

GROWTH AND CHALLENGES OF COMMODITY DERIVATIVE MARKET IN INDIA

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ABSTRACT

Commodity market is an important constituent of the financial markets of any country. It is the market where a wide range of products, viz., precious metals, base metals, crude oil, energy and soft commodities like palm oil, coffee etc. are traded. 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. In India where agriculture is an important sector which contributes maximum to the growth of its GDP, it possess the capacity of not only being one of the top five producers of the commodities but also the major consumer of bullion and energy products. In other words India has more potentiality to become a major center for trading of more commodities. But unfortunately because of heavy government interventions in the agricultural market in case of maintaining buffer stock, in fixing the prices and by way of imposing restrictions on export and import of the commodities. In order to eliminate the obstacles and to fix the fair prices and to maintain buffer stocks and make farmers not to be vulnerable for the price crashes in future when the crop comes out, and to give them signals which trade will have great value tomorrow, there is a dire need of developed commodity derivative market in India. The present study analyses the growth and challenges of the commodity market in India.

KEYWORDS: Challenges, Commodity Derivative Market, Growth

INTRODUCTION

A commodity may be defined as a product or material or any physical substance like food grains, processed products and agro-based products, metals or currencies, which investors can trade in the commodity market. One of the characteristics of a commodity is that its price is determined as a function of its market as a whole. Well-established physical commodities are actively traded in spot and derivative commodity market. Commodities actually offer immense potential to become a separate asset class for market-savvy investors, arbitragers and speculators. Retail investors, who claim to understand the equity market, may find commodity market quite tricky. But commodities are easy to understand as far as fundamentals of demand and supply are concerned.

A commodity market is a market where various commodities and derivatives products are traded. Most commodity market across the world, trade in agricultural products and other raw materials (like wheat, barley, sugar, maize, cotton, cocoa, coffee, milk products, pork bellies, oil, metals, etc.) and 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 ocean freight contracts.

Commodities exchanges usually trade futures contracts on commodities, such as trading contracts to receive a particular commodity in physical form. Speculators and investors also buy and sell the futures contracts at commodity exchanges to make a profit and provide liquidity to the system. The present paper intends to find out the present position of commodity future market in India and to find out the challenges before them.

In a free market economy, Futures trading performs two important economic functions, viz., price discovery and price risk management. Such trading in commodities is useful to all sectors of the economy. The forward prices give advance signals of an imbalance between demand and supply. This helps the government and the private sector to make plans and arrangements in a shortage situation for timely imports, instead of having to rush in for such imports in a crisis-like situation when the prices are already high. This ensures availability of adequate supplies and averts spurt in prices.

Similarly, in a situation of a bumper crop, the early price signals emitted by futures market help the importers to defer or stagger their imports and exporters to plan exports, which avoid glut situations and ensures remunerative prices to the producers. At the same time, it enables the importers to hedge their position against commitments made for import and exporters to hedge their export commitments. As a result, the export competitiveness of the country improves. In order to eliminate the government interventions and to fix the fair prices and to maintain buffer stocks and make farmers not to be vulnerable for the price crashes in future when the crop comes out, and to give them signals which trade will have great value tomorrow, there is a dire need of developed commodity derivative market in India. From this backdrop, the present study intends to study the growth and challenges of the commodity market in India.

OBJECTIVES

- To study the current position of commodity derivative market in India.
- To highlight the constraints faced by the commodity derivative markets in India.

METHODOLOGY

The present study is based on secondary data collected from the websites of different Commodity Exchanges, Forward Markets Commission, Mumbai, related journals, Govt of India reports, and related websites. The study period covered in the study is 2009-10 to 2011-12. Simple percentages are used as statistical tool in the present study.

CURRENT POSITION OF COMMODITY DERIVATIVE MARKET IN INDIA

As on today forward trading in one hundred and thirteen commodities is regulated at the five National Exchanges, viz. Multi Commodity Exchange, Mumbai; National Commodity and Derivatives Exchange, Mumbai, National Multi Commodity Exchange, Ahmedabad, Indian Commodity Exchange, Gurgaon, and ACE Derivatives & Commodity Exchange Limited (ACE). Besides, there are sixteen regional exchanges recognized for regulating trading in various commodities approved by the Commission under the Forward Contracts (Regulation) Act, 1952 is shown in the Table -1. A list of Commodity Exchanges is given in Table-2.

Table 1: List of Commodities Notified under Section 15 of the F.C. (R.) Act 1952

Sl. No.	Commodity
(I)	Food Grains and Pulses
1	ArharChuni
2	Bajra
3	Barley
4	Gram
5	Gram Dal
6	Guar
7	Jowar
8	Kulthi
9	Lakh (Khesari)
10	Maize

Table 1: Contd.,	
11	Masur
12	Moth
13	Mung
14	MungChuni
15	Mung Dal
16	Peas
17	Ragi
18	Rice or Paddy
19	Small Millets (Kodan Kulti, Kodra, Korra, Vargu, Sawan, Rala, Kakun, Samai, Vari &Banti)
20	Tur Dal (Arhar Dal)
21	Tur(Arhar)
22	Urad (Mash)
23	Urad dal
24	Wheat
(II)	Oilseeds and Oils
25	Celeryseed
26	Copra Oil/Coconut Oil
27	Copra Oilcake / Coconut Oilcake
28	Copra/Coconut
29	Cottonseed
30	Cottonseed Oil
31	Cottonseed Oilcake
32	CPO Refined
33	Crude Palm Oil
34	Crude Palm Olive
35	Groundnut
36	Groundnut Oil
37	Groundnut Oilcake
38	Linseed
39	Linseed oil
40	Linseed Oilcake
41	Rapeseed Oil/Mustard Oil
42	Rapeseed Oilcake/ Mustardseed Oilcake
43	Rapeseed/Mustardseed
44	RBDPalmolein
45	Rice Bran
46	Rice Bran Oil
47	Rice Bran Oilcake
48	Safflower
49	Safflower Oil
50	Safflower Oilcake
51	Sesamum (Til or Jiljilli)
52	Sesamum Oil
53	Sesamum Oilcake
54	Soy meal
55	Soy Oil
56	Soybean
57	Sunflower Oil
58	Sunflower Oilcake
59	Sunflower Seed
(III)	Spices
60	Aniseed
61	Betelnuts
62	Cardamom

Table 1: Contd.,	
63	Chillies
64	Cinnamon
65	Cloves
66	Coriander seed
67	Ginger
68	Methi
69	Nutmegs
70	Pepper
71	Turmeric
(IV)	Metals
72	Copper
73	Zinc
74	Lead
75	Tin
76	Gold
77	Silver
78	Silver Coins
(V)	Fibres and Manufactures
79	Art Silk Yarn
80	Cotton Cloth
81	Cotton pods
82	Cotton Yarn
83	Indian Cotton (Full pressed, half pressed or loose)
84	Jute goods (Hessian and Sackings and cloth and /or bags, twines and/or yarns mfd by any of the mills and/or any other manufacturers of whatever nature made from jute)
85	Kapas
86	Raw Jute (including Mesta)
87	Staple Fibre Yarn
(VI)	Others
88	Camphor
89	Castor seed
90	Chara or Berseem (including chara seed or berseem seed)
91	Crude Oil
92	Gram Husk (Gram Chilka)
93	Gur
94	Khandsari Sugar
95	Polymer
96	Potato
97	Rubber
98	Seedlac
99	Shellac
100	Sugar
101	Furnace Oil
102	Ethanol
103	Cooking Coal
104	Electricity
105	Natural Gas
106	Onion
107	Corban Credit
108	Thermo coal
109	Methanol
110	Melted Menthol Flakes

111	Mentha Oil
112	Menthol Crystals
113	Iron Ore

Source: Forward Markets Commission (FMC), Mumbai

Table 2: List of Commodity Exchanges

S.No.	Name of the Exchanges
A.	National Multi Commodity Exchanges
1	National Multi Commodity Exchange of India Ltd., Ahmedabad (NMCE)
2	Multi Commodity Exchange of India Ltd., Mumbai (MCX)
3	National Commodity & Derivatives Exchange Ltd., Mumbai (NCDEX)
4	Indian Commodity Exchange Ltd., Mumbai (ICEX)
5	ACE Derivatives and Commodity Exchange, Ahmedabad
B.	Commodity Specific Regional Exchanges
6	Bikaner Commodity Exchange Ltd, Bikaner
7	Bombay Commodity Exchange Ltd, Mumbai
8	Central India Commercial Exchange Ltd, Gwalior
9	Cotton Association of India, Mumbai
10	The Chamber of Commerce, Hapur
11	East India Jute & Hessian Exchange Ltd., Kolkata
12	First Commodity Exchange of India Ltd, Kochi
13	Haryana Commodities Ltd., Sirsa
14	India Pepper & Spice Trade Association, Kochi
15	The Meerut Agro Commodities Exchange Company Ltd, Meerut
16	National Board of Trade, Indore
17	Rajkot Commodity Exchange Ltd., Rajkot
18	Spices & Oilseeds Exchange Ltd, Sangli
19	Surendranagar Cotton Oil & Oilseeds Association Ltd, Surendranagar
20	The Rajdhani Oil & Oilseeds Exchange Ltd, Delhi
21	Vijai Beopar Chamber Ltd., Muzaffarnagar

Source: Forward Markets Commission (FMC), Mumbai

The National Exchanges, with the adoption of modern technology, have spread the facility of commodity futures trading across the country. The total value of trade for the financial year 2011-12 was 181.26 lakh crore as against 119.49 lakh crore and 77.65 lakh crore in the preceding financial years 2010-11, 2009-10. Bullion, base metals, energy products and agricultural commodities were the major group of commodities traded at the exchanges. Amongst these, gold, silver, copper, lead, Nickel, zinc, chana, soy oil, guarseed and crude oil were prominent commodities traded during the year. The resurgence of agriculture commodities in the commodity futures platform seen in the year 2010-11.

During these years the Forward Commission focused its activities on the regulation of futures trading in commodities, spreading awareness amongst the various stake holders through various awareness and capacity building programmes and implementation of the Price Dissemination Project at APMCMandis.

The Commission also took steps to promote the participation of hedgers through a series of regulatory and developmental initiatives.

In the coming years, the priority of the Commission will be to consolidate the market strengthen regulation to generate confidence amongst the participants and keep the market free from manipulation and abuses; increase awareness among the stakeholders especially the farmers; empower the farmers with price information and identify, encourage and facilitate intermediaries such as aggregators to facilitate the participation of farmers in the market for hedging.

Out of twenty one recognized exchanges, Multi Commodity Exchange (MCX), Mumbai, National Commodity

and Derivatives Exchange (NCDEX), Mumbai, National Multi Commodities Exchange, (NMCE), Ahmedabad, Indian Commodity Exchange, Ltd., Gurgaon, ACE Derivatives and Commodity Exchange, Ahmedabad, National Board of Trade (NBOT), Indore, contributed 99.84% of the total value of the commodities traded during the year.

The Indian Commodity Futures Markets continued to grow, despite the suspension of futures trading in a few agricultural commodities. During the year, 113 commodities were regulated under the auspices of the recognized Exchanges. During 2011-12, 21 recognized exchanges were functioning. Out of the 113 commodities, regulated by the FMC, in terms of value of trade, Silver, Gold, Copper, Nickel, Zinc, Lead, Soy Oil, Guarseed, Chana, Pepper, and Jeera were the prominently traded commodities.

Following table shows the Marketwise value of trade in the commodity market during the years from 2009 to 2012.

Table 3: The Share of Various Exchanges in the Total Value of Trade in 2009-2012

Name of the Exchanges	Value of the Recognised Exchanges		
	2009-10 in Cr	2010-11 in Cr	2011-2012 in Cr
MCX	63,93,302.17 (82.34)	98,41,502.90 (82.36)	155,97,095.47 (86.05)
NCDEX, Mumbai	9,17,584.71 (11.82)	14,10,602.21 (11.81)	18,10,210.1 (9.99)
NMCE, Ahmadabad	2,27,901.48 (2.94)	2,18,410.90 (1.83)	2,68,350.95 (1.48)
ICEX, Gorgons	1,36,425.36 (1.78)	3,77,729.88 (3.16)	2,58,105.67 (1.47)
ACE, Ahmadabad @	-	30,059.63 (0.25)	1,38,657.61 (0.76)
NBOT, Indore	60,449.52 (0.78)	51,662.06 (0.43)	NA
Total Exchanges	77,35,663.24 (99.64)	1,19,29,967.58 (99.84)	1,80,72,419.8 (99.70)
Others	29,090.81 (0.36)	18,974.77 (0.84)	53687.0 (0.30)
Grand Total	7,76,475.050 100	1,19,48,942.35 100	1,81,26,106.80 (100)

@ Value is inclusive of the value of trade at Ahmedabad Commodity Exchange, Ahmedabad

Source: Forward Markets Commission (FMC), Mumbai

*Figures in brackets indicates per cent to total

Table-3 clearly shows the share of various exchanges in the total value of trade from the year 2009-2012. The total value of trade in commodity exchanges increased from Rs. 7,76,475.05 croresto Rs.1,81,12,6106.8 crores where in the MCX commodity exchange traded 82.34 per cent of the value and increased its share to 86.34 per cent of the value by the year 2011-12. While the NCDEX commodity exchange share in value of trade decreased from 11.82 to 9.99 percent by 20011-2012, similarly NMCE's share also decreased its share in value of total commodities traded from 2.94 per cent to 1.48 per cent from 2009 to 2012.

The details of major commodities traded in the top FourCommodity Exchanges which accounted for 99% of the total value and volume of trade during the years from 2009-10 to 2011-12 are presented hereunder.

Table 4: Commodities Traded in Volume from 2009 to 2012 in Multi Commodity Exchange of India

S.No.	Commodity	Volume (in Lakh Tonnes) 2009-10	Volume (in Lakh Tonnes) 2010-11	Volume(in Lakh Tonnes) 2011-12
1	SILVER	4.51 (0.07)	6.97 (0.09)	9.951 (0.11)

Table 4: Contd.,

2	GOLD	0.12 (0.00)	0.13 (0.0)	0.160 (0.00)
3	CRUDEOIL	5,023.45 (81.69)	6,317.99 (80.59)	7,300.227 (82.73)
4	COPPER	313.55 (5.10)	309.80 (3.95)	355.211 (4.03)
5	NICKEL	32.71 (0.53)	43.55 (0.56)	38.525 (0.44)
6	NATURAL GAS	15857256250@	NA	16235343750
7	LEAD	-	300.60 (3.83)	239.033 (2.71)
8	ZINC	272.95 (4.44)	388.87 (4.96)	-
9	OTHER	501.75 (8.16)	515.40 (6.57)	880.657 (9.98)
Total		6,149.034 (100.00)	7,839.71 (100.00)	8,823.765 (100.00)

Source: Forward Markets Commission (FMC), Mumbai

*Figures in brackets indicates per cent to total

Table 5: Commodities Traded in Value from 2009 to 2012 in Multi Commodity Exchange of India

S.No.	Commodity	Value in Crores 2009-10	Value in Crores 2010-11	Value in Crores 2011-12
1	SILVER	11,41,707.31 (17.86)	27,00,017.25 (27.44)	57,38,871.122 (36.79)
2	GOLD	19,22,207.39 (30.07)	24,69,246.20 (25.09)	42,24,785.993 (27.09)
3	CRUDEOIL	12,19,045.51 (19.07)	17,64,67.84 (17.92)	24,63,336.416 (15.79)
4	COPPER	9,03,409.43 (14.13)	11,45,074.86 (11.64)	14,37,082.176 (9.21)
5	NICKEL	2,75,277.35 (4.31)	4,64,577.93 (4.72)	3,85,334.138 (2.47)
6	NATURAL GAS	3,22,249.15 (50.4)	-	2,60,916.044 (1.67)
7	LEAD	-	3,06,414.62 (3.11)	2,59,508.657 (1.66)
8	ZINC	2,60,172.12 (4.07)	3,89,457.78 (3.96)	-
9	OTHER	3,49,233.91 (5.46)	6,02,646.43 (6.12)	8,27,260.922 (5.30)
Total		63,93,302.17 (100.00)	98,41,502.91 (100.00)	1,55,97,095.468 (100.00)

Source: Forward Markets Commission (FMC), Mumbai

*Figures in brackets indicates per cent to total

MCX is the major contributor in commodity market both in its trade volume and its trade value. From the tables 4&5 The trade has increased in absolute terms over the years from 2009-2012 but where as in absolute terms its share in total value decreased in some of the metals like Lead and Nickle, where asthe volume of other commodities viz., Silver, Gold, Crude oil, Copper and other commodities increased over the years but the growth is not in considerable amount. Similarly, the value of commodities traded in MCX commodity market increased from 17.86 crores to 36.79 crores by 2011-12 bu the value of gold to total value decreased from 30.07 crores to 25.09 by 2010-11 and then increased to 27.09 crores. The value of Crude oil decreased continuously. The percentage share of Silver in total value of commodities traded in MCX market increased from 17.86 per cent to 36.79 percent from 2009-10 to 2011-12; while the

per cent value of Gold to total value of commodities traded to total commodity decreased from 30.07 to 25.09 per cent from 2009-10 to 2010-11 thereby increased to 27.09 by 2011-12; where as the per cent value of Crude Oil decreased from 19.07 per cent to 15.79 per cent from the year 2009-1- to 2011-12. Lead was introduced as commodity from the year 2010-11, while the Zink was not traded during the year 2011-12 in MCX Market.

THE NATIONAL COMMODITY & DERIVATIVES EXCHANGE LTD., MUMBAI (NCDEX)

**Table 6: Commodities Traded in Volume from 2009 to 2012
in the National Commodity & Derivatives Exchange Ltd**

S.No	Commodity	Volume (in Lakh Tonnes) 2009-10	Volume (in Lakh Tonnes) 2010-11	Volume (in Lakh Tonnes) 2011-12
1	GUAR SEED	1,115.25 (35.55)	1,021.97 (12.80)	704.81384 (16.88)
2	SOYAOIL	289.66 (9.23)	464.50 (11.27)	619.75060 (14.84)
3	CHANA	439.37 (14.00)	467.68 (11.35)	849.80950 (20.35)
4	SOYABEEN	434.13 (13.84)	457.03 (11.09)	492.75780 (11.80)
5	RAPE MUSTARD	314.15 (10.01)	315.03 (7.64)	504.19590 (12.08)
6	PEPPER	-	39.97 (0.97)	-
7	GUAR GUM	-	-	67.57494 (1.62)
8	CRUDE OIL	-	653.15 (15.85)	265.66371 (6.36)
9	TURMERIC	112.94 (3.60)	-	-
10	JEERA	26.50 (0.84)	-	-
11	OTHER	405.45 (12.92)	701.50 (17.02)	670.58267 (16.06)
Total		3,137.44 (100.00)	4,120.84 (100.00)	4,175.14896 (100.00)

Source: Forward Markets Commission (FMC), Mumbai

*Figures in brackets indicates per cent to total

**Table 7: Commodities Traded in Value from 2009 to 2012 in
the National Commodity & Derivatives Exchange Ltd**

S.No.	Commodity	Value in Crores 2009-10	Value in Crores 2010-11	Value in Crores 2011-12
1	GUAR SEED	2,58,031.27 (28.12)	2,46,283.33 (17.46)	3,23,119.643 (17.85)
2	SOYAOIL	1,36,651.76 (14.89)	2,60,362.79 (18.46)	4,15,762.053 (22.97)
3	CHANA	1,06,295.87 (11.58)	1,12,736.16 (7.99)	2,74,604.955 (15.17)
4	SOYABEEN	98,926.85 (10.78)	1,01,645.48 (7.21)	1,22,637.796 (6.77)
5	RAPE MUSTARD	84,778.79 (9.24)	87,161.91 (6.18)	1,65,405.051 (9.14)
6	PEPPER	-	80,460.50 (5.70)	-
7	GUAR GUM	-	-	98,356.672 (5.43)
8	CRUDE OIL	-	1,93,090.55 (13.69)	86,225.698 (4.76)

Table 7: Contd.,

9	TURMERIC	79,967.29 (8.71)	-	-
10	JEERA	33,720.03 (3.67)	-	-
11	OTHER	1,19,212.85 (12.99)	3,28,861.49 (23.31)	3,24,098.226 (17.90)
Total		9,17,584.71 (100.00)	14,10,602.21 (100.00)	18,10,210.096 (100.00)

Source: Forward Markets Commission (FMC), Mumbai

*Figures in brackets indicates per cent to total

From the tables 6&7 during the year 2009-10 in NCDEX Market, Pepper, Guar Gum. Crude Oil were not traded, while in 2010-11 Pepper was traded only in the year 2010-11 while as guar gum is traded in 2011-12, crude oil was traded in both 2010-11 and 2011-12 years where as turmeric and Jeera was traded only in the year 2009-10. The percentage volume of guar seed to total volume of commodities traded was 35.55 percent which was drastically came down to 12.80 per cent and then increased to 16.88 per cent by 2011-12 where as the percentage volume of Soya Bean to total volume increased from 9.23 per cent to 14.84 per cent from the years 2009 to 2012.

Chana and soya Bean share volume to total volume registered fluctuations in 2010-11, 2011-12 and the same trend can also be seen in the volume of different other commodities traded in NCDEX market.

NATIONAL MULTI-COMMODITY EXCHANGE OF INDIA LIMITED, AHMEDABAD (NMCE)

**Table 8: Commodities Traded in Volume from 2009 to 2012
in National Multi-Commodity Exchange of India Limited**

S.No.	Commodity	Volume (in Lakh Tonnes) 2009-10	Volume (in Lakh Tonnes) 2010-11	Volume (in Lakh Tonnes) 2011-12
1	RAPE/MUSTARD	113.28 (22.84)	-	-
2	NICKLE	-	-	2.35 (0.68)
3	RUBBER	-	11.78 (3.65)	-
4	SACKING	54.74 (11.04)	31.51 (9.76)	-
5	COPPER	-	4.05 (1.25)	5.29 (1.52)
6	LEAD	-	14.09 (4.37)	-
7	ALUMINIUM 5 MT	-	13.82 (4.28)	2.079 (0.60)
8	SOYOIL	47.77 (9.63)	-	28.57 (8.22)
9	GUAR SEED	82.20 (16.58)	-	-
10	ZINK	-	-	21.63 (6.22)
11	CHANA	62.31 (12.56)	-	-
12	OTHERS	135.61 (27.35)	247.54 (76.69)	268.99 (77.38)
Total		495.91 (100.00)	322.79 (100.00)	347.62 (100.00)

Source: Forward Markets Commission (FMC), Mumbai

*Figures in brackets indicates per cent to total

Table 9: Commodities Traded in Value from 2009 to 2012 in National Multi-Commodity Exchange of India Limited

S.No.	Commodity	Value in Crores 2009-10	Value in Crores 2010-11	Value in Crores 2011-12
1	RAPE/MUSTARD	26,577.73 (11.66)	-	-
2	NICKLE	-	-	23,344.45 (8.70)
3	RUBBER	-	23,846.36 (10.92)	-
4	SACKING	24,238.77 (10.64)	16,734.57 (7.66)	-

Table 9: Contd.,

5	COPPER	-	15,256.03 (6.99)	21,828.00 (8.13)
6	LEAD	-	14,787.23 (6.77)	-
7	ALUMINIUM 5 MT	-	14,711.08 (6.74)	23,094.26 (8.61)
8	SOYOIL	22,364.15 (9.81)	-	19,739.18 (7.36)
9	GUAR SEED	18,579.55 (8.15)	-	-
10	ZINK	-	-	22,051.21 (8.22)
11	CHANA	14,851.26 (6.52)	-	-
12	OTHERS	1,21,290.02 (53.22)	1,33,075.63 (60.93)	1,58,293.85 (58.99)
Total		2,27,901.48 (100.00)	2,18,410.904 (100.00)	2,68,350.948 (100.00)

Source: Forward Markets Commission (FMC), Mumbai

*Figures in brackets indicates per cent to total

In NMCE Commodity Market during the year 2009-10 only Mustered, Sacking, Soya Oil, Guar seed, Chana and other were traded. Among them the per centage volume of Musterd to total volume traded was more by constituting 22.84 percent, Guar seed 16.58 per cent; Chana 12.56 per cent, sacking 11.04 per cent and Soya oil 9.63 per cent while in the year 2010-11, Rubber, Sacking, Copper Lead and others were traded where as in 2011-12, Nickle Copper, Aluminium, soya oil, Zink and other were traded, soya Oil constitutes 8.22 per cent to total volume traded which is clearly shown in the Table-8&9.

INDIAN COMMODITY EXCHANGE LTD. (ICEX), GURGAON

Table 10: Commodities Traded in Volume from 2009 to 2012 in Indian Commodity Exchange Ltd

S.No.	Commodity	Volume (in Lakh Tonnes) 2009-10	Volume (in Lakh Tonnes) 2010-11	Volume (in Lakh Tonnes) 2011-12
1	SILVER	0.06680 (0.05)	0.24612 (0.09)	0.13134 (0.06)
2	GOLD	0.00349 (0.00)	0.00815 (0.00)	0.00349 (0.00)
3	CRUDEOIL	110.34229 (90.37)	248.35007 (86.56)	115.80982 (49.31)
4	COPPER	8.38350 (6.87)	18.17394 (6.33)	9.15150 (3.90)
5	RSO	2.39650 (1.96)	-	-
6	NATUIRAL GAS	41888750	-	-
7	LEAD	0.61815 (0.51)	-	-
8	GUARSEED	0.29400 (0.24)	-	-
9	MUSTERD SEEDS	-	-	22.59350 (9.62)
10	OTHERS	-	20.14673 (7.02)	87.15545 (37.11)
Total		122.10473 (100.00)	286.925004 (100.00)	234.84510 (100.00)

Source: Forward Markets Commission (FMC), Mumbai

*Figures in brackets indicates per cent to total

Table 11: Commodities Traded in Value from 2009 to 2012 in Indian Commodity Exchange Ltd

S.No.	Commodity	Value in Crores 2009-10	Value in Crores 2010-11	Value in Crores 2011-12
1	SILVER	17,964.24 (13.17)	83,974.04 (22.23)	74,714.559 (28.95)
2	GOLD	58,778.43 (43.08)	153.71 (40.54)	90,740.917 (35.16)
3	CRUDEOIL	28,946.04 (21.22)	67,769.65 (17.94)	38,960.007 (15.09)
4	COPPER	27,889.39 (20.44)	65,107.26 (17.24)	36,902.468 (14.30)

Table 11: Contd.,

5	RSO	1,136.43 (0.83)	-	-
6	NATURALGAS	1,023.37 (0.75)	-	-
7	LEAD	607.74 (0.75)	-	-
8	GUARSEED	79.72 (0.06)	-	-
9	MUSTERD SEEDS	-	-	6,642.876 (2.57)
10	OTHERS	-	7,765.21 (2.06)	10,144.845 (3.93)
Total		1,36,425.36 (100.00)	3,77,729.88 (100.00)	2,58,105.672 (100.00)

Source: Forward Markets Commission (FMC), Mumbai

*Figures in brackets indicates per cent to total

Table-10&11 clearly shows the volume and value of commodities traded in ICEX market from the year 2009-10 to 2011-12. Silver, gold, Crude Oil, Copper, RSO, Natural Gas, Lead GuarSeeds were not traded during the year 2010-11 and 2011-12. The percentage volume of Crude oil to total Volume constitutes 90.37 per cent as major commodity of the market.

CONSTRAINTS OF INDIAN DERIVATIVE COMMODITY MARKET

Even though the commodity derivatives market has made good progress in the last few years, the number of commodities allowed for derivative trading have increased, the volume and the value of business has zoomed, but the objectives of setting up commodity derivative exchanges may not be achieved and the growth rates witnessed may not be sustainable unless some of the issues are sorted out as soon as possible. Some of the constraints are

- **Commodity Options**

Trading in commodity options contracts has been banned since 1952. The market for commodity derivatives cannot be called complete without the presence of this important derivative. Both futures and options are necessary for the healthy growth of the market. While futures contracts help a participant (say a farmer) to hedge against downside price movements, it does not allow him to reap the benefits of an increase in prices. In futures trading they are able to hedge the risk arising due to unfavorable price movements but they cannot take position to gain from the favorable price movements. Options will give them this choice .

- **Warehousing and Standardization**

For commodity derivatives market to work efficiently, it is necessary to have a sophisticated, cost-effective, reliable and convenient warehousing system in the country. Further, independent labs or quality testing centers should be set up in each region to certify the quality, grade and quantity of commodities so that they are appropriately standardized and there are no stocks waiting for the ultimate buyer who takes the physical delivery. Warehouses also need to be conveniently located.

Cash vs Physical Settlement

It is probably due to the inefficiencies in the present warehousing system that only about 1 per cent to 5 per cent of the total commodity derivatives trade in the country is settled in physical delivery. Therefore the warehousing problem obviously has to be handled on a war footing, as a good delivery system is the backbone of any commodity trade. At present under the Forward Contracts (Regulation) Act 1952, cash settlement of outstanding contracts at maturity is not allowed. In other words, all outstanding contracts at maturity should be settled in physical delivery. To avoid this, participants square off their positions before maturity. So, in practice, most contracts are settled in cash but before

maturity. There is a need to modify the law to bring it closer to the widespread practice and save the participants from unnecessary hassles.

- **The Regulator**

As the market activity pick-up and the volumes rise, the market will definitely need a strong and independent regulator, similar to the Securities and Exchange Board of India (SEBI) that regulates the securities markets. Unlike SEBI which is an independent body, the Forward Markets Commission (FMC) is under the Department of Consumer Affairs (Ministry of Consumer Affairs, Food and Public Distribution) and depends on it for funds. It is imperative that the Government should grant more powers to the FMC to ensure an orderly development of the commodity markets. The SEBI and FMC also need to work closely with each other due to the inter-relationship between the two markets.

- **Lack of Economy of Scale**

There are too many (three national level and twenty one regional) commodity exchanges. Though over eighty commodities are allowed for derivatives trading, in practice derivatives are popular for only a few commodities. Again, most of the trade takes place only on a few exchanges. All this splits volumes and makes some exchanges unviable. This problem can possibly be addressed by consolidating some exchanges. Also, convergence of securities and commodities derivatives markets is necessary to bring in economies of scale and scope without having to duplicate the efforts, thereby giving a boost to the growth of commodity derivatives market. It would also help in resolving some of the issues concerning regulation of the derivative markets. However, this would necessitate complete coordination among various regulating authorities such as Reserve Bank of India, Forward Markets Commission, the Securities and Exchange Board of India, and the Department of Company affairs etc.

- **Tax and Legal Bottlenecks**

There are at present restrictions on the movement of certain goods from one state to another. These need to be removed so that a truly national market could develop for commodities and derivatives. Also, regulatory changes are required to bring about uniformity in octroi and sales taxes etc. VAT has been introduced in the country in 2005, but has not yet been uniformly implemented by all states.

CONCLUSIONS

No doubt that there is a growth registered both in value and volume in Indian commodity market as studied and discussed in the above analysis, still lot of work in terms of policy liberalisation, proper legal system, necessary infrastructure, wide range of training programmes are required to catch up with the developed commodity derivative markets. Trading in options should be encouraged to provide wide choice of trading both to the investors and farmers.

There are almost 113 commodities notified for trading in commodity market as per the Act 1952, but 21 to 25 commodities are hardly traded in the leading commodity exchanges. There should be an opportunity to provide trading of all commodities in all exchanges. It is also greatly observed and seen in the awareness campaigns conducted by leading exchanges at different places that the involvement of farmers are more or less nil. They need to encourage the involvement of farmers to such programmes in collaboration with academic and research institutions and at the same time interference of political and middlemen should be greatly reduced to give the confidence to the farmers to trade their produce in such markets.

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