JOURNAL OF CRITICAL REVIEWS

ISSN- 2394-5125 VOL 7, ISSUE 15, 2020

SYSTEMETIC REVIEW OF CHANGING APPROACH TOWARDS COMMODITY MARKET

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Received: 14 March 2020 Revised and Accepted: 8 July 2020

ABSTRACT: Commodity market which has witnessed a remarkable change in the previous decade. After liberalization there was a tremendous change in the commodity market. Indian futures commodity market has played a significant role in money related market of India. Commodity market goes about as leverage for hedging and speculation. Commodity market is likewise an alternative choice for an investor who isn't content with equity market. Awareness level of commodity market must be improved. Derivatives exchanging India are currently permitted in 6 public and 16 regional level commodity specific exchanges. Derivative is becoming step by step a huge tool in commodity market for price discovery, hedging and speculation purpose for effective exchanging.

I. INTRODUCTION

The development of the commodity market in India has created an impact on the worldwide market, since India is an agro-based nation and for agro-based commodities there is a huge demand for utilization, production, and trade. In recent, decades commodity futures markets as seen as impressive development after the worldwide emergency. Commodity market assumes a significant role in deciding the price discovery and price hazard management. India is the largest consumer of commodities, for example, Precious metal (bullions and silver), Metal (copper, zinc, lead, etc.) and Agricultural products (cotton, pepper, maize, wheat, sugar, coffee, dairy products, etc). India additionally dealt with the commodity spot market. For instance, soya creates a huge market in Indore, Ahmedabad as a significant market for castor seed, for cotton Surendranagar and Andhra Pradesh for stew, etc. In India, the commodity futures market is started route back and as old as the United States' future markets. During the 1857 Bombay Cotton Trade Association has been set up, the Future market in gold was inevitable and began to emerge in Mumbai 1920.

In India the significant three commodity exchanges and trade happen electronically they are Multi Commodity Exchanges (MCX), National Multi-Commodity Exchange limited (NMCE), and the National Commodity and Derivative Exchange (NCDEX). FMC (Forward Market Commission) in 2015 merged with SEBI and the Regulation and Policies framework is under the control of SEBI (Security Exchange Board of India). Commodity market in India as demonstrated slow evaluation of the nation's general economic circulation and it's a linkage with the money related sectors. Hedging is an innovative instrument to trade in commodities and furthermore creates a different portfolio for the investors or traders, it additionally draws in the international investors because of diversification accessibility that impact on the return which benefits the domestic and just as international investors.

The word commodity can be coined as unvarying products purchased or sold in the organized platform (exchange platform) exchange happens through currency or barter system. In future exchanging there are more than 80 commodities are allowed to trade. The foundation of the commodity futures market in India has been started route back nineteenth century, during the British convention. The principal structure type of the commodity market in India executed at Bombay Cotton Association Ltd, in the year 1875 by the cotton exchange Ltd. In 1900, future exchanging oilseeds occurred at Gujarati Vyapari Mandali, traded with groundnut, castor seeds, and cotton.

In Hapur 1913, future exchanging wheat has been established. Future exchanging jute and crude jute merchandise was set up in 1919, the Calcutta Hessian Exchange was established, and in later period merged with East India Jute in the year 1927 known as East India and Hessian Ltd. During the twentieth century, Mumbai became the craft of state to trade in bullions which were set up in 1920, mid of the post-independence period, Commodity exchanging came with different regulatory policies and decision is taken from the position bodies. In 1952, based on the expert advice FC Forward Contract (Regulation) Act was framed as a commodity market regulator in India. The Forward Market Commission (FMC) was set up in 1953. Due to speculation in India future exchanging has been banned, the government felt that swelling reiterating. Regulatory bodies are given certain guidelines to trade in an organized structure, so bilateral agreement comes into a picture as Future Trading contract, TSD (Transferable Specific Delivery Contract) and NTSD (Non – Transferable Specific Delivery Contract) and this can likewise be termed as a derivative agreement whose value has been derived from the underlying agreement.

Commodity prices are normally characterized by significant instability. The uncertainty that accompanies price unpredictability affects traders whose exchanging strategies are based, to some degree, on shortterm instability movements, and investors interested in hedging an underlying diversified arrangement of commodities. Specifically, producers need to manage their exposure to vacillations in the prices for their commodities. They are basically concerned with fixing prices on agreements to sell their produce; hence the existence of futures markets.

Role of Commodity markets in India

While commodity markets in general and commodity derivatives market have existed in India for over 100 years, the official exchange traded mechanism for commodities began as late as 2003. There have been issues of liquidity and issues of multiple regulatory locales however at any rate there is a platform for shaping a view and exchanging on commodities. There are some very significant capacities that commodity markets can perform in the Indian context.

How does the government of India achieve food security through the commodity markets? We recently observed a report about grains worth over Rs.800 crore that were destroyed in Punjab due to terrible warehousing. Currently, this is the hazard that the farmer is forced to take. These farmers can use the futures market more effectively by selling futures on their grains and securing a price. This will ensure that farmers are not susceptible to the variances in the prices. Currently, farmers are being hit by weak pulses prices due to oversupply in the Indian market. This can be overcome by selling futures on these pulses at a price that is remunerative for the farmer. In many Western markets, farmers actively use the futures market to hedge their price variance in case of horticultural products.

Greater investment in the agrarian ecosystem

Today one of the large challenges for the rural sector is that there is virtual absence of post-harvest infrastructure. As a result, a generous measure of food grains are lost in the transmission process which worsens the price circumstance for the end customer without benefiting the farmer. A viable commodity market mechanism will be profitable for the farmer, broker, middleman and the consumer and this will spike greater investments in the horticultural ecosystem as better warehousing systems and improvement transport facilities. Here again a viable commodity market can assume a key role in catalyzing the development of this ecosystem.

A mechanism for aggregation and financing

The huge challenge in Indian agriculture is that farmers are excessively little and hence excessively dispersed. The need of great importance is of an aggregator. Currently, the middlemen assume the role of aggregators however then it isn't exactly a transparent mechanism. An organized commodity market can assume the role of an aggregator of horticultural products more efficiently and more effectively. The market provides an organized and guaranteed mechanism for aggregating and selling rural products and little and dispersed farmers can make its best. Financing is the second aspect of commodity markets. The commodity markets have an organized and institutional mechanism to raise financing against warehouse receipts. Hence the agriculture sector does not have to depend on unorganized financing.

Retains some of the speculative excesses of the spot market

This is a very significant role that the commodity markets play. Let us take the example of gold. A great deal of the demand for gold is generated for speculative purposes. Since there is just so much gold that India produces, we rely heavily on gold imports to meet the extra demand. Presently gold imports have a significant downside. They result in usage of precious foreign exchange resources with no attendant productivity benefits. This is more because traders and speculators today prefer to clutch spot gold. That problem can be resolved with a

ISSN- 2394-5125 VOL 7, ISSUE 15, 2020

vigorous gold futures market as it will ingest a large portion of the speculative demand for gold. In the process, it saves precious forex resources for the Indian economy.

II. LITERATURE REVIEW

Rohit Bansl et al in his examination titled "Indian Commodity Market-A Performance Review" investigated the Indian commodity markets have recently opened up a new avenue for retail investor and traders to participate commodity derivatives. The examination discusses the evolution and performance of the market, its present status and the future prospect. They found the different commodities (agriculture, metals, bullion, energy and other) show a positive trend in their volume and value of trade. The percentage share of agriculture commodity in absolute commodity market has been declined in the year 2010-11 yet bullion shows an increasing trend alongside metal and energy. Everything shows that the market has solid development potential.

Dr. S. Rajamohan et al in his investigation titled "Commodity Futures Market in India" examined that the commodity exchanging has a long history and it has been modernized in the market. The commodities exchanging are occupied a significant place in the economy it depends on the international trade An auxiliary system has been created for commodity trades. It is creating awareness and the more chance to the investors and public. They found the market unpredictability is based on these commodities performance. However the commodity market has provided huge help to the Indian economy.

Sagar Suresh Dhole in his research paper "Commodity Futures Market in India: The Legal Aspect and its Rationale" investigated the relic of commodity futures market in India epoch back to the ancient times citied in Kautialya's Arthasastra, and have been commodity heard in Indian markets for a considerable length of time, seems to be coined in 320 BC, referred in Forward Contracts (Regulation) Act, 1952. They found the markets have made enormous advancement in terms of technology, transparency and the exchanging movement. Interestingly, this has happened simply after the Government protection was removed from a number of commodities, and market forces were allowed to assume their role. Balanced Government policies and the plinth of effective laws have benefited from various perspectives like Credit accessibility, improved product quality, predictable estimating, Import-export competitiveness, and price hazard management and price discovery.

Dr. Sunitha Ravi in her research paper studied the "Price Discovery and Volatility Spillover in Indian Commodity Futures Markets Using Selected Commodities". The results of the research study indicate that the future market of the commodities is more efficient as compared to spot market. The future market additionally helps spot market in the process of Price Discovery. She found that the derivative instruments are available for the underlying commodities essentially influence the unpredictability.

Harvindaer buddy Kaur et al in his investigation titled "Commodity Derivatives Market in India" examined that the India is among the apex producers of a number of commodities and has a long history of exchanging commodity derivatives. Commodity market has occupied imperative situation in Indian economy since the establishment of Forward Market Commission in April 2003. There are 5 public and 21 regional commodity exchanges recognized and regulated by this commission. They discovered commodity futures reform two crucial elements of the economy i.e. price discovery and management. Futures markets provide liquidity and facilities to hedge against future price hazard. It helps buyers and sellers of farming products to rapidly manage their trade at a reasonable price. Commodity exchanging likewise offers a chance for money related leverage to hedgers, speculators and other traders.

Ali et al analyzed the efficiency of agrarian commodity markets by assessing the relationships between futures prices and spot market prices of major rural commodities in India. In line with the progressing worldwide and domestic reforms in agriculture and allied sectors, the Indian Government is reducing its direct market intervention and encouraging private support based on market forces. This has led to increased exposure of agrarian produce to price and other market dangers, which consequently emphasize the importance of futures markets for price discovery and price hazard management.

Muharjee made an attempt to re-validate the impact of futures exchanging on farming commodity market in India. The day by day price data in spot and futures markets, for a period of 7 years (2004-2010), for 9 significant horticultural commodities, taken from different categories of Agri-products, are incorporated into different econometric models to test the concerned objective. The empirical discoveries essentially shows that comparative advantage of futures market in disseminating data, leading to a huge price discovery and hazard management, that can again help to successfully develop the underlying commodity market in India.

Sen et al state that future exchanging horticultural products, and especially in food items has resulted in neither price-discovery nor less of instability in food prices. We observe the steep increases in spot prices for significant nourishments items alongside a granger causal connection from future to spot prices for commodities on which future data was available. We likewise have noticed a pattern where investments in securities exchanges have joins with those in the commodity market by means of portfolio adjustments. Moreover, with the opening of cross-border trader, commodity prices have additionally been guided by the upward movements in prices in international markets.

Mr. Sharma KRS in his research paper "A Study of Commodity Futuresin India" perception towards commodities futures exchanging India with special reference to commodity futures exchanges. The development of commodity derivative market in the nation has been impressive. With institutional players prevented from partaking in the commodity futures market, the retail investors, as a gathering, have emerged as significant players in the said market. They additionally include that commodity futures are positively correlated with expansion, unexpected swelling and change in expected expansion.

Dr. G. Malyadri et al in their research paper "A Study on Commodity Market" recalls that commodity derivatives arrived in India as early as 1875, barely about decade after they arrived in Chicago. The commodity market in India has experience an unprecedented blast in terms of the number of modern exchanges, the number of commodities allowed for derivative exchanging just as the values of futures exchanging commodities. However there are several impediments to be overcome and issues to be settled for a sustained development of the market.

Meenakshi Malhotra in her research paper "Commodities Derivatives Market in India: The Road Traveled and Challenges Ahead" examine that the commodity price very basic for the existence and development of any industry and for the economy as a whole. Our government has realized sweeping reforms in the commodities markets so industry can efficiently manage the price hazard they are faced with. They found the commodity price will continue to behave unpredictably. Hazard management through commodity derivatives will give security to the economic activities of the nation.

Dharmbeer et al in their research on "Indian Commodity Market: Growth and Prospects" summarizes theoretical and empirical research on the development and prospects of emerging commodity markets and the resulting suggestion on strategy and regulation. They found from the previous studies that derivatives markets have supported the hedging role of emerging derivatives markets. All commodities are all around traded and the worldwide demand-gracefully circumstance is widely known and available to anyone who reaches out for it. The commodity markets are nowhere as volatile as stock futures. Since commodity exchanges promote price transparency, he refuses to purchase the story that commodity exchange fuel expansion.

Gurbandani Kaur et al, under the research done by them titled "Efficiency of Indian Commodities Market: A Study of Agricultural Commodity Derivatives Traded on NCDEX have tested the market efficiency of rural commodities traded on National Commodity Derivative Exchange of India and pointed out that Indian commodity derivative market has witnessed phenomenal development in few years by achieving just about 50 time expansion in market. By applying auto correlation and run tests on four commodities namely-Guar seed, Pepper, Malbar, refined Soya oil and Chana (Gram) the examination observed the arbitrary walk hypothesis and tested the week structure efficiency of these commodities. Indian horticultural commodity market is efficient in week type of efficient market hypothesis.

Master Prakash et al in their research paper "Commodity Futures Markets and its Role in Indian Economy" discussed that with the elimination of restriction from commodities, Indian futures market has achieved sizeable development. Commodity futures market proves to be the efficient market at the world level in terms of price hazard management and price discovery. Study found a high potential for future development of Indian commodity futures market as India is one of the top producers of farming commodities.

Mukhopadhyay et al in their research paper "Developing an Index for Trading through Multi Commodity Exchange in India", researched to facilitate business development and to create market awareness, and conducted an index named MCX COMAX for different commodities viz. rural, metal and energy traded on Multi Commodity Exchange in India. By utilizing weighted geometric mean of the price relatives as the index, weights were selected based on percentage commitment of agreements and value of physical market. With weighted arithmetic mean of gathering indices the combined index had been calculated. It served the purpose of Multi Commodity Exchange to make association among between different MCX members and their associates alongside creation of reasonable competitive environment. Commodity exchanging market had considered this index as an ideal investment tool for the protection of danger of the two buyers and sellers.

Narender L Ahuja in his research on "Commodity Derivatives market in India: Development, Regulation and Future Prospective", concluded that Indian commodity market has made enormous progress since 2003 with increased number of modern commodity exchanges, transparency and exchanging action. The volume and value of commodity trade has indicated unpredicted imprint. This had happened due to the role played by market forces and the active encouragement of Government by changing the arrangement concerning commodity derivative. He suggested the advancement of barrier free exchanging the future market and freedom of market forces to determine the price.

III. CONCLUSION

Commodity market blasting in recent years as the monetary derivatives market, since our economy is an agro-based nation there is a huge demand in domestic just as internationally for our rural commodity. Regulatory bodies (SEBI) they are giving their topmost help to this market while confining the policies they are stretching arms to safeguard the farmers and furthermore the market members, hampering of technologies in recent decade keep the markets transparent and trade happens in the organized structure in both the markets spot and future.

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