

Commodity Market in India

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Abstract

Commodity market is an important part of financial market in a country. Commodity market is an alternative investment avenue to those who want to invest beyond shares, bonds, real estate etc. India being a country in which agriculture occupies a vital position in overall economy, fluctuation in prices during the harvesting period has always been a major concern for the farming community. Commodity future trading has emerged as a viable option to hedge the risk of price volatility. Now with the merger of two regulators Securities Exchanges Board of India (SEBI) and Future Market Corporation (FMC) the market is expected to grow further with the increase in the confidence of investors. The merger is aimed at streamlining the regulations and curb wild speculations in commodity market, while facilitating future growth. This paper attempts to throw light on commodity market in India and to find out the impact of the SEBI-FMC merger and also to analyze future growth prospects and challenges of commodity market.

Keywords: Commodity Market, shares, real estate, agriculture occupy

Introduction

Commodity market is a market that facilitates trading in various commodities. It may be a spot market or a derivatives market. In spot market commodities are bought and sold for immediate delivery, where as in derivatives market various financial instruments based on commodities are traded.

Commodity futures market was very much there in earlier times in India. In fact it was one the most vibrant markets till the early 70s. But due to numerous restrictions the market could not develop further. Now that most of these restrictions have been removed, there is enormous scope for the development and growth of the commodity futures market in the country.

The Forward Markets Commission (FMC) is the chief regulator of commodity futures markets in India. As of July 2014, it regulated Rs 17 trillion worth of commodity trades in India. It is headquartered in Mumbai and this financial regulatory agency is overseen by the Ministry of Finance. (Source: [https://en.wikipedia.org/wiki/Forward_Markets_Commission_\(India\)](https://en.wikipedia.org/wiki/Forward_Markets_Commission_(India)))

On 28 September 2015 the FMC was merged with the Securities and Exchange Board of India (SEBI).

Objective of the Study

1. To provide an overview of commodity market in India
2. To understand the market share of various commodity exchanges in India
3. To find out which commodity is maximum traded in MCX and NCDEX
4. To find out the future opportunities and challenges of commodity market in India

Research Methodology

The present study is based on secondary data collected from the websites of different Commodity Exchanges, Forward Markets Commission, SEBI, related journals, Government of India reports, and related websites. The period covered in the study is

2011-12 to 2013-14. Simple percentages are used as statistical tool in the present study

Overview of Commodity Market in India

In India there are 12 recognized Commodity Exchanges of which 6 are National Commodity Exchanges and 6 are Commodity Specific Regional Exchanges. The following table shows various commodity exchanges in India:

Table 1

Sr. No.	<i>Name of the Exchanges</i>
A.	National Multi Commodity Exchanges
1	Multi Commodity Exchange of India Ltd., Mumbai (MCX)
2	National Commodity & Derivatives Exchange Ltd., Mumbai (NCDEX)
3	ACE Derivatives and Commodity Exchange, Mumbai. (ACE)
4	National Multi Commodity Exchange of India Ltd., Ahmedabad (NMCE)
5	Indian Commodity Exchange Ltd., Mumbai (ICEX)
6	Universal Commodity Exchange Ltd, Navi Mumbai (UCX)
B.	Commodity Specific Regional Exchanges
7	The Chamber of Commerce, Hapur
8	Rajkot Commodity Exchange Ltd., Rajkot
9	India Pepper & Spice Trade Association, Kochi
10	Bombay Commodity Exchange Ltd, Mumbai
11	Spices & Oilseeds Exchange Ltd, Sangli
12	Cotton Association of India, Mumbai

Source: Annual Reports, 2011-14, FMC

The regulatory body is Forward Markets Commission (FMC) which was set up in 1953. As of September 2015, FMC is merged with Securities Exchange Board of India (SEBI), the regulator of capital market. As a unified regulator for commodities and capital market, SEBI will be able to control

and monitor commodity future trading and to check wild speculations. With a strong regulatory backup, commodity market can facilitate huge volumes of trade, in a manner that every participant is confident of trading.

Given below are the major commodities that are traded in various commodity exchanges in India

Table 2

Bullion	Gold and Silver
Oil & Oilseeds	Castor Seeds, Soy Seeds, Castor Oil, Refined Soy Oil, Soy meal, Crude Palm Oil, Groundnut Oil, Mustard Seed, Mustard Seed Oil, Cottonseed Oilcake, Cottonseed
Spices	Pepper, Red Chilli, Jeera, Turmeric, Cardamom
Metals	Steel Long, Steel Flat, Copper, Nickel, Tin, Steel, Aluminium Zinc ingots
Fibre	Kapas, Long Staple Cotton, Medium Staple Cotton
Pulses	Chana, Urad, Yellow Peas, Tur, Yellow Peas
Grains	Rice, Basmati Rice, Wheat, Maize, Sarbati Rice, Jeera
Energy	Crude Oil, Natural Gas, Brent Crude
Others	Rubber, Guar Seed, Guar gum, Cashew, Cashew Kernel, Sugar, Gur, Coffee, Silk, Sugar.

Source: www.motilaloswal.com

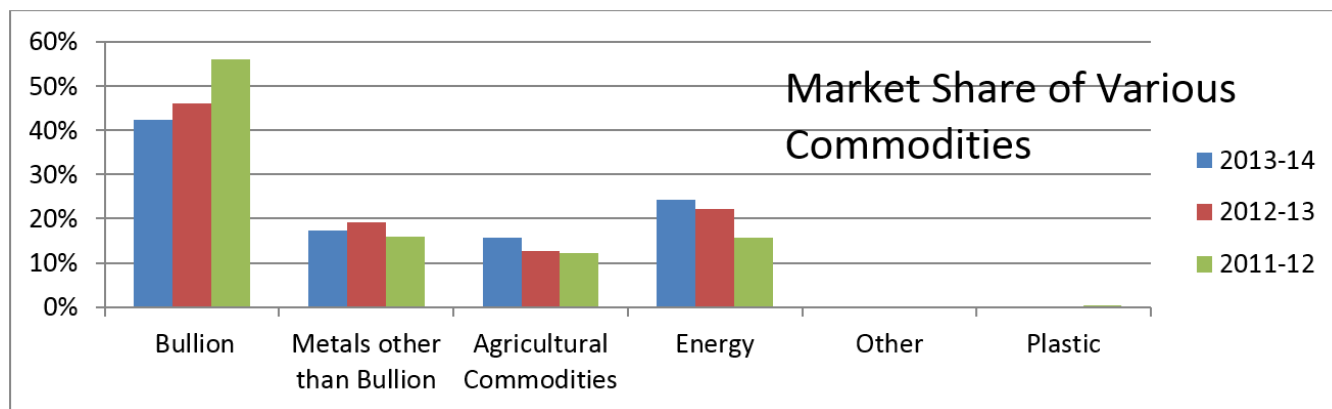
The following table shows value of various commodities traded in India. The market share of Various commodities in terms of value shows that Bullion was maximum traded in all the three

periods, where as agricultural commodities were least traded during these period.

Table 3: Value - In ₹ Crore

Sl. No	Name Of Commodity	2013-14		2012-13		2011-12	
		Value	Share%	Value	Share%	Value	Share%
A	Bullion	4308938	42%	7862679	46%	10181957	56%
B	Metals other than Bullion	1761360	17%	3260051	19%	2896721	16%
C	Agricultural Commodities	1602402	16%	2155700	13%	2196150	12%
D	Energy	2472095	24%	3768409	22%	2851269	16%
E	Other		0%	1.28	0%	1.35	0%
F	Plastic		0%		0%	6.45	0%
	Grand Total	10144795	100%	17046840	100%	18126104	100%

Source: Annual Reports 2011-14, FMC



An exchange that allows trading of different commodities is known as commodity exchanges. Today apart from numerous regional exchanges, India has six national commodity exchanges, viz; Multi Commodity Exchange (MCX), National Commodity and Derivative Exchange (NCDEX), National

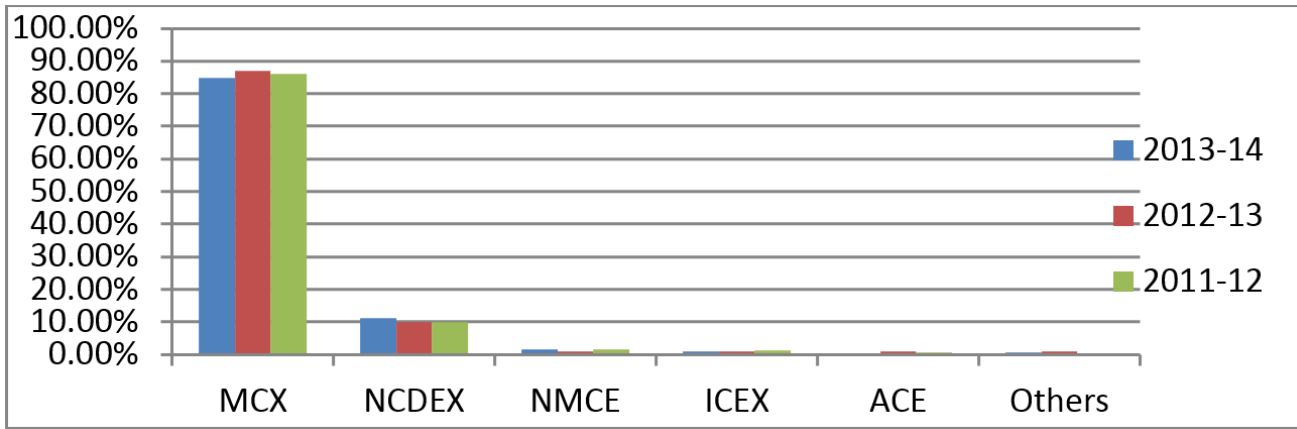
Multi Commodity Exchange (NMCE), Indian Commodity Exchange (ICEX), Ace Derivatives Exchange (ACE) and Universal Commodity Exchange (UCX).

The following table shows the market share of various commodity exchanges in India

Table 4

Name Of Commodity Exchange	2013-14	2012-13	2011-12
MCX	84.89%	87%	86.05%
NCDEX	11.30%	10%	9.90%
NMCE	1.51%	1%	1.48%
ICEX	0.84%	1%	1.42%
ACE	0.46%	1%	0.76%
Others	0.72%	1%	0.30%

Source: Annual Reports 2011-14, FMC



The table shows that MCX enjoys the maximum market share of more than 80% in all the three years followed by NCDEX and NMCE. ACE and ICEX have the least market share among all the commodity exchanges.

Since more than 95% of the trading in commodity market is done in MCX and NCDEX, this paper focuses on the trading of these two exchanges, where MCX specializes in bullion and

metals and NCDEX is highly trusted in trading agriculture based products like oil, oils seeds, cereals etc

Commodity Wise Analysis of Various Commodity Exchanges In India

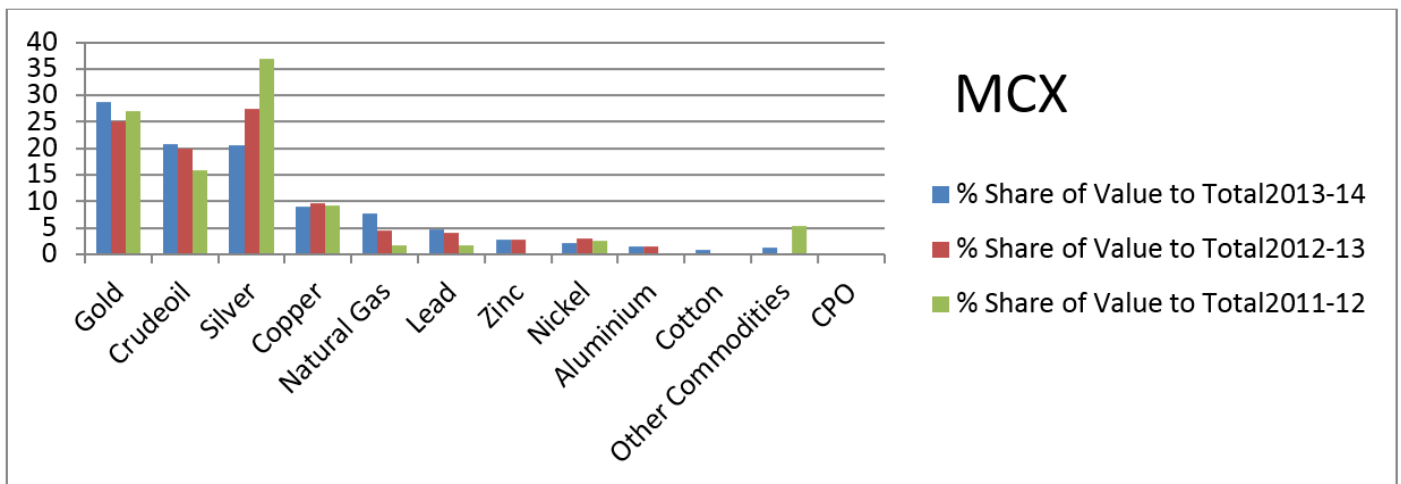
1. Multi Commodity Exchange(MCX), Mumbai

The following table shows the major commodities traded in MCX during the period 2011-12 to 2013-14

Table 5

Multi Commodity Exchange of India Ltd, Mumbai							
Sl. No:	Commodity	2013-14		2012-13		2011-12	
		Value in Crores	% Share of Value to Total	Value in Crores	% Share of Value to Total	Value in Crores	% Share of Value to Total
1	Gold	2482438	28.83	3720129	25	4224786	27.09
2	Crudeoil	1794312	20.84	2981892	20.04	2463336	15.79
3	Silver	1780757	20.68	4086933	27.46	5738871	36.79
4	Copper	776666.3	9.02	1443348	9.7	1437082	9.21
5	Natural Gas	655322	7.61	672892.9	4.52	260916	1.67
6	Lead	398401.6	4.63	616192.2	4.14	259508.7	1.66
7	Zinc	228653.6	2.66	416834.4	2.8		
8	Nickel	187172.8	2.17	432047.2	2.9	385334.1	2.47
9	Aluminium	134964.9	1.57	229582	1.54		
10	Cotton	62439.13	0.73				
11	Other Commodities	110321.4	1.28	174795.6		827260.9	5.3
12	CPO			106409.7			
	Total	8611449	100	14881057	100	15597095	100

Source: Annual report, 2011-14 FMC



The table shows that Gold was maximum traded with a share of 28.83% during the year 2013-14, whereas cotton was the least traded commodity (0.73%) in the year. During the year 2012-13, silver was maximum traded with a share 27.46%, and aluminum was least traded (1.54%). In 2011-12, silver was maximum traded with a share of (36.79%) and lead was the least traded commodity with a share of 1.66%.

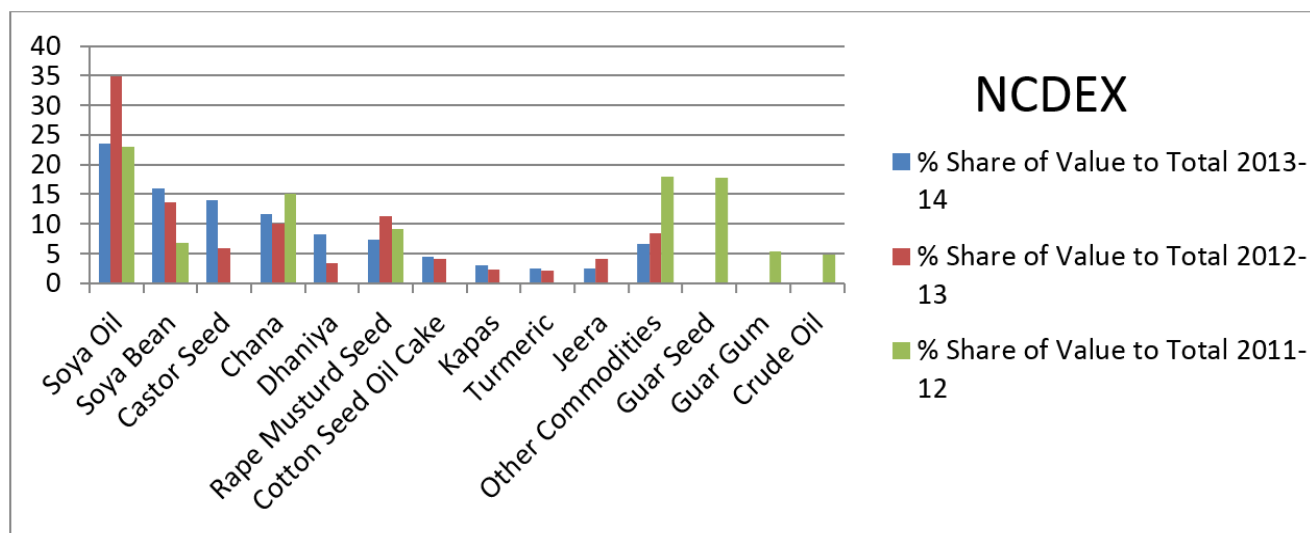
2. National Commodities and Derivatives Exchange Ltd (NCDEX), Mumbai

The following table shows the major commodities traded in NCDEX during the years 2011-12 to 2013-14:

Table 6

National Commodity and Derivatives Exchange Ltd, Mumbai							
Sl.No	Commodity	2013-14		2012-13		2011-12	
		Value in Crores	% Share of Value to Total	Value in Crores	% Share of Value to Total	Value in Crores	% Share of Value to Total
1	Soya Oil	269914.6	23.55	557601.6	34.88	415762.1	22.97
2	Soya Bean	182336.3	15.91	217991.1	13.64	122637.8	6.77
3	Castor Seed	161068.7	14.05	93828.42	5.87		
4	Chana	132966.2	11.6	159492.6	9.98	274605	15.17
5	Dhaniya	95259.02	8.31	52828.99	3.31		
6	Rape Mustard Seed	84217.51	7.35	180196.8	11.27	165405.1	9.14
7	Cotton Seed Oil Cake	51044.17	4.45	65460.34	4.1		
8	Kapas	35461.41	3.09	36775.61	2.3		
9	Turmeric	29606.19	2.58	33083.6	2.07		
10	Jeera	28917.5	2.52	65955.89	4.13		
11	Other Commodities	75536.52	6.59	135210.8	8.46	324098.2	17.9
12	Guar Seed					323119.6	17.85
13	Guar Gum					98356.67	5.43
14	Crude Oil					86225.7	4.76
	Total	1146328	100	1598426	100	1810210	100

Source: Annual reports, 2011-14, FMC



The table shows that Soya oil was maximum traded in terms of Value during the period 2013-14, 2012-13 and 2011-12, with a share of 23.55%, 34.88% and 22.97% respectively whereas Turmeric was least traded in 2013-14 and 2012-13 with a share of 2.58% and 2.07% respectively. In the year 2011-12, crude oil was least traded with a share of 4.76%.

Future Growth Opportunities and Challenges to Commodity Market

The union budget for 2015-16 saw the announcement of the merger of the two regulators- Forward Markets Commission (FMC), regulator of commodities market with Securities Exchange Board of India (SEBI), regulator of capital market.

The merger process will take place between September 2015 and early 2016.

The merger will generate many opportunities for the commodity market to grow. There will be better market integrity as SEBI has the power to raid, search, impose fine and take action on irregularities. Products like options, exchange traded funds, weather derivatives, freight derivatives will be introduced, which will further accelerate the growth of commodity market. With merger, it is also expected that there will be new participants, who will be entering into commodity market viz; Banks, FPI and Mutual funds. More over there will be penetration of exchanges and intermediaries into each other's market segment.

A lot of challenges also arise with the merger. Finding additional manpower and resources to monitor the commodity market is one thing that SEBI should look into. Aligning the securities and commodities brokers to uniform regulations is also a challenge. Another important area where SEBI should look into is that of physical settlements, as the delivery and settlement process in commodity and stock exchanges differ significantly.

Conclusion

Commodity market has a great potential to become a separate asset class for market savvy investors, arbitrageurs and speculators. Commodities are easy to understand unlike equity market. The retail investors should understand the risk and advantages before entering into commodity market. By looking into the previous year's data, pricing in commodity futures are less volatile compared with equity and bonds, thus providing an efficient portfolio diversification option.

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