A STUDY ON INDIAN COMMODITY MARKETS

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ABSTRACT

Indian markets have recently provided new avenues for retail investors as well as for traders to participate in commodity derivatives. Commodities will be the best option for the investors who want to diversify their portfolios apart from shares, real estate and bonds. Investment in commodities wouldn't have made any sense previously. For the retail investors it was very little to invest in commodities such as gold, oilseeds or silver in futures market. The first commodity market was established in 1875. In 1960's trading in derivatives has banned by the govt and it restarted in 2000's. The present study will give the overview of Indian commodity market. This study mainly discusses the performance of the market and its evolution as well as its present status and future prospect.

INTRODUCTION

Commodity markets play an important role in economic growth of the countries globally. The commodity trading concept has been evolved in the middle of 19th century. The world has experienced a dramatic growth in the prices of commodities in 2008. The commodities like wheat, maize and rice prices have been increased significantly. The government has setup three major multi commodity exchanges in the country, with the help of these exchanges the investors can trade in commodity futures even without physical stocks. It is necessary to have a common platform of commodity exchange to develop active trading in commodities where demand and supply can perform together to bring out the best price for any commodity.

REVIEW OF LITERATURE:

Nilanjana kumari (2014) found that India has become one of the top producers of different types of commodities. The commodity markets have seen many ups and downs in its initial stages but the action of our government allowed market forces to rule the commodity. This led to price risk management by the market forces rather than to be dependent on administered price mechanism.

Angad Singh Marav (2015) showed that commodity futures and derivatives play an important role in price risk management process, especially in agriculture. There are 113 agricultural and non- agricultural commodities notified for trading in commodity markets. As agriculture sector plays an important role in providing food to people the opportunity for trading all agricultural commodities should be provided.

OBJECTIVES OF STUDY

- To study about major exchanges that is trading commodities in Indian market.
- To know exactly how commodities are traded through the trading desks.
- To study the impact of spot prices on future prices of commodities.

HYPOTHESIS

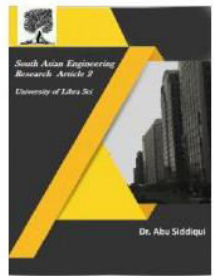H0: There is no impact of spot price on future prices of commodities.

H1: There is an impact of spot prices on future prices of commodities.

RESEARCH METHODOLOGY

The present study is conducted to get detailed information about the commodity markets in order to study the impact of prices on commodities.

Primary data

The primary data is collected from interviews, observation and by survey method.
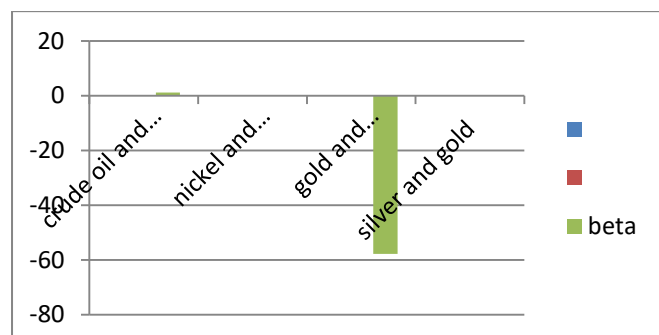
Secondary data

Secondary data was collected from text books, magazines, journals various websites and annual reports of the company.

TOOLS FOR ANALYSIS

1. Beta
2. Standard deviation
3. Mean and
4. Variance

1. Calculation of beta

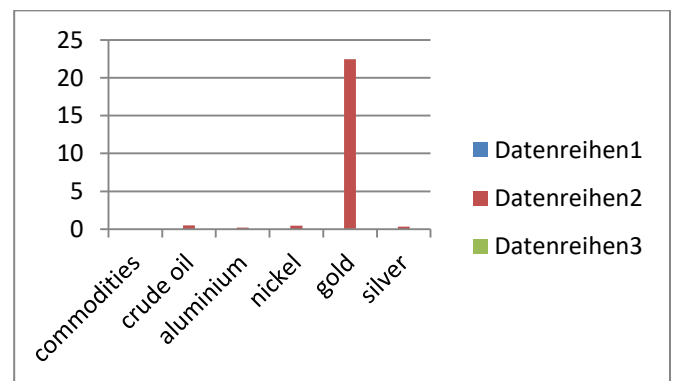| Commodities	Beta
Crude oil and aluminium	1.09985
Nickel and gold	0.076538
Gold and aluminium	-57.857
Silver and gold	0.21627

Interpretation: From the above table we can interpret that beta of crude oil and aluminium is

higher than other commodities in the month of February i.e. 1.09985. The beta value of gold and aluminium is negative i.e. -57.857.

2. Calculation of standard deviation

Commodities	Standard deviation
Crude oil	0.515968
Aluminium	0.19594
Nickel	0.445328
Gold	22.45808
Silver	0.330119

Interpretation: From the above table we can know the standard deviation values of different commodities in the month of February. Gold has highest standard deviation when compared to other commodities i.e. 22.45808 and aluminium is having lowest standard deviation i.e.0.19594.

3. Calculation of variance

| Commodities	Variance
Crude oil	0.266222
Aluminium	0.038393
Nickel	0.198317
Gold	504.3652
Silver	0.108978
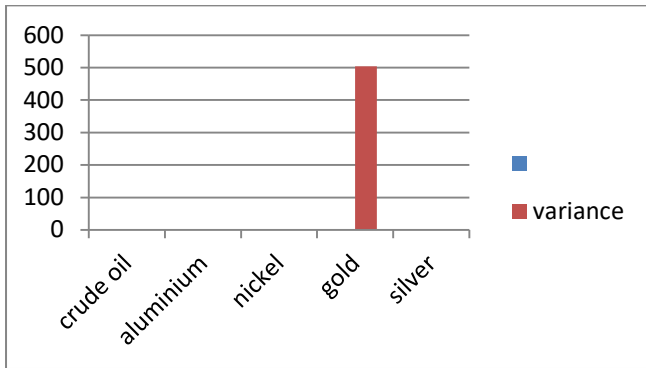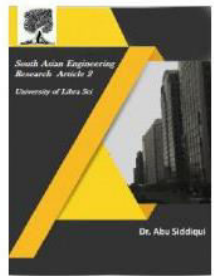
Interpretation: From the above table we can interpret that variance of gold is higher than all other commodities in the month of February i.e. 504.3652 and silver is having the lowest variance i.e. 0.108978.
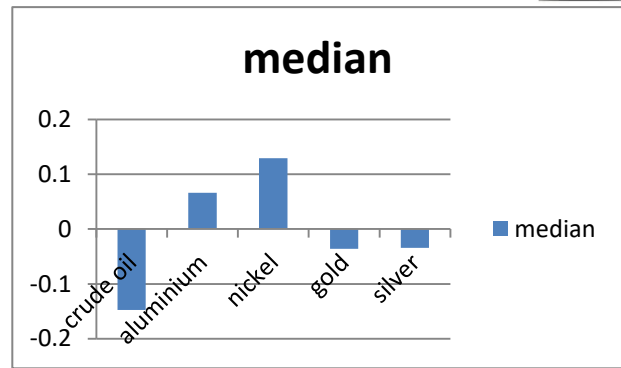
4. Calculation of mean

Commodities	Mean
Crude oil	-0.07037
Aluminium	0.10488
Nickel	0.023015
Gold	-6.04848
Silver	-0.02063
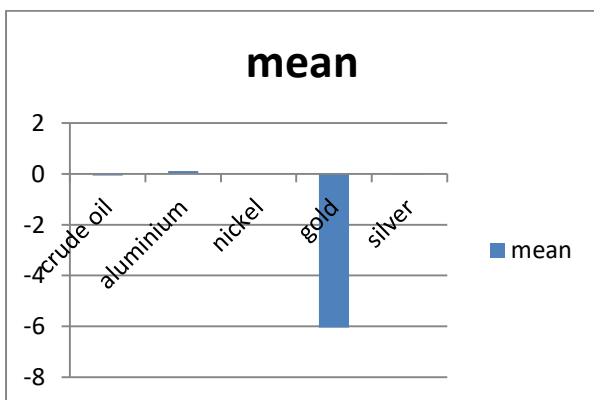
Interpretation:

From the above table we can know the mean values of various commodities. The mean of aluminium is highest when compared to other commodities i.e. 0.10488 and the commodity gold has the lowest mean i.e. -6.04848 in the month of February.

5. Calculation of median

commodities	Median
Crude oil	-0.14753
Aluminium	0.066159
Nickel	0.12931
Gold	-0.03625
Silver	-0.03435

Interpretation: From the above table we can interpret that median of commodity nickel is highest in the month of February when compared to other commodities i.e. 0.12931 and the commodity crude oil is having lowest median i.e. -0.14753.

Findings:

1. The beta value of crude oil and aluminium is more than 1, it indicates that crude oil and aluminium commodities are having more risk in the month of February. The risk is high and the return is also comparatively high.
2. The standard deviation of gold is higher in the month of February it is considered as more risky commodity because risk is high as well as returns is also high.
3. The variance of gold is higher when compared to other commodities in the month of February. According to the variance value gold is having the higher risk and return.
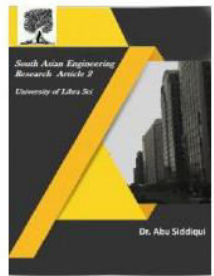4. The mean of aluminium is higher in the month of February on the basis of mean

value aluminium can be considered as the riskier commodity.

5. The median of nickel is higher than other commodities in the month of February. According to median values nickel is having more risk and return.

Conclusion:

Commodities trading have a long history and Indian commodity markets have seen many developments between two possible scenarios they are: commodity markets are protected through government intervention and opening up of the sector and getting the necessary protection through instruments which are market based like commodity futures contract. Increasing trend of commodity markets shows that a market has strong potential and the market should be considered as an integral part of the economy.

References:

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5. www.commoditiesindia.com