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Functions and Structure of Commodity Futures Market: An Indian Perspective

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Abstract

*In India commodity futures trading has a old and long history. The Bombay cotton trade association was established the first commodity exchange in 1875. Presently in India there are six big national level commodity exchanges namely*Multi Commodity exchange{*MCX) Mumbai, National Multi Commodity Exchange (NMCE) Ahemadabad, National Commodity and Derivative Exchange(NCDEX)Mumbai, Indian Commodity Exchange (ICEX) Mumbai, ACE Derivative and Commodity Exchange(ACE) Ahemadabad and Universal Commodity Exchange (UCX) Mumbai. With this 16 recognized and seven non-recognized commodity exchanges operates in India. This study examines the Functions and Structure of Indian Commodity Market and trade developments in different years. The result revealed that, the overall commodity exchanges trade value in the economic year of 2012-13 was 87.63lakh crores.MCX is the world's largest future's commodity exchange in Silver, Gold, and Crude Oil. In addition, this study revealed that the turnover of MCX trading value of Rs 56.3 lakh crore in 2015-16 as against Rs 51.8 lakh crore in 2014-15. Hence it shows positive sign for the growth of Indian Commodity market.*

Keywords: Commodity Market, Commodity exchanges, Structure and functions.

Introduction

Commodities play a significant role in economic wise development of all over the world. Commodity refers to the "products that can be bought, sold or traded in different kinds of markets. Commodities are the raw materials that are used to create products which are consumed in everyday life around the world, from food products in India to building new homes in Europe or to running cars in the US"(Mahajan& Singh, 2015). After Forward Market Commossion was established in April 2003the commodity market has occupied crucial position in indianenconomy. In our country different types of commodities were traded on commodity exchanges such as agricultural, industrial, bullion etc. Naik, Gopal & Jain Sudhir Kumar (2002), examined that agricultural commodity futures market has not fully developed as competent mechanism of price discovery and risk management. They explained that like poor management, infrastructure and logistics aspects are blaming the deficient of commodity derivative markets. Lokare (2007),analysed the development of commodity markets in India in the wake of globalization. Liquidity in respect of primary commodities was found to be high only in few commodities such as castor seed, soya bean oil while in the case of others it was thin. Nath, Golka C., & Lingareddy, Tulsi (2008), emphasised that trading in commodity futures contributed to an increase in inflation as result showed that during the time period of future trading the spot price of selected commodities and their volatilities had posted remarkable increase. Byrne et al (2012), contributed to the empirical evidence on the co-movement and determinants of commodity prices. Both demand supply positively impact on the co-movement of commodity prices. Brajesh and party (2013), investigated market efficiency of Indian commodity futures market with respect to short run and long run agricultural and even-Nonagricultural commodities for market efficiency and was unbiasedness. The result revealed that the long run efficiency of commodity futures prices and inefficiency of future prices in short run.

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Functions of Commodity Futures

Mahajan & Sing (2015) state that, "a Commodity future is the indicator of agreements to make on a futures exchange to 'buy or sell a commodity at a pre-determined price in the future". Commodity futures trading was clearly mentioned by the Forward Market Commission, such as, "the market for commodity should be competitive, i.e., there should be large demand for the supply of the commodity- no individual or group of persons acting in concert should be in a position to influence the demand or supply and consequently the substantially, in addition, the market for the commodity should be free from substantial government control, the

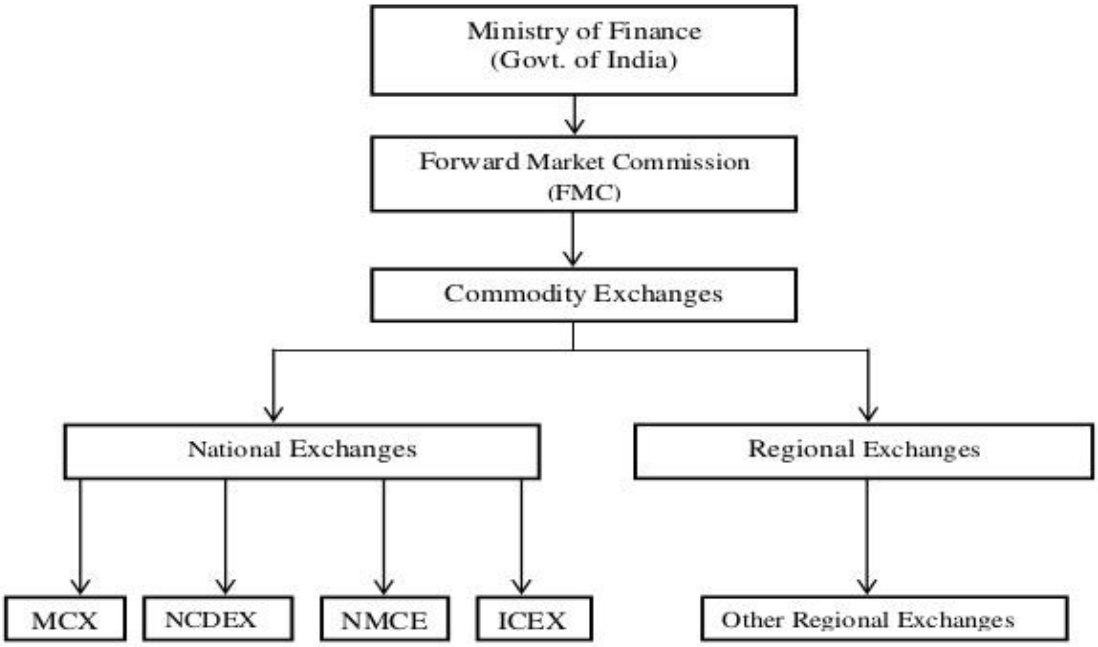
government intervention may adversely affect the price discovery process and finally, the commodity should have long shelf-life and be capable of standardization and gradation" (Nath & Lingareddy, 2008). The future contracts are functioning on the basis of standardized regulated exchanges. In that the buyer and seller will make a futures contracts by using the terms of price. The price is discovered through the offers and bids process. All contracts are settled by cash or physical delivery of the underlying commodity on the expiry date of the contract. In Indian exchanges, almost all commodity futures contracts are cash-settled. The following commodities are being traded in the commodity exchanges.

- Agricultural Products like fibre, pulses, vegetables, grains, edible oil, oilseeds and oil cacks etc.
- Energy Products like crude oil, heating oil gasoline and natural gas etc.
- Base Metal like copper, nickel, lead, zinc, and tin etc.
- Buillion like gold, silver, platinum etc.

Structure of Indian commodity Futures Markets

Our Indian commodity contains certain structure which is based on some hierarchical system. It contains three tier structure of trading functions. These are Central Government, Forward Market and Recognized Exchanges. Generally, National exchanges and Regional exchanges are the main pillar of commodity market in India (Mukesh, 2014). In India National exchanges have been setup to overcome the trade problems which contain four main exchanges, such as, National multi commodity exchanges of India (NMCE), National board of Trade(NBOT), Multi commodity exchanges of India (mbMCX), National commodity and derivative exchanges of India (NCDX). NMCE was inaugurated on November 26, 2002, were functioning around 24 commodities. It deals with food grains, cash crops, oil seeds, spices, plantations and so on. In addition, NBOT were opened in 1999. It deals with transparent and efficient trading platform to many market intermediaries in the commodity future trade (Mukesh, 2014).MCX is India's largest independent commodities exchange, it was opened in 2003. It deals with various licensing arguments in overall global exchanges. For instance, London Metal Exchange, Newyork Board of trade, Tokyo commodity exchange and so on. Oils, and oil seeds, spices, energy and plantation were traded here. And other exchanges functioning through MCX.NCDEX was started the year of 2003. It is tied up with NCCL for clearing all trade exchanges. It has some functions which are maintains and manages a settlement guarantee fund in order to defaults.

The three tire regulatory structure of future trading system in India as follows:



Following are the Commodity Exchanges Recognized by Forward Markets Commission: The main 6 National Exchanges are Multi Commodity Exchange of India Ltd., (MCX), National Commodity & Derivatives Exchange of India Ltd., (NCDEX), National Multi Commodity Exchange of India Ltd., (NMCE), Indian Commodity Exchange Ltd., (ICEX), Ace Derivatives and Commodity Exchange Ltd., (ACE), Universal Commodity Exchange Ltd., (UCX). The Commodity Specific Regional Exchanges are Bikaner Commodity Exchange Ltd., Bikaner, Bombay Commodity Exchange Ltd., Vashi, Bombay, Chamber of commerce, Hapur, Central India Commerce Exchange Ltd. Gwalior, Cotton Association of India, Mumbai, East India Jute &Hussian Exchange Ltd. Kolkata, First Commodities Exchange of India Ltd., Kochi, Haryana Commodities Ltd., Sirsa, India Pepper & Spices Trade Association (IPSTA) Kochin, Meerut Agro Commodity Exchange Co. ltd. Meerut, National Board of Trade (NBOT), Indore, Rajkot Commodity Exchange Ltd., Rajkot, Rajdhani Oils& Oilseed Exchange ltd., Delhi, Surendranagar Cotton oil & Oilseeds Association Ltd., Surendranagar, Spices & Oilseeds Exchange Ltd. Sangli, VijayBeopar Chamber Ltd., Muzaffarnagar. The other Regional Commodity Exchanges but Not Recognized by Forward Markets Commission are Bhatinda Om& Oil Exchange ltd., Bhantinda, East India cotton Association Ltd., Calcutta, Kanpur Commodity Exchange Ltd., Kanpur, E-Sugar India Ltd., Mumbai , Coffee Futures Exchange India Ltd., Bangalore, E-Commodities Ltd., New Delhi, Bullion Merchants Association Limited, Bikaner. (Source: Forward Markets Commission (FMC), Mumbai)

Results and Discussion

Table I. An analysis of commodity trade exchange turnover rates (Values in lakh crores)

Exchanges	2010-11	2011-12	2012-13
	Rs. (-Values in lakh crores)		
MCX	24.98	25.45	38.65
NCDEX	6.98	17.56	28.90
NMCE	2.23	7.98	10.66
NBOT	1.50	2.99	4.80
OTHERS	1.98	3.09	4.62
ALL EXCHANGS	**37.67**	**57.07**	**87.63**

Source:(Commodity Exchanges and its Growing importance: An Indian perspective -Mukesh. H.V., 2014).

The table shows the increased absolute terms the years from 2010-11 to 2012-13 of commodity futures market in India. The total value of trade increased from 30057.033 crore in 2010-11 to Rs 172010.18 crore in 2012-13 and then decreased 46756.74 crore in 2013-14. The percentage share of Refsoyoil to total value of commodities traded increased 48.09% to 77.84% from 2010-11 to 2012-13 and then decreased to 29.16% in 2013-14; whereas share of value of Soyabean decreased from 24.42% to 10.58% from the year 2010-11 to 2013-14. ICEX Market Ref soy oil, Soybean, Mustard, Chana, Castor, and Sugar were traded in the year 2010-11. Guar seed was trade in 2011- 12. Soya Meal and RBD was traded in 2012-13 while as CPO was traded only in the year 2013-14

This table shows that the increased terms the year from 2010-11 to 2013 of commodity market in India. The total value of all exchanges increased from Rs. 37.67 lakh crores 2010-11 to Rs. 57.07 lakh crores in 2011-12. But from the table we can see in the year of 2012-13 the all exchanges turnover increased Rs 87.63 lakh crores. MCX, NCDEX, NMCX are taken the first three places. From the above table-1it is noted that the multi commodity exchanges turn over values shows a vulnerable development in every year. Particularly in the year of 2012-13 the MCX trade volume was increased Rs. 38.65 lakh crores rather than other years. It shows an increasing trend in the value of trade for all the commodities as compared to previous year, which consider to be a positive sign for the growth of Indian Commodity market.

Recent Trend in Indian Commodity Futures Market

Sebi now in-charge of the commodity market, investors are getting their confidence back as the turnover of commodity exchanges grew 9% to Rs 67 lakh crore in 2015-16.Sebi started regulating commodities markets in September last year. It is likely to bring in more participants such as foreign portfolio investors and banks and introduce new products like commodity 'options'. Individually, MCX saw a trading value of Rs 56.3 lakh crore in 2015-16 as against Rs 51.8 lakh crore in 2014-15. There was trading in 23.4 crore contracts for the period under review, up nearly 58%. NCDEX reported a 13% jump in turnover at Rs 10.2 lakh crore while volumes rose 50% to 4.1 crore during the last fiscal. Hence over and above that, markets witnessed good participation in certain precious metals, pulses as well as certain other agriculture products.

Conclusion

India is one of the top producers of large number of commodities and also has a long history of trading in commodities. Almost 100 commodities (agricultural and non- agricultural) are traded in different exchanges. The volume of trade has increased in the year

of 2012-13 around 87.63 lakh crores in all exchanges and only in MCX 56.3 lakh crore in 2015-16. It indicates a positive growth in the commodity market sector in India. The different commodities (agriculture, metals, bullions, energy and others) show a positive trend in their volume and value of trade. This study shows the importance of commodity futures and developments in India. Though, many government trade companies run and provide the turnovers, which reflects the beneficiaries of private companies, it is quite common. In future, the government would take action to make some additional trade companies in every state for economic development. Even though increasing the turnover in India, due to demonetization on November 8th, 2016 all the commodity exchanges were affected. The investors struggling to invest in commodity exchanges particularly, agricultural commodity, energy producs etc. Hence, I conclude that nowadays in India sustainability of currency is playing a vital role in commodity market. Without sustainability of currency our country cannot face the positive turn over in commodity futures market.

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