

Commodities Marketing

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INTRODUCTION

Indian markets have recently thrown open a new avenue for retail investors and traders to participate commodity derivatives. For those who want to diversify their portfolios beyond shares, bonds and real estate, commodities are the best option.

Till some months ago, this wouldn't have made sense. For retail investors could have done very little to actually invest in commodities such as gold and silver or oilseeds in the futures market. This was nearly impossible in commodities except for gold and silver as there was practically no retail avenue for pumping in commodities.

However, with the setting up of three multi-commodity exchanges in the country, retail investors can now trade in commodity futures without having physical stocks!

Commodities actually offer immense potential to become a separate asset class for market-survey investors, arbitrators and speculators. Retail investors, who claim to understand the equity markets, may find commodities market. But commodities are easy to understand as far as fundamentals of demand and supply are concerned. Retail investors should understand the risks and advantages of trading in commodities futures before taking a leap. Historically, pricing in commodities futures has been less volatile compared with equity and bonds, thus providing an efficient portfolio diversification option.

In fact, the size of the commodities markets in India is also quite significant. Of the country's GDP of Rs.13, 20,730 crore (Rs.13, 207.3 billion), commodities related (and dependent) industries constitute about 58 per cent.

Currently, the various commodities across the country clock an annual turnover of Rs.1, 40,000 crore (Rs.1, 400 billion). With the introduction of futures trading, the sizes of the commodities market grow many folds here on.

Like any other market, the one for commodity futures plays a valuable role in information pooling and risk sharing. The market mediates between buyers and sellers of commodities, and facilitates decisions related to storage and consumption of commodities. In the process, they make the underlying market more liquid.

DEFINITION OF COMMODITIES

Any product that can be used for commerce or an article of commerce which is traded on an authorized commodity exchange is known as commodity. The article should be movable of value, something which is bought or sold and which is produced or used as the subject or barter or sale. In short commodity includes all kinds of goods. Forward Contracts Regulation Act (FCRA), 1952 defines "goods" as "every kind of movable property other than actionable claims, money and securities".

In current situation, all goods and products of agricultural (including plantation), mineral and fossil origin are allowed for commodity trading recognized under the FCRA. The national commodity exchanges, recognized by the Central Government, permits commodities which include precious (gold and silver) and non-ferrous metals: cereals and pulses; ginned and un-ginned cotton; oilseeds, oils and oilcakes; raw jute and jute goods; sugar, potatoes and onions; coffee and tea; rubber and spices. Etc.

In the world of business, a commodity is an undifferentiated product whose market value arises from the owner's right to sell rather than to use. Example commodities from the financial world include oil (sold by the barrel), wheat, and bulk chemicals such as sulphuric acid and even pork bellies.

NEED OF COMMODITY MARKET IN INDIA

Achieving hedging efficiency is the main reason to opt for futures contracts. For instance, in February, 2007, India had to pay \$ 52 per barrel more for importing oil than what they had to pay a week ago. The utility of a futures contract for hedging or risk management presupposes parallel or near-parallel relationship between the spot and futures prices over time. In other words, the efficiency of a futures contract for hedging essentially envisages that the prices in the physical and futures markets move in close unison not only in the same direction, but also by almost the same magnitude, so that losses in one market are offset by gains in the other.

Of course, such a price relationship between the spot and futures

markets is subject to the amount of carrying or storage costs till the maturity month of the futures contract. Theoretically (and ideally), in a perfectly competitive market with surplus supplies and abundant stocks round the year, the futures price will exceed the spot price by the cost of storage till the maturity of the futures contract. But such storage cost declines as the contract approaches maturity, thereby reducing the premium commanded by the futures contract over the spot delivery over its life and eventually becomes zero during the delivery month when the spot and futures prices virtually converge. The efficiency of a futures contract for hedging depends on the prevalence of such an ideal price relationship between the spot and futures markets.

HISTORY OF COMMODITIES

Historically, the biggest fortunes have been made in commodities trading. It started centuries before stock market came into being. The first organized futures market in India was established in 1875, by the 'Bombay Cotton Trade Association' to trade in cotton.

Before the outbreak of the Second World War, India had a thriving futures market for a number of commodities such as groundnut/oil, wheat, rice, raw jute, precious metals like gold, silver etc by 1960's India had the necessary legislation in place with commodity futures considered as a reasonably successful trading market.

In mid 1960's due to wars, natural calamities and the consequent shortages, futures trading in most commodities were banned.

It took three decades before commodity futures could be re-initiated into Indian markets. This long period of hibernation for commodity futures in India

has come to be known as the “lost decades”.

With the liberalization of the economy, emphasis was once again to develop commodity future trading. The Cobra committee set up in 1993 to examine commodity futures trading recommended futures trading in several commodities. Accordingly futures trading for 16 commodities and their by-products, and international futures trading for pepper and castor oil were permitted, by 2003; India had 20 commodity exchanges, trading around 42 commodities, with international contracts being traded for pepper and castor oil.

Recent Developments:

The aim was to create a nation wide efficient commodity exchange, which could provide price discovery and offer price-risk management, to all participants involved in the commodity business cycle.

- i. The issue of single commodity exchanges with low liquidity has been addressed the modern exchanges will enable multiple Commodities trading on online world standard trading platforms, with nation wide reach.
- ii. The exchange will now provide real time price and trade date dissemination.
- iii. The new exchanges maintain capital settlement guarantee funds and have stringent capital adequacy norms for brokers, which ensures trade guarantee to participants.
- iv. The exchanges will enable deliveries in electronic form. Warehouse receipts exchanged through the depositor participants facilitates efficient settlement procedures and will attract participants from all key sections of the commodity business cycle.

- v. The institutions managing the exchanges comprise banks and government organizations, which bring with them institutional building experience, trust, nation wide reach, technology and risk management skills.
- vi. The new exchange will have rule-based management by professionals having to trade interest.

METHODOLOGY

SOURCES OF DATA

The research can call for gathering secondary data, primary data or both. Secondary data consists of information that already exists somewhere, having being collected for another purposes and primary data consists of original information gathered for the specific purpose.

Data collection is very essential to study the information fact and figure that are directly related to the problem that have being formulated. The kinds of data collected for this study are:

1. PRIMARY DATA:

‘Data collected for brokers and members of 5 paisa.

2. SECONDARY DATA

- a. Data collected from various books, Newspapers and Internet.
- b. Data provided by the 5paisa as a part of the class undertaken

OBJECTIVES OF THE STUDY

- i. To study the concepts of commodities trading in India
- ii. To study of The Various Trends in Commodity Trading.
- iii. To Study The Role of Commodities In India Financial Markets.
- iv. To study In Details the Role of Futures and Forwards.

**COMMODITY
TERMINOLOGY****FUTURES**

Basic: The difference between the current cash price and the future price of the same commodity for a given contract month.

Bear Market: A period of declining market prices.

Bull Market: A period of rising market prices.

Broker: A company or individual that executes futures and options orders on behalf of financial and commercial institutions and or the general public.

Cash (spot) Market: A place where people buy and sell the actual cash commodities, i.e., grain elevator, livestock market, etc.

Futures Price: The price at which the futures contract trades in the futures market.

Expiry date: It is the date specified in the futures contract. This is the last day on which the contract will be traded, at the end of which it will cease to exist.

Commission (brokerage) fee: A fee charged by a broker for executing a transaction.

**DATA ANALYSIS AND
INTERPRETATION****CHILLI PROFILE**

- i. Chillies belong to the genus capsicum, under the solanaceae family and are believed to have originated from South America.
- ii. Chillies are valued principally for their high pungency and colour.
- iii. Chilli forms an indispensable culinary spice in several parts of the world. It is also used in beverages and in the preparation of medicines.

**INDIA IN WORLD CHILLI
INDUSTRY****India Market**

Convergence: A term referring to cash and futures prices tending to come together as the futures contract nears expiration.

Cross – hedging: Hedging a commodity using a different but related futures contract when there is no futures contract for the cash commodity being hedged and the cash and future markets follow similar price trends.

Daily Trading Limit: The maximum price change set by the exchange each day for a contract.

Day Traders: Speculators who take positions in futures or options contracts and liquidate them prior to the close of the same trading day.

Delivery: The transfer of the cash commodity from the seller of a futures contract to the buyer of a futures contract.

Forward (cash) contract: A cash contract on which a seller agrees to deliver a specific cash commodity to a buyer at a specific time in the future.

Fundamental Analysis: A method of anticipating futures price movement using supply and demand information.

- i. India is the world's largest producer, consumer and exporter of chillies in the world. India also has the largest area under chillies in the world. Chillies are the most common spice cultivated in India. It is estimated that India produced 1060345 tons of dry chilli from an area of 8, 84,183 hectares in 2003-04.
- ii. Almost all the states of India produce the crop. The important chilli growing states of India are Andhra Pradesh (46%), Karnataka (15%), Maharashtra, Madhya Pradesh, Orissa, West Bengal, Rajasthan and Tamil Nadu.
- iii. Chillies can be grown during the entire year at one or the other part of the

country. However, the major arrival season extends from February to April. The crop planting starts from August and extends till October. While, the harvesting begins from December with 5% of the arrivals usually reported in this month. The peak arrivals are reported in February to March.

- iv. There are several varieties of chilli cultivated in India. The most popular among these are, Sannam, LC 334, Byadgi, Wonder Hot, Jwala etc.

- v. The major chilly growing districts of Andhra Pradesh are Guntur, Warangal, Khammam, Krishna and Prakasham.

Market Moving Factors

Aboveground supply from sales by central bank, reclaimed scrap and official gold loans.

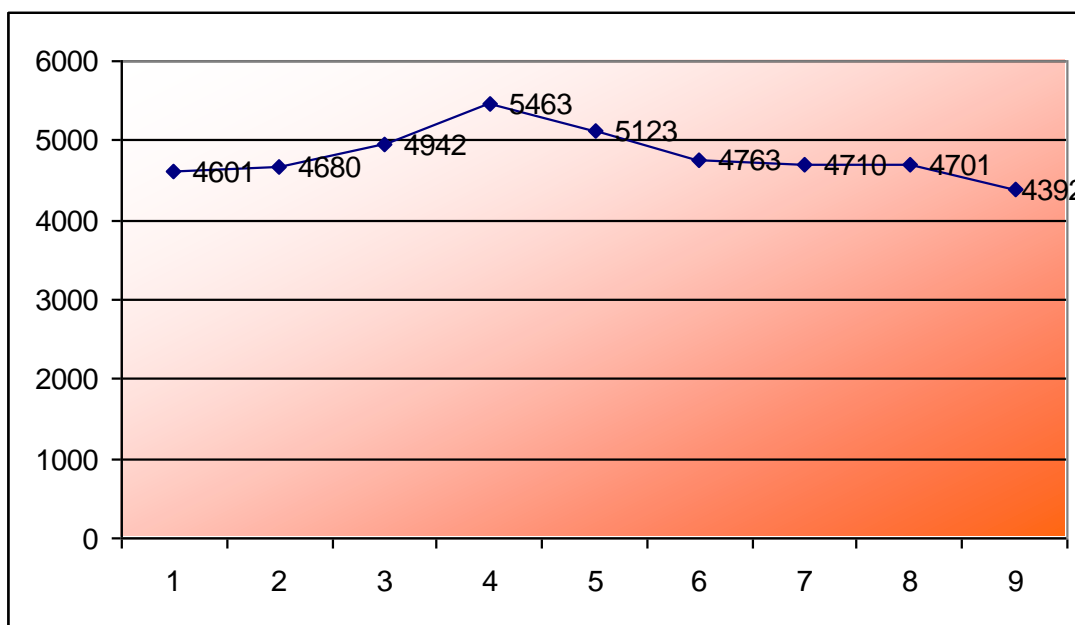
- i. Producer/miner hedging interest
- ii. World macro-economic factors – US Dollar, interest rate
- iii. Comparative returns on stock markets
- iv. Domestic demand based on monsoon and agricultural output.

TABLE-1
RED CHILLI RATE FLUCTUATIONS

Date	Contract/Expiry Month	Close (Rs)	Volume (In 000's)	Value (In Lakhs)	OI (In Lots)
7/5/2007	15-May-07	4601	10.00 KGS	4.6	4
30-04-2007	15-May-07	4680	585.00 KGS	273.8	4
19-04-2007	15-May-07	4942	50.00 KGS	24.71	9
9/4/2007	15-May-07	5463	10.00 KGS	5.46	23
30-03-2007	15-May-07	5123	1755.00 KGS	898.38	22
24-03-2007	15-May-07	4763	1780.00 KGS	845.56	21
19-03-2007	15-May-07	4710	2355.00 KGS	1105.07	5
10/3/2007	15-May-07	4701	5.00 KGS	2.35	1

16-02-2007	15-May-07	4392	200.00 KGS	87.84	0
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RED CHILLI GRAPH



Interpretation:

. The above graph show the price fluctuations of red chilli market from Feb 2007 to May 2007. The very first quarter the rate has been increased due to the demand in the market, red chilli price volatility is also an important determinant of red chilli. In this case the buyers get the benefits and the seller incurs loss. But in the second quarter there was a gradual decrease in the red chilli market. By which the buyers get a good profit.

PEPPER

General Characteristics

Pepper plant is a perennial woody climber with dark green leaves and spikes of white

flowers, often reaching heights of 10 meters (33 feet) by means of its aerial roots.

The berries like fruits or peppercorns are about 5 mm (0.2inch) in diameter. They become yellowish red at maturity and bear a single seed. Black pepper comes from the whole fruit, picked just before they are completely ripe.

Supply of pepper has seen a dramatic increase over the last ten years. While prices have fallen over the last three years, the market has absorbed the supply of pepper.

Global Scenario

The global production of pepper fluctuates between 3-3.5 lakh tons, with a production of 3.25 lakh tons recorded in 2003. Vietnam (85000 tons), Indonesia (67000

tons), India (65000 tons), Brazil (35000 tons), Malaysia (22000 tons), Sri Lanka (12750 tons), Thailand, China are the major producers of pepper in the World. Harvesting in Sarawak (Malaysia) takes place in June-July. In Brazil the harvest season of black pepper is in August-September. In Lampung (Indonesia) the harvest season

is from July to September. Vietnam's sudden increase in production has resulted in the global production, increasing to 3-3.5 lakh tons from 1.9-2 lakh tons in the late nineties. Vietnam is the world's largest producer and exporter of pepper in the world now. The global exports of pepper are around 2-2.5 lakh tons, with

2.29 lakh tons being exported in 2003. The major exporters of pepper are Vietnam (82000 tons), Indonesia (57000 tons), Brazil (37940 tons), Malaysia (18500 tons) and India (17200 tons).

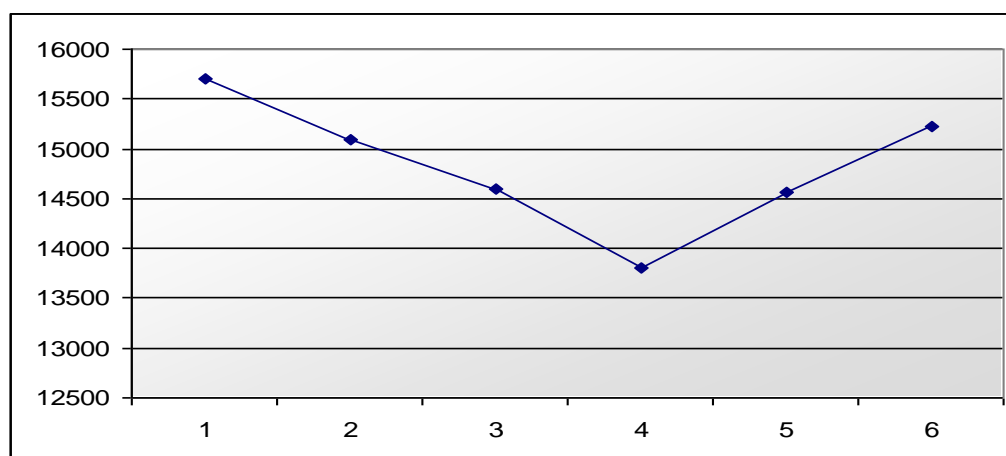
Major World Markets

New York, Singapore and Rotterdam are major international trading centers for pepper. The primary international grades and their markets are Lampung at Panjang (Indonesia), Sarawak at Kuching (Malaysia), Vietnam at HCM City (Vietnam). However, Malabar grade of pepper from India traded at Kochi, Kerala is considered to be the premium grade of pepper and rules above the international grades.

TABLE-2
PEPPER RATE FLUCTUATIONS

MONTH	PARTICULARS	RATE
14-Aug-07	PEPPER	15711
14-Jul-07	PEPPER	15099
15-Jun-07	PEPPER	14600
13-May-07	PEPPER	13800
15-Apr-07	PEPPER	14560
18-Mar-07	PEPPER	15230

PEPPER GRAPH



INTERPRETATION: The above graph shows the price fluctuations of pepper market from March 2007 to May 2007. The very first quarter the rate has been decreased due to the lack of demand in the market, pepper price volatility is also an important determinant of pepper. In this case the buyer gets the benefits and the seller incur loss. But in the second quarter there was a gradual increase in the pepper market.

CHANA

Chana belongs to leguminasae family and there are two main types - Desi and Kabuli. Desi chickpeas are the main type grown in India

- i. India's chana production fluctuates between 4-7 million tons and is normally 40% of India's total pulse production of 12-15 million tons India's chana production in 2003-04, chana production is 5.33 million tons out of a total pulse production of 15.23 million tons.
- ii. The major producing states are Madhya Pradesh (1.5-2.5 million tons, Uttar Pradesh (0.7-0.85 million tons), Rajasthan (0.5-2.5 million tons) and Maharashtra (0.5-0.7 million tons).
- iii. Chana is a rabi crop and is sown from nov to december and harvested from Feb to March. The peak arrival period begins from March-April at the major trading centers of the country.
- iv. India accounts for 2/3rd of the world's chickpea production. India imports around 3-4 lakh tons of chickpeas annually. The major countries from where India imports chickpeas are Canada, Australia, Iran and Myanmar.
- v. Indian chana markets are highly fragmented, with very long value chain. The major players in the value chain are commission agents, brokers, stockiest, wholesale traders, dal mills, wholesalers (dal) and retail outlets. The information flow between these participants is restricted and very slow.

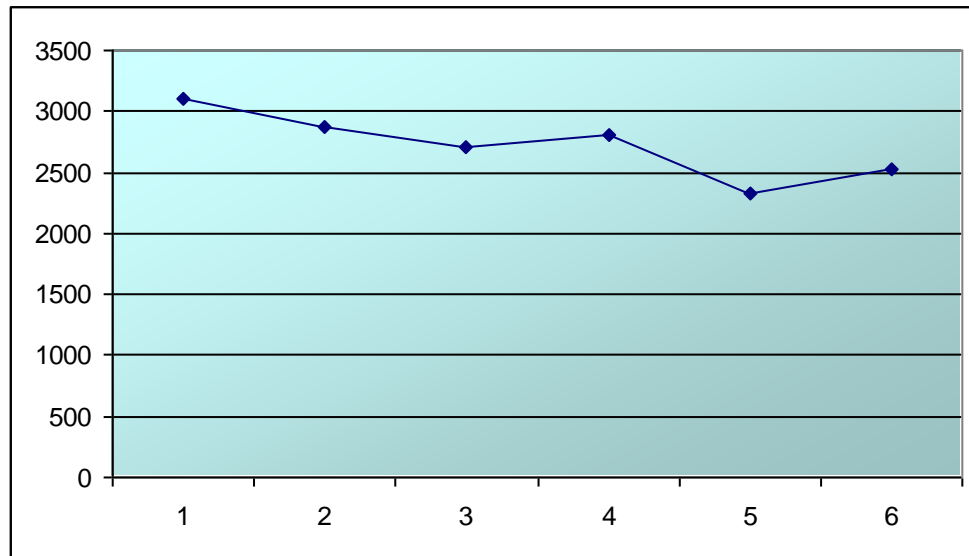
Major Trading Centers

- i. Indore, Bhopal, Vidisha in Madhya Pradesh.
- ii. Jalgaon, Latur, Mumbai, Akola in Maharashtra.
- iii. Jaipur, Bikaner, Kota, Jodhpur, Sriganaganagar, Hanumangarh in Rajasthan.
- iv. Other major centers are Delhi, Chennai, Kanpur, Hapur, Hyderabad, Vijayawada, Gulbarga, Sirsa, Jalandhar, Ludhiana, Sangrur.

**TABLE-3 **
CHANA RATE FLUCTUATIONS

MONTH	PARTICULARS	RATE
SEPT.06	CHANA	3101
OCT.06	CHANA	2869
NOV.06	CHANA	2706
DEC.06	CHANA	2807
JAN.07	CHANA	2325
FEB.07	CHANA	2520

CHANA GRAPH

**Interpretation:**

The price of the chana is not only a function of its primary output but also more a function of the price of other metals. The above graph shows the price fluctuations of chana market from Nov 2006 to 2007. The very first quarter the rate has been increased due to the demand in the market, chana price volatility is also an important determinant of gold. In this case the buyers get the benefits and the seller incurs loss. But in the second quarter there was a gradual decrease in the chana market.

FINDING

- i. Exchange rules generally prohibit fictitious and prearranged trading.
- ii. The choice between physical delivery and cash settlement boils down to a trade off between short squeeze and cornering of stocks.
- iii. The difficulty with cash settlement also arises out of another trader.
- iv. Most of the clients are dealing with unicon investments for long time

i.e., between 5 -10 years and above and so it can be inferred that the dealers are loyal to the company.

- v. There is no development in rural areas; due to there are no E-broking branches.
- vi. On commodities the turnover is less compare to stock, due to Awareness of Commodities.
- vii. Almost all the clients responded that the brokerage of unicon is lesser than the competitors.
- viii. The Unicon providing best services to their clients.
- ix. The lot size is very large. So small investors are not able to trade on commodities.

CONCLUSION

Nation wide futures markets in India, which have advanced quite well in recent years, are here to stay. All thought it is too early to comment conclusively on what tangible benefits have accrued to producers and consumers, there are clear signs that, particularly in the case of agricultural commodities, these would

mean fundamental changes for the hitherto existing local and fragmented markets. Including the power, structure & relationship built around them.

SUGGESIONS

- i. In order to increase the Commodities market in India the SEBI should receive some of their regulations, like lot size, participation of FII in the commodity market.
- ii. Lot size should minimize because small investor can't afford this much of hug investment.
- iii. It is better to provide de-mat facility for all commodities.
- iv. Better to open branches in Rural Areas it will be suitable for Commodities Trading. As well as development of Economy.

v. Physical delivery of commodities service should be increased.

vi. The company should follow advertisement process to make know about commodities to the customer.

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