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# Indian Commodity Market: Need for Awareness and Education

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## Abstract:

*Commodity market has been established to motivate the small and large investors through various commodities trading by various exchanges. But volume of investment in this trading is far lesser than the other modes of investors. The need of the hour is creating awareness and education and also proper guidelines and regulations. Present paper makes an attempt to study awareness level of commodity trading in Mumbai city, and find out the factors responsible for poor awareness among investors.*

## INTRODUCTION

India, an agrarian economy where two third of the one billion population depends on agricultural commodities, surprisingly has an under developed commodity market. Unlike the physical market, futures market trades in commodity are largely used as hedging mechanism on either physical commodity itself or open positions in commodity stock. The success of capital market reforms motivated govt. to introduce similar reforms in commodity markets also to make trading in commodity futures more transparent and successful, multi commodity exchanges at national level were established and were allowed on-line trading. Today commodities exchanges have become an integral part of Indian Financial system. India has occupied prominent place in the area of bullion trading in the last three years. While America is still continue to have open outcry system, Indian ones have begun in modern way with every aspect of trading fully computerized. We have trading engines which match buy and sell orders at the nanosecond speed. In spite of this speedy success in last five years, the awareness about commodities trading is very low. This is one of the biggest challenges faced by the segment of the investment which should be addressed as early as possible.

## LITERATURE REVIEW

### Indian Commodity Market Scenario

The history of Indian commodity market can be traced from the establishment of Bombay Cotton Trade Association established in 1875. It is the first organized futures market in India for commodities. The Gujarat vyapari mandali carried futures trading, in oil seeds, castor seeds, ground nut and cotton in 1900. The chamber of commerce at Hapur set up in 1913 was the most famous futures exchange for wheat. Futures trading in bullion began in 1920 in Bombay. Jute trading was conducted by Calcutta Exchange in 1919. Most of these exchanges traded in region specific commodities and the lack of a national level exchange that could offer multiple commodities at the same platform was felt necessary time and again. So after a couple of years govt. felt the need for reforms in this sector and established 21 regional exchanges which offer various commodities for trading, Govt. came out with the innovative features in trading like demutualized online screen based multi commodity exchanges at national level as a part of its agricultural and economic liberalization program. There are 3 National Exchanges for enabling the commodity trading in India now. They are

1) Multi-Commodity Exchange of India Ltd. (MCX)

) National Commodities and Derivatives Exchange Ltd.(NCDEX)

) National-Commodity Exchange of India Ltd. (NMCE)

The Commodities and Futures Market is regulated by Forwards Markets Commission which works under Ministry of Consumer Affairs. Even though it is very old market in India the market size and trading volume is not so satisfactory but last four years showing rapid growth is surely a boosting factor for Indian commodity market.

### Commodity Futures Trading in India

In India agriculture has traditionally been one sector which is controlled fry Govt Concerned Ministry takes decision on maintenance of buffer stocks, they try to fix prices, and they have import export restrictions and a bunch of other interventions also. Many economists think that we could have major benefits from the liberalization of agricultural sector In this case the most important questions arises are who will maintain buffer stock, how to control the price fluctuations, how a farmer can protect his price in future transactions .There came the concept of "Futures" which will lock the future price and no impact of price fluctuations. This concept is called derivatives in commodity markets. Derivatives are used as hedging tool in financial markets as well as commodity markets. In the case of financial derivatives, most of the contracts are cash settled, even in the case of physical settlement; financial assets are simple papers and do not need special storage facilities. Due to the bulky nature of underlying assets, physical settlement in commodity derivatives creates the need of warehousing. Today we have Food Corporation of India which is doing the job of storage; it is a system which according to many experts has to be reformed in terms of regulation as well as transparency. Futures market will produce the kind of smoothing between the present and the future. Finally, commodity futures markets are part and parcel of a program for agricultural liberalization. Many agricultural economists felt the need of liberalization in this sector. Futures markets are an instrument-for achieving those expectations.

### Different Types of Commodities Traded

A commodity can be defined as an article, a product or material that is bought and sold. It can be classified as every kind of movable property, except Actionable Claims, Money and securities.

Classification of commodities according to the trading done

Types	Example
Agro based commodities	Wheat, Cotton, corn, oils, oil seeds
Soft commodities	Coffee, Cocoa, Sugar
Live Stock	Live cattle, Pork Bellies
Energy	Crude oil, Natural gas, Gasoline
Precious Metals	Silver, Gold, Platinum
Other Metals	Nickel, Aluminum, Copper

### BENEFITS OF COMMODITY INVESTMENT

#### Benefits to Industry from Futures Trading

- Hedging the price risk associated with Future’s contractual trading.
- Efficient price discovery reduces the seasonal price volatility
- Greater flexibility, transparency and certainty in procuring commodities would facilitate bank lending easy
- Commodity Exchanges to act as distribution network to retail agri finance from financial institutions to households.
- Facilitates trading limit finance to Traders in commodities exchanges

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### **Benefits to Exchange Member**

Access to commodities market is much easier than the securities and cash market

Member can enjoy scalable, state of the art technology facilities in trading

Member can trade in multiple commodities from a single point on real time basis.

Exchange member can f1Pt customized training facilities

### **Benefits to Investor**

Comparing with the other asset classes offering high returns, "Why commodities?" is the inevitable question that pops in investors mind today ,despite offering relatively lower returns,

Commodity derivatives provide unique money making opportunities to a wider section of market participants, starting from farmers. Exporters and importers..Etc. surely in this volatile market commodity trading is wise option for investors considering the following factors. No financial statements, and reading between the lines, commodity trading is about the simple economics of demand and supply

Minimum support price acts as a statutory support for many commodities, so supports are known only resistance is an issue.

No breaking of heads over market points, seasonality trends quiet often provide clue to both short term and long term players

No Foreign exchange problems, no hedging on the NYMEX.

No price rigging and scams, commodity trading offers nil insiders trading and no company specific risk

Compared to equities it is much cheaper in terms of commodities trading as margin requirement are low. No need to worry for Fundamental analysis and Technical analysis as here price is completely dependent on the demand and supply concept.

Compared to equities they are proved to be less volatile too.

### **Factors Responsible for Poor Awareness of the Market in India:**

1. **Poor Supervision and Lack of Coordination Among Various Commodity Exchanges:** FMC The Forward markets Commission (FMC), which operates under the ministry of consumer affairs is the regulator, but not able to monitor the online screen based trading and also failed to detect market manipulation that happened in recent past passed negative signals to investors, as a regulatory body it should be able to create trustworthiness among the investors and should guide the exchange in the proper direction.

2. **Dominance of few Players:** Few players dominating in this trading is not a good sign for the overall development, hence exchanges have to motivate exiting equity investors, institutional investors and also farmers to investment commodity trading.

3. **Poor Awareness Among Retail Investors :** Most of the investors know about the capital markets but they are not aware of the commodity investment they still feel it is new concept in India, majority of the educated investors including the employees are not aware of new online screen based trading facilities available in this segment.

4. **Technology:** Basically investment is meant for all, but unfortunately those who are not techno savvy they are afraid of using online trading and usage of demat account online, dependency brokers for buy and sell transactions is also a big problem for non-technical people

5. **Farmers' Literacy Level:**Commodity market should be the biggest in the world considering the 65% of the population from agriculture, but unfortunately most of our farmers are illiterates and they are not aware of the benefits of commodity trading.

6. **Poor Media Coverage:** News available on commodity index and prices in print and web media is very less , mostly traders look for daily trading status report whid l is not easily available in mass media.

## STATEMENT OF THE PROBLEM

Commodity market has been established to motivate the small and large investors through various commodities trading by various exchanges. But volume of investment in this trading is far lesser than the other modes of investors. The need of the hour is creating awareness and education and also proper guidelines and regulations. Present paper makes an attempt to study awareness level of commodity trading in Mumbai city, and find out the factors responsible for poor awareness among investors.

## OBJECTIVES

1. To find out the factors which are responsible for unawareness of commodity market by many.
2. To understand the awareness investors level from the selected sample and understand their preferred segment of investment in commodities market.
3. To suggest effective ways to create awareness among retail investor.

## RESEARCH METHODOLOGY

Research Design	Descriptive Research
Data Source	Primary And Secondary Data
Primary Data Collection	Survey Method
Primary Data Collection Instrument	Questionnaire
Secondary Data Collection	Magazines, journals
Text Books and Websites	
Sampling methods & Techniques method, Convenience	Non Probability
Sampling Technique	
Sample Size	100 respondents

Hypothesis- At least 20% of total respondents invest in commodity markets

Hypothesis testing tool: Chi square is the most appropriate test for this purpose.

<i>Investment</i>	Yes	No	Total
Bank FD,PPF ,P.O			
Saving	67	33	100
Equity Stocks	30	70	100
Insurance	33	67	100
Real Estate	39	61	100
Mutual Funds	38	62	100
Commodity	14	86	100
Private Lending	5	95	100
Total	226	474	100

Chi Square value was calculated using the following formula:

$$X^2 = \frac{\sum (O - E)^2}{E}$$

Level of Significance: Desired Level of Significance is

5%=0.05

$X^2$  (Chi-square) calculated value=11.07, Degrees of freedom=5, P value=0.000001

Since value < level of significance above hypothesis is rejected and it can be concluded that less than 20% of the respondents invest in commodity market.

#### LIMITATIONS OF THE STUDY

In spite of taking the utmost care the following limitations were found in this research.

The study is limited to Mumbai city.

It is conducted only with the investors of Angel Broking Ltd.

The respondents were less interested in filling the questionnaire, as they felt that it was creating disturbance to their work

#### FINDINGS

- Most of the investors are in the age group of 36-50 years, this shows that middle aged customers prefer to invest much with broking companies.
- 51% of the investors are salaried people and 21% belong to business class, this shows very poor presence of other class like farmers
- Most of the salaried people are investing for tax saving purpose. Business people and self-employed are using this investment as diversification of portfolio. Some post graduate students are investing in stock to gain market knowledge as well as to experience the market
- Income level of most of the investors is between 2- 3 lakhs
- Most of the respondents investing 1-2 lakhs every year.
- Most of the investors seek experts' advice before taking investment decision and sometimes they are influenced mostly by friend's advice.

Majority of the investors get source of investment information from web and print media

66% of the respondents take investment decision by own research through websites like value research, Money control.com Etc. and also read different books, brochures before investing

- 44% of the respondents are aware of MCX, very few people know about other commodity exchanges that are operating in India now, this shows effect of print and web media in spreading awareness and education to public on commodity markets
- Most preferred investment of respondents is Bank FD, PPF, P.O savings, this shows most of the traders are preferring risk free investment
- 14% of the respondents are having commodity demat accounts and they are investing in commodity market, this shows very poor awareness regarding the benefits of online commodity trading and facilities.
- 55% of respondents are planning to invest in commodities in near future, this shows their interest towards this segment, but they need all the support in terms of commodities trading knowledge, like how to invest, requirements, trading tips, research supported.
- 3% of traders have so far attended some seminars and workshops conducted on the area of

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commodities trading, this shows that most of the programs conducted on commodities market is not reaching the mass

- Most of the traders felt that information on this trading is not easily available, this shows that lot of information has to be published in the form of web and print media
- Most of the traders preferred Pepper under agri commodity category and Gold in metal category.

## RECOMMENDATIONS

- Commodity exchange have to work hard united to educate public about the benefits that they can reap from the commodity market through innovative programs.
- Since it is found in the research that majority of the investors are investing inequity, it is easy to motivate them to invest in higher margin commodities
- Present study reveals that majority of the investors are in the age group of 26-35 years, so broking companies can customize the research support to suit the demands of these young investors in the form of trading tips and daily positions and market analysis data
- Investors in Mumbai are not much aware of commodity market as compared to capital market; hence broking companies have to take special measures to create awareness through most popular media like TV, web and print media.
- Investor friendly seminars and workshops can be conducted to corporate and institutional investors where broking companies can reach the whole employees in an organization
- Present study reveals most of the investors are employees and business people; in fact commodity trading benefits farmers a lot, Exchanges have to conduct customized training in regional languages to educate farmers in this segment
- Introducing handbook on the various modules of commodity trading category wise is highly helpful for investors

## CONCLUSION:

Majority of the commodities traded on global commodity exchanges are agri-based Commodity markets have great importance in the case of economies like India, where more than 65% of the population's dependent on agriculture. The Govt of India has initiated several measures to stimulate trading interest in commodities. Measures like lifting the ban on futures trading in commodities, approving new exchanges, Developing exchanges with modern infrastructure and online trading, and removing legal hurdles to attract more traders have increased the scope of commodity derivatives trading in India, to support these development measures exchanges and broking companies have to work hard to eliminate the hurdles in further development. Out of the biggest challenges faced in this segment of trading is lack of awareness, present study reveals majority of the traders though they are active traders in capital markets they are unaware of the commodity markets. Creating awareness and educating the traders in this investment is the need of the hour, hence exchanges and broking companies have to concentrate on customized training to employees, institutional investors and farmers. By introducing certain changes in regulation mechanism, Education and awareness programs commodity markets in India will definitely scale greater heights in near future.

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