CHANGING APPROACH TOWARDS COMMODITY MARKET

DR SANTOSH KUMAR TRIPATHI
PRINCIPAL
MARWAR BUSINESS SCHOOL
GORAKHPUR

ABSTRACT

India is one of the top makers of countless products, and furthermore has a long history of exchanging wares and related subsidiaries. The products subordinates market has seen high points and low points, however appear to have at last shown up at this point. The market has gained colossal headway as far as innovation, straightforwardness and the exchanging action. Current fates volumes are miniscule contrasted with fundamental spot market volumes and in this way have a huge potential soon.

Keywords: *Commodity Market, Approach*

INTRODUCTION

Last decade there arose another road for retail financial backers and merchants to partake: this was the new changed electronic foundation of commodity subsidiaries. For the individuals who need to differentiate their portfolios past offers, bonds and land, items arose as an elective apparatus and a standout amongst other alternative across the globe.

Till certain years prior, this wouldn't have seemed well and good. For retail inestors, they might have done almost no to really put resources into items past gold and silver anyway the development of cutting edge innovation and systems it got conceivable to think past conventional resource class and put or deal with the danger in different wares like chana, oilseeds, unrefined petroleum and copper and so on in the prospects market.

Be that as it may, with the setting up of three multi-commodity trades in the country around 2003-04, market members like dealers, producers, retail financial backers would now be able to exchange commodity prospects with or even without having actual stocks.

So above all else the inquiry emerges - what are products? In financial matters, a Commodity is a marketable thing created to fulfill needs or needs. All in all commodities is a crude material or essential rural item that can be purchased and sold, like copper or espresso.

Presently the following inquiry emerges - what are Commodity Markets??? So the appropriate response is where all crude or essential items are traded is called commodity market. Commodity markets can incorporate direct actual exchanging and subordinates exchanging the type of spot costs, advances, prospects and choices.

Commodity Futures are agreements to purchase/sell explicit amount of a specific commodity sometime not too far off on a trade stage . It is like the Index prospects and Stock fates yet the hidden turns out to be wares rather than Stocks and records.

The Government of India allowed foundation of National-level Multi-Commodity trades in the year 2002 - 03 and appropriately following trades have come into picture. They are

- Multi-Commodity Exchange of India Ltd, Mumbai (MCX).
- National Commodity and Derivatives Exchange of India, Mumbai(NCDEX).
- National Multi Commodity Exchange, Ahmedabad(NMCE).
- Indian Commodity Exchange (ICEX)
- ACE Derivatives and Commodity Exchange Ltd.

However, there are regional commodity exchanges also functioning all over the country with one or two commodities in hand.

At international level there are major commodity exchanges in USA, Japan and UK. Some of the most popular exchanges around the world are given below along with the major commodities traded:

Name Of Exchange	Major Commodities traded in exchange
New York Mercantile Exchange (NYMEX)	Crude Oil, Heating Oil
Chicago Board of Trade (CBOT)	Soy Oil, Soy Beans, Corn
London Metals Exchange (LME)	Aluminium, Copper, Tin, Lead, Zinc, Nickel
Chicago Board Option Exchange (CBOE)	Options on Energy, Interest rate
Tokyo Commodity Exchange (TCE)	Silver, Gold, Crude oil, Rubber
Malaysian Derivatives Exchange (MDEX)	Rubber, Soy Oil, Crude Palm Oil
Commodities Exchange (COMEX)	Gold, Silver, Platinum, Copper
Multi Commodity Exchange (MCX)	Gold, Silver, Crude Oil, Mentha,CPO, Copper, Zinc, Lead, Nickel etc
National Commodity & Derivative Exchange(NCDEX)	Chana, Soybean, Soy Oil, RM Seed, Pepper, Jeera, Turmeric, Chilli , Sugar etc

At Present futures are available on the following commodities.

Bullion	**Gold and Silver**
Oil & Oilseeds	*Castor seeds, Soy Seeds, Castor Oil, Refined Soy Oil,Soymeal,Crude Palm Oil
	Cotton seed, Oilcake, Cottonseed, Mentha oIl
Spices	Black Pepper, Red Chilli, Jeera, Turmeric, Cardamom, Coriander
Metals	Copper, Nickel,Steel, Zinc, Aluminium and Lead
Fibre	Kapas, Cotton
Pulses	Chana
Cereals	Wheat, Maize
Energy	Crude oil, Natural Gas
Others	Rubber, Sugar, Gur

Why Commodity Trading?

Commodity trading can be done for various purposes out of which two are most important

- Against the exposure towards physical trades -for risk management (Hedging)
- Having no exposure in physical form - Investment & Speculation

Supporting is the act of balancing the value hazard inborn in any money market position by taking a contrary situation in the prospects market. A long support includes purchasing fates agreements to ensure against conceivable expanding costs of items. A short support includes selling fates agreements to ensure against conceivable declining costs of wares.

Hypothesis is the act of taking part in dangerous monetary exchanges trying to benefit from short or medium term changes in the market worth of a tradable decent like a monetary instrument ex-commodity

How risky are these markets compared to stock & bond markets?

- Commodity costs are by and large less unstable than the stocks and this has been measurably demonstrated. In this manner it's generally more secure to exchange wares.
- Also the administrative specialists guarantee through nonstop vigil that the commodity costs are market-driven and liberated from controls.
- However, all ventures are liable to market hazard and rely upon the individual choice. There is hazard of misfortune while exchanging commodity prospects like some other monetary instruments.
- Also the customer should utilize Stop misfortune as a prudent step as per the danger hunger. The customer ought to know about the measure of the danger the person in question can retain as in some cases market gets unpredictable or move inverse way.

The Need for Commodities Market in India

India is among the main 5 makers of the greater part of the items, as well as being a significant customer of bullion and energy items, which needs utilization of fates and subsidiaries as value hazard the board framework. On a very basic level value you pay for labor and products rely significantly upon how well business handle hazard. By utilizing adequately prospects and subordinates, organizations can limit hazards, subsequently bringing down cost of working together. Commodity players use it as a support system just as a methods for bringing in cash. For an agrarian nation like India, with plenty of mandis, exchanging more than 100 harvests, the issues in value dispersal, principles, accreditation and warehousing will undoubtedly happen. Commodity Market will fill in as a reasonable choice to handle this load of issues productively.

Commodities Market in India -- Evolution and Regulation

India has a long history of fates exchanging wares. In India, exchanging commodity fates has been in presence from the nineteenth century with coordinated exchanging cotton, through the foundation of Bombay Cotton Trade Association Ltd. in 1875. Throughout some undefined time frame, different items were allowed to be exchanged fates trades. Spot exchanging India happens for the most part in territorial mandis and chaotic markets, which are divided and detached. After some time the subsidiaries market created in a few different wares in India. Following cotton, subsidiaries exchanging began in oilseeds in Bombay (1900), crude jute and jute products in Calcutta (1912), wheat in Hapur (1913) and in Bullion in Bombay (1920). In any case, many expected that subsidiaries fuelled pointless theory in fundamental wares, and were impeding to the sound working of the markets for the basic items, and consequently to the ranchers. With the end goal of confining theoretical action in cotton market, the Government of Bombay restricted alternatives business in cotton in 1939. Later in 1943, forward exchanging was restricted in oilseeds and some different products including food-grains, flavors, vegetable oils, sugar and fabric. After Independence, the Parliament passed Forward Contracts (Regulation) Act, 1952 which directed forward agreements in items all over India. The Act applies to merchandise, which are characterized as any mobile property other than security, money and noteworthy cases. The Act denied choices exchanging products alongside cash repayments of forward exchanges, delivering a devastating hit to the commodity subordinates market. Under the Act, just those affiliations/trades, which are conceded acknowledgment by the Government, are permitted to put together forward exchanging directed products. The Act visualizes three-level guideline: (I) The Exchange which sorts out forward exchanging wares can direct exchanging on a day-today premise; (ii) the Forward Markets Commission gives administrative oversight under the forces designated to it by the focal Government, and (iii) the Central Government - Department of Consumer Affairs, Ministry of Consumer Affairs, Food and Public Distribution - is a definitive administrative power. The period of far and wide deficiencies in numerous fundamental products bringing about inflationary pressing factors and the slant towards communist arrangement, in which the part of market powers for asset allotment got reduced, saw the decrease of this market since the mid-1960s. This combined with the administrative limitations in 1960s, brought about virtual destroying of the items future markets. Advancement of Indian economy since 1991 perceived the part of market and private drive for the improvement of the economy. The much insulted market instruments, for example, the prospects exchanging were additionally given due acknowledgment. Forward exchanging was allowed in cotton and jute merchandise in 1998, trailed by certain oilseeds and their subordinates, like groundnut, mustard seed, sesame, cottonseed and so on in 1999. The year 2003 denoted the genuine defining moment in the strategy structure for commodity market when the government provided notices for pulling out all disallowances and opening up forward exchanging every one of the wares. This period likewise saw different changes, for example, corrections to the Essential Commodities Act, Securities (Contract) Rules, which have diminished bottlenecks in the turn of events and development of commodity markets. Of the nation's all out GDP, items related (and subordinate) ventures comprise about approximately 50-60 %, which itself can't be overlooked. Reacting emphatically to the positive strategy changes, a few Nation-wide Multi-Commodity Exchanges have been set up since 2002, utilizing present day practices like electronic exchanging and clearing. The Forward Markets Commission is the administrative authority of the Commodity Futures Market in India. The Commodity Futures Market contains three National Commodity Exchanges and nineteen Regional Commodity Exchanges. The National trades working in the Indian Commodity fates market are Multi Commodity Exchange of India (MCX), National Commodity and Derivative Exchange of India (NCDEX) and National Multi Commodity Exchange of India (NMCE). MCX is an autonomous and de-mutulised multi commodity trade has perpetual acknowledgment from Government of India for working with web based exchanging, clearing and settlement tasks for commodity prospects markets the nation over. NCDEX is a country level, innovation driven de-mutualized on-line commodity trade. It is resolved to give an elite commodity trade stage for market members to exchange a wide range of commodity subordinates driven by best worldwide practices, polished methodology and straightforwardness. The new approach changes and cheery notions about the economy, especially horticulture, have made parcel of revenue and happiness about the commodity markets. Despite the fact that an enormous number of the customary trades are showing level volume, this has not debilitated energy among new members. A considerable lot of these trades have been allowed so as to expand the way of life and custom of forward exchanging to new regions and products and furthermore to present new innovation and practices. The current outlook of individuals in India is that the commodity trades are theoretical (because of non conveyance) and are not implied for real clients. One significant explanation being that, the mindfulness is missing among the genuine clients. In India, financing cost hazards, swapping scale chances are effectively overseen, yet the equivalent doesn't remain constant for the commodity chances. Some extra hindrances are revolved around the security, straightforwardness and tax assessment issues.

Benefits of Commodity Futures Markets

The essential goals of any prospects trade are bona fide value revelation and a productive value hazard the executives. The recipients incorporate the individuals who exchange the items being offered in the trade just as the individuals who steer clear of prospects exchanging. It is a result of value revelation and hazard the executives through the presence of fates trades that a great deal of organizations and administrations can work easily.

Value Discovery:- Based on inputs with respect to explicit market data, the interest and supply balance, climate estimates, master perspectives and remarks, swelling rates, Government approaches, market elements, expectations and fears, purchasers and merchants lead exchanging at prospects trades. This changes in to constant value revelation component. The execution of exchange among purchasers and dealers prompts appraisal of reasonable worth of a specific commodity that is quickly scattered on the exchanging terminal.

Value Risk Management: - Hedging is the most widely recognized strategy for value hazard the board. It is methodology of offering value hazard that is inborn in spot market by taking an equivalent yet inverse situation in the fates market. Prospects markets are utilized as a mode by hedgers to shield their business from unfriendly value change. This could gouge the productivity of their business. Supporting advantages who are engaged with exchanging of wares like ranchers, processors, merchandisers, producers, exporters, merchants and so on

Import-Export seriousness: - The exporters can fence their value hazard and improve their intensity by utilizing fates market. A larger part of merchants which are associated with actual exchange universally expect to purchase advances. The buys produced using the actual market may open them to the danger of value hazard coming about to misfortunes. The presence of fates market would permit the exporters to fence their proposed buy by briefly filling in for real buy till now is the ideal opportunity to purchase in actual market. Without prospects market it will be careful, tedious and exorbitant actual exchanges.

Unsurprising Pricing: - The interest at specific items is exceptionally cost versatile. The makers need to guarantee that the costs ought to be steady to ensure their market share with the free passage of imports. Prospects agreements will empower consistency in homegrown costs. The producers can, accordingly, smooth out the impact of changes in their info costs without any problem. Without any fates market, the producer can be gotten between serious transient value developments of oils and need to keep up value security, which must be conceivable through adequate monetary stores that could some way or another be used for making other beneficial ventures.

Advantages for ranchers/Agriculturalists: - Price precariousness has an immediate bearing on ranchers without prospects market. There would be no compelling reason to have enormous stores to cover against negative value variances. This would lessen the danger charges related with the marketing or handling edges empowering more profits from produce. Putting away more and being more dynamic in the markets. The cost data open to the ranchers decides the degree to which merchants/processors increment cost to them. Since one of the goals of fates trade is to make accessible these costs beyond what many would consider possible, it is probably going to profit the ranchers. Additionally, because of the delay among arranging and creation, the market-decided value data dispersed by fates trades would be vital for their creation choices.

Credit availability: - The shortfall of appropriate danger the board devices would draw in the marketing and handling of wares to high-chance openness making it unsafe business action to subsidize. Indeed, even a little development in costs can gobble up an immense extent of capital claimed by brokers, on occasion making it essentially difficult to compensation the advance. There is a serious level of hesitance among banks to finance commodity brokers, particularly the individuals who don't oversee value chances. On the off chance that on the off chance that they do, the loan cost is probably going to be high and agreements exceptionally rigid. This has an enormous snag in the smooth working and rivalry of items market. Supporting, which is conceivable through prospects markets, would chop down the rebate rate in commodity loaning.

Improved item quality: - The presence of distribution centers for working with conveyance with evaluating offices alongside other related advantages gives a solid motivation to overhaul and upgrade the nature of the commodity to review that is worthy by the trade. It guarantees uniform normalization of commodity exchange, including the particulars of value standard: the quality endorsements that are given by the trade affirmed stockrooms can possibly turn into the standard for actual exchange.

Risks associated with Commodities Markets

No risk can be eliminated, but the same can be transferred to someone who can handle it better or to someone who has the appetite for risk. Commodity enterprises primarily face the following classes of risks, namely: the price risk, the quantity risk, the yield/output risk and the political risk. Talking about the nationwide commodity exchanges, the risk of the counter party (trading member, client, vendors etc) not fulfilling his obligations on due date or at any time thereafter is the most common risk.

This risk is mitigated by collection of the following margins: -

- Starting Margins
- Openness edges
- Market to market of positions consistently
- Position Limits and Intra day value limits
- Reconnaissance

- Commodity value hazards include: -
- Expansion in buy cost versus responsibility on deals cost
- Change in worth of stock
- Counter gathering hazard converting into commodity value hazard

Current Scenario of Indian Commodity Market

The development worldview of India's commodity markets is best reflected by the figures from the controller's true site, which showed that the complete worth of exchange on the commodity prospects market in the monetary year 2008/09 was Rs. 52.49 lakh crore (over US$1 trillion) as against Rs. 40.66 lakh crore in the previous year, enrolling a development of 29.09%, significantly under testing financial conditions around the world. The fundamental drivers of this noteworthy development in commodity fates were the public commodity trades. MCX, NCDEX and NMCE alongside two provincial trades – NBOT Indore and ACE, Ahmedabad – added to 99.61% of the all out worth of products exchanged during 2008/09. Up until now, the current year's volumes have seen a critical leap in the course of the last year in agrocommodities, just as worldwide products like gold, silver, unrefined petroleum and copper. In excess of 100 wares are today accessible for exchanging the commodity fates market and more than 50 of them are effectively exchanged. These incorporate bullion, metals, agrarian wares and energy items. Above all, a bygone market has unexpectedly transformed into a coordinated, administration arranged set-up with shooting volumes. The inadequate accomplishment of the fates market has guaranteed the following stage, i.e., the dispatch of electronic spot markets for agro-items. Being in a time-region that falls in the hole left by the significant commodity trades in the US, Europe and Japan has additionally worked in support of India since commodity business by its very nature is an all day, every day business. Development combined with current and fruitful monetary market climate has guaranteed the start of an example of overcoming adversity in items which will in the long run see India turning into a value setter in significant wares on the strength of its huge creation and utilization.

CONCLUSION

India is one of the top makers of an enormous number of wares, and furthermore has a long history of exchanging products and related subsidiaries. The wares subsidiaries market has seen good and bad times, yet appear to have at last shown up at this point. The market has gained huge headway as far as innovation, straightforwardness and the exchanging action. Strangely, this has happened solely after the Government security was taken out from various items, and market powers were permitted to assume their part. This should go about as a significant exercise for the approach producers in non-industrial nations, that estimating and value hazard the board ought to be left to the market powers instead of attempting to accomplish these through regulated value instruments. The administration of value hazard will accept significantly more prominent significance in future with the advancement of streamlined commerce and expulsion of exchange hindrances the world. This forecasts well for the commodity subsidiaries markets. As lion's share of Indian financial backers don't know about coordinated commodity market; their discernment about is of unsafe to hazardous speculation. A significant number of them have wrong impression about commodity market in their psyches. It makes them presumptive towards commodity market. Concerned specialists need to step up to the plate and make commodity exchanging measure simple and basic. Alongside Government endeavors NGOs should approach to instruct individuals about commodity markets and to urge them to put resources into to it. There is no uncertainty that in not so distant future commodity market will become 'problem area' for Indian ranchers instead of spot market. Also, makers, brokers just as buyers will be profited with it. However, for this to happen one needs to step up to the plate and normalize and promote the Commodity Market.

Reference

1. Bose, S. (2006), "The Indian Derivatives Market Revisited", Money & Finance, Vol. 2, No. 24-25.
2. FAO (2007), "Commodity Exchanges and Derivatives Markets: Evolution, Experience and Outlook in the Cereal Sector", Report of the Committee on Commodity Problems.
3. Gorton, G. and K.G. Rouwenhorst (2005), "Facts and Fantasies about Commodity Futures", Yale School of Management, International Center for Finance Working Paper No. 04-20
4. yer, V., and H. Mehta (2007), "Price Discovery and Convergence in the Indian Commodities Market: A Two Regime Threshold VAR Approach", Paper presented at the National Workshop on Commodity Research, NCDEX Institute of Commodity Markets & Research (NICR).
5. Karande, Kiran D. (2006), "A Study of Castorseed Futures Market in India", available at http://ssrn.com/abstract=983342.
6. Kaul, S. (2007), "Commodity Futures Trading in India- Myths and Misconceptions", NCDEX Institute of Commodity Markets & Research (NICR) Working Paper
7. Nair, C.K.G. (2004), "Commodity Futures Markets in India: Ready for "Take-Off"?", NSE News, July
8. Silvapulle, Param and Imad A. Moosa (1999), "The Relationship between Spot and Futures Prices: Evidence from the Crude Oil Market", Journal of Futures Markets, Volume 19, Issue 2, 175-193.
9. Thomas, S., (2003), "Agricultural Commodity Markets in India: Policy Issues for Growth", In Thomas, S., (ed), Derivatives Markets in India, 2003. Thomas, S. and K. Karande (2001), "Price Discovery across Multiple Markets", Technical report, IGIDR, Bombay, India.
10. UNCTAD (2002), "Emerging Commodity Exchanges in a Globalized Economy", Paper presented by UNCTAD Secretariat at the 5th Annual Conference of Association of Futures Markets, Kiev, Ukraine, March 21-22.