Scenario of Commodity Market

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Abstract

From the last two decades, new interesting financial development in the financial Market has been growing popularity in agriculture products, derivatives etc. Both the producers and sellers get the fair prices transparency through this mechanism. Some of the commodity derivatives are traded on exchanges. Hedgers and speculators are also finding it more comfortable to trade a derivative in commodity Market. In this paper researcher made an effort to discuss about the market, history of the market, main objectives of the market, commodity market in India and major commodity exchanges of India MCX and NCDEX.

Keywords: Multi-Commodity Exchange, National Commodity and Derivative Exchange, Forward Market Commission, Future Price, Arbitrage

Introduction

A Product that can be used for commerce or an article of commerce which is traded on an authorised commodity exchange is known as commodity. A market where raw or primary materials or products are exchanged or places where they are bought and sold in standardised contracts are commodity market. It

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covers physical product (food, metal, energy) market. In current situations, all goods and products of agricultural, mineral and fossil origin are allowed for commodity trading recognised under the FCRA. The national commodity exchanged, recognised by the central government, permits commodities which include precious (gold and silver) and non-ferrous metals, cereals and pulses, ginned and unginned cotton, oilseeds, oil and oil cakes, raw jute and jute goods, sugar and etc.

These products are exchanged through an agreement and this agreement is known as Commodity Futures. Commodity Futures is an agreement between two parties to buy or sell a specified and standardised quantity of a commodity at a certain time in future at a fixed price agreed upon at the time of entering into the contract on the commodity futures exchange.

Size of the Market
Trading of commodities consists of direct physical trading and derivatives trading. Exchange traded commodities have been an upturn in the volume of trading since the start of the decade. This was largely a result of the growing a proliferation of investment option which has made it easier to access this market.

Objectives
The main objectives of commodity future are:-
1 Price stabilization along with balancing demand and supply Position.
2 To create flexibility, certainty and transparency in purchasing commodities in bank financing.
3 To protect hedgers business from adverse price change.

**History of commodity Market**

The concept of pragnised trading in commodities was come from CHICAGO in 1848, But its roots are evolved in Japan. In Japan, merchants used to store rice in warehouses holders sold receipt against the stored rice, which were “Rice Tickets”. These rice tickets become accepted as a kind of commercial currency.

In 1864 in the united states, wheat, corn, cattle, pigs are widely traded using standardised instruments began trading on the Chicago Board of Trade (CBOT), the world’s oldest futures and option exchange. Other Food commodities were added to the commodity exchange Act and traded though CBOT in the 1930's and 1940's, expanding the list from grains to include rice, mills feeds, butter, eggs etc. Classical civilizations built complex global market trading gold and silver for spices, cloth, wood and weapons in which most of had standards of quality and timeliness.

The history of organised commodity derivatives in India goes back to the nineteenth century when cotton trade Association started futures trading in 1875; about a decade after they started in Chicago. Over the time datives market developed in several commodities in India. Following Cotton, derivatives trading started in oilseed in Bombay (1900), raw jute and jute goods in Calcutta (1912), Wheat in Hapur (1913) and Bullion in Bombay (1920).
The Parliament passed the Forward Contracts (Regulation) Act 1952, which regulated contract in commodities all over in India. The act prohibited options trading in goods along with cash settlement of forward trades rendering a crushing blow to the commodity derivatives market. Under the act only those associations/exchanges, which are granted reorganisations from the government are allowed to organise Forward trading in regulated commodities. The act envisages three tier regulations:

(a) Exchange which organise forward trading in commodities can regulate trading on day to day basis.

(b) Forward Market Commission provides regulatory oversight under the powers delegated to it by the central government.

(c) The Central Government department of Consumer Affairs, Ministry of consumer Affairs, Food and public distribution is the ultimate regulatory authority.

After Liberalisation and Globalisation in 1990, the government set up a committee (1993) to examine the role of futures trading. The committee (headed by Prof. K.N. Kabra) recommended allowing futures trading in 17 commodity groups. It also recommended strengthening Forward Market Commission and certain amendments to forward contracts (regulation) act 1952, particularly allowing option trading in goods and registration of brokers with Forward Market Commission. The government accepted most of these recommendations and futures trading were permitted in all recommended commodities.
Indian Commodity Market

Today Commodity Market are purely speculative in nature. Before discovering the prices, they reach to the producers, end users and even the retail investors, at a grass roots level. It brings transparency and risk management in the vital market.

Today apart from numerous regional exchanges, India has three national commodity exchanges, namely:-Multi Commodity Exchange (MCX), National Commodity and derivatives Exchange (NCDEX), National Multi-Commodity Exchange (NMCEIL).

After a gap of almost three decades, government of India has allowed Forward transactions in commodities through online commodity Exchange, a modification of traditional business known as Adhat and Vayda Vyapaar to facilitate better risk coverage and delivery of commodities.

The three Exchanges are: national Commodity and derivatives exchange limited (NCDEX), Multi Commodity Exchange of India limited (NMCEIL) Ahmedabad. There are more other different commodity exchange in different parts of India.

Multi Commodity Exchange of India Ltd. (MCX)

It is an independent and de-mutualised exchange with permanent reorganisation from government of India having head quarter in Mumbai. It is India’s premier commodity futures exchanges regulated by the nation’s commodity market regulator Forward Market Commission (FMC).
Forward Market Commission is a statutory institution set up in 1953 under Forward Contract (Regulation) Act 1952. Commission consist minimum two and maximum four members appointed by central over all control of Forward Market Commission (FMC) of government of India. MCX offers online trading and clearing and settlement of commodity futures transactions and a platform for price discovery and price risk management Neutral, secure and transparent trade transactions. It traded in commodities like Bullion, Minerals, oil seeds, pulses, grains, spices etc. It started of trade in November 2003 and deals with about 100 commodities. The Exchange is recognised by SEBI under Section 4 of securities contracts (Regulation) Act 1956. In line with global best practices and regulatory requirements, clearing and settlement is conducted through a separate clearing corporation. MCX-SXAT clearing corporation ltd.

Now today MCX is India’s leading commodity futures exchange with a market share of about 81 per cent in terms of the value of commodity futures contracts traded in Q1 FY2014-2015. MCX has been certified to three ISO standards including -ISO 9001: 2008 for quality management standard, ISO 27001: 2005 for information security management standard and ISO 14001: 2004 for environment management standard. Company is continuously grown steadily, both in terms of business and earnings. This exchange is the third largest commodity futures exchange in the world, in terms of number of contracts traded in calendar year 2013.
In 2013-14, despite having faced various challenges company performed well. Company continued to be the country’s leading commodity futures exchanges during the fiscal with a turnover of Rs. 86.58 lakh crore and a market share of 84.49 per cent. MCX also remained India's leading Bullion Future and metal futures player during the period with a market share of 99.46 percent and 98.66 per respective

In 2013-14 company's total income is Rs. 4,399.36 million, while operating income of Rs. 340667 million and other income is 992.69 million.

**NCDEX**

NCDEX is a public limited company incorporated on 23rd April 2003. NCDEX is a national level technology driven on line commodity exchange with an independent Board of Directors and Professionals not having any vested interest in commodity Markets. NCDEX is the only commodity exchange in the country promoted by national level institution. NCDEX is located in Mumbai and offers facilities to its members in more than 550 centres throughout India. NCDEX currently facilities trading of 57 commodities. It includes Gold, Silver, Brent crude oil, rice, along with other agriculture rural products and base metals.

NCDEX achieve highest turnover in 2012-2013 is 10,722.88 crore.

24th September 2014, National Commodity and Derivatives exchange announced the launch of forward contracts on its national level electronic platform. This facility is named Agrim Sauda are available from 25th September initially for sugar and maize. Later on it will be extended
to other commodities. The forward contract will offer the benefits of transparent trade practices and national market reach through registered farmer, producer, and organisations.

The Agrim Sauda is introduced to help integrate the commodity ecosystem leading to a more developed and efficient agricultural market.

Agrim Sauda will help almost every participant in the segment, including processors, exporters, traders, and government procurement agencies.

Unlike the futures contracts wherein the contract specification on are standardised, the exchange traded Forward contract will allow trading parties to negotiate quantity and also quality of the underlying commodity, date and place of delivery and settlement price as their mutual requirements.