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OVERVIEW OF COMMODITY TRADING AND MARKET IN INDIA

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The commodity markets began with the trading of agricultural products such as corn, cattle, wheat, and pigs in the 19th century. Chicago was the main hub for trading due to its geographical location near the farm belt with railroad access. In India, commodity trading began with the set up of the Bombay Cotton Trade Association in 1875, which laid the foundation of futures trading in India. The nature of commodities exchanges is changing rapidly. Currently, the trend is in the direction of electronic trading, which is away from traditional trading, where traders meet face-to-face. A commodity market is a physical or virtual marketplace for buying, selling, and trading commodities. It is also called a futures market, futures exchange, organized market for the purchase and sale of enforceable contracts such as derivative products, agricultural products, and other raw materials. A farmer raising corn can sell a futures contract on his corn, which will not be harvested for several months, and gets a guarantee of the price he will be paid when he delivers. This protects the farmer from price drops and the buyer from price rises. Commodity exchange is a legal entity that determines and enforces rules produces for the trading standardized commodity contracts. From 2015, SEBI became a regulatory body for any updates and developments relating to the commodity derivatives market in India

The Commodities Traded are Usually Classified Into Four Segments

i. **Agricultural Commodities**: These are generally perishable agricultural products such as soybean, cotton, chana, maize, sugar, guar seed etc. Processed agricultural commodities like soybean oil, palm oil, guar gum etc. are also considered agricultural commodities.

ii. **Bullion and Gems**: This segment predominantly consists of precious metals like gold, silver and precious gems like a diamond.

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iii. **Energy commodities**:. These commodities are traded in both the unprocessed form in which they are extracted or in various refined forms or by-products of refining.. Crude oil, natural gas etc. are examples of energy commodities.

iv. **Metal commodities**: This segment includes various non-precious metals that are mined or processed from the mined metals such as copper, brass, iron, steel, etc.

Different Types of Commodity Exchange

Trading in the commodity exchanges is very transparent. The price discovery is done without any manipulation, and orders are executed only when there is a match between a buyer's and seller's order. The margins in commodity markets are low; therefore, traders use this market to hedge their position and for higher leverage. In India, there are 6 National level exchanges and 21 regional exchanges that allowed for derivate trading.

a) Multi-commodity Exchange (MCX): It is located in Mumbai and was established in the year 2003. It is India's largest commodity derivative exchange where the clearance and settlement of the exchange happens. MCX offers options trading in gold and futures trading in non-ferrous metals, energy, and a number of agricultural commodities. In 2016, MCX was seventh among global commodities in terms of having more future contract trades.

Metals: Aluminium, Brass, Copper, Zinc, Lead, Nickel.

Bullion: Gold, Silver

Agricultural Commodities: Rubber, Black Pepper, Mentha Oil, Crude Palm Oil, Palmolien, Cardamom, Cotton, Castor Seed.

Energy: Natural Gas, Crude Oil

b) **National commodity and Derivative Exchange (NCDEX)**: It is located in Mumbai and came in the year 2003. It is a leading agricultural commodity exchange in India. NCDEX is extremely trusted for the trading of agri-based foods like crude oil and oilseeds, cereals etc. It is managed by ICICI Bank , LIC, NABARD, NSE, Canara Bank, Punjab National bank

Fibres: Cotton, Guar Gum, Guar Seed

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Oil and Oilseeds: Crude Palm Oil, Cotton Seed Oil Cake, Castor Seed, Mustard Seed, Refined Soy oil, Soybean

Cereals and pulses: Wheat, Barley, Paddy, Chana, Maize Rabi, Maize

Spices: Jeera, Turmeric, Coriander, Pepper

c) National Multi-commodity Exchange (NMCE) and Indian Commodity Exchange (ICEX): It is located in Ahmedabad and was established in the year 2001. It is the First demutualised online multi commodities Exchange that has been established in the country. It promoting and managing institutions are CWC, NAFED, NIAM. As of July 2016, the NMCE listed futures contracts on a total of 13 different commodities, ranging from oils and oilseeds to rubber, sacking, raw jute, coffee, Isabgul seed, chana, pepper, and cardamom.

ICEX came in 2008, and its headquarter in Mumbai. It offers diamond contracts and plans to offer crude oil and Brent crude oil contracts but had suspended trading in 2014 as its volumes dipped to a level that made it unviable to continue the business. It got permission to relaunch its operations after it raised its networth again. The NMCE and ICEX agreed to merge in 2017. At the time of the merger, the NMCE's net worth was Rs 76 core, while ICEX's net worth was Rs 100 core. ICEX was given regulatory approval in 2017 to restart its operations. The merged entity has prominent shareholders from both exchanges, including Indiabulls Housing Finance, MMTC, Indian Potash, Punjab National Bank, Krishak Bharti Cooperative (Kribhco), IDFC Bank, Reliance Capital, Bajaj Holdings, CWC, and Gujarat Agro Industries.

d) ACE Derivatives & Commodity Exchange: It is formally known as Ahmedabad Commodity Exchange**.** It came in the year 2010. It **is** primarily organising trading futures in certain commodities like **a** gold hedge, gold, silver, crude oil, and base metals. However**,** the commodity exchanges were suspended with effect from 2015.

e) Universal Commodity Exchange (UCX): It came in the year 2012 and is located at Mumbai. It was promoted by IT Professional Ketan Sheth from Commex technology Ltd (40%) and institutions such as IDBI Bank (10%), IFFCO (15%), National Bank for Agriculture and Rural Development (16%), Rural Electrification Corporation (16%) are shareholders. The board of UCX had suspended trading operations with effect from 2014 in view of the drastic decline in trading volume. As per the SEBI regulation, if there is no

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trading operation on the platform of any commodity derivatives exchanges for more than twelve months, then such exchange is liable to exit.

Stock Exchange

Commodity exchanges provide facilities for the purchase and sale of agricultural goods, minerals as well as manufactured goods. Stock exchange, is, on the other hand, to assist the purchase and sale of securities. India has two major stock exchanges the National Stock Exchange and the Bombay Stock Exchange. NSE was established in 1992 and BSE in the year 1875. With the help of the government, the NSE and BSE successfully offer services such as online trading, clearing as well as settlement in debt and equities comprising domestic and international investors. In 2018 both NSE and BSE launched trading in commodities.

Regulatory Body for Commodity Exchanges

Forward Market Commission (FMC) had been regulating commodities markets since 1953, but the lack of powers has led to wild fluctuations, and alleged irregularities like the NSEL scam has rocked this market in the recent past, and the subsequent regulatory and government interventions in this case eventually led to the government announcing FMC's merger with SEBI. It was proposed by Finance Minister Arun Jaitley in his Budget for 2015-16. This is the first major case of two regulators being merged. The merger will enable commodity exchanges to expand in segments permitted under a stock exchange and vice-versa. Stock exchanges will be able to become universal exchanges wherein equities, debt instruments, and currencies are traded under the same roof as commodity derivatives. Stock exchanges have depositories and clearing corporations which will also cater to the needs of commodity traders.

Conclusion

A commodity exchange provides a convenient place where the member can transact business in a commodity according to certain well-established rules and regulations and ensuring fair play of business transactions, and facilitates real price discovery. By providing hedging facilities, the commodity exchange reduces the effect of fluctuations of price and produces an opportunity to transfer their risk to the professional risk bearer. It also provides facilities and opportunities for arbitrary and thus equalize the price levels of commodities at various centres.

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