International Journal of Research in Engineering, Science and Management
Volume 4, Issue 8, August 2021
https://www.ijresm.com | ISSN (Online): 2581-5792

Recent Developments in Indian Commodity Markets

M. Jegadeeshwaran[1], S. Kaleeshwari[2*]
[1]*Assistant Professor, Department of Commerce, Bharathiar University, Coimbatore, India*
[2]*M.Phil. Research Scholar, Department of Commerce, Bharathiar University, Coimbatore, India*

***Abstract*: The paper attempts to show the recent developments in the Indian commodity markets. They have widened the avenue for the retail investors and have increased the trader's participation. The Indian commodity markets facilitates multi commodity exchange within and outside the country based on requirements. Commodity markets exhibited a high variation in price behavior, recording upward and downward movements. Indian commodity markets have undergone lot of changes due to global economic scenario, throwing many opportunities. The development in commodity markets is largely attributed to this boom in the retail market. The policy reforms and liberal govt policies have ensured that markets are in good pace. This study helps to explore the recent development and the upcoming Programme by the government in uplifting the commodity market.**

***Keywords*: Indian commodity markets, recent developments, upcoming government programmes.**

1. Introduction

A commodity market is anything other than the monetary unit which can be traded. It may be tangible or intangible in nature service. A commodity market is a place of geographical location where the seller and buyer transfer ownership of goods from the one to another to mutually agreed value. The commodity markets may be organized or unorganized depending upon the aggregation of the buyer and seller at certain given time. With the development of various means of communication, development of storage system, better means of transportation and the advanced form of payment has broadened the definition of the commodity market.

Commodity is divided in various categories based on the source of production like agro and non-agri. Non agro commodity is again divided among metals and energy. Metals are divided into precious such as steel, copper etc. Based on the storability factor, like perishable items include vegetables, fruits and milk and non-perishable items include metals or semi perishable like cereals and pulses. Market exits for almost all the commodities all over the world. Commodity market is an important constituent of the financial markets of any country. It is important to develop a vibrant, active and liquid commodity market. This would help investors hedge their commodity risk, take speculative positions in commodities and exploit arbitrage opportunities in the market.

However, many feared that derivatives fueled unnecessary speculation and were detrimental to the healthy functioning of the market for the underlying commodities, resulting in to banning of commodity options trading and cash settlement of commodities futures after independence in 1952. The parliament passed the Forward Contracts (Regulation) Act, 1952, which regulated contracts in Commodities all over the 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 reorganization from the Government, are allowed to organize forward trading in regulated commodities. The act envisages three tire regulations:

- Exchange which organizes forward trading in commodities can regulate trading on day-to-day basis;
- Forward Markets Commission provides regulatory oversight under the powers delegated to it by the central Government.
- The Central Government, Department of Consumer Affairs, Ministry of Consumer Affairs, Food and Public Distribution- is the ultimate regulatory authority. After Liberalization and Globalization 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 Markets Commission, and certain amendments to Forward Contracts (Regulation) Act 1952, particularly allowing option trading in goods and registration of brokers with Forward Markets Commission. The Government accepted most of these recommendations and futures‟ trading was permitted in all recommended commodities. It is timely decision since internationally the commodity cycle is on upswing and the next decade being touched as the decade of Commodities. Commodity exchange in India plays an important role where the prices of any commodity are not fixed, in an organized way.

2. Review of Literature

Sabnavis and Gurbandani (2010) analyzed global commodity markets. These markets have proved to be efficient price

*Corresponding author: madhukaleeshwari@gmail.com

discovery mechanism in India and worldwide. Further, Gurbandani (2010) found that both spot and future prices for selected agricultural commodities are efficient in weak form. Future prices are independent and past prices have no role in the contribution of future price prediction.

Basu and Gavin (2010) concluded that the investors are searching for the alternatives like high risky mortgage debt and financial derivatives market to mitigate the risk. The study also found that there is negative correlation between equity market to commodity futures return and it gives scope of bringing the arbitrage to exit hedging profits.

Shanmugam and Dey (2011) showed that the commodity market has performed better for all the stakeholders. There is an urgent need for new instruments in the commodity markets. In addition, the regulator has to develop stringent policies that can allow financial intermediaries like institutional investors, banks and mutual funds to benefit at gross root level.

Swati and Shukla (2011) concluded there is a need to convergence of all types of market like equity, commodity, forex and debt, which should be developed and regulated properly to provide wide-ranging risk management solutions to Indian stakeholders. Gupta and Ravi (2012) investigated the relationship in price discovery which proved that futures markets are more responsive in dissemination information and price discovery to correct spot market.

Mahanta (2013) analyzed price trends in the international market and concluded that gold price movements in international market is positively correlated with Indian gold price movements, so proper considerations to international markets should be given while designing policies of derivatives market in India.

Barua and Mahanta (2013) investigated the high inflationary pressure due to commodity derivatives. Few futures contracts like red gram, black gram, chickpeas, wheat, rice, potato, refined soybean oil and rubber have been canceled, but analysis proved that the ban on these commodity futures contract didn’t bring price stability.

Kumar B. and Pandey A (2013) in their study "Market efficiency in Indian commodity futures markets", investigate the long-run as well as short-run market efficiency of Indian commodity futures markets. Indian commodity futures markets are of recent origin and we analyzed the role of futures markets for 11 commodities including four agricultural commodities, two precious metals, three industrial metals and two energy commodities, using the futures prices of contracts traded at national commodity exchanges. The results support the fact that trading activity may play a major role in the effectiveness of futures prices. They also test the short-run efficiency with time varying risk premium using error correction model with GARCH-In-Mean framework. They found that for all commodities, some inefficiency exists in the short run relationships between futures and spot prices for majority of agricultural commodities such as maize, chickpea, black lentil, pepper, castor seed, soybean and sugar that were taken under this study.

3. Scope of the Study

Analyzing the recent developments in the Indian commodity markets will help investors to take corrective actions regarding their investments and hedge against the fluctuations in the commodity market. This study will further help the Indian government to predict their policy decision on the commodity market, which will lead to a more stable market and a stable economic growth in general. This study will create attention among the investors and the traders how far they benefit from the developments made in the market policies. And it may help in the diversification of trading on commodities. This paper deals with analyzing the performance which may further grab the policy makers attention in formation of the upcoming decisive action.

4. Statement of the Problem

Despite having a long history of the commodity markets, the Indian markets are still facing challenges such as Legal challenges, Regulatory challenges, Infrastructural challenges, Awareness among investors and producers and also due to intermediate ban on commodity trading and more due to the policy interventions by the government. Being agriculture-based economy, commodity markets play a vital role in the economic development of the country. Even though agricultural liberalization has made way for commodity trading, India has still had a long way in achieving the benefit of commodity markets. To know the commodity markets its important to understand the growth constraints and address the issues in the perspective. Commodity markets play an important role in the development of an economy, especially those economies that are dependent to a large extent on the agriculture sector. Owing to its dependence on agriculture sector, Indian economy to a large extent would benefit from commodity markets. Despite the fact, that Indian economy has witnessed robust growth in the last decade on account of services sector; agricultural sector still remains the backbone of Indian economy. This study further focuses on the analyzing the performance of commodity markets at present.

5. Objective of the Study

- To study the recent developments in the Indian commodity markets.
- To analyze the performance of Indian commodity markets.

6. Research Methodology

The study is theoretical in nature. The study is based on secondary data only. The data have been obtained from data base such as SEBI annual report and FMC annual report.

7. The Indian Commodity Markets

The National Stock Exchange of India Ltd. Remained the premier equity derivatives exchange not only in India but globally. In 2018, NSEIL ranked first among the global equity derivatives exchanges in terms of number of stock index options contracts traded, second in terms of number of single stock futures contracts traded, eighth in terms of number of single stock options contracts traded. BSE Ltd. Was second only to its Indian counterpart NSEIL as regards the number of currency derivatives contracts traded. Lastly, NSEIL ranked eighth among the global derivatives exchanges in terms of long-term interest rate derivatives contracts traded, while Multi Commodity Exchange of India Ltd. (MCX) stood at the eighth position among the global derivatives exchanges in terms of commodity derivatives contracts traded.

Table 1
Global ranking given to the Indian commodity markets

Types of products	Name of the exchange	Global ranking
Single stock option	NSEIL	8
Single stock future	NSEIL	2
Stock index options	NSEIL	1
Long term interest rate option and future	NSEIL	8
Currency option and future	NSEIL	1
Currency option and future	BSE. Ltd	2
Commodity option and future	MXC	8

Table 2
Variation between 2017 and 2018 in derivatives

Commodity Derivatives Segment	2017-18	2018-19	variation over previous year 2017-18 2018-19
NCDEX	589497	531588	-1.2 -9.8
MXC	5393950	6772373	-8.1 25.6
NMCE	34591	13675	21.6 -60.5
ICEX	2158	24061	---- 1015.0

Source: FMC & SEBI, Ministry of Finance (GoI)

8. Recent Developments in the Indian Commodity Market

- Indian government along with Securities and Exchange Board of India (SEBI) have made immense initiatives in order to bring changes in the performance and growth in the commodity markets of India, which is one of the major indicators of agriculture economic growth where agricultural products play a very major role in commodity exchanges.
- The merger of FMC along with SEBI in 2015-16 was a unprecedent financial market history. it was "to strengthen regulation of commodity forward market and reduce wild speculation". In order to that the finance act 2015 provided for amending securities contract(regulation) act 1956 and forward contract (regulation) act 1952 which paved way to merger of FMC with SEBI.
- The merger of FMC with SEBI to achieve convergence of regulation of securities market and commodity derivates and to increase the economies of scope and scale for exchanges, financial firms and other stakeholders.
- In 2018 SEBI has relaxed the algorithm trading norms at commodity derivative exchanges. The algorithm trading are mathematical models to make transactions decisions and to execute it in a high speed, where used to fix order at 20 per second but after revising it has compensated the existing norms to 100 per order.
- SEBI recent moves in the inflows has reflected in the growth of the commodity market although it has not reflected in the future markets. NSE and BSE has to participate in commodity markets.
- SEBI has also allowed some option trading in many commodities such as copper, crude and gold.
- To enhance liquidity, it has launched liquidity enhancement scheme in gold options, which has improved move results.
- Recently mutual funds are allowed to participate in the commodity markets, in order to it SEBI will amend the mutual fund amendment regulation of 2018 and the portfolio management amendment regulation 2016 enabling mutual funds and portfolio managers to participate in the Agri and non-Agri commodity derivatives segments (CDS).
- SEBI allowed category -III alternative investment funds to also trade in commodities. Foreign companies with exposure to Indian commodities not having presence in India have been allowed to trade.
- Further SEBI has put consultation paper on the design of commodity indices in a bid to boost the derivatives markets for such indices.
- In an effort to bring the Indian markets in line with global markets, SEBI had directed commodity exchanges to align trading lot sizes with delivery lot sizes to remove barriers in physical delivery of commodities and adhere to global standards.
- Thus, there is lot of developments and upliftment's are been going among the SEBI, exchanges, brokers and markets participants to expand this market and it will soon have a strong foothold and become major destination globally.

9. Performance of Indian Commodity Markets During the Year 2010-2019

Table 3
Annual growth of Indian commodity markets

Years	Trade volume (in tons)	Value of trade (in crore)
2010-11	12805.57	11948942.35
2011-12	14025.74	18126103.78
2012-13	14510.08	17046840.09
2013-14	8832.76	10144794.98
2014-15	686165.00	6135672.00
2015-16	1138013.00	6696380.00
2016-17	917811.00	6490955.00
2017-18	2301285.57	6009242.00
2018-19	3168076.90	7196826.00

Source: FMC & SEBI, Ministry of Finance (GoI)

The above table shows the annual growth of the commodity markets for the period 2010-2019. The data shows a fluctuation in the growth i.e., compared to year 2013 (8832.76) it has increased to (3168076.90) in 2018 in volume of trade, it is found decreasing trend in the year 2014 compared to 2013, at present it has increased to 7196826.00 in 2018-19, due to the revised norms in the by SEBI in strengthening the commodity markets.

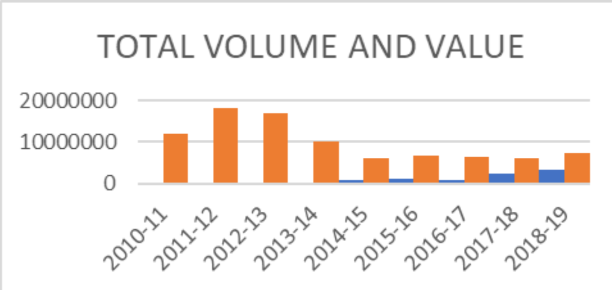

Fig. 1. Graphical representation of the volume and the value of trade
Source: FMC & SEBI, Ministry of Finance (GoI)

The above graph shows the fluctuation in the volume and value of trade.

Table 4
Total volume of exchanges of national commodity exchanges

Exchanges				**Years**
Years	2010	2011	2012	2013
MCX	7839.71	8823.765	10014.23	5305.81
NCDEX	4120.84	4175.148	3566.17	2745.43
NMCE	322.79	347.62	248.47	310.23
Years	2015	2016	2017	2018
MCX	911229	783457	2059250	2464490
NCDEX	217737	128790	151876.3	140054.9
NMCE	6028	5564	165324.7	611289

Source: FMC & SEBI, Ministry of Finance (GoI)

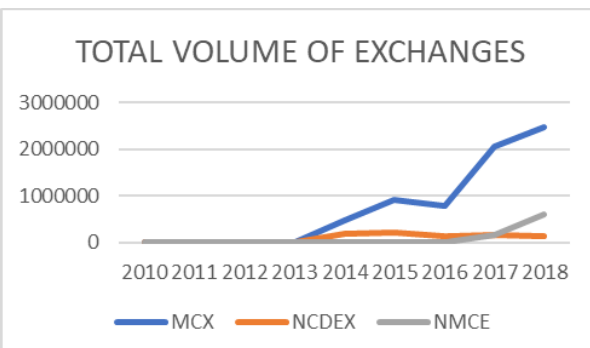

Fig. 2. Graph representing total volume of exchanges
Source: FMC & SEBI, Ministry of Finance (GoI)

The above table and diagram clearly indicate the increasing trend of traded volume commodities in 2010-2018. It has started increasing after 2014 has lifted after 2016 which indicates the efforts of the SEBI.

10. Conclusion

Commodity trading in India with three separate exchanges are one such unique feature. The merger of FMC along with the SEBI, there has been a tremendous growth in commodity markets in terms of volume of trade, number of products on offer participation and technology. The recent developments such a liquidating and allowing the foreign players in the commodity markets has shown its effect in the growth of the markets. The upcoming reforms and the schemes developed by GoI and SEBI will definitely boost up the commodity trading and will make Indian commodity market reach global classes.

References

[1] Sivarethinamohan and P. Aranganathan, "A Study on Investors' Preference in Indian Commodities Market", European Journal of Commerce and Management Research, 2013; 2(1):9-15.
[2] Shree Bhagwat, Ankur Goutam, "Development of Social Networking Sites and Their Role in Business with Special Reference to Facebook", IOSR Journal of Business and Management, 2013; 6(5):15-28.
[3] Shree Bhagwat, Ritesh Omre, Deepak Chand, "Development of Social Networking Sites and Their Role in Online Share Trading & Business with Special Reference to Facebook", International Journal of Business Management & Research, 2013; 3(1):31-52.
[4] Ghosh M, "Agricultural Policy Reforms and Spatial Integration of Food Grain Markets in India", Journal of Economic Development 2011; 36(2):15-37.
[5] Shihabudheen M. T. and Padhi Puja, "Price Discovery and Volatility Spillover Effect in Indian Commodity Market", Indian Journal of Agricultural Economics, 65(1):101-116.
[6] Dr. Shree Bhagwat, and Angad Singh Maravi, "Analysis of Futures Trading on Agricultural and Non-Agricultural Commodities in Indian Commodity Markets", GE- International Journal of Management Research, 2016; 4(1):16-31.
[7] Dr. Shree Bhagwat and Angad Singh Maravi ,"An Analysis of Past and Present Status of Commodity Derivatives Market in India", International Journal of Advanced Research in Management and Social Sciences, 2016; 5(2):163-184.
[8] Shree Bhagwat and Angad Singh Maravi, "A Study of Commodity Market V/S Multi Commodity Exchange of India Limited (MCX)", International Journal of Research in Management, Economics and Commerce, 2016; 6(4): 27-41.
[9] Kumar B, and Pandey A. "Market efficiency in Indian commodity futures markets", Journal of Indian Business Research 2013; 5(2):101-121. 26
[10] www.sebi.org.in
[11] https://www.ibef.org
[12] https://m.economictimes.com
[13] https://dea.gov.in
[14] https://data.gov.in