



A Case Study

Commodity futures market in India: need, expansion, roles and obstacles

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ABSTRACT : Trading in commodity derivatives on exchange platform is a device to attain price discovery and better price risk management, in addition serving macro-economy with improved resource allocation and generating income levels. India's first organized futures market, Bombay Cotton Trade Association Ltd., being set up 1875. Since the inception (2003) of national online trading on multi-commodity exchange platforms, the trade volumes have grown exponentially. The objectives of the present study were to study the necessities, expansion, roles and organisational problems existing in the National Exchanges. Secondary data were collected from the official web sites of Forward Market Commission (FMC) and National Level Commodity Exchanges related information for the period 2005 to 2010 and also from recognized journals and publications to facilitate effective information. The result showed that, the share of Multi-commodity Exchange (MCX), Mumbai recorded the highest turnover in terms of value of trade during 2009, followed by the National Commodity and Derivatives Exchange limited (NCDEX) and National Multi-commodity Exchange (NMCE), respectively. The risk associated with marketing of agricultural commodities can't be disregarded in physical markets. The marketing should be made more broad-based by allowing banks and others to participate in commodity futures by outline the rules efficiently as a result both producers and consumers get benefits. The Forward Market Commission (FMC) should regulatory initiatives, to prevent market manipulation and ensure market integrity, financial integrity and customer protection. However, there are several obstacles to be overcome to be decided for prolonged development of the market, possible only through comprehensive and coordinated efforts by regulatory bodies and government involved in the commodity exchange activities.

KEY WORDS : Commodity future market, Obstacles, Turnover

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