



COMMODITY FUTURES MARKET IN INDIA

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Abstract: *India is the most significant country in the world because the prominent sources are available and the sources which support to develop the economy of the nation. In 1991, India has allowed Liberalization, Privatization and Globalization to attract Foreign Investment. In 1996, the Indian Government has been enforced the commodity market concept due to the progress action of the nation towards the derivatives. After 2001, the Multi-Commodity Exchange has been started and followed by National Commodity and Derivatives Exchanges, National Multi Commodity Exchange, and Indian Commodity Exchange and so on. These exchanges are initially started to trade shares but later Non-Agricultural products play a major role in online markets. The agriculture products also participate in the place of stock market in recent years. Gold is one of the commodities including in MCX and it has been highly influenced in the recent days. This paper highlights the structure of commodity market and overall turnover of commodity exchanges in India.*

Key Words: *Structure of Commodity Markets, kinds and turnover of commodity exchanges, Top Most Commodity Exchanges.*

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1. INTRODUCTION

A commodity is a product that has commercial value, which can be produced, bought, sold, and consumed. Commodities are basically the products of the primary sector of an economy. The primary sector of an economy is concerned with agriculture and mining of raw materials such as metals, energy and so on. It is a basic input for the secondary sector of the economy and the commodity market is conventionally defined as a place where buyers and sellers meet to exchange goods or services for a consideration. In the physical marketplace is not necessary for the exchange of goods or services for a consideration hence the electronic trading and settlement of transactions has created to trade the commodities in the market. It is a revolution in the global financial markets.

India follows different kinds of functioning systems in various sectors. It's competing with global countries to create a strong economic position in the world. Accordingly the Indian economic situation has been attained the fastest growth. In present scenario, the markets are playing an essential role to develop and stabilize the Indian economic condition in the world and the market index which indicate the real market situations of the nation. In the current development duration of India, the commodity market has the most popular and preferable investment prospect of the investors or speculators. The commodity market has attained a prompt development in the short period of time and it is providing an important contribution to develop the country. In this developing situation the commodity market investment is more suitable and attractable investment track of the investors to earn more money. Due to the margin based trade, the market volatility is higher in the commodity market and the investors have to face high risk than the stock market.

A commodities exchange is an exchange where various commodities and derivatives are traded. Most of the commodity markets across the world trade in agricultural products and other raw materials like wheat, barley, sugar, maize, cotton, cocoa bean, cocoa, coffee, milk products, pork bellies, oil, metals and so on . It contracts based on them. These contracts can include spot prices, forwards, futures and options on futures. Other sophisticated products may include interest rates, environmental instruments, swaps, or freight contracts. The main function of an exchange is to facilitate the transactions associated with both the buying and selling of Investment Instruments. Buyers and sellers can track the price changes from the markets in which they operate. The ups and downs of prices help the investors to speculate on



the return on investment (ROI) of various investment options. Exchanges also serve as a source of capital formation for listed companies. Business entities that are listed in a particular exchange can issue shares to the public and sell those shares in that market. Speed and transparency are vital for all stock market transactions.

The commodity market segment has divided into two types like hard and soft commodities. Hard commodities are typically natural resources that must be mined and soft commodities are agricultural products. The investors or speculators can prefer their convenient segment to trade the commodities to earn return. This paper highlights origin of the commodity market, history of Indian commodity market, structure of commodity market, turnover of non-agricultural commodities and so on.

2. STRUCTURE OF COMMODITY MARKET IN INDIA

A majority of the derivatives trading takes place through the exchange based markets with standardized contracts, settlements, and so on. The exchange-based markets are essentially derivative markets and are similar to equity derivatives in their working, that is, everything is standardized and a person can purchase a contract by paying only a percentage of the contract value. A person can also go short on these exchanges. Moreover, even though there is a provision for delivery, most of the contracts are squared-off before expiry and are settled in cash. As a result, one can see an active participation by people who are not associated with the commodity.

In India, ministry of finance regulate the forward market commission. Forward market commissions control the Indian commodity exchanges. The Indian commodity and derivative exchanges separated into national and regional exchanges. Government of India permitted establishment of National-level Multi- Commodity exchanges in the year 2002 and accordingly three exchanges have come into picture. At present, there are 26 exchanges operating in India and carrying out futures trading activities in as many as 146 commodity items. As per the recommendation of the FMC, the Government of India recognized Commodity Trading Exchanges. The top most national exchanges are namely MCX, NCDEX, and NMCE. The following are the details of them.

2.1 MULTI COMMODITY EXCHANGE (MCX)

The MCX India is the first listed exchange, it is facilitates online trading, and clearing and settlement of commodity futures transactions, thereby providing a platform for risk



management. The Exchange, which started operations in November 2003, operates within the regulatory framework of the FCRA, 1952 and regulations thereunder.

MCX offers trading in more than 30 commodity futures contracts across segments including bullion, ferrous and non-ferrous metals, energy, and agricultural commodities. The exchange focuses on providing commodity participants with neutral, secure and transparent trade mechanisms, and formulating quality parameters and trade regulations, in conformity with the regulatory framework. The Exchange has an extensive national reach, with over 2100 members, operations through more than 400,000 trading terminals, spanning over 1770 cities and town across India. MCX is India's leading commodity futures exchange with a market share of 87.3 per cent in terms of the value of commodity futures contracts traded in 2012-13. The Exchange was the third largest commodity futures exchange in the world in terms of the number of contracts traded in the year 2012, based on the Futures Industry Association's annual volume survey released in March 2013. Moreover, as per the survey, during current year 2012, MCX was the world's largest exchange in silver and gold futures, second largest in copper and natural gas futures, and the third largest in crude oil futures.

To ease participation, the Exchange offers facilities such as calendar-spread facility, as also Exchange of Futures for Physical (EFP) transactions which enables participants to swap their positions in the futures or physical markets. The exchange's leading index, the MCXCOMDEX, is a real-time composite commodity futures price index which gives information on market movements in key commodities. Other commodity indices developed by the exchange include MCX Agriculture, MCX Energy, and MCX Metal. MCX has been certified to three ISO standards including ISO 9001:2000 quality management standard, ISO 27001:2005 information security management standard and ISO 14001:2004 environment management standard. With an aim to seamlessly integrate with the global commodities ecosystem, MCX has forged strategic alliances with leading international exchanges such as CME Group, London Metal Exchange (LME), Shanghai Futures Exchange (SHFE) and Taiwan Futures Exchange (TAIFEX). The Exchange has also tied-up with various trade bodies, corporates, educational institutions and Research and Development centres across the country. These alliances enable the Exchange in improving trade practices, increasing awareness, and facilitating overall improvement of commodity futures market.



2.2 NATIONAL COMMODITY AND DERIVATIVES EXCHANGE LTD (NCDEX)

NCDEX is an online multi commodity exchange based in India. It is a public limited company incorporated on 23rd April 2003 under the Companies Act, 1956. It obtained its Certificate for Commencement of Business on 9 May 2003. It has commenced its operations on 15th December 2003. NCDEX is the only commodity exchange in the country promoted by national level institutions. This unique parentage enables it to offer a bunch of benefits, which are currently in short supply in the commodity markets.

The institutional promoters and shareholders of NCDEX are promoted by national level financial institutions like ICICI Bank, LIC, NABARD, NSE, Canara Bank, CRISIL, Goldman Sachs, IFFCO and PNB with an aim to bring in standardization and professionalism in forward contract and also to bring in security to the producers. They hold equity shares in the NCDEX. NCDEX is regulated by Forward Markets Commission (FMC) in respect of futures trading in commodities. Besides, NCDEX is subjected to various laws of the land like the Companies Act, Stamp Act, Contracts Act, Forward Commission (Regulation) Act and various other legislations, which impinge on its working. NCDEX is located in Mumbai and has 550 centres all over the country. NCDEX trades in 57 commodities like agricultural commodities, Precious metals, Base metals, ferrous metals, Energy, polymers and so on.

2.3 NATIONAL MULTI COMMODITY EXCHANGE

The NMCE was promoted in 1999 by a group of Indian commodity based corporations and public agencies, and NMCE commenced futures trading in 24 commodities on 26th November, 2002. As of October 2009, the NMCE lists futures contracts on a total of 44 different commodities, ranging copra to menthol, and boasts over 300 trading members.

3. TURNOVER OF TOP MOST COMMODITY EXCHANGES IN INDIA

The most of the facilities are available like future, option and so on in the place of share market. These facilities (option) are useful to the investors but these kinds of scheme are not available in commodity market. This is one of the drawbacks in commodity market. The aim of commodity exchange is to provide a regulated forum for buyers and sellers of future contracts to meet and trade.

- The traders in commodity exchanges help to raise liquidity of contracts by taking risks.
- They help to promote transparency in the discovery market prices for individual commodities based on their demand and supply.



- The traders in commodity exchanges carry out various hedging strategies and the commodity exchanges safeguard the customers against price fluctuations.

There are three topmost exchanges in India. Such exchanges turnover are given in Table 1

TABLE -1
TURNOVER OF TOPMOST COMMODITY EXCHANGES IN INDIA

Sl. No	Year	Turnover Rs. in Lakhs			
		MCX	NCDEX	NMCE	TOTAL
1	2004 – 05	16621288.8 (36.09)	26621213 (57.80)	2815284.36 (6.11)	46057786.16 (100)
2	2005 – 06	95148936.74 (45.77)	109065659 (52.46)	3678934.19 (1.77)	207893529.93 (100)
3	2006 – 07	229380201.89 (62.30)	116431171 (31.62)	22366716.45 (6.07)	368178089.34 (100)
4	2007 – 08	312595903.71 (79.19)	77195376 (19.55)	4971691.43 (1.26)	394762971.14 (100)
5	2008 – 09	458757895.29 (87.48)	53382877 (10.18)	12291515.74 (2.34)	524432288.03 (100)
6	2009 – 10	639267963.66 (82.32)	91758382 (11.82)	45580302.39 (5.87)	776606648.05 (100)
7	2010 – 11	984147550.1 (84.20)	141060227 (12.07)	43682187.49 (3.74)	1168889964.59 (100)
8	2011 – 12	1559707127.23 (86.92)	181021018 (10.09)	53670195.33 (2.99)	1794398340.56 (100)
9	2012 – 13	1488081654.44 (88.41)	159842597(9.50)	35307300.11 (2.10)	1683231551.55 (100)
10	2013 – 14	861141651.84 (85.57)	114632819 (11.39)	30563803.32 (3.04)	1006338274.16 (100)

Source:www.mcxindia.com, www.ncdexindia.com and www.nmce.com.

(Figures in brackets indicate percentage to total)

Table 1 shows the annual turnover (rupees in lakhs) of the India's top most commodity exchanges for past ten financial years from 2004-05 to 2013-14. In the year 2004-05, MCX trade Rs.16621288.8 lakhs that shows 36.09 percent in total turn- over of the year and it has constantly increased from 2004-05 to 2013-14. The MCX turnover has attained the highest turnover of Rs.1488081654.44 lakhs in the year of 2012-13. From the year 2008-09, the MCX has more than 80 percent in the total turnover.

NCDEX traded Rs.26621213 lakhs that is, 57.80 percent of the turnover in the year of 2004-05 since then the turnover of the index has been constantly decreasing trend upto 2012 -13. NCDEX has around 10 to 12 percent of the turnover from 2008 – 09 to 2013-14.

NMCE traded Rs. 2815284.36 lakhs in the year of 2004- 05 and it shows 6.11 percent of the total turnover and the index has decreased from 2004 05 to 2013-14. NMCE has around 3 to 4 percent of the turnover among the commodity market exchanges.

4. CONCLUSION

The commodity trading has a long history and it has been modernized in the market. The commodities trading are occupied an important place in the economy and it depends on the international trade. A structural system has been created for commodity trades. It is creating awareness and the more opportunity to the investors and public. There are 26



exchanges and 146 commodities available in India for futures trading. MCX has a major market share and the exchange turnover has been increased on every year. The market volatility is based on these commodities performances. However the commodity market has provided huge support to the Indian economy. At present the option trading is mandatory for commodity market because the option may help the investor to reduce the major threats such as market volatility, high risks and specific commodity dependants and so on. The investors are also expecting to add option trading immediately in the commodity market.

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