



Trading Performance of Agricultural Commodities in MCX

KEYWORDS

Forward Market Commission, commodity market, agricultural commodities, MCX

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ABSTRACT

The commodity market plays a vital role in Indian economy. It has been regulated by Forward Market Commission (FMC) and exchanges. This study aims to understand the commodity market trading mechanism and trading performance of the agricultural commodities in multi commodity exchange (MCX). The study considered the trading volume of the agricultural commodities in MCX during the period of 2004 to 2015. In this research, the researcher has used the percentage analysis, mean, standard deviation, co-variance and growth rate.

introduction

Commodity market is a market where raw or primary products are exchanged. The commodities are traded through on regulated exchanges, in which they are bought and sold in standardized contract. The commodity trading practice has been introduced in 18th century that trading mechanism was unformulated during that decade. In 1871 Chicago Board of Trade (CBT) was used futures contracts mechanism for trading commodities and after that all trading procedure has formulated by CBT and the mechanism encompass to improve the trade components such as contract period, clearing and settlement procedures and so on.

In the global contest of trade, the commodity markets practices were spread over to all the country in the world. The futures markets mechanism was introduced in India started by Bombay cotton trade association in 1875. Primarily the market functions were materialised and the most of trading process were done by the manual works. In 1994 the kapra committee had been recommended to Forward Market Commission (FMC) to create the electronic trading platform in India based on that online commodity trading operations has been begins on 2002-03 in India. The exchanges are regulated by the Forward Market Commission. The commodity market has been segmented into two types as forwards, and futures only. Options contracts are not enforced in agricultural commodities in the market. The exchanges are offering online trading system to the investors. The online systems provide the transparency process of market participants. Then agricultural commodities trading have also been included in the existing market system.

Agricultural commodities in mcx

There are four national exchanges and 21 regional exchanges functioning in India. They have both agricultural and non-agricultural segments. The listed agricultural segment commodities are such as crude palm oil, soya bean, refined soya oil, castor seed, maize, cotton, cardamom, coriander, jeera, chana and so on. These are all the top most trading commodities in the MCX agriculture segment.

TRADING MECHANISM OF THE MARKET

It covers the exchange trading mechanism like trading hours, trading parameters, types of orders, clearing and settlement and delivery procedure.

Trading Day and Hours

The MCX operate on all days except Sundays and Exchange specified holidays. The Exchange notifies a list of holidays for each calendar year in advance. Trading of agriculture commodities are done between 10:00 a.m. and 5:00 p.m. and other than agriculture commodity are dealt between 10:00 a.m. and 11:30 p.m. from Monday to Friday. On Saturday all commodities are traded between 10:00 a.m. and 2:00 p.m.

TRADING PARAMETERS

Base Price

The exchanges fix the "Base Price" of contract available for trading on the system, which is a notional price based on the spot market price of that commodity on the previous day. However, this is done only on the first day of commencement of trading in a contract. For all subsequent days, the base price is taken as the official closing price is taken as the contract during the previous trading day.

Spot Price

The price of the asset traded in the spot market.

Futures Price

The price of the commodity, which has traded in the futures market.

Closing Price

The closing price of every contract has been calculated on the system basis, at the end of trading period. It is equal to weighted average price of all trades done during the day.

Contract Cycle and Expiry Date

The futures trade is going on contract based on all the commodities are traded in different contract cycle. This process is also known as trading cycle. The expiry date of each commodity futures contract is mentioned in the contract specification of the particular futures contract. If the particular commodity expiry date comes on a holiday, the contract will be expiry on preceding day.

Market Price order

The order is placed where no specific price is mentioned at the time of entering into the trade. For such orders

price has been determined by the system.

Market on Open order

The order will be executed on the market opening price range. This trade is used to enter a new trade, or close the open position.

Market on Close order

The order will be executed in the market closing time. The price will be within the closing range of trade. It should be substantially different from the settlement price. This trade is also used to enter a new trade, or close the open position.

Spread Order

A spread order involves two positions, such as long and short. They are taken in the same commodity with different contracts. The two futures contract prices are go up and down together, and gains on one side of the spread

and losses on the other side. The spreaders goal is to profit from a change in the difference between the two futures prices.

DELIVERY PROCEDURE

Delivery Period

Every futures contract has delivery period from the expiry month of the contract. The delivery period may be beginning of the month, mid of the month or end of the month, it depends upon the commodity. The exchange will have the rights to fix and postpone the delivery period.

Compulsory Delivery

The buyers and sellers hold the position of the commodity after the tender period; they are liable for compulsory delivery. In compulsory delivery both buyers and sellers have open position upon the expiry of the contract, they are obligated to take or give delivery of the commodity.

Table: 1

Agricultural commodities trading volume Source: <http://www.mcx.com/historicaldata> (Figures in brackets indicate percentage to total)

Sl No	Year	Cardamom	Castor seed	Chana	Cotton seed	Coriander	Copra	Jeera	Kapas	Maize	Mentha oil	Refined soya oil	Soya bean	Wheat	Total Turnover (Rs. in Lakhs)	Growth rate
1	2004	0 (0)	208.05 (0.04)	12512.99 (2.21)	0 (0)	0	0	0	11975.84 (2.11)	456.51 (0.08)	0	535401.53 (94.39)	4235.36 (0.75)	2437.17 (0.43)	567227.45 (100)	0
2	2005	0 (0)	10431.58 (0.18)	629052.47 (10.57)	8960.64 (0.15)	0	13.68 (0.0002)	126211.74 (2.12)	77788.06 (1.31)	2460.8 (0.04)	1860759.84 (31.26)	3184263.32 (53.49)	32188.39 (0.54)	20341.1 (0.34)	5952471.62 (100)	949.39
3	2006	538726.3 (2.463)	23970.92 (0.21)	1058679.98 (9.09)	32067.72 (0.28)	0	3279.52 (0.03)	276685.09 (2.38)	278105.65 (2.39)	9766.67 (0.08)	5508950.19 (47.31)	3770571.11 (32.38)	63141.35 (0.54)	81160.9 (0.7)	11645105.42 (100)	95.63
4	2007	415066.1 (5.46)	22664.97 (0.3)	502121.1 (6.6)	12.37 (0.00016)	0	6321.79 (0.08)	96784 (1.27)	180129.77 (2.37)	78.21 (0.001)	1623774.77 (21.37)	4729561.87 (62.17)	28028.1 (0.37)	354.97 (0.004)	7606898.11 (100)	-34.67
5	2008	290995.9 (6.19)	0	577839.39 (12.29)	0	149235.8 (3.17)	494048.19 (10.51)	1786.02 (0.04)	69587.3 (1.48)	44.74 (0.0009)	847611.43 (18.03)	2165317.51 (46.06)	701.89 (0.01)	104039.44 (2.21)	4701227.78 (100)	-38.19
6	2009	182346.3 (3.52)	0	832225.76 (16.07)	0	1615.11 (0.03)	1265898.71 (24.41)	0	80292.97 (1.55)	99.83 (0.0019)	1011410.54 (19.51)	1726681.48 (33.3)	77771.94 (1.5)	6020.21 (0.12)	5185362.93 (100)	10.29
7	2010	901410.5 (10.5)	0	149706.42 (1.74)	0	5.77 (6.72)	1773214.28 (20.66)	0	116888.73 (1.36)	19240.19 (0.22)	5013965.14 (58.42)	606853.97 (7.07)	1654.49 (0.02)	240.04 (0.002)	8583179.53 (100)	65.52
8	2011	936781.2 (7.35)	0	2091.13 (0.02)	0	2242.22 (0.02)	4730723.23 (37.1)	0	350701.82 (2.75)	1501.32 (0.01)	6659252.09 (52.22)	68328.31 (0.54)	16.67 (0.0001)	3.17 (0.000021)	12751641.23 (100)	48.56
9	2012	2866931. (11.07)	0	41.24 (0.00015)	0	0	10002355.57 (38.61)	0	564401.58 (2.18)	35.22 (0.0001)	12470449.09 (48.14)	335.37 (0.0012)	0	0	25904549.37 (100)	103.14
10	2013	1419637. (10.87)	72 (0.87)	0	0	0	5195761.47 (39.78)	0	292151.52 (2.24)	0	6153777.16 (47.11)	618.7 (0.0047)	0	0	13061946.57 (100)	-49.57
11	2014	685245.3 (8.79)	0	0	0	0	4351148.42 (35.3)	0	80537.53 (1.03)	0	2680333.4 (34.38)	0	0	0	7797264.73 (100)	-40.30
12	2015	301498.6 (5.41)	0	0	0	0	2228377.77 (39.98)	0	816.18 (0.01)	0	3043119.11 (54.6)	0	0	0	5573811.73 (100)	-28.51
Total		8538639. (72.81)	57275.52 (0.05)	3765290.48 (3.44)	41040.73 (0.04)	153098.9 (8.014)	30051142.63 (27.49)	501466.85 (0.46)	2103376.9 (5.192)	33683.49 (0.03)	46875402.76 (42.87)	16787933.1 (7.15.36)	207738.1 (9.019)	214597(0.20)	100	
Mean		711553.3 (1)	4772.96	313774.21	3420.06	12758.25	2504261.89	41788.90	175281.41	2806.96	3906283.56	1398994.43	17311.52			
Std.Dev.		797152.1 (2)	9164.13	385880.87	9382.14	42985.95	3060836.91	85757.92	166687.98	5874.15	3495428.23	1694077.77	27438.99			
Co.Variance		112.03	192.00	122.98	274.33	336.93	122.23	205.22	95.10	209.27	89.48	121.09	158.30			

Table 1 describes that the performance of the agricultural commodities in MCX. Oil and oil seeds trade performance has attained continuous growth in the commodity market. Oil seeds highly demanded in India during the period of 2011- 2014 hence it has been reflected in commodity spot market trade. Crude palm oil has been highly demanded in the market hence the turnover of futures trading consist-

ently increased from 37 per cent to 55 percent during the period 2011-14.

The oil, oil seed and species commodities contributed the maximum influence on the market trade and the agricultural commodity market growth depends on that commodities of Oil and oil seeds and its total contribution respec-

tively menthe oil (42.87) per cent, crude palm oil (27.49), refined soya oil (15.36), Overall market contribution of the Oil segment is 85.72 per cent in the total trade of agricultural commodities.

The growth rate of agricultural commodities has been consistently increased during the period of 2009- 2012. The range of agricultural commodities trade performance has been attained the highest growth of rate of trade history from 10.29 per cent to 103.14 percent .which has constant improvement. After that the trade performance has been continuously decreasing trend from 2013 onwards. The declining level is negatively deviated from the past performance and its shows that the market has turn downward trend.

The mean value of mentheoil, CPO, and refined soya oil contributes significantly Rs. 3906283.56 lakhs, Rs. 2504261.89 lakhs, Rs.1398994.43 lakhs compare with castor seed, cottonseed and maize mean value of Rs. 4772.96 lakhs, Rs. 3420.06 lakhs, and Rs. 2806.96 lakhs. The standard deviation of maize, castor seed and cotton seed trading volume was 5874.15, 9164.13 and 9382.14 respectively.

Co -variance results shows the gradual performance of the commodities trading volume during the years. The gradual growth has attained by oil commodities such as menthe oil, kapas, cardamom, crude palm oil. Chana and cardamom has provided the better contribution to the market trade hence that the entire market trade has belong these commodities and it has ranked as Menthe oil, Crude pail oil, refined soya oil and cardamom. It shows the investors are preferred to invest on these commodities as well.

Conclusion

The MCX have started its operations since 2003. It offers the different commodities like precious, non precious, agricultural and energy. This study focused the performance of agricultural commodity in MCX. The researcher has discussed about the agricultural commodity market and trading mechanism, like price terminology, types of orders, clearing and settlement and delivery procedure.

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