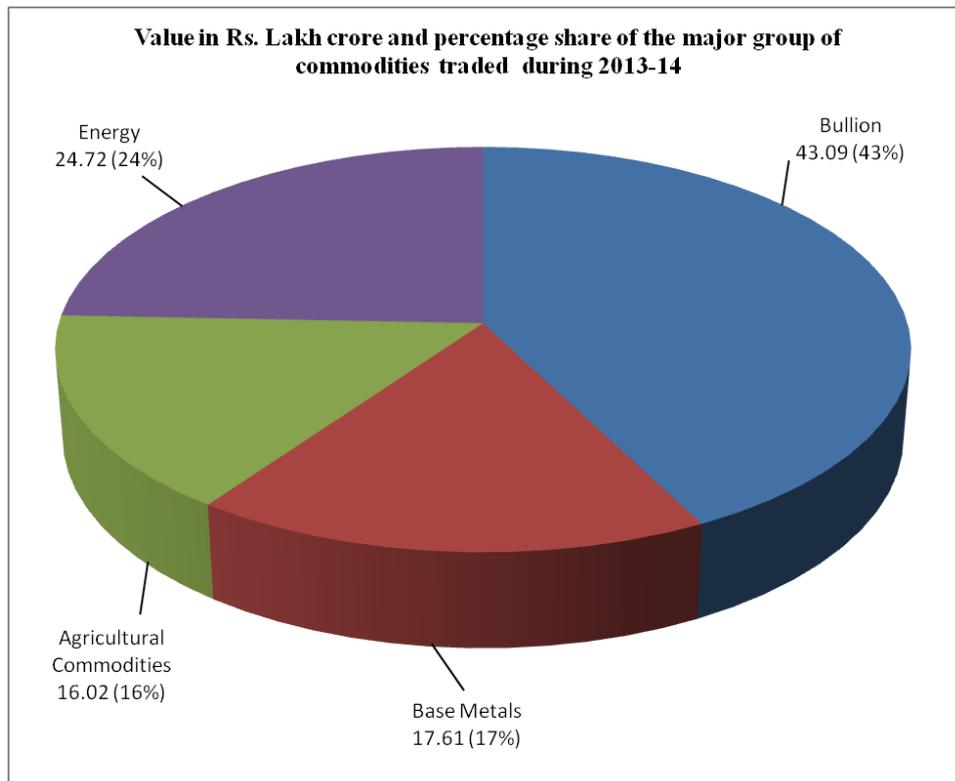
Source: [www.fmc.gov.in](http://www.fmc.gov.in) (Forward Markets Commission)

**Figure 6 Share of major Commodity Exchanges to the total value of the Commodities traded during the year 2013-14**

The recognized commodity exchanges, Multi Commodity Exchange Ltd. (MCX) Mumbai, National Commodity and Derivatives Exchange Ltd. (NCDEX) Mumbai, National Multi



Commodity Exchange Ltd. (NMCE) Ahmedabad, Indian Commodity Exchange Ltd. (ICEX) Mumbai, Ace Derivatives and Commodity Exchange Limited Ltd. (ACE) Mumbai, and Universal Commodity Exchange limited (UCX) Mumbai contributed 99.72% of the total value of the commodities traded during the year. In the year 2013-14 MCX is the major contributor in commodity market both in its trade volume and its trade value. These are MCX Mumbai (84.89%), NCDEX Mumbai (11.30%), NMCE Ahmadabad (1.51%), ICEX Mumbai (0.84%), ACE Mumbai (0.46%), and UCX Mumbai (0.72%). The following table indicates the total value of trade during this period (2013-14).



Source: [www.fmc.gov.in](http://www.fmc.gov.in) (Forward Markets Commission)

**Figure 7 Shares of Commodity Groups in Total Trade Value (2013-2014)**

In the year 2013-14 the bullion is the highest traded commodity with 43 % share and value of Rs 43.09 lakh crores, followed by the energy products with value of Rs 24.72 lakh crores and share of 24%, base metals with a value of Rs 17.61 lakh crores and share of 17% and the agricultural products quote value of Rs 16.02 lakh crores and share of 16% share. However, the importance of agricultural commodities has decreased sharply in recent years. In 2012-13, bullions occupied the first position with 46% share followed by base metals with 19%



and energy with 22%. The share of agricultural commodities in futures trading has come down to the level of 13%. The total value traded in 2013-14 is represented in the graph.

## CONCLUSION

A development in the derivatives market is still in an ascent stage and there is great scope for further development. The Indian derivatives market has achieved tremendous growth over the years, and also has a long history of trading in various derivatives products. Commodity derivatives have a crucial role to play in the price risk management process especially in any agriculture dominated economy. Derivatives like forwards, futures, Options, swaps etc are extensively used in many developed as well as developing Countries in the world. However, they have been utilized in a very limited scale in India. In its history of commodity derivatives, commodity futures market has witnessed several developments since 2002-03. There has been tremendous growth in commodity derivatives market in terms of volume of trade, number of products on offer participants and technology. Commodity derivatives perform two vital functions of the economy i.e. price discovery and risk management. It helps buyers and sellers of agricultural products to quickly manage their trade at a fair price. Commodity trading also offers a chance for financial leverage to hedgers, speculator sand other traders. The growth of Commodity derivatives market of India will lead to further development in the field of electronic warehouse receipts which may facilitate seamless nationwide commodity spot market. It would strengthen the Indian economy to face the challenge of globalization.

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