

COMMODITY FUTURES MARKET

5.88 Commodities which were traded in the commodity futures market during 2007 included a variety of agricultural commodities, spices, metals, bullion and crude oil. The total volume of trade in the commodity futures market rose from Rs. 34.84 lakh crore in 2006 to Rs. 36.54 lakh crore in 2007, notwithstanding the suspension of trading of wheat, rice, urad and tur (Table 5.23).

5.89 The daily average value of trade in the commodity exchanges improved from Rs. 13,000 crore during 2006 to more than Rs. 15,000 crore in 2007. While the commodities traded at the exchanges included major agricultural commodities, the major share of the turnover was accounted for by spices, crude oil and natural gas.

5.90 The Multi Commodity Exchange (MCX) continued to be the largest commodity futures exchange during 2007 both in terms of turnover

Table 5.23 Turnover on commodity futures markets

Name of the Exchange	Calendar year		
	2005	2006	2007
Multi Commodity Exchange (MCX), Mumbai	6,33,324	20,25,663	27,30,415
National Multi Commodity Exchange, Ahmedabad	12,107	1,11,462	25,056
National Commodity and Derivatives Exchange, Mumbai	8,83,209	12,43,327	7,74,965
National Board of Trade, Indore	50,889	73,691	82,272
Others	57,816	30,342	41,779
Total	16,37,345	34,84,485	36,54,487

Source: Ministry of Consumer Affairs

does not become an instrument for pronounced speculation.

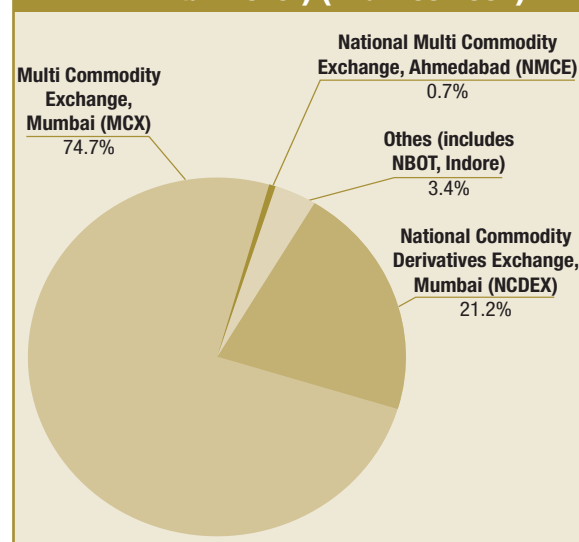
5.93 The Forward Markets Commission (FMC), under the Department of Consumer Affairs, which is the regulator for commodity futures trading under the provisions of Forward Contracts (Regulation) Act, 1952, continued with its proactive approach towards regulation and development of the markets. FMC gave special emphasis to create awareness about these markets among the participants in the physical markets including

Table 5.24 Number of contracts traded in National Exchanges

Name of the Exchange	Calendar year		
	2005	2006	2007
Multi Commodity Exchange, Mumbai	110.8	310.5	452.1
National Multi Commodity Exchange, Ahmedabad	10.1	31.4	12.1
National Commodity and Derivatives Exchange, Mumbai	247.4	307.1	236.5

Source: Ministry of Consumer Affairs

Figure 5.6 Indian commodity exchanges market share (in terms of turn-over) (End-Dec 2007)

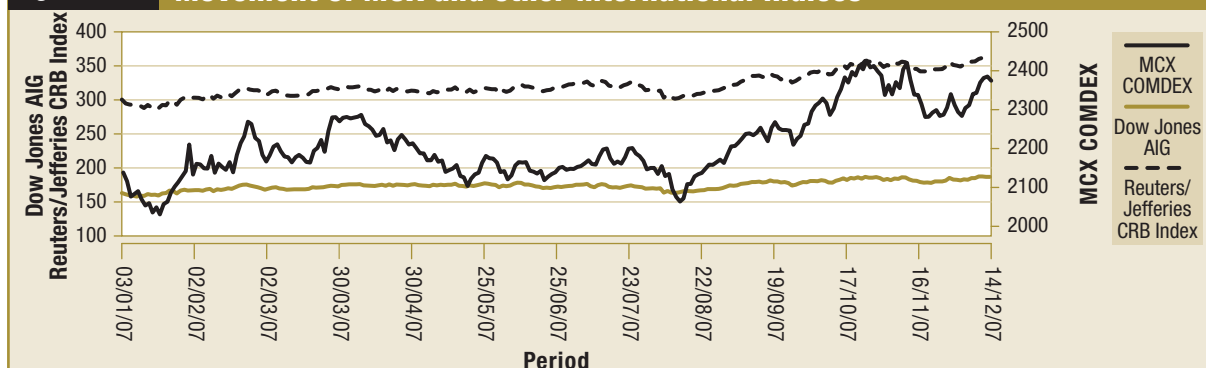


volume and number of contracts (Table 5.24 and Figure 5.6).

5.91 The growth of MCX commodity future index at 8 per cent during 2007 was somewhat lower as compared to the international commodity futures indices of Dow Jones AIG Commodity Index Cash Index (DJAIG) (11 per cent) and Reuters/Jefferies Commodity Research Bureau (RJCRB) (17 per cent) (Figure 5.7).

Regulation of Commodity Futures Market

5.92 The commodity futures markets facilitate price discovery process and provide for risk management. Their effectiveness depends on the participation of all the stakeholders. At the same time it is important to ensure that such trading

Figure 5.7 Movement of MCX and other international indices

farmers. FMC has initiated various steps to attract larger participation of all the stakeholders in the supply-chain so as to make the price discovery process more efficient. An Ordinance has been issued on January 31, 2008 converting FMC into an independent regulatory body.

Policy Developments

5.94 Major policy developments during 2007 included FMC initiating a process of dissemination of futures and spot prices at various mandis, post offices, rural branches of commercial banks and other areas frequented by participants including farmers. Dissemination of price information is expected to help such participants to cover their price risk in their pre-sowing and post-harvest decisions. On January 30, 2008, Foreign Direct Investment (FDI) upto 26 per cent and FII investment upto 23 per cent (subject to no single investor holding more than 5 per cent) were allowed in Commodity Exchanges.

5.95 FMC in association with the various State Governments, agricultural universities, academic institutions, NGOs, commercial banks, and others, has been organizing the awareness/training programmes exclusively targeted at farmers. During 2007, 43 awareness programmes were organized exclusively for the farmers. The awareness programmes are designed to make farmers aware of the benefits of the futures market and to utilize the price signals emanating from the futures exchanges in taking various decisions.

5.96 Direct participation of the farmers in the commodity futures markets is somewhat difficult at this stage as the large lot size, daily margining, high membership fees, etc., work as deterrent for farmers' participation in these markets. Farmers can directly benefit from futures market if institutions are allowed to act as aggregators on behalf of farmers.