

Contents

Sl No.	Contents	Page No.
1	Introduction ▪ Indian financial system ▪ Reserve bank of India ▪ Securities and exchange board of India ▪ Commodity futures	1 5 7 17
2	Research design	27
3	Company profile ▪ Exchange profile ▪ Trading participants ▪ Intermediary participants ▪ Risk associated with commodity futures ▪ Risk management techniques ▪ Commodity futures modus operandi ▪ Perception of investors towards commodity futures	32 36 40 41 43 44 48 63
4	Summary of ▪ Findings ▪ Conclusion ▪ recommendations	90 91 93
5	Bibliography	94
6	Annexure	

List of Tables & Charts

Sl No.	Chart Name	Page No.
1	Chart showing the Indian financial system	3
2	Table of financials of Altos Advisory Services Pvt Ltd	33
3	Trade table of Altos Advisory Services Pvt Ltd	39
4	Chart showing different types of risks in commodity futures	43
5	Chart depicting the “modus operandi” of commodity futures	47
6	Chart showing the different types of orders	52
7	Chart showing the agricultural fundamentals	57
8	Chart showing industrial metals fundamentals	59
9	Table showing the volume of coffee contracts traded	61
10	Table showing the volume of soybean contracts traded	62
11	Table showing the volume of wheat contracts traded	63
12	Table showing the sex profile of the respondents	64
13	Table showing the age profile of the respondents	65
14	Table showing the education profile of the respondents	66
15	Table showing the occupation profile of the respondents	67
16	Table showing the income profile of the respondents	68
17	Table showing the percentage of respondents who have invested in commodity futures	69
18	Table showing the percentage of respondents who have invested in other securities	70
19	Table showing the various investments made by the respondents	71
20	Table showing the experience of the respondents in their previous investment	72
21	Table showing the investors frequency of trading in commodity future	73
22	Table showing the objective of the investor to invest in commodity futures	74
23	Table showing the amount of investment made in commodity futures by the clients	75
24	Table showing the type of positions the investors prefer	76
25	Table showing the mostly traded commodities by the investor	77
26	Table showing the percentage of investors who use fundamental/technical analysis while giving an order	79
27	Table showing the investors perception of the most volatile commodity	80
28	Table showing the mostly used risk management technique	81
29	Table showing the percentage of savings the investors have made in commodity futures	82
30	Table showing the means through which the investors got to know about commodity futures	83

31	Table showing the investors perception towards the facility fee charged by their company	84
32	Table showing the opinion of the investors of whether there is future in commodity futures trading in the present economy	85
33	Table showing the extent returns derived by the investors from commodity futures	86
34	Table showing the investors opinion of wheather risk can be reduced by commodity futures	87
35	Table showing wheather the investors have invested in any other derivative instrument	88
36	Table showing opinion of the investors of wheather commodity futures is a good investment opportunity	89

List of Graphs

Sl No.	Chart Name	Page No.
1	Bar chart showing the price movement of silver	55
2	Moving averages	55
3	Bar chart showing the sex profile of the respondents	64
4	Pie chart showing the age profile of the respondents	65
5	Pie chart showing the education profile of the respondents	66
6	Pie chart showing the occupation profile of the respondents	67
7	Pie chart showing the income profile of the respondents	68
8	Bar chart showing the percentage of respondents who have invested in other securities	69
9	Bar chart showing the percentage of people who have invested in other securities	70
10	Pie chart showing the various investments made by respondents	71
11	Bar chart showing the experience of the respondents in previous investment	72
12	Bar chart showing the investors frequency of trading in commodity futures	73
13	Bar chart showing the objective of the investors to invest in commodity futures	74
14	Pie chart showing the amount invested in commodity futures	75
15	Bar chart showing the type of positions the investors prefer	76
16	Pie chart showing the mostly traded commodities by the investors	77
17	Bar chart showing the percentage of investors who use fundamental/technical analysis while giving order	79
18	Pie chart showing the investors perception of the most volatile commodity	80
19	Bar chart showing the mostly used risk management technique	81
20	Pie chart showing the percentage of savings the investors have made in commodity futures	82
21	Bar chart showing the means through which the investors got to know about commodity futures	83
22	Bar chart showing the investors perception towards the facility fee charged by their company	84
23	Bar chart showing the opinion of the investor of whether there is future in commodity futures trading in the present economy	85
24	Bar chart showing the extent of returns derived by the investors from commodity futures	86
25	Bar chart showing the investors opinion of whether risk can be reduced by commodity futures	87

26	Bar chart showing wheather the investors have invested in any other derivative instrument	88
27	Bar chart showing opinion of the investors of wheather commodity futures is a good investment opportunity	89

INTRODUCTION

THE INDIAN FINANCIAL SYSTEM

The Indian financial system consists of many institutions, instruments and markets. Financial instruments range from the common coins, currency notes and cheques, to the more exotic futures swaps of high finance.

The Indian financial system is broadly classified into 2 broad Groups:-

1. Organised Sector
2. Unorganised Sector

1. ORGANISED SECTOR

The organized sector consists of: -

i. Financial institutions

a) Regulatory

The regulatory institutions are the ones, which forms the regulations, and control the Indian financial system. The Reserve Bank of India is the regulatory body, which regulates, guides controls and promotes the IFS.

b) Financial intermediaries

They are the intermediaries who intermediate between the saver and investors. They lend money as well mobilizes savings; their liabilities are towards ultimate savers, while their assets are from the investors or borrowers.

They can be further classified into

- **Banking: -**

All banking institutions are intermediaries.

- **Non-Banking: -**

Some Non-Banking institutions also act as intermediaries, and when they do so they are known as Non-Banking Financial Intermediaries. UTI, LIC, GIC & NABARD are some of the NBFC's in India.

c) Non intermediaries:-

Non-intermediaries institutions do the loan business but their resources are not directly obtained from the saver.

ii. Financial Markets

Financial Markets are the centers or arrangements that provide facilities for buying & selling of financial claims and services. Financial markets can be classified into: -

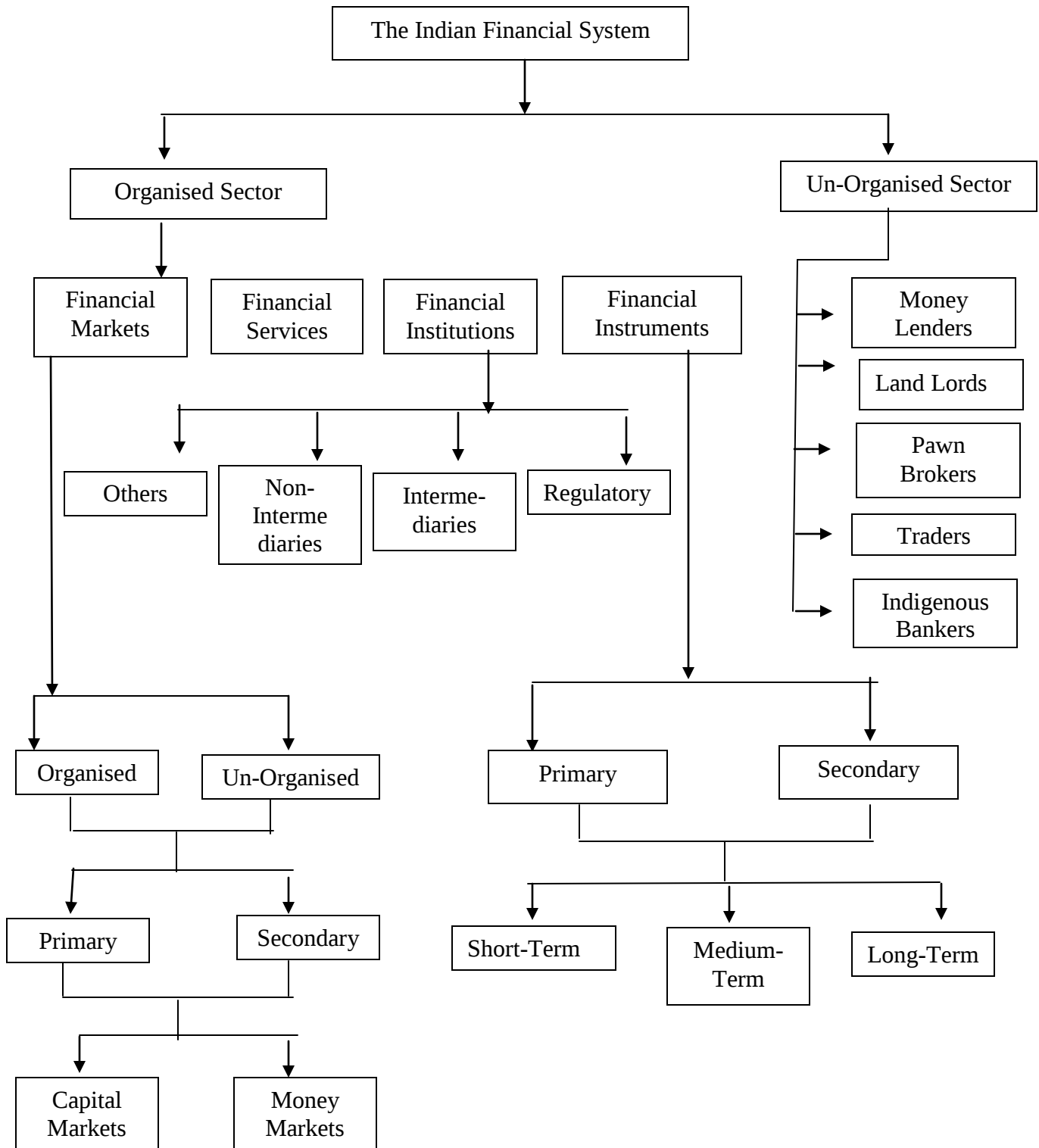
- **Organized markets**

These markets comprise of corporations, financial institutions, individuals and governments who trade in these markets either directly or indirectly through brokers on organized exchanges or offices.

- **Unorganized markets**

The financial transactions, which take place outside the well-established exchanges or without systematic and orderly structure or arrangements constitutes the unorganized markets. They generally refer to the markets in the villages.

Chart showing the Indian Financial System



iii. Financial instruments

Financial instruments constitute of securities, assets and claims. Financial securities are classified as primary and secondary securities.

The primary securities are issued by the companies directly to the ultimate savers as ordinary shares and debentures.

While the secondary securities are issued by the financial intermediaries to the ultimate savers as bank deposits, insurance policies so and on.

iv. Financial services

The term financial service in a broad sense means “Mobilizing and allocating savings”. Thus, it can also be offered as a process by which funds are mobilized from a large number of savers and make them available to all those who are in need of it, particularly to the corporate customers.

2. THE UNORGANIZED SECTOR

The unorganized financial system comprises of relatively less controlled money lenders, indigenous bankers, lending pawn brokers, land lords, traders etc. This part of the financial system is not directly controlled by RBI.

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Legislations passed by the RBI Relating to Foreign Investments

The Reserve Bank of India through its circular **RBI/2004/39 A.P.Dir series circular no 64/February 4 2004** has introduced a special scheme **The Liberalized Remittance** scheme of USD 25,000 (per year) for Resident individuals.

The implications of this legislation are

Resident Indians can now freely invest in any overseas transaction; this opens the entire gamut of the Indian Investment scenario to overseas instruments like forex markets, forex derivatives, index futures, commodity future and options and all other alternative investments. The legislation would eventually lead to complete liberalization in the areas of overseas investments.

**GUIDELINES BY THE RBI PERTAINING TO COMMODITY
FUTURE TRADING**

The guidelines are: -

These guidelines cover the Indian entities that are exposed to commodity price risk.

❑ Name and address of the organization

I. A brief description of the hedging strategy proposed:

- Description of business activity and nature of risk.
- Instruments proposed to be used for hedging.
- Exchanges and brokers through whom the risk is proposed to be hedged and credit lines proposed to be available. The name and address of the regulatory authority in the country concerned may also be given.
- Size/average tenure of exposure/total turnover in a year expected.

II. Copy of the risk management policy approved by the Board of Directors covering:

- Risk identification
- Risk measurements
- Guidelines and procedures to be followed with respect to revaluation/monitoring of positions.
- Names and designations of the officials authorized to undertake transactions and limits.

III. Any other relevant information

- ❑ The authorized dealers will forward the application to Reserve Bank along with copy of the Memorandum on the risk management policy placed before the Board of Directors with specific reference to hedging of commodity price exposure. .
- ❑ i. All standard exchanges traded futures will be permitted.
- ii. Tenure of exposure shall be limited to 6 months. Tenure beyond 6 months would require Reserve Bank's specific approval.
- iii. Corporate who wish to hedge commodity price exposure shall have to ensure that there are no restrictions on import/export of the commodity hedged under the Exim policy in force.
- ❑ After grant of approval by Reserve Bank, the corporate concerned should negotiate with off-shore exchange broker subject, inter alia, to the following:-
 - Brokers must be clearing members of the exchanges, with good financial track record.
 - Trading will only be in standard exchange- traded futures contract/options .

SECURITIES AND EXCHANGE BOARD OF INDIA

SEBI was setup in April 12, 1988. To start with, SEBI was set up as a non-statutory body.

It took 4 years for the government to bring about a separate legislation in the name of securities and exchange board of India Act, 1992, conferring statutory powers over practically all aspects of capital market operations.

Objectives of SEBI

- ✓ To protect the interest of investors so that there is a steady flow of savings into the capital market.
- ✓ To regulate the securities market and ensure fair practices by the issuers of securities, so that they can raise resources at minimum cost.
- ✓ To provide efficient services by brokers, merchant bankers and the other intermediaries, so that they become competitive and professional.

Functions of SEBI

Sec 11 of the SEBI act specifies the functions as follows:-

- ✓ Regulation of the stock exchange and self-regulatory organizations.
- ✓ Registration and regulation of stock brokers, sub-brokers, registrar to all issue, merchant bankers, underwriters, portfolio managers and such other intermediaries who are associated with securities market.
- ✓ Regulation and registration of the working of collective investment schemes including Mutual funds.
- ✓ Prohibition of fraudulent and unfair trade practices relating to security market.
- ✓ Prohibit insider trading in securities.
- ✓ Regulation substantial acquisitions of shares and take over of companies.

SEBI guidelines for COMMODITY FUTURES TRADING

There are many regulatory authorities, which are monitoring commodity futures trading, one of them is SEBI. The following Report is one of the regulatory frameworks for the commodity futures trading.

Report of the committee appointed by the SEBI on participation by Securities Brokers in Commodity Futures Markets under the chairmanship of Shri K.R. Ramamurthy (February 5, 2003)

The following were the recommendations:-

I) Participation of Securities Brokers in Commodity Futures Market

- ❖ The committee was of the unanimous view that participation of intermediaries like securities brokers in the commodity futures market is welcome as it could inter-alia increase the number of quality players, infuse healthy competition, boost trading volumes in commodities and in turn provide impetus to the overall growth of the commodity market.
- ❖ Since the commodity market falls under the regulatory purview of a separate regulatory authority viz., Forward Market Commission, to ensure effective regulatory oversight by the Forward Market Commission, and to avoid any possible regulatory overlap, the pre-condition for such entry by intending participating securities brokers in the commodity futures market would be through a separate legal entity, either subsidiary or otherwise. Such entity should conform from time to time to the regulatory prescription of Forward Market Commission, with reference to capital adequacy, net worth, membership fee, margins, etc.
- ❖ The committee took note of the fact that the existing provisions of the Securities Contracts (Regulation) Rules, 1957 forbid a person to be elected as a member of a

recognized stock exchange if he is engaged as principal or employee in any business other than that of securities, except as a broker or agent not involving any personal financial liability. The Committee recommended that the above provisions in the Securities Contract (Regulations) Rules be removed/amended suitably to facilitate securities brokers participation/engagement in commodity futures.

- ❖ An important felt need was the necessity to improve market awareness of trading and contracts in commodities. The committee therefore recommended the forward market commission take appropriate initiatives in training the market participants.

II) Risk containment measures

In the background of the Forward Market Commission's report on risk containment measures currently obtaining in commodity markets and the committee's recommendation to permit security brokers' participation in commodities markets only through a separate legal entity, the committee considers that ensuring strict compliance of the regulatory prescriptions like net worth, capital adequacy, margins, exposure norms, etc., by the respective market regulators, and due oversight would be an adequate safeguard to ensure that the risks are not transmitted from one market to the other.

III) Utilization of existing infrastructure of stock exchanges

On the issue of convergence/integration of the securities market and commodities market, that is, of allowing stock exchanges to trade in commodity derivatives and vice versa, the committee was of the view that in the current statutory and regulatory framework and existence of two separate and established regulators, the issue of integration of the two markets would require detailed examination, particularly for the purpose of defining clearly the scope of regulatory purview and responsibility. Also, given the concerns raised by a section of members that such integration may lead to further fragmentation of volumes and liquidity in the nascent commodity markets, the

committee was of the view that the issue of markets could be taken up for consideration at a future date as the two markets mature further.

SEBI SIGNS MOU WITH COMMODITY FUTURES TRADING COMMISSION, UNITED STATES

Securities and exchange Board of India (SEBI) signed a memorandum of understanding (MOU) with United States Commodity Futures Trading Commission (CFTC) in Washington on April 28, 2004. The MOU was signed by Mr. G. N. Bajpal, Chairman, SEBI and Mr. James E. Newsome, Chairman, CFTC. The MOU aims to strengthen communication channels and establish a framework for assistance and mutual co-operation between the two organizations.

The MOU marks the beginning of greater collaboration between SEBI and CFTC to effectively regulate and develop futures markets, in view of greater cross-border trade and cross-market linkages brought about by the globalization of financial markets. The two authorities intend to consult periodically about matters of mutual interest in order to promote cooperation and market integrity, and to further the protection of futures and options market participants. In furtherance of the objective of promoting the development of sound futures and options regulatory mechanisms, the CFTC would also provide technical assistance for development of futures markets in India.

Regulatory framework in India

In India, the statutory, basis for regulating commodity futures' trading is found in the Forward Contracts (Regulation) Act, 1952, which (apart from being an enabling enactment, laying down certain fundamental ground rules) created the permanent regulatory body known as the Forwards Markets Commission. This commission holds overall charge of the regulation of all forward contracts and carries out its functions through recognized association.

INDUSTRY PROFILE

DERIVATIVE

A derivative is a security or contract designed in such a way that its price is derived from the price of an underlying asset.

For instance, the price of a gold futures contract for October maturity is derived from the price of gold. Changes in the price of the underlying asset affect the price of the derivative security in a predictable way.

Evolution of derivatives

In the 17th century, in Japan, the rice was been grown abundantly; later the trade in rice grew and evolved to the stage where receipts for future delivery were traded with a high degree of standardization. This led to forward trading.

In 1730, the market received official recognition from the “Tokugawa Shogunate” (the ruling clan of shoguns or feudal lords). The Dojima rice market can thus be regarded as the first futures market, in the sense of an organized exchange with standardized trading terms.

The first futures markets in the Western hemisphere were developed in the United States in Chicago. These markets had started as spot markets and gradually evolved into futures trading. This evolution occurred in stages. The first stage was the starting of agreements to buy grain in the future at a pre-determined price with the intension of actual delivery. Gradually these contracts became transferable and over a period of time, particularly delivery of the physical produce. Traders found that the agreements were easier to buy and sell if they were standardized in terms of quality of grain, market lot and place of delivery. This is how modern futures contracts first came into being. The Chicago Board of Trade (CBOT) which opened in 1848 is, to this day the largest futures market in the world.

Kinds of financial derivatives

- 1) Forwards
- 2) Futures
- 3) Options
- 4) Swaps

Forwards

A forward contract refers to an agreement between two parties, to exchange an agreed quantity of an asset for cash at a certain date in future at a predetermined price specified in that agreement. The promised asset may be currency, commodity, instrument etc,

In a forward contract, a user (holder) who promises to buy the specified asset at an agreed price at a future date is said to be in the 'long position'. On the other hand, the user who promises to sell at an agreed price at a future date is said to be in 'short position'.

2) Futures

A futures contract represents a contractual agreement to purchase or sell a specified asset in the future for a specified price that is determined today. The underlying asset could be foreign currency, a stock index, a treasury bill or any commodity. The specified price is known as the future price. Each contract also specifies the delivery month, which may be nearby or more deferred in time.

The undertaker in a future market can have two positions in the contract: -

- a) Long position is when the buyer of a futures contract agrees to purchase the underlying asset.
- b) Short position is when the seller agrees to sell the asset.

Futures contract represents an institutionalized, standardized form of forward

contracts. They are traded on an organized exchange, which is a physical place of trading floor where listed contract are traded face to face.

A futures trade will result in a futures contract between 2 sides- someone going long at a negotiated price and someone going short at that same price. Thus, if there were no transaction costs, futures trading would represent a 'Zero sum game' what one side wins, which exactly match what the other side loses.

Types of futures contracts

a) Agricultural futures contracts:

These contracts are traded in grains, oil, livestock, forest products, textiles and foodstuff. Several different contracts and months for delivery are available for different grades or types of commodities in question. The contract months depend on the seasonality and trading activity.

b) Metallurgical futures contract:-

This category includes genuine metal and petroleum contracts. Among the metals, contracts are traded in gold, silver, platinum and copper. Of the petroleum products, only heating oil, crude oil and gasoline is traded.

c) Interest rate futures contract

These contracts are traded on treasury bills, notes, bonds, and banks certification of deposit, as well as Eurodollar.

d) Foreign exchange futures contract

These contracts are trade in the British Pound, the Canadian Dollar, the Japanese Yen, the Swiss Franc and the Deutsche Mark. Contracts are also listed on French Francs, Dutch Guilders and the Mexican Peso, but these have met with only limited success.

1) Options

An option contract is a contract where it confers the buyer, the right to either buy or to sell an underlying asset (stock, bond, currency, and commodity) etc. at a predetermined price, on or before a specified date in the future. The price so predetermined is called the 'Strike price' or 'Exercise price'.

Depending on the contract terms, an option may be exercisable on any date during a specified period or it may be exercisable only on the final or expiration date of the period covered by the option contract.

- **Option Premium**

In return for the guaranteeing the exercise of an option at its strike price, the option seller or writer charges a premium, which the buyer usually pays upfront. Under favorable circumstances the buyer may choose to exercise it. Alternatively, the buyer may be allowed to sell it. If the option expires without being exercised, the buyer receives no compensation for the premium paid.

- **Writer**

In an option contract, the seller is usually referred to as "writer", since he is said to write the contract.

If an option can be exercised on any date during its lifetime it is called an American Option. However, if it can be exercised only on its expiration date, it is called an European Option.

- **Option instruments**

- a) **Call Option**

A Call Option is one, which gives the option holder the right to "buy" an underlying asset at a pre-determined price.

- b) **Put Option**

A put option is one, which gives the option holder the right to "sell" an underlying asset at a pre-determined price on or before the specified date in the future.

c) Double Option

A Double Option is one, which gives the Option holder both the right to “buy” or “sell” underlying asset at a pre-determined price on or before a specified date in the future.

2) **SWAPS**

A SWAP transaction is one where two or more parties exchange (swap) one pre-determined payment for another.

There are three main types of swaps:-

a) Interest Rate swap

An Interest Rate swap is an agreement between 2 parties to exchange interest obligations or receipts in the same currency on an agreed amount of notional principal for an agreed period of time.

b) Currency swap

A currency swap is an agreement between two parties to exchange payments or receipts in one currency for payment or receipts of another.

c) Commodity swap

A commodity swap is an arrangement by which one party (a commodity user/buyer) agrees to pay a fixed price for a designated quantity of a commodity to the counter party (commodity producer/seller), who in turn pays the first party a price based on the prevailing market price (or an accepted index thereof) for the same quantity.

COMMODITY FUTURES

THE HISTORY OF TRADING

Although the first recorded instance of future trading occurred with rice in 17th century Japan, there is some evidence that there may also have been rice futures traded in China as long as 6000 years ago.

Futures trading are a natural outgrowth of the problems of maintaining a year-round supply of seasonal products like agricultural crops. In Japan, merchant stored rice in warehouses for future use. In order to raise cash, warehouse holders sold receipts against the stored rice. These were known as “rice tickets”. Eventually, such rice tickets became accepted as a kind of general commercial currency. Rules came into being to standardize the trading in rice tickets.

In the United States, futures trading started in the grain markets in the middle of the 19th century. The Chicago Board of Trade was established in 1848. In the 1870’s and 1880’s the New York coffee, cotton and produce exchanges were born. Today there are ten commodity exchanges in the United States. The largest are the Chicago Board of Trade, the Chicago Mercantile Exchange, the New York Mercantile Exchange, New York Commodity Exchange and the New York Coffee, Sugar and Cocoa Exchange.

Worldwide there are major futures trading exchanges in over 20 countries including Canada, England, France, Singapore, Japan, Australia and New Zealand. The products traded range from agricultural staples like Corn and Wheat to Red Beans and Rubber.

What is a commodity?

Commodity includes all kinds of goods. FCRA defines “goods” as “every kind of moveable property other than actionable claims, money and securities”. Futures trading are organized in such goods or commodities as are permitted by the central government. The national commodity exchanges have been recognized by the central government for

organizing trading in all permissible commodities which include precious (gold & silver) and non-ferrous metals; cereals and pulses; oil seeds, raw jute and jute goods; sugar; potatoes and onions; coffee and tea; rubber and spices, etc.

Growth of commodity futures in India

Investment in India has traditionally meant property, gold and bank deposits. The more risks taking investors choose equity trading. But commodity trading never forms a part of conventional investment instruments. As a matter of fact, future trading in commodities was banned in India in mid 1960's due to excessive speculation.

In February 2003, the government revoked the ban and threw open futures trading in 54 commodities in bullion and agriculture. It gave the go-ahead to four exchanges to offer online trading in commodity derivative products.

But it is only after almost two years, that commodity trading is finding favour with Indian investors and is been seen as a separate asset class with good growth opportunities. For diversification of portfolio beyond shares, fixed deposits and mutual funds, commodity trading offers a good option for long term investors and arbitrageurs and speculators, and, now, with daily global volumes in commodity trading touching three times that of equities, trading in commodities cannot be ignored by Indian investors.

The strong upward movement in commodities, such as gold, silver, copper, cotton and oilseeds, presents the right opportunity to trade in commodities. Crude oil is at its highest level since the beginning of the Iraq war in March 2003. Silver and soybean prices are touching new highs since 1988, while gold is at its eight year high. Corn, wheat and copper, too, are witnessing multiyear highs.

India has three national level multi commodity exchanges with electronic trading and settlement systems. The National Commodity and Derivative Exchange (NCDEX). The Multi Commodity Exchange of India (MCX) and the National Multi Commodity Exchange of India (NMCE) the National Board of Trading in Derivatives (NBOT), offers trading on a national level, but is not completely online.

Currently, the annual value of all commodity futures traded in India is \$135 billion, far less than the potential \$ 600 billion. What is significant, however, is the speed at which the gap is being narrowed. Volumes in commodity futures have perked up from Rs 20,000 crore to 30,000 crore per annum before the liberalization of futures trading to around Rs 5.71 lakh crore per annum by the end of 2004.

Commodities' trading is now one of the hottest games in town. Volumes grew by 900 percent between financial years 2002-2003 and 2004-2005. The growth of the commodities business has been beyond what was originally projected.

With national level exchanges like Multi Commodity Exchange of India (MCX) and the National Commodities Derivatives Exchange (NCDEX) yet to complete two years of full-fledged commercial operations, the growth in commodities futures trading is almost as spectacular as India's success in business process outsourcing.

A large portion of daily trading volumes in commodity futures is concentrated in a handful of commodities like precious metals (primarily gold and silver), Soya and its derivatives.

Value of commodity futures traded across all exchanges

Fiscal year	Rs. In Crore
2002-03	66,530.74
2003-04	1,29,363.68
2004-05	5,71,759.56

With 45 percent of India's GDP (or Rs. 11 lakh crore) coming from commodities, exchanges hope that eventually everyone involved in commodities trade across the value chain-from the farmer to the processor-will be hedging their positions using futures.

With the stock markets moving in a narrow trading range and even private bankers looking to diversify client portfolios by incorporating commodities expect a lot more action ahead.

Commodity Futures Trading

The commodity futures trading, consists of a futures contract, which is a legally binding agreement providing for the delivery of the underlying asset or financial entities at specific date in the future.

Like all future contracts, commodity futures are agreements to buy or sell something at a later date and at a price that has been fixed earlier by the buyer and seller.

So, for example, a cotton farmer may agree to sell his output to a textiles company many months before the crop is ready for actual harvesting.

This allows him to lock into a fixed price and protect his earnings from a steep drop in cotton prices in the future. The textiles company, on the other hand, has protected itself against a possible sharp rise in cotton prices.

The complicating factor is quality. Commodity futures contracts have to specify the quality of goods being traded. The commodity exchanges guarantee that the buyers and sellers will stick to the terms of the agreement.

When one buys or sells a futures contract, he is actually entering into a contractual obligation which can be met in one of 2 ways.

First, is by making or taking delivery of the commodity. This is the exception, not the rule however, as less than 2% of all the futures contracts are met by actual delivery. The other way to meet one's obligation, the method which everyone most likely will use, is by "offset".

Very simply, offset is making the opposite or offsetting sale or purchase of the same number of contracts sold, sometimes prior to the expiration of the date of the contract. This can be easily done because futures contracts are standardized.

Investor's choice

The futures market in commodities offers both cash and delivery- based settlement. Investors can choose between the two. If the buyer chooses to take delivery of the commodity, a transferable receipt from the warehouse where goods are stored is issued in favour of the buyer. On producing this receipt, the buyer can claim the commodity from the warehouse. All open contracts not intended for delivery are cash settled. While speculators and arbitrageurs generally prefer cash settlement, commodity stockist and wholesalers go for delivery. The options to square of the deal or to take delivery can be changed before the last date of contract expiry. In the case of delivery-based trades, the margin rises to 20-25% of the contract value and the seller is required to pay sales tax on the transaction.

What makes commodity trading attractive?

- A good low-risk portfolio diversifier
- A highly liquid asset class, acting as a counterweight to stocks, bonds and real estate
- Less volatile, compared with, say, equities
- Investors can leverage their investments and multiply potential earnings
- Upfront margin requirement low
- Better risk- adjusted returns
- A good hedge against any downturn in equities or bonds as there is little correlation with equity and bond markets

- High correlation with changes in inflation
- No securities transaction tax levied.

Why commodities preferred to stocks?

- Prices predictable to their cyclical and seasonal patterns
- Less risk
- Real forces of supply and demand
- Small margin requirement
- Lesser investment requirement
- No insider trading
- Entry and exit guaranteed at any point of time
- Cash settlement according to Mark to Market Position
- Relatively small commission charges
- Higher returns

The commodity market is a market where forwards, futures and options contracts are traded on commodities. Commodity markets have registered a remarkable growth in recent years. The stage is now set for banks to trade in commodity futures. This could help producers of agricultural products bankers and other participants of the commodity markets. Banks have started acknowledging the commodity derivatives market. In this context the Punjab National Bank and the Corporation Bank have sanctioned loans worth Rs 50 crore to commodity futures traders over the past six months. However, the loans are not given to pure speculators. A precondition for the loans is that the futures contract must result in the delivery of the commodity.

The Role of the exchange in futures Trading

1) Price discovery

As sellers offer to sell and buyers offer to buy in the pit, they provide immediate information regarding the price of the futures contract. The price is usually given as “Bid-Ask”. E.g.: - Price for corn might be \$2.40 bid, \$2.42 ask, meaning a buyer is willing to pay \$2.40 a bushel, but the seller wants \$2.42 a bushel.

2) Risk Transfer

In a futures transaction, risk is inherent part of doing business. The exchange provides a setting where risk can be transferred from the hedgers to the speculators.

3) Liquidity

If risk is to be transferred efficiently, there must be a large group of individuals ready to buy or sell. When a hedger wants to sell futures contracts to protect his business position, he needs to know whether he can effect the transaction quickly. The futures exchange brings together a large number of speculators, thus making quick transaction possible.

4) Standardization

The exchange writes the specifications for each contract, setting standards of grading, measurement methods of transfer, and times of delivery. By standardizing the contracts in this manner, the exchange opens the futures market to almost anyone willing to hedge risk. In the pits, then, the auction process is facilitated because only the price must be negotiated.

Functions of futures markets

The futures market serves the needs of individuals and groups who may be active traders or passive traders, risk averse or profit makers. The above broadly classifies the functions of the futures markets: -

1) Price Discovery

2) Speculation

3) Hedging

1) Price discovery

“Futures prices might be treated as a consensus forecast by the market regarding trading future price for certain commodities”. This classifies that futures market help market watchers to “discover” prices for the future.

The price of certain commodity depends on the following factors:-

a) The need for information about future spot prices

Individuals and groups in society need information not only for generating wealth but also for planning of future investment and consumption.

E.g.- A furniture manufacturer, making plywood furniture for printing his catalogue for next years needs to estimate price in advance. This task is different as the cost of plywood varies greatly, depending largely on the health of the construction industry. But the problem can be solved by using prices from the plywood futures market.

b) Accuracy

The accuracy of the futures market is not too good but it is certainly better than the alternative.

2) Speculation

Speculation is a spill over of futures trading that can provide comparatively less risk adverse investors with the ability to enhance their percentage returns.

Speculators are categorized by the length of time they plan to hold a position. The traditional classification includes: -

- **Scalpers**

They have the shortest holding horizons, typically closing a position within a few

minutes of initiation. They attempt to profit on short-term pressures to buy and sell by “reading” other traders and transacting in the futures pits. Thus, scalpers have to be exchange members. They offer a valuable market service because their frequent trading enhances market liquidity.

- ***Day Traders:-***

They hold a futures position for a few hours, but never longer than one trading session. Thus, they open and close to futures position within the same trading day.

3) Hedging

While engaging in a futures contract in order to reduce risk in the spot position, hedging is undertaken.

Therefore the future trader is said to establish a hedge. The 3 basic types of hedge are:

a) long hedge/ Anticipatory hedge

An investor protects against adverse price movements of an asset that will be purchased in future, i.e. the spot asset is not currently owned, but is scheduled to be purchased or otherwise held at a later date.

b) Short hedge

An investor already owns a spot asset and engages in a trade or sell it's associated futures contract.

c) Cross hedge

In actual hedging positions, the hedgers needs do not perfectly match with the Institutional futures. They may differ in

-Time span covered

- The amount of commodity
- The particular characteristics of the particular goods

Thus, when a trader writes a futures contract on another underlying asset, he is said to establish a cross hedge.

The regulators and regulations

The first level of regulation is the exchange. The exchange does not take positions in the market. Instead, it has the responsibility to ensure that the market is fair and orderly. It does this by setting and enforcing rules regarding margin deposits, trading procedures, delivery procedures and membership qualifications.

Each exchange consists of a clearinghouse. The clearinghouse ensures all trades are matched and recorded and all margins are collected and maintained. It also is in charge of ensuring deliveries take place in an orderly and fair manner.

RESEARCH DESIGN

INTRODUCTION

In the present global economic scenario, due to various factors such as inflation, political factors, natural factors, the variations in prices of all commodities are a natural phenomenon. So, from the point of the cultivators of the commodity (in case of agricultural products) or dealers in the metals, there is a genuine need for them, an instrument with which they can hedge their risks. Thus, a commodity future is one of the most important derivative securities. With this they will be able to reduce risks.

Consequently, the speculators who play an important part, in determining the price also come in the picture. Thus with the help of their speculative expertise, it can also be a very lucrative investment opportunity. Through this, project, an attempt is made to prove that commodity futures can be used effectively as a risk reduction instrument and also as a very good investment opportunity.

Statement of the problem

Commodity Future is a very important instrument in hedging risks, which arises in the spot market. Speculators and hedgers use Commodity Futures to reduce the risks.

The spot prices so determined, may not be profitable to the person who is dealing with that particular commodity. With the help of Futures he can reduce this risk, by entering into a contract to sell a particular commodity at a future date, at a pre-determined price. But, by doing so he still is not free from risk. The contract so entered into may lose its value due to external factors. So, there is a very important and genuine need to effective management of the contract through various risk management techniques.

By using the various tools, a sound investment can be made and benefit from the price movement. But the problem lies in the fact that there are various other investment opportunities for an investor. And also another factor that little price movements can result in huge losses. So, why should anyone trade in commodity future.

SCOPE OF THE STUDY

The scope of the study extends till the purview of the 4 exchanges concerned.

- ❖ Chicago mercantile exchange
- ❖ Chicago board of trade
- ❖ The New York Mercantile Exchange
- ❖ New York Board of Trade

But the data collected regarding the investor perception is limited to investors within Bangalore.

OBJECTIVES OF THE STUDY

The objective of this study is mainly to prove that commodity futures can be used as a risk reduction instrument and also as an investment opportunity. In order to do so, the following are the sub-objectives.

1. To study the various analysis tools used to make price movement predictions
2. To study the growth of commodity futures trading
3. To study the perception of investors of commodity futures (questionnaire)

OPERATIONAL DEFINITIONS

Short selling

Selling first is known better as 'shorting' or 'short selling'. In futures trading, since one is taking a future delivery, its just as easy to sell first and then buy later. To offset the obligation to deliver, all one needs to do is to buy back the Contract prior to the expiration of the Contract.

Margin

A margin refers to a good faith deposit made by the person who wants to buy or sell a Contract in a futures exchange. It is a small percentage of the value of the underlying commodity represented by the Contract, generally in the neighborhood of 2 to 10%.

Leverage

Leverage is the ability to buy or sell \$100,000 of a commodity with a \$5000 security deposit, so that small price changes can result in huge profits or losses.

Maintenance margin

Maintenance margin is the amount which must be maintained in ones account as long as the position is active.

Margin call

If the equity balance in the account falls bellow the maintenance margin level, due to adverse market movement, the account holder will be issued a margin call.

Lot

A lot refers to the number of Contract that one wishes to buy or sell.

Tick

A tick refers to the minimum price fluctuation, is a function of how the prices are quoted and set by the exchange.

Float

Float refers to the concept, when an investor who has taken a position, but does not want to liquidate his position at close of the market.

Limit up/down

It refers to the maximum amount that the market can move above or below the previous day's close in a single trading session. If the price moves up it is known as 'limit up', when the price moves down it is known as 'limit down'

METHODOLOGY OF RESEARCH

In this study primary analytical research method is used, which includes questionnaire, tabulation and analysis. This is one of the most important methods.

SAMPLE DESIGN

In this study convenient random sampling method is used to select the respondents. The sample size is 25 respondents.

SOURCES OF DATA

The various sources of data are

1. Primary Sources, which includes questionnaire, and a survey.

TOOLS FOR DATA COLLECTION

The questionnaire is the tool used for data collection.

ANALYSIS AND INTERPRETATION

The various tools for analysis used are graphs, charts, percentage growth, secondary data.

LIMITATIONS OF THE STUDY

The following are the limitations of the study

- Due to non-availability of sufficient time and money, a detailed study could not be made.

COMPANY PROFILE

Executive summary of Altos Advisory Services Pvt. Ltd.

Altos Advisory Services Pvt ltd was incorporated on 29th April 1999. It is in the business of commodity broking and advisory services in international as well as domestic commodity markets. Altos have a profitable track record of over six years.

a) Spot commodity margin trading in selected commodities.

Commodities traded: coffee, copper, cotton, soybean, pork bellies, orange juice, platinum, palladium, oats, copper, silver and wheat.

These deals are done based on indicative prices of international exchanges such as CBOT, CME, NYBOT, COMEX and NYMEX etc.

Altos deliver the latest price and relevant information to its customers.

b) Trading and Clearing in the national Multi Commodity Exchange of which Altos is a trading cum clearing member.

Presence

- a. Southern region Chennai(Head Office)
- b. Eastern Region:kerala
- c. Northern Region: New Delhi
- d. Partial list of franchise:
 - Sun Global Linkers West Punjabi Bagh
 - Global Online Inc Indore
 - Global Online Inc-Bhopal
 - Global Online Incorporation Jabalpur.
 - Akshar Advisory services Pondichery
 - Pristine Advisory Service, Bangalore
 - Global Investments Bangalore

- Blue Diamond Advisory Kumbakkonam
- Sun advisory Chennai.

PROFILE OF PRISTINE ADVISORY SERVICES PVT. LTD.

Pristine advisory services (P) Ltd is a direct service associate of the principal company M/s Altos Advisory Services (P) Ltd. It is a franchisee of altos. It has started its operations since May 2004.

	31.03.2K2(IN R)	31.03.2k3(INR)	31.03.2k4(INR)	31.03.2k5(INR)
Capital Base	4,000,000.00	4,000,000.00	2,050,000.00	3,000,000.00
Income	3,969,580.00	11,666,294.00	51,90,358.00	13,406,988.50
Net Profit	1,05,738.00	12,09,525.98	2,41,380.85	5,48,007.00

Promoters

A.E.Premanand: CEO and MD brings with him almost a decade of experience in forex and commodity broking. Prior to Altos, Premanand was a forex and commodity broker with number of global currency/commodity broking firms like World Index pvt. Ltd. Stream line Group Malaysia etc. He founded Altos in April 1999 anticipating the boom in the organized commodity trading businesses.

S. Suresh kumar, Director has been with Altos since inception and oversees the day today operations and is also the head of the dealing desk.

MANAGEMENT TEAM

Altos have a team of dynamic professional managers in various departments, branches and franchise's to manage its activities effectively.

Total permanent Employees: 39

Total Business Associates: 143

Legality:

Altos is regulated by the Forward Market Commission in respect of futures trading in commodities, in respect of the spot trading it is currently unregulated. Altos is in touch with FMC for recognition on the same. Besides Altos is subjected to various laws of the land like the Companies Act, 1956, Stamps Act, 1899, Income Tax Act 1961 amended 62, forward commission regulation Act 1952, Securities and Contract Act and various other legislation of the respective state Governments as well as Central Acts which impinges on its working.

FUTURE PLANS

Altos is currently in the process of restructuring and has pioneering plans to set the country's first international exchange for spot commodities. Altos is in touch with various Government agencies, warehouses and storage units as well as technology partners for the same.

Altos intend to appoint advisory /merchant bankers/ investment bankers .

LAWS OF THE LAND

The following laws of the land are followed as per the constitution of India and the same followed by Altos Advisory Services.

1. Altos have clearly indicated its purpose of business in its articles of memorandum submitted to the registrars of companies.
2. Altos has a track record of 6 years with the income tax authority in which it has specifically stated the nature of business as 'COMMODITY TRADING' vide income tax Act 1961 amended 1962
3. The agreements that we enter into where we state the provisions of repayment of security margin as well as the MOU's we enter into is governed by the provision of Indian stamp act 1899 (2 of 1899) Ministry of finance.
4. The daily statement as well as certain provisions of the agreement are as per the Securities Contract Act 1956 (THE SCRA 1956)
5. In case of any dispute we enter into arbitration this is as per the section 2 of arbitrations protocol and convention act of 1937.

Forward market commission in respect of futures trading in commodities regulates Altos. Currently the spot market business of Altos is unregulated. Altos is in touch with FMC for recognition on the same.

Besides Altos is subjected to various laws of the land like the companies act, stamp act, contracts act, forward commission act and various other states and central legislations, which impinge on its working,

EXCHANGE PROFILE

The following are the various exchanges in which Altos Advisory Services Trades.

1) CHICAGO MERCANTILE EXCHANGE

Chicago Mercantile Exchange inc® (CME) is the largest futures exchange in the United States and is the largest futures clearing house in the world for the trading of the future and options on futures contracts. As a marketplace for global risk management, the exchange brings together buyers and sellers of derivatives products, which trade on the trading floors, on the GLOBEX®ELECTRONIC TRADING platform and through privately negotiated transactions.

It was founded as a non profit corporation in 1898, later CME became the first publicly traded U.S. financial exchange in December 2002 when the Class A shares of its parent company, Chicago Mercantile Exchange Holdings Inc., began trading on the New York Stock Exchange under the ticker symbol CME.

2) CHICAGO BOARD OF TRADE

The Chicago Board of Trade (CBOT), established in 1848, is one of the leading futures and options on futures exchange. More than 3,600 CBOT members trade 50 different futures and options products at the exchange through open auction and electronically.

In its early history, the CBOT traded only agricultural commodities such as corn, wheat, oats and soybeans. Futures contracts at the exchange evolved over the years to include non-storable agricultural commodities and non-agricultural products like gold and silver.

For more than 150 years, the primary method of trading at the CBOT was open auction, which involved traders meeting face-to -face in trading pits to buy and sell futures contracts. But to better meet the needs of a growing global economy, the CBOT successfully launched its first electronic trading system in 1994.

3) THE NEW YORK MERCANTILE EXCHANGE

The **NYMEX** is the world's largest physical commodity futures exchange and the pre-eminent trading forum for energy and precious metals.

Transactions executed in the exchange avoid the risk of counter party default because the exchange-clearing house acts as the counter party to every trade.

The commodities traded are

• Gold • Silver • Copper • Palladium	• Coal • Aluminum • Platinum
--	--

4) NEW YORK BOARD OF TRADE

The commodities that are traded are:-

• Cocoa • Coffee • Cotton • Sugar • U.S. Dollar Index	• Ethanol • NYSE Dollar Index • Reuters CRB • Russell Indexes • Currency Paris
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Pictures of some of the commodities Traded at Altos



Coffee



Corn



Lumber



Frozen pork belly



Platinum



Silver



Dry Soybean



Soybean



Wheat

TRADE TABLE:

Commodity	Exchange	Lot size	Price quoted	Margin Required	Time
Wheat	CBOT	7500 bushels	Cent/bu	80,000	20.00 23.45
Soybean	CBOT	7500 bushels	Cent/bu	80,000	20.00 23.45
Corn	CBOT	7500 bushels	Cent/bu	60,000	20.00 23.45
Oats	CBOT	7500 bushels	Cent/bu	50,000	20.00 23.45
Silver	NYMEX	7500 troz	Cent/troz	80,000	17.55 22.55
Palladium	NYMEX	150 troz	Dollar/troz	80,000	18.00 22.30
Copper	NYMEX	37,500 lbs	Cent/lb	80,000	17.40 22.30
Lumber	CME	1,65,000 bdft	Dollar/1000 bdft	80,000	19.30 23.35
Pork Bellies	CME	60,000 lbs	Cent/lb	60,000	19.40 23.30
Orange Juice	NYBOT	22,500 lbs	Cent/lb	60,000	19.30 23.00
Coffee	NYBOT	55,000 lbs	Cent/lb	1,00,000	18.45 22.00
Cotton	NYBOT	75,000 lbs	Cent/lb	80,000	20.00 23.45

Conversion

1 pound = 0.454 kg

1 troy oz = 31.10 grams

1 Bushel = 40 pounds

Lot Value = Lot Size * Market Price * (42/100)

Exchanges

CBOT = Chicago Board of Trade

CME = Chicago Mercantile Exchange

NYBOT = New York Board of Trade

NYMEX = New York Metal Exchange

TRADING PARTICIPANTS

- **Hedgers**

In a commodity market, hedging is done by a miller, processor, stockiest of goods, or the cultivator of the commodity. Sometimes exporters, who have agreed to sell at a particular price, need to be a hedger in a futures and options market. All these persons are exposed to unfavorable price movements and they would like to hedge their cash positions.

- **Speculators**

Speculator does not have any position on which they enter in futures options market. They only have a particular view about the future price of a particular commodity. They consider various fundamental factors like demand and supply, market positions, open interests, economic fundamentals internal events, rainfall, crop predictions, government policies etc. and also considering the technical analysis, they are either bullish about the future process or have a bearish outlook.

In the first scenario, they buy futures and wait for rise in price and sell or unwind their position the moment they earn expected profit. If their view changes after taking a long position after taking into consideration the latest developments, they unwind the transaction by selling futures and limiting the losses. Speculators are very essential in all markets. They provide market to the much desired volume and liquidity; these in turn reduce the cost of transactions. They provide hedgers an opportunity to manage their risk by assuming their risk.

- **Arbitrageur**

He is basically risk averse. He enters in to those contracts where he can earn risk less profits. When markets are imperfect, buying in one market and simultaneous selling in another market gives risk less profit. It may be possible between two physical markets, same for 2 different periods or 2 different contracts.

INTERMEDIARY PARTICIPANTS

Brokers

A broker is a member of any one of the futures exchange, one gets commodity or financial futures exchange, one gets the right to transact with other members of the same exchange. All persons hedging their transaction exposures or speculation on price movement cannot be members of a futures exchange. Non-member has to deal in futures exchange, through a member only. This provides the member the role of a “broker”.

All transactions are done in the name of the member who is responsible for final settlement and delivery. This activity of a member is price risk free because, he is not taking any position on his account, but his other risk is clients default risk. He cannot default in his obligation to the clearinghouse, even if client defaults. The trading floor consists of the pit and the quote boards. High above the trading floor, or each wall of the trading room, are the quote boards, where the tick-by-tick price appears for each contract of each commodity.

On the quote board, the most recent price appears at the bottom of a column process, with the next previous price above that and the 5 previous prices above that. As a trade is made the other prices move up, with the bottom, and the other prices move up, with the top price dropping off. The quote board also gives the previous days settlement price and the high-low of the days trading. And the net difference between the last price and the previous days settlement price.

The pit

A pit is the heart of the open outcry market system. It is the place where the various bid and sell offers are made by floor brokers, and floor traders on behalf of their clients.

Spreads

Spread is the term used when, a client buys one contract while simultaneously sell another. They are: -

1) Intra market spreads

These consist of buying one month in a particular commodity and simultaneously selling in a different month in the same commodity.

2) Inter market spreads

These consist of buying one commodity, and simultaneously selling a related commodity. E.g buying silver and selling gold.

The bid and the offer

The only part of a contract that is negotiated in the pit is the price. Everything else is standardized. Therefore, the trader in the bid needs to communicate only 3 things

1. Whether he wishes to buy or sell
2. The number of contracts he wishes to buy or sell
3. The price

How price reach the Quote Board

At the exchange, a pit observer, who is an employee of the exchange, stands in the pit with a walkie-talkie. Each time the price changes; the observer radios the info to the exchange operator, who enters the info to the exchange quote entry system.

The price immediately appears on the quote board and is simultaneously broadcasted on the exchange ticker to the public.

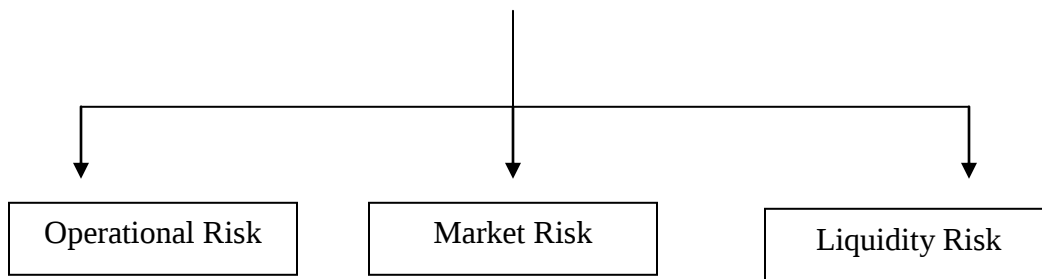
RISK ASSOCIATED WITH COMMODITY

FUTURES TRADING

There are various risks in commodity futures trading, they are:-

The different types of risks in Commodity Futures

Types of Risk



Operational risk

The risk that, errors (or fraud) may occur in carrying out operations, in placing orders, making payments or accounting for them.

Liquidity risk

Although commodity futures markets are liquid mostly, in few adverse situations, a person who has a position in the market, may not be able to liquidate his position.

For E.g.. a futures price has increased or decreased by the maximum allowable daily limit and there is no one presently willing to buy the futures contract you want to sell, or sell the futures contract you want to buy.

Market risk

It is the risk of adverse changes in the market price of a commodity future.

The various risk management techniques used in Commodity Futures Trading

Considering the risks discussed previously, various risk management techniques are used in order to minimize the losses. There are mainly 3 techniques, they are

1. Averaging
2. Switching

3. Locking

Averaging

Averaging is a technique used when there is an existing position, and the price moves adversely. And then at that particular price, enter into a similar new position. Then take the average of these 2 prices. And when the price moves to that price liquidate the position.

Example

1. Silver bought 1 lot @ 580 cents, expecting price to go up, with cut loss @ 577 cents

Price goes to 574 cents,

Buy another new lot @ 574 cents

Now, the average price is 577 cents.

When the price comes to 577 cents, then liquidate both the lots and thus

Profit = 3 cents

Loss = -3cents

Net profit 0

(+) Felicitation Fee Rs. 3000

- 2 .Sold soybean 1 lot @780 cents

Sold soybean 1 lot @790 cents

Sold soybean 1 lot @800 cents

Now, average price is 790 cents, when price comes to 790 cents, liquidate all 3 lots, thus making no profit no loss.

Switching

Switching is yet another risk management technique, when, there is an existing position, and the prices move adversely and gives all indication that it will go in the same direction

for still some while. Then we have to liquidate the first position and enter a new and opposite position at the same price.

Example:

Bought silver 1 lot @580 cents

Cut loss@ 578 cents

Price reaches @800 cents

Then sold 2 lots of silver @ 577 cents, one lot will be liquidating the first lot, and then the second one will be a new position.

Now when price goes to 570 cents, liquidate the second lot, and book the profits.

Profit = 7 cents

Loss = (-) 3 cents

Net profit (+) 4 cents

(-) Felicitation

Fee Rs 3000

Locking

Locking is yet another risk management technique, where, when there is an existing position, and the prices move adversely and give an indication that it will move in that direction, but it will come back to its original position. Here two processes are involved 'locking and 'unlocking'.

It is the process where there is an existing position, and the price moves adversely, we 'lock' by entering into a new opposite position. And then when the second price reaches a point where it will bounce back, we 'unlock' by liquidating the second position and book profits, and then finally when the price reaches somewhere near the first position, liquidate the position, whereby we can minimize the loss

E.g.: -Bought silver 1 lot @ 600 cents----(1)

Price falls to 590 cents

Sold silver 1 lot @ 590 cents----(2)

Price goes to 580 cents; where it is expected to bounce back, liquidate the second lot.

Bought silver 1 lot @ 580 cents, liquidation (2)

Price comes to 597 cents, then liquidate the (1) lot

Sold silver 1 lot @ 597 cents, liquidation (1)

Profit = 10 cents

Loss = (-) 3 cents

Net profit (+) 7 cents

(-) Felicitation

Fee Rs 3000

Analysis

- There are different types of risks involved in commodity futures trading.
- The most important one being, market risk.
- But to counter these price risks, various types of risk management techniques are used in order to minimize the risk.
- Among the risk management techniques, locking is the most commonly used one.

- Manipulation of price of the commodity is not possible as, these are global commodity prices, and in order to do so, he has to pump in huge volumes of money, which is very unlikely.

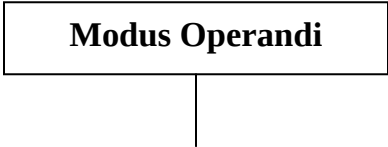
Interpretation

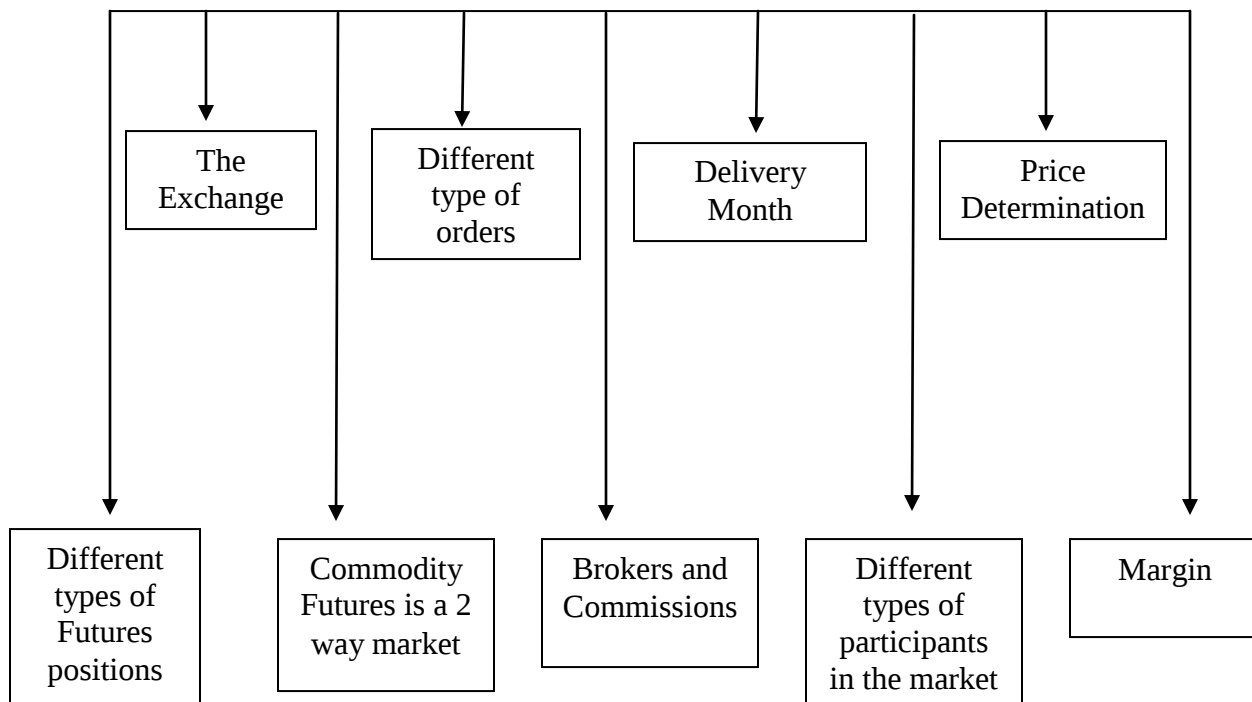
Although there exists various types of risks involved in trading the various risk management technique can be effectively used in order to minimize the loss due to adverse price movements.

THE COMMODITY FUTURES ‘MODUS OPERANDI’

The ‘modus operandi’ of commodity futures includes the method of working which is being followed. It also includes the factors and concepts, which affect the smooth functioning of the markets, are discussed.

Modus Operandi





Types of futures

The different types of futures contract position are: -

- **Open position**

The trader exploits a view on the economic or technical factors affecting a market by taking a position in a single contract, usually the most liquid or ‘front month’ contract.

- **Intra market spreads**

The trader exploits a view on the relative pricing of 2 futures contracts of the same contract type by buying one futures contract for a specific expiry date and simultaneously selling another contract with a different expiry date.

- **Inter market spreads**

The trader exploits a view on the relative pricing of 2 futures contracts of different contract types by buying a future contract in one market and simultaneously selling a futures contract, usually of the same maturity, in a different futures market.

Commodity futures is a 2 way market

Buying a contract at a lower price and selling at a higher price, and booking profits, this concept is well understood and widely accepted. In commodity futures trading, one can also sell first and buy later. This concept is known as '**short selling**'.

A buyer of a futures contract is obligated to take delivery of a particular commodity or sell back the contract prior to the expiration of the contract. The latter is done by everyone usually. The purpose of shorting is to profit from a fall in prices. If one believes that the price of commodity is going down, due to oversupply and poor demand, he should go short.

Margin

Margin is money deposited in the brokerage account, which serves to guarantee the performance of the clients side of the contract. This is generally in the neighborhood of 2-10%

When the client enters a position, he would have deposited, the margin in his account, but the brokerage house is required to post the margin with a central exchange arm called the 'clearing house'. The clearing house is a non-profit entity, which in effect is in charge of debiting this money to the accounts of winners daily.

Delivery months

Every futures contract has standardized months, which are authorized by the exchange for trading. E.g. wheat is traded for delivery in March, May, July, September, and December.

Brokers and commissions

Commission is the brokers fee for his services.

Commissions are of 2 types, discounter or full service.

Discounter type of commission is the commission where the broker charges his fees only for trading activities.

Full service commission is the commission charged to a broker, for advising the client regarding when to buy/sell and also providing useful analysis.

The players

The players in the commodity futures market are

- a) Hedgers
- b) Speculators

The exchange ‘open outcry’ and the clearing house

It is understood that the exchange does not set the prices of the traded commodities. The prices are determined in an open and continuous auction on the exchange floor by the members who are either acting on behalf of the customers, the companies, they work for or themselves. The process of the auction, which has been around for over 100 years, is called an “open outcry”.

People are not only willing to buy, but also to sell, and they all can be doing this simultaneously. Every floor trader has his own auctioneer, the democratic feature of an open outcry is that only the best bid and offer are allowed to come forward at any point in time, if a trader is willing to pay the highest price offered, he yells it out, and by law all

lower bids are silenced, by exchange rules, no one can bid under a higher bid, and no one can offer to sell higher than someone else's lower offer.

How is price determined?

The price is determined by demand and supply, or in other words buyers and sellers. If the buyers are more aggressive then the prices go up. If the sellers are larger the prices go down.

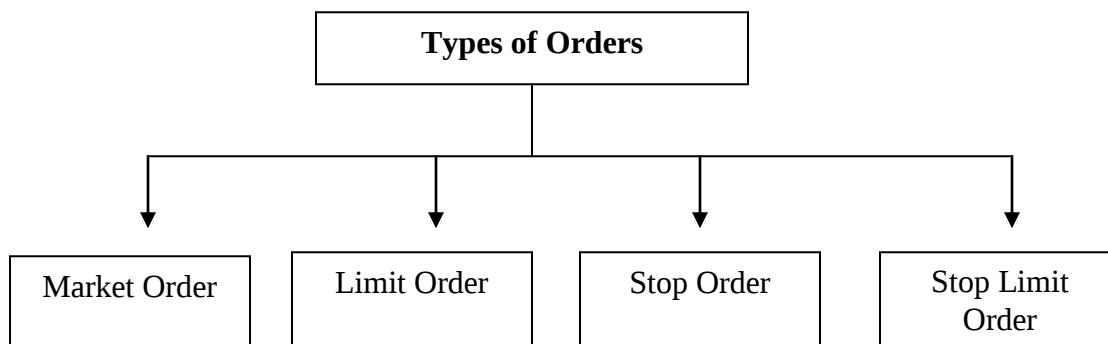
Difference between a floor broker and the broker with whom one can place order

A floor broker is buying or selling futures on the floor either solely for himself or filling orders for his customers who are the Brokerage Houses.

A broker off the floor is licensed by the future government to execute the orders on behalf of the public.

How to place an order?

There are different types of orders that a client can give to his broker, they are: -



Market order

This is an order to buy or sell at the prevailing price. By definition, when a commodity is bought or sold at the market, the floor broker has an order to fill immediately “at the best price”, but in reality it is “the next price”

Limit order

With a limit order, the floor broker is prevented from paying more than the limit on a sell order.

Stop order

Stop order or “stops” are used in 2 ways. The most common is to cut loss on a trade, which is not working in ones favour. A stop is an order, which becomes market order to buy or sell at the prevailing price only if and after the market touches the stop price. A ‘sell stop’ is placed under the market and a ‘buy stop’ above the market.

Stops can also be used to initiate positions. They are used by momentum traders who want to enter market moving in a certain direction.

E.g. a trader believes that, if gold prices trade above the psychologically significant’ \$400 mark, it will move higher. He places a key stop at a \$401. And also can place a sell stop at \$396.

Stop limit order

It is an order where a client can place a stop order at a particular level with a limit beyond which the market would not be ‘chased’

Sell on stop @2637, limit 35’

An order of this nature will not force the market away from the limit; but is in danger of not getting filled at all.

Analysis

- Commodity futures market is a 2 way market

- There are various parameters that are standardized such as delivery months, the exchange, margins, leverage, brokerage and commissions.
- One could take any one of the future positions out of the available ones
- There are many types of orders, which a client can give to his broker.
- The price is determined in a standardized manner

Interpretation

From the above analysis, it can be seen that, the commodity futures ‘modus operandi’ or operating procedure is very well defined at every level, and also standardized.

Thus there is very little scope for manipulation. Thus, it is an efficient derivative ‘modus operandi’.

Various analysis tools used to predict the price movements in commodity futures trading

In order to predict the future price of a commodity, the various analysis, tools are used. In order to make the daily or regular predictions, two important analysis made are:

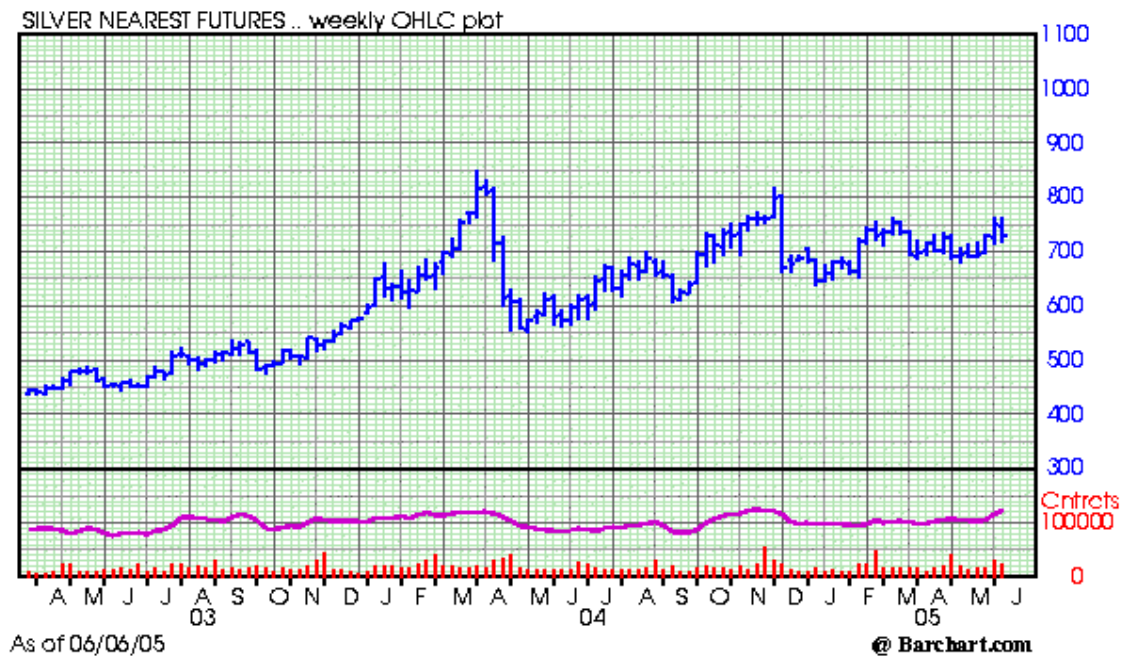
- **Technical Analysis**
- **Fundamental Analysis**

TECHNICAL ANALYSIS

Technical analysis refers to the process of analyzing the market with the help of technical tools, which includes charts, and henceforth makes future predictions of the prices. The only important factor for analyzing the market is price action.

Bar Chart

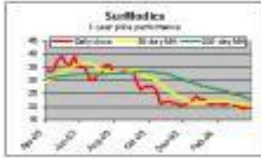
A Bar Chart is one of the most widely used charts. The market movement is reduced on a daily basis as a vertical line between the high and low; the opening level being indicated as a 'horizontal dash to the left', the closing level being indicated as a 'horizontal dash to the right'. As well as a daily record, similar charts can be drawn for weekly or monthly price ranges. Although bar charts are the most popular for technical analysts, their minor limitation is that they do not show how the market acted during the trading day.



A line chart is the simplest chart, and generally drawn by the non technical investor interested in getting quick visual impression of the general movement of the market. Normally closing prices are used and joined to form a line chart. They are not really adequate for market movement interpretation, but can give a very good indication as to what the market has been doing over a longer time scale, up to 10 to 20 years.

Moving averages

Moving averages are used to iron out some of the more volatile short-term movements, and can give better buy and sell signals, than just by looking at a daily high-low-close pattern. For instance, a 20-day moving average refers to the average price, of the previous 20 days. In the above chart the red line is the 20-day average. The green line is the 50-day average and the yellow line is the 100 day average.



Gaps

A Gap is formed when one day's trading movement does not overlap the range of the previous day. This may be caused by the market opening sharply highly or lower than the previous days close, as a result of important overnight news. Strong movements in overseas markets influencing our market or interest, or quite simply because the market has started to develop a strong momentum of its own.

Break away gap

This usually occurs soon after a new trend has been established as large numbers of new trend has been established, as large numbers of new investors suddenly want to join the action. It is often regarded as a confirmation that a new trend is well established.

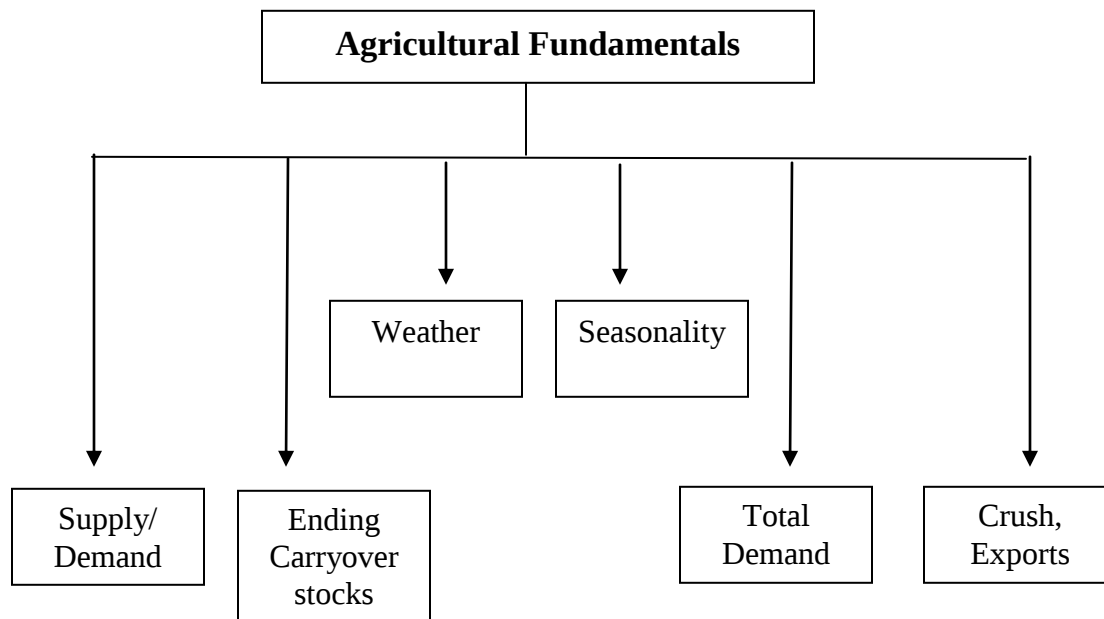
FUNDAMENTAL ANALYSIS

Fundamental analysis is the study of supply and demand. The cause and effect of price movement is explained by supply and demand. A good fundamentalist will be able to forecast a major price move well in advance of the technician.

E.g. if there is a drought in Brazil during the flowering phase of soybean plant one can rationally explain why bean prices are rising.

There are various factors affecting the fundamentals of different commodities. They are

Fundamentals affecting Agriculture Commodities



a) Supply

The supply of a grain will depend on

i) Beginning stocks

This is what the government says, it will carryover from the previous year

ii) Production

This is the crop estimate for the current year.

iii) Imports

This includes the commodities imported from different countries.

iv) Total supply

This is the beginning stocks+production+imports

b) Demand

i) Crush

This is the domestic demand by the crushers who buy new soybeans. And crush them into the products, meal and oil.

ii) Exports

This refers to the quantity of different commodities demanded by foreign countries.

c) Ending carryover stocks

Total supply minus total demand= the carryover, ending stocks

d) Weather

Weather is the single most important factor, which affects the process of all types of grains. If there is flood drought, it will shoot up the price, due to increase in demand.

e) Seasonality

All other factors remaining equal, the grains and oil seeds do exhibit certain seasonal tendencies.

Metals fundamentals

Metals include

- **Precious metals**
- **Industrial metals**

Precious metals

The precious metals include gold, silver, and platinum. Their fundamentals are

i) Silver

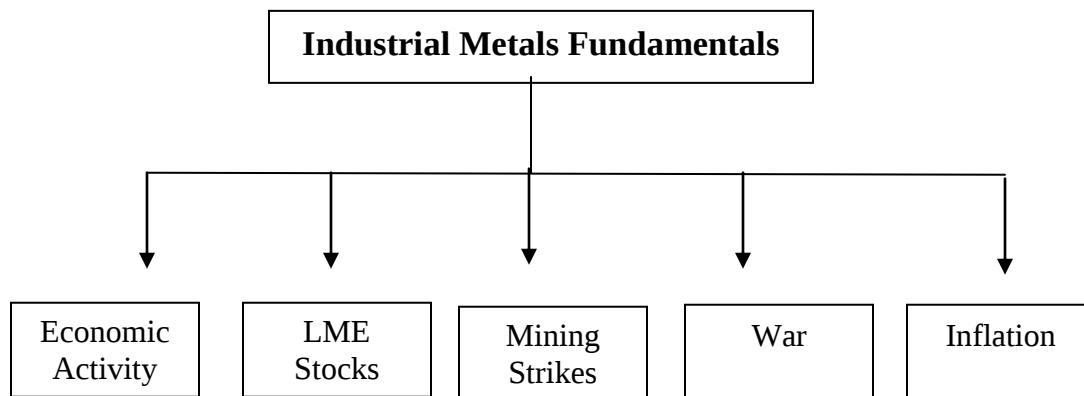
Since much of the new production of silver comes as a by-product of the 3 metals (copper, zinc, lead), if the price of the 3 is depressed and production is curtailed, silver output will suffer as well. The reverse is also true.

ii) Platinum

The demand for platinum is somewhat dependent on the health of the automotive, electrical, dental, medical, chemical, and petroleum industries (where it is used as a catalyst.)

Industrial metals

These include copper, palladium. Their fundamentals are



i) Economic activity

For any metal, industrialized demand is the key. If there is the threat of an economic slow down, this will be reflected in lower prices.

ii) LME stocks

Everyday the London Metal Exchange releases its widely watched stocks report, where, it lists the stocks in the exchange approved warehouses for aluminum, copper, zinc, tin, lead.

iv) Mining strikes and production problems

v) War

Copper in particular has been called the 'war' metal. Demand traditionally soars for all the industrial metals in times of increased defense spending.

vi) Inflation

The industrial metals have been at times been called the 'poor man's gold' and will heat up in an inflationary environment.

Analysis

- Predictions in the commodity futures trading can be made through 2 tools i.e. fundamental analysis and technical analysis.
- Fundamental analysis seeks to protect the market by making use of the demand and supply factors. It helps to explain what is the general tendency in the market.
- Technical analysis, is the process of using all kinds of tools and charts, in order to make predictions, it helps to explain exactly at which point to enter a position or helps to explain at what point will be the trend reversal.

Interpretation

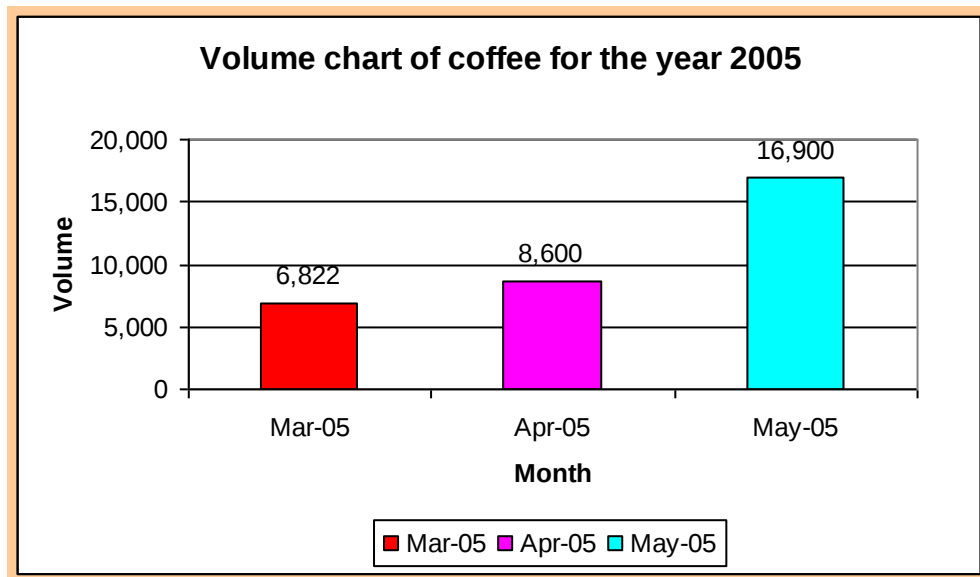
From the above analysis, it can be concluded that, by making use of both the fundamental and technical analysis efficiently, and henceforth take a favorable position in the market and thus benefit from the price movements.

Growth of the commodity futures trading

The growth of commodity futures trading can be measured in many ways; one of them is by considering the volumes of contracts as the parameter. The volumes refer the number of lots settled. This can be monthly, weekly, daily. The volumes of a few commodities are as under: -

Coffee

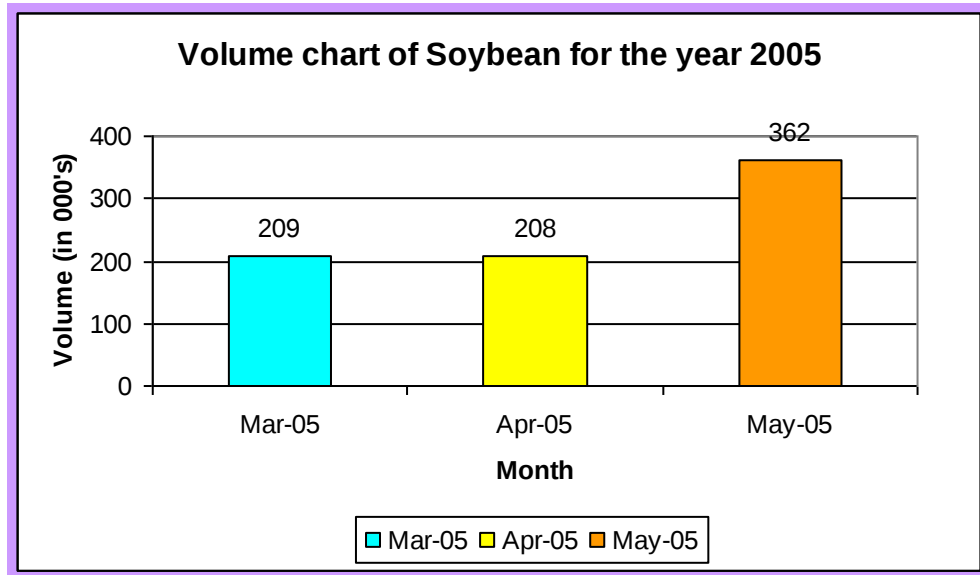
Month	Volume	Growth	Incremental Growth
March 2005	6,822	100%	-
April 2005	8,600	126%	26%
May 2005	16,900	247%	121%



From the above table, it can be seen that the volumes of coffee has been increasing steadily, and it had growth of 126% in the month of April, 247% in the month of May. Thus it can be concluded that the volumes of coffee has been increasing.

Soybean

Month	Volume	Growth	Incremental Growth
March 2005	2,09,441	100%	-
April 2005	2,08,217	99%	-1%
May 2005	3,62,290	172%	73%

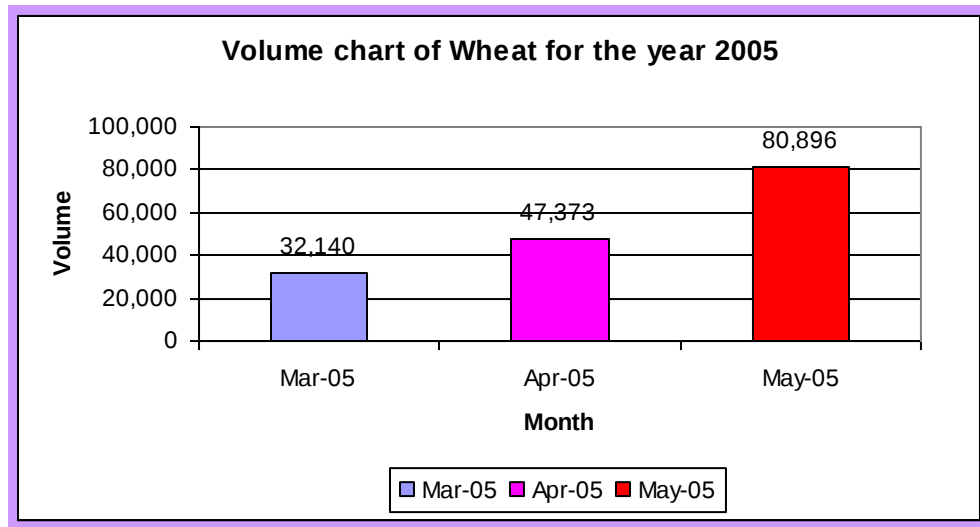


From the above table, it can be seen that the volumes of soybean has been increasing steadily and it had growth of 99% in the month of april, 172% in the month of may.

Thus it can be concluded that soybean volumes have increased very drastically in the month may.

Wheat

Month	Volume	Growth	Incremental Growth
March 2005	32,140	100%	-
April 2005	47,373	147%	47%
May 2005	80,896	251%	104%



From the above table, it can be seen that the volumes of wheat has been increasing steadily, and it had growth of 147% in the month of April, 251% in the month of May. Thus it can be concluded that volumes of wheat has also been increasing.

Analysis

The volumes of the all the commodities are in an increasing trend.

Interpretation

Thus from the above analysis, it can be concluded that commodity futures trading is growing steadily.

OBJECTIVE

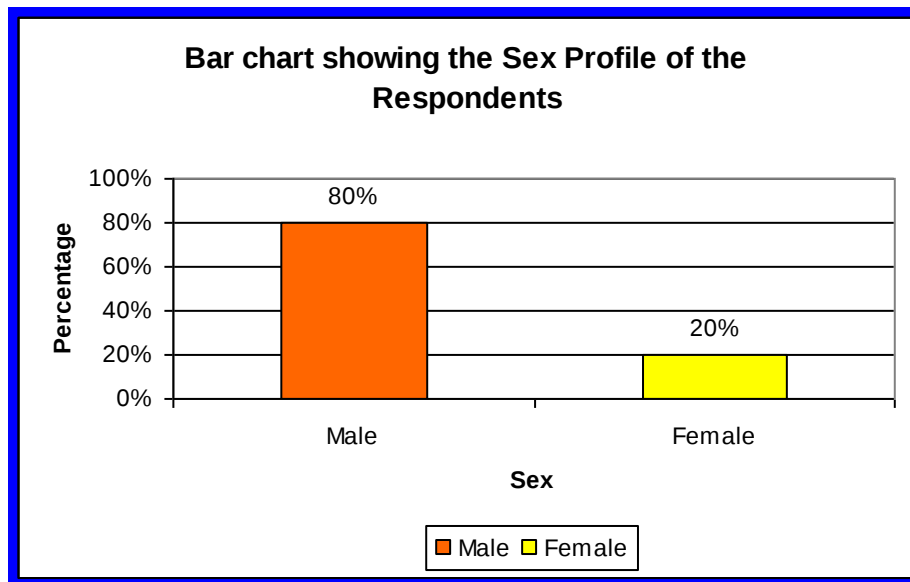
To study the perception of investors towards commodity futures

In this section the data obtained through the questionnaire from the investors in commodity futures is analyzed

SECTION A:

Sex profile

Sex	No. of Respondents	Percentage
Male	20	80%
Female	5	20%



Findings

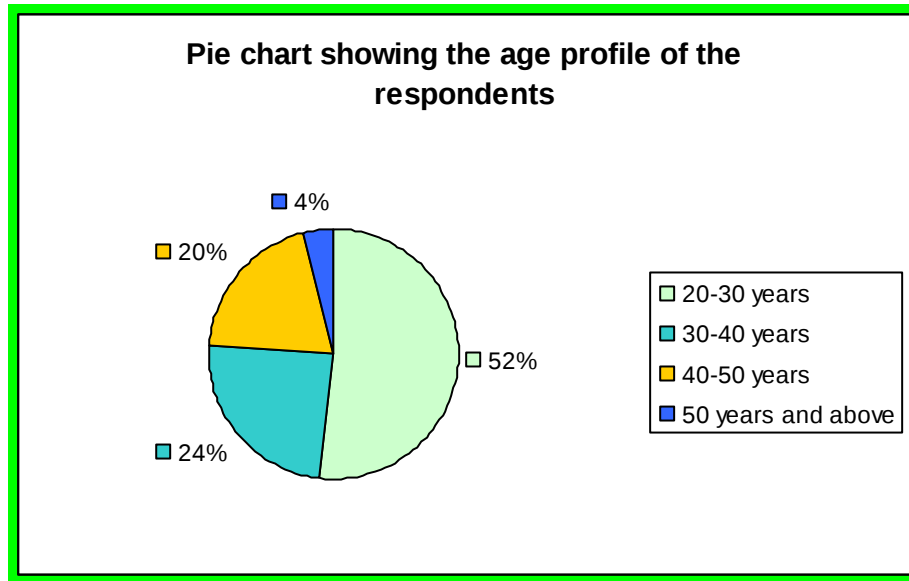
From the above table and chart, it can be seen that 80% of the respondents were male, and 20% were female.

Interpretation

It can be concluded that mainly males invest in commodity futures.

Age Profile

Age Group	No. of Respondents	Percentage
20-30 years	13	52%
30-40 years	6	24%
40-50 years	5	20%
50 years and above	1	4%



Findings

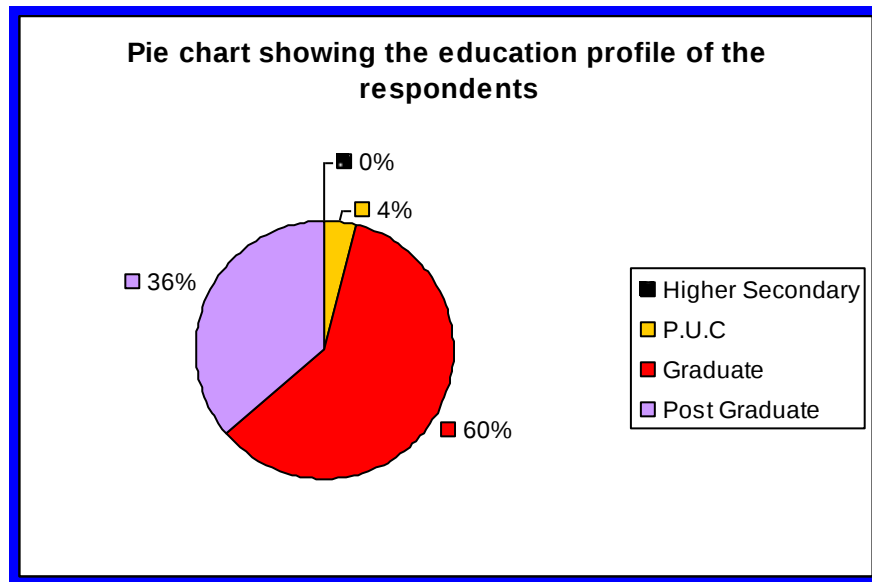
From the above table and chart, it can be seen that 52% of the respondents were in the age group of 20-30 years, 24% were in the age group of 30-40 years, and 20% were in the age group of 40-50 years and 4% in the age group of 50 years and above.

Interpretation

It can be concluded that mainly the young people have invested commodity futures.

Education profile:

Educational Qualification	No. of Respondents	Percentage
Higher Secondary	0	0%
P.U.C	1	4%
Graduate	15	60%
Post Graduate	9	36%



Findings

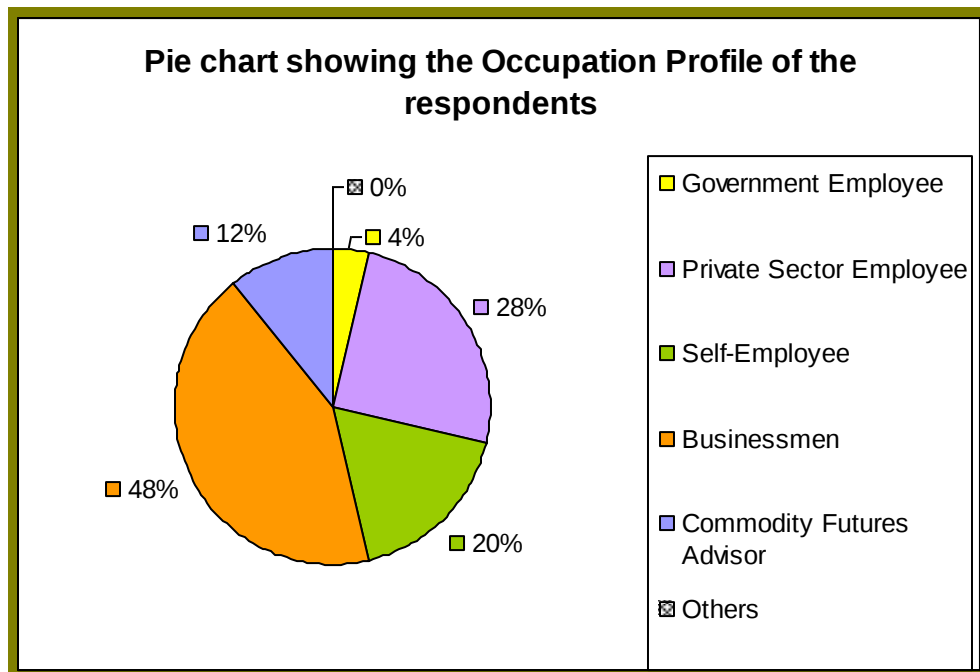
From the above table and chart, it can be seen that 52% of the respondents were in the age group of 20-30 years, 24% were in the age group of 30-40 years, 20% were in the age group of 40-50 years and 4% in the age group of 50 years and above.

Interpretation

It can be concluded that mainly the young graduates have invested commodity futures.

Occupation Profile

Occupation	No. of Respondents	Percentage
Government Employee	1	4%
Private Sector Employee	7	28%
Self-Employee	5	20%
Businessmen	12	48%
Commodity Futures Advisor	3	12%
Others	0	0%



Findings

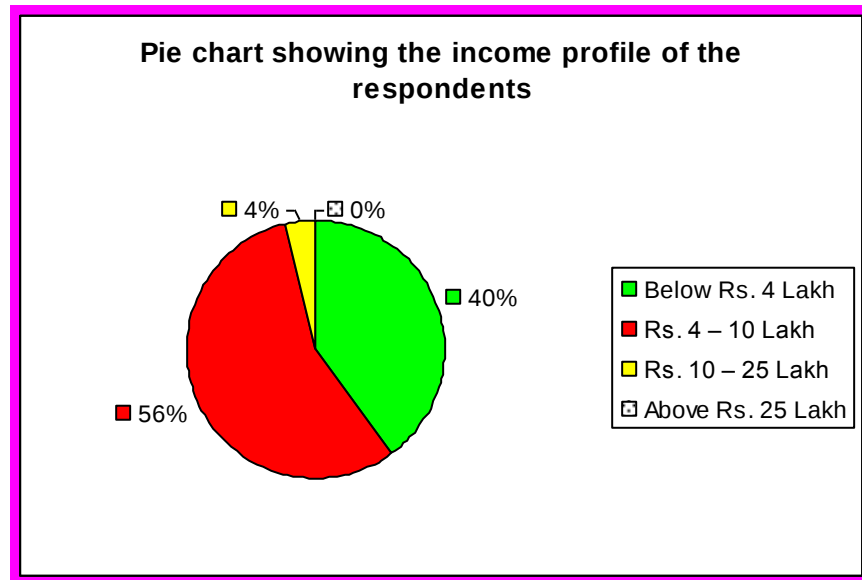
From the above table and chart, it can be seen that 4% of the respondents were government employees, 28% were private sector employee, 20% were Self-Employed and 48% were businessmen, 12% were Commodity futures advisors.

Interpretation

It can be concluded that mainly the businessmen have invested commodity futures.

Income Profile

Income Group	No. of Respondents	Percentage
Below Rs. 4 Lakh	10	40%
Rs. 4 – 10 Lakh	14	56%
Rs. 10 – 25 Lakh	1	4%
Above Rs. 25 Lakh	0	0%



Findings

From the above table and chart, it can be seen that 40% of the respondents were in the income group of below Rs. 4 lakh, 56% were in the income group of Rs. 4-10 lakh, 56% were in the income group of Rs. 4-10 lakh and 4% were in the income group of Rs. 10-25 lakh.

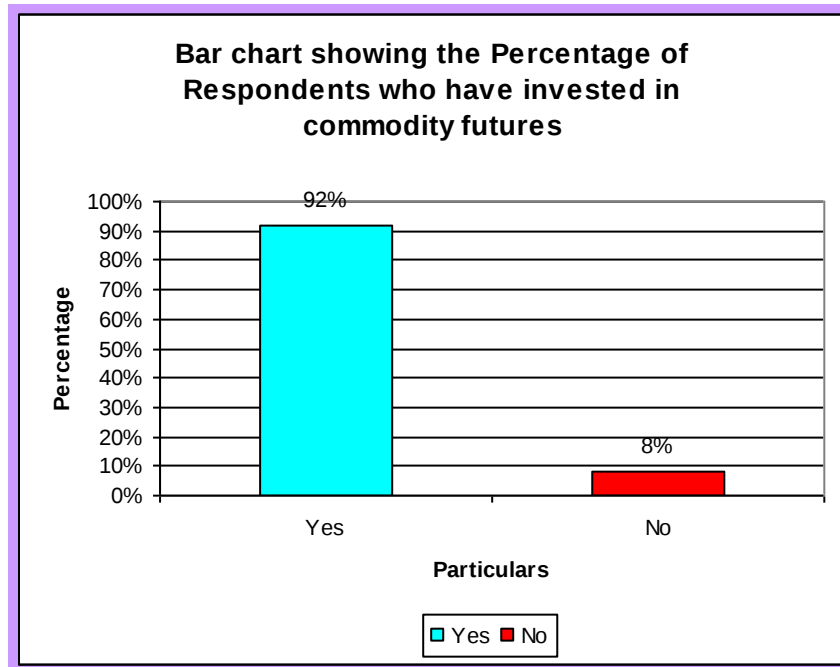
Interpretation

It can be concluded that most of the people who have invested commodity futures are in the income group of Rs.4-10 lakh.

SECTION B

1) Have you invested in commodity futures?

Particulars	No. Of Respondents	Percentage
Yes	23	92%
No	2	8%



Findings

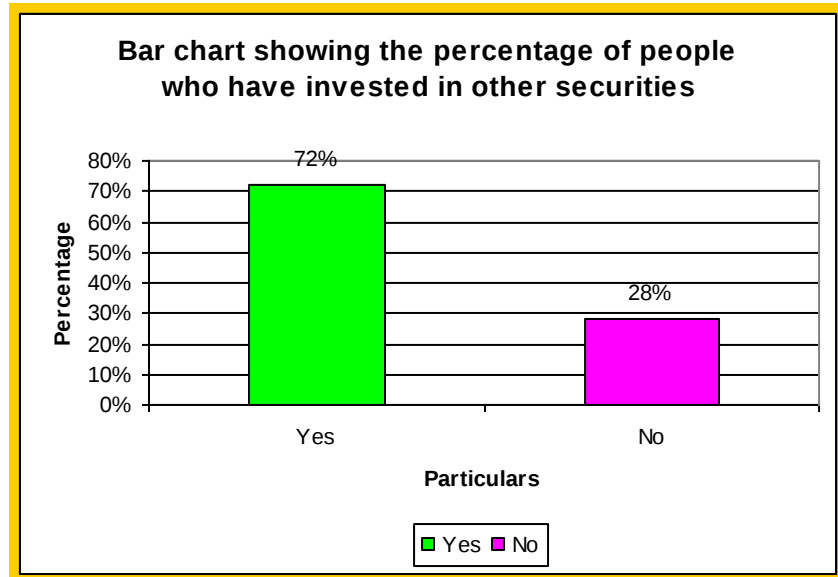
From the above table and chart, it can be seen that 92% of the respondents have invested in commodity futures, and 8% have not invested in commodity futures

Interpretation

It can be concluded that most of the respondents have invested in commodity futures.

2) Have you invested in any other securities?

Particulars	No. of Respondents	Percentage
Yes	18	72%
No	7	28%



Findings

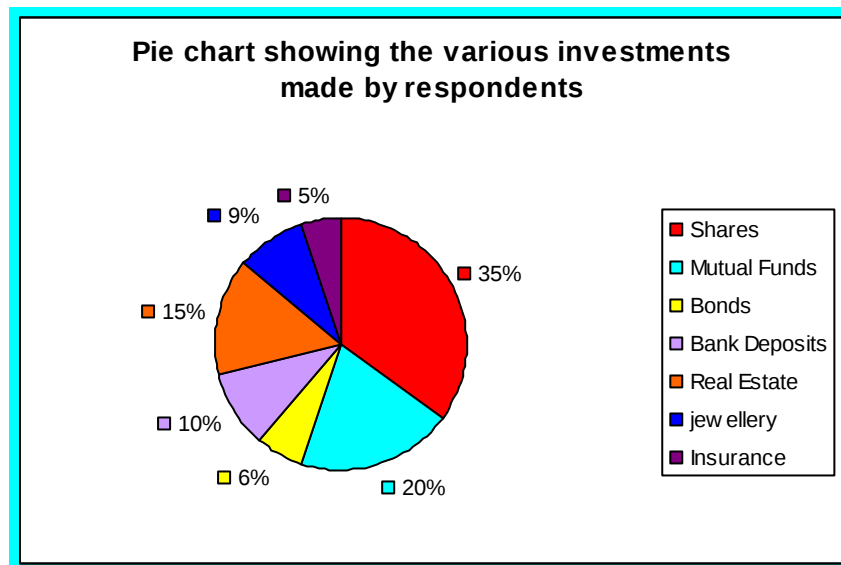
From the above table and chart, it can be seen that 72% of the respondents have invested in other securities, and 28% have not invested in any other security.

Interpretation

It can be concluded that most of the respondents have invested in other securities also.

3) Which are the investments you have made (excluding commodity futures)?

Particulars	No. of Respondents	Percentage
Shares	16	35%
Mutual Funds	9	20%
Bonds	3	6%
Bank Deposits	5	10%
Real Estate	7	15%
jewellery	4	9%
Insurance	2	5%



Findings

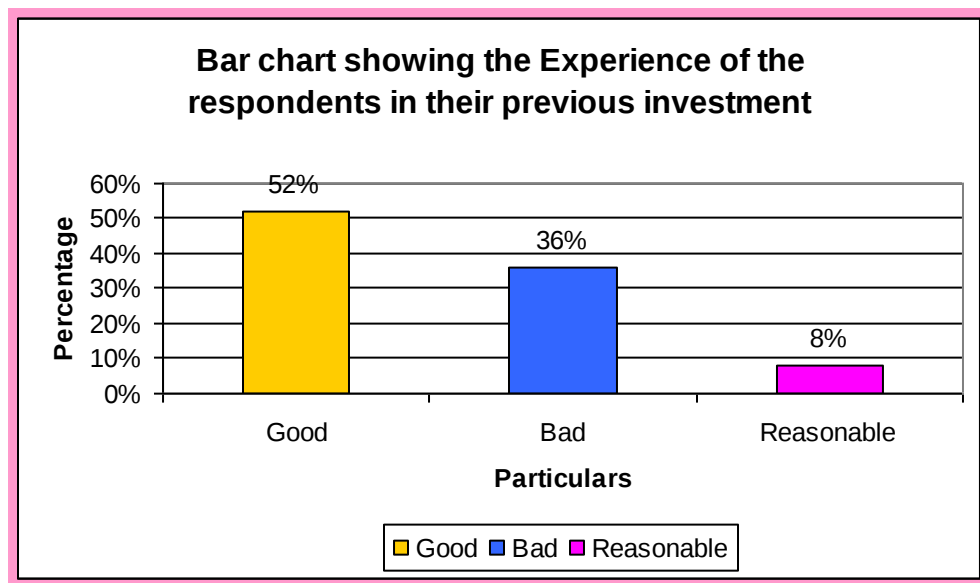
It can be seen that, out of the respondents who have invested in other securities, 35% of them have invested in shares, 20% Mutual funds, 6% in Bonds, 10% have invested in bank deposits. 15% in real estate, 9% have invested in jewellery and the rest 9% have invested in insurance.

Interpretation

It can be concluded that other than commodity futures, most of the respondents have invested in shares.

4) What is your Experience in your previous Investment (excluding commodity futures)?

Particulars	No. of Respondents	Percentage
Good	13	52%
Bad	9	36%
Reasonable	2	8%



Findings

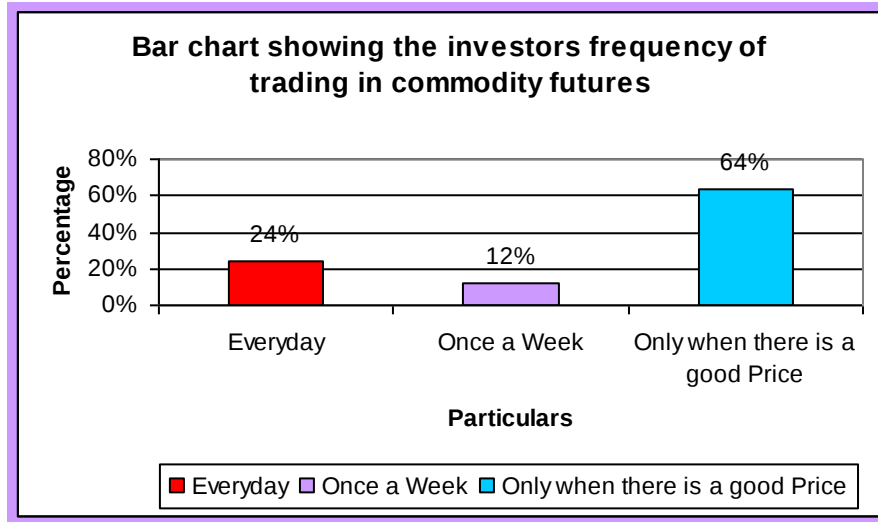
It can be seen that 52% of the respondents had a good experience in their previous investment, 36% had a reasonable experience in their previous investment and 8% had a bad experience in their previous investment.

Interpretation

It can be concluded that most of the respondents had a good experience in their previous investment.

5) How often do you trade in Commodity futures?

Particulars	No. of Respondents	Percentage
Everyday	6	24%
Once a Week	3	12%
Only when there is a good Price	16	64%



Findings

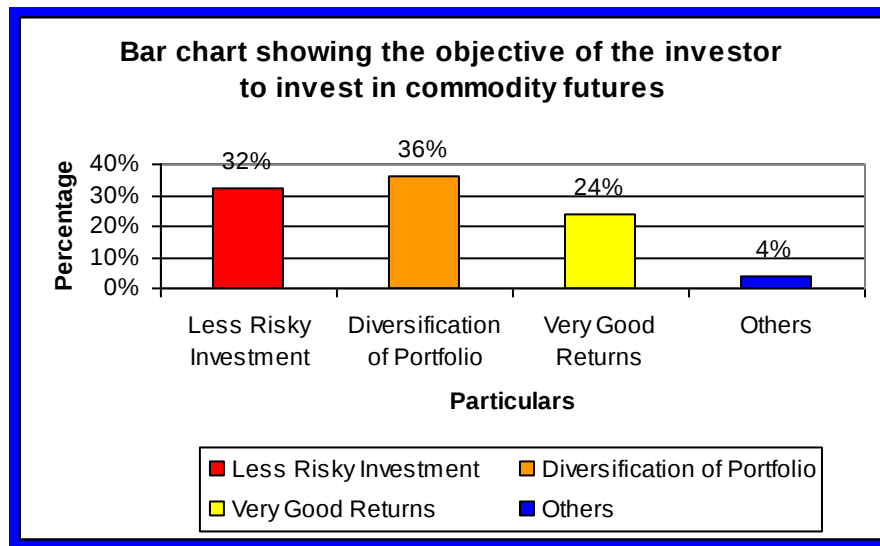
It can be seen that out of the investors in commodity futures, 24% of them trade everyday, 12% of them traded once a week and 64% traded only when there is good price.

Interpretation

It can be concluded that most of the investors trade in commodity futures only when there is a good price.

6) What is your objective for trading in commodity futures?

Particulars	No. of Respondents	Percentage
Less Risky Investment	8	32%
Diversification of Portfolio	9	36%
Very Good Returns	6	24%
Others	1	4%



Findings

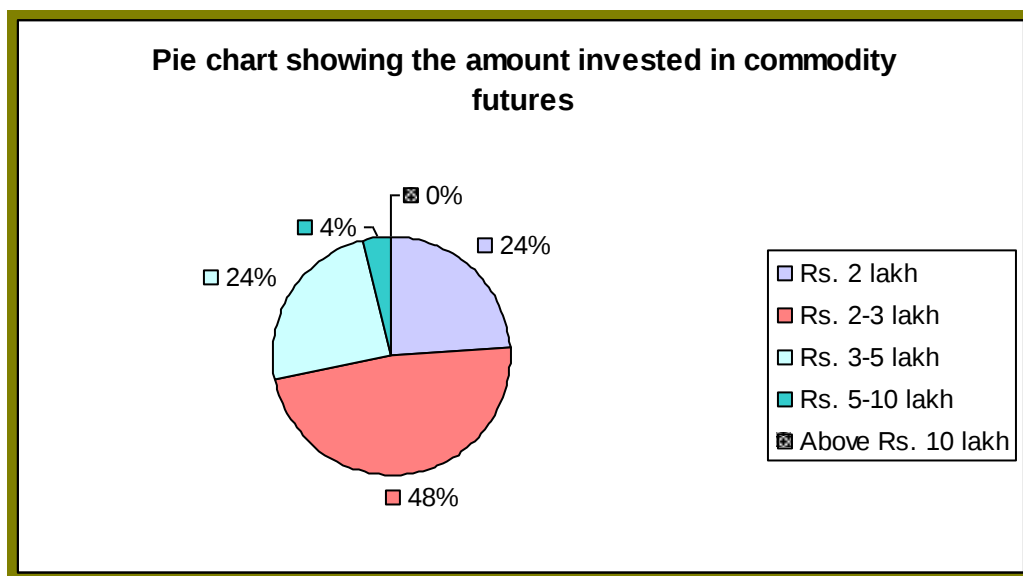
It can be seen that out of the investors in commodity futures, 32% of them have invested with the objective a less risky investment, 36% of them invested with the objective of diversifying hid portfolio and 24% of them due to the expectation of very good returns and 4% have invested due to other reasons.

Interpretation

It can be concluded that most of the investors in commodity futures, have invested with the objective of diversifying their portfolio.

7) What is the amount you have invested in commodity futures?

Amount (Rupees)	No.of Respondents	Percentage
Rs. 2 lakh	6	24%
Rs. 2-3 lakh	12	48%
Rs. 3-5 lakh	6	24%
Rs. 5-10 lakh	1	4%
Above Rs. 10 lakh	0	0%



Findings

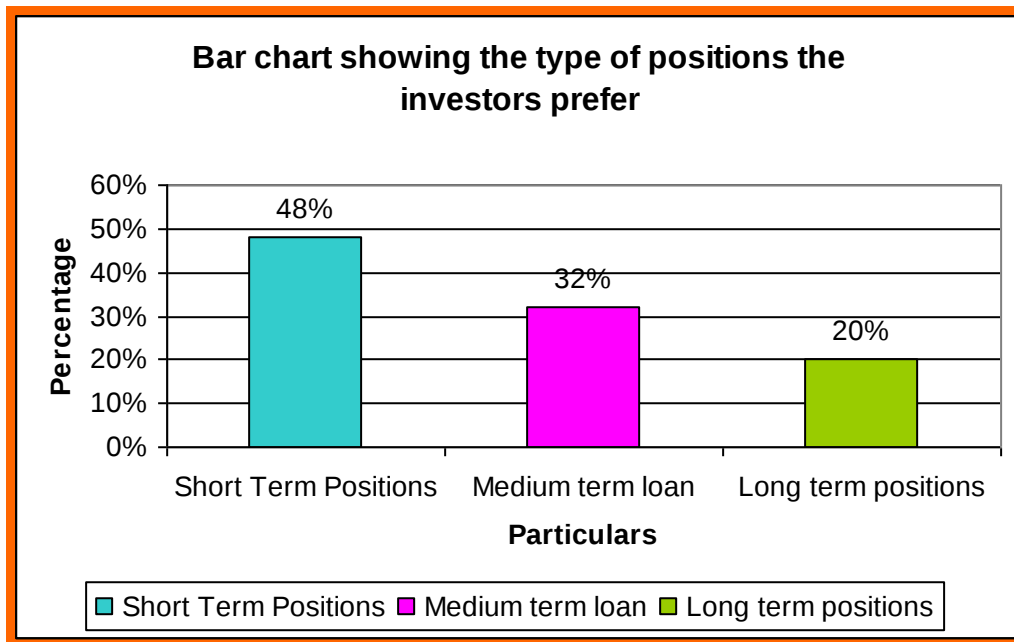
It can be seen that out of the investors, 24% of them had invested Rs. 2 lakhs, 48% of them had invested between Rs. 2-3 lakhs, 24% had invested between Rs. 3-5 lakhs and 4% had invested between Rs. 5-10 lakhs.

Interpretation

It can be concluded that most of the investors had invested between Rs. 2-3 lakhs in commodity futures.

8) What type of trade do you prefer the most?

Particulars	No. of Respondents	Percentage
Short Term Positions	12	48%
Medium term loan	8	32%
Long term positions	5	20%



Findings

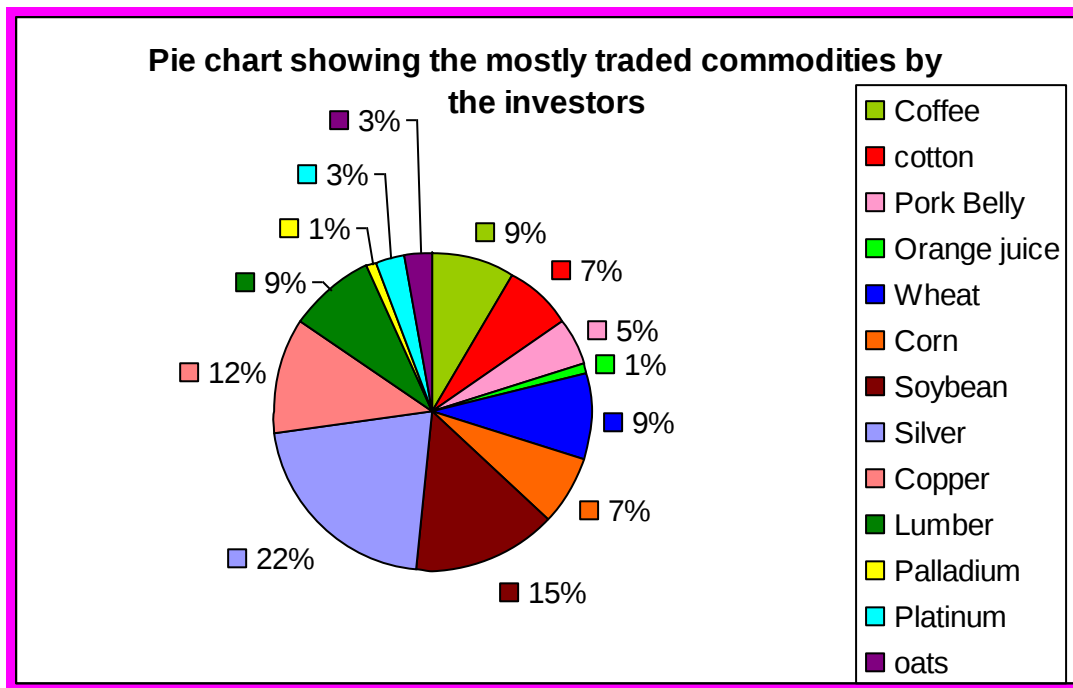
It can be seen that out of the investors in commodity futures, 48% of them prefer short-term positions, 32% of them preferred medium term positions and 20% preferred long-term positions.

Interpretation

It can be concluded that most of the investors trading in commodity futures prefer short-term positions.

9) Which commodities have you traded in, the most?

Commodity	No. of Respondents	Percentage
Coffee	6	9%
Cotton	5	7%
Pork Belly	3	5%
Orange juice	1	1%
Wheat	6	9%
Corn	5	7%
Soybean	10	15%
Silver	15	22%
Copper	9	12%
Lumber	6	9%
Palladium	1	1%
Platinum	2	3%
oats	2	3%



Findings

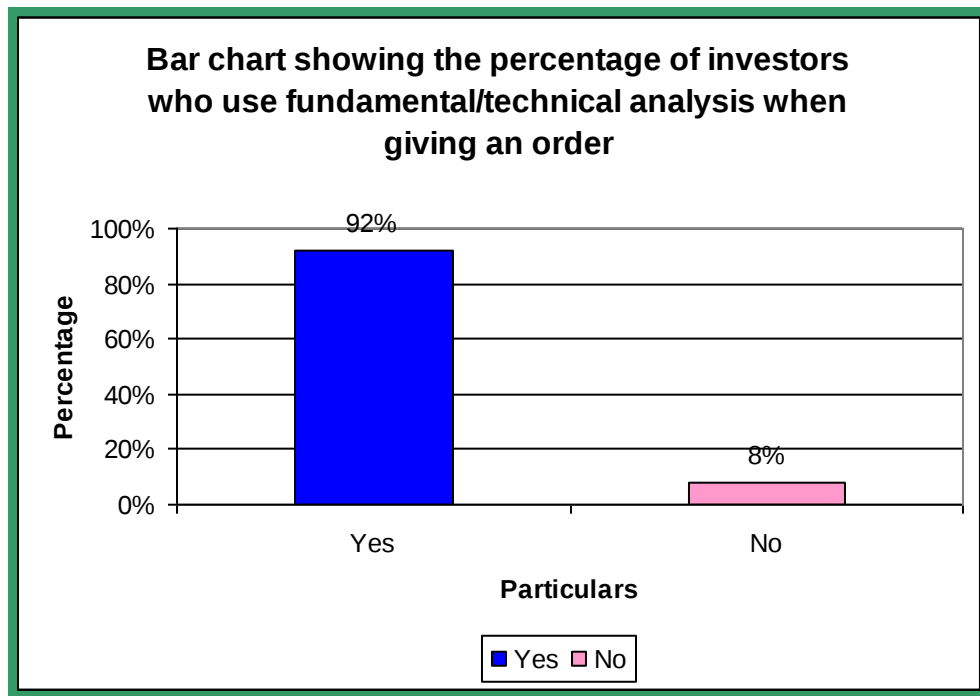
It can be seen that out of the investors in commodity futures, 22% of them have traded mostly in silver, 15% of them traded in soybean, 12% in copper, 9% each in coffee, wheat and lumber, 7% each in Cotton Corn, 5% in Pork Belly, 3% each in Oats and platinum, 1% each in Orange Juice and Palladium.

Interpretation

It can be concluded that the mostly traded commodity is Silver, followed by soybean and copper.

10) Do you, as a client use Fundamental/Technical Analysis while giving an order?

Particulars	No. of Respondents	Percentage
Yes	23	92%
No	2	8%



Findings

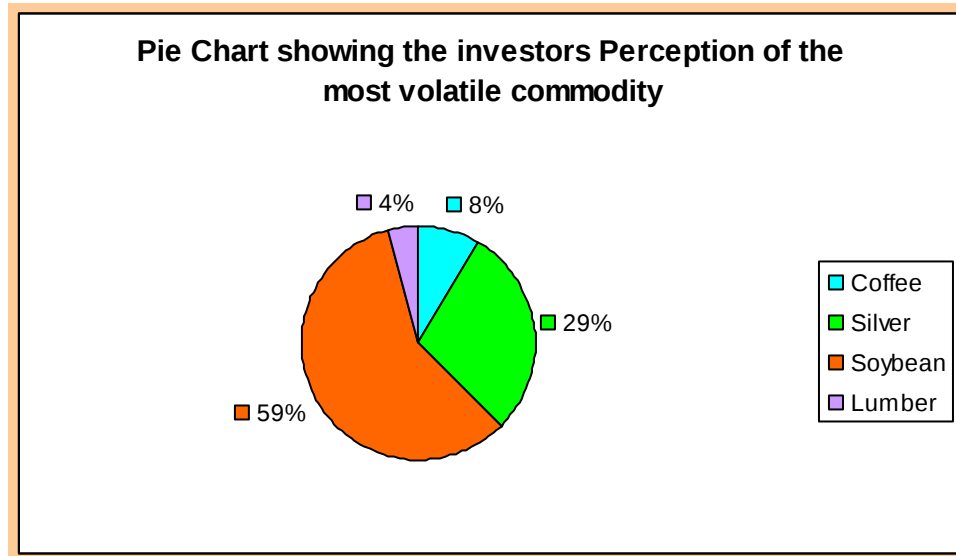
From the above table and chart, it can be seen that 92% of the investors use Fundamental/technical Analysis while giving an order to trade in commodity futures, and 8% do not any analysis tools.

Interpretation

It can be concluded that most of the investors use Fundamental/ Technical Analysis when giving an order while trading in commodity futures.

11) Which commodity do you think is the most volatile?

Commodity	No. of Respondents	Percentage
Coffee	2	8%
Silver	7	28%
Soybean	14	56%
Lumber	1	4%



Findings

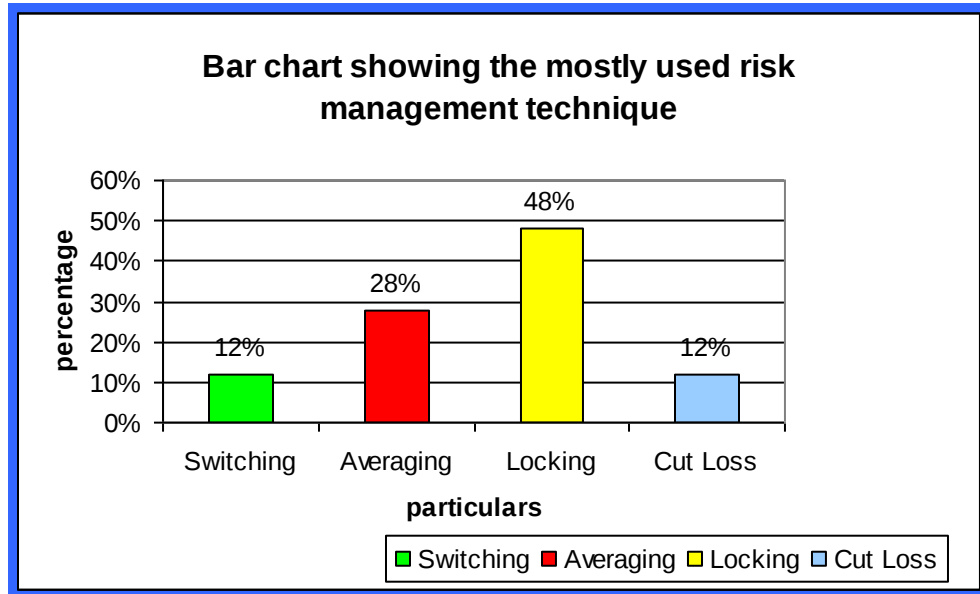
It can be seen that 56% of the investors feel that soybean is the most volatile commodity, 28% feel silver is the most volatile, 8% feel Coffee is the most volatile while 4% feel that lumber is the most volatile commodity.

Interpretation

It can be concluded that soybean is the most volatile commodity.

12) Which is the risk management technique, which you use mostly?

Particulars	No. of Respondents	Percentage
Switching	3	12%
Averaging	7	28%
Locking	12	48%
Cut Loss	3	12%



Findings

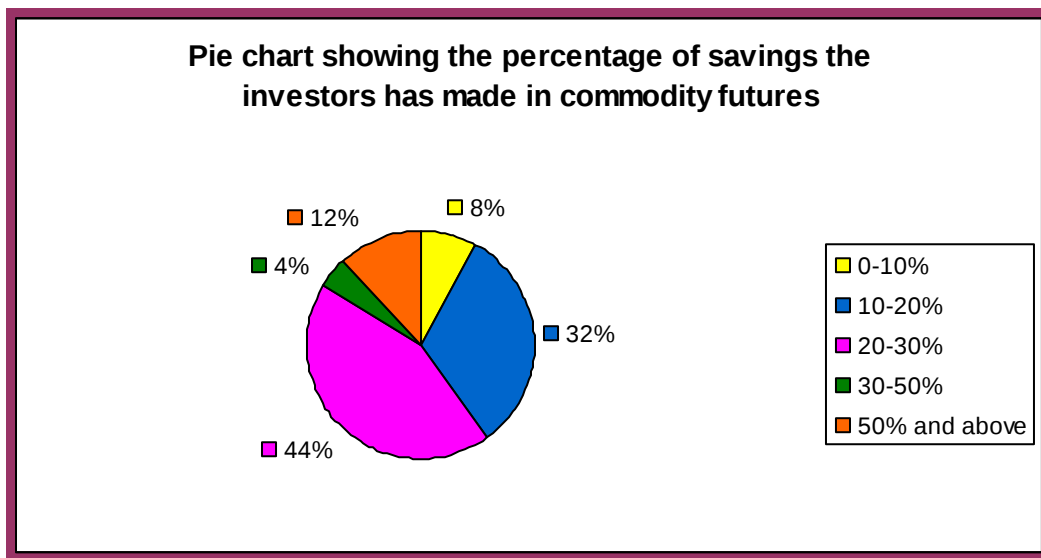
It can be seen that out of the risk management techniques, 48% of the investors use locking, 28% use switching and 12% use Cut loss technique.

Interpretation

It can be concluded that locking is the mostly used risk management technique.

13) What percentage of savings have you invested in commodity futures?

Particulars	No. of Respondents	Percentage
0-10%	2	8%
10-20%	8	32%
20-30%	11	44%
30-50%	1	4%
50% and above	3	12%



Findings

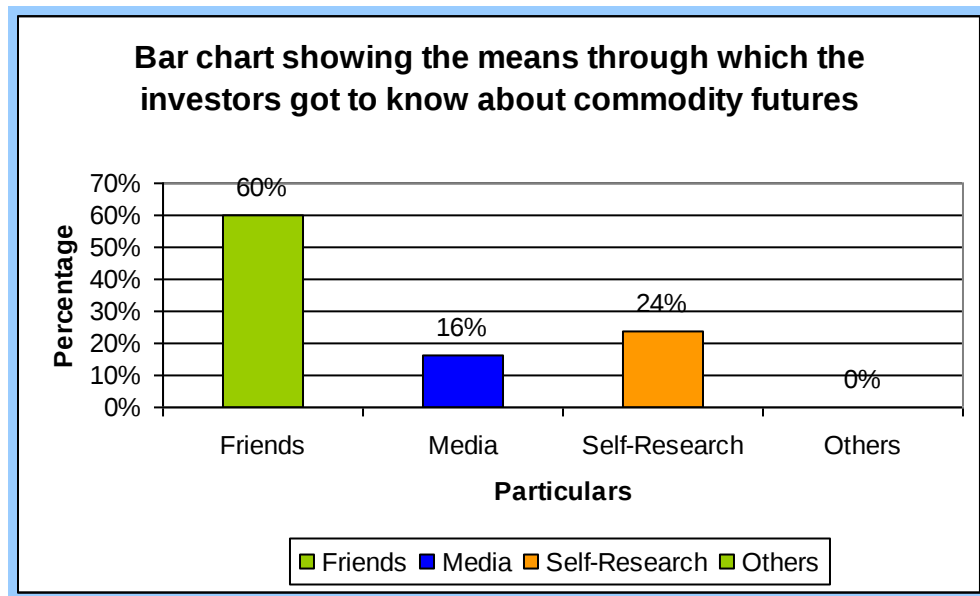
It can be seen that, 44% of the investors have invested between 20-30% of their savings in commodity futures, 32% of them have invested between 10-20% of their savings, 12% of them have invested above 50% of their savings, 8% of them have invested between 0-10% of their savings and 4% of them have invested between 30-50% of their savings.

Interpretation

It can be concluded that most of the investors have invested between 20-30% of their savings in commodity futures.

14) How did you get to know about commodity futures trading?

Particulars	No. of Respondents	Percentage
Friends	15	60%
Media	4	16%
Self-Research	6	24%
Others	0	0%



Findings

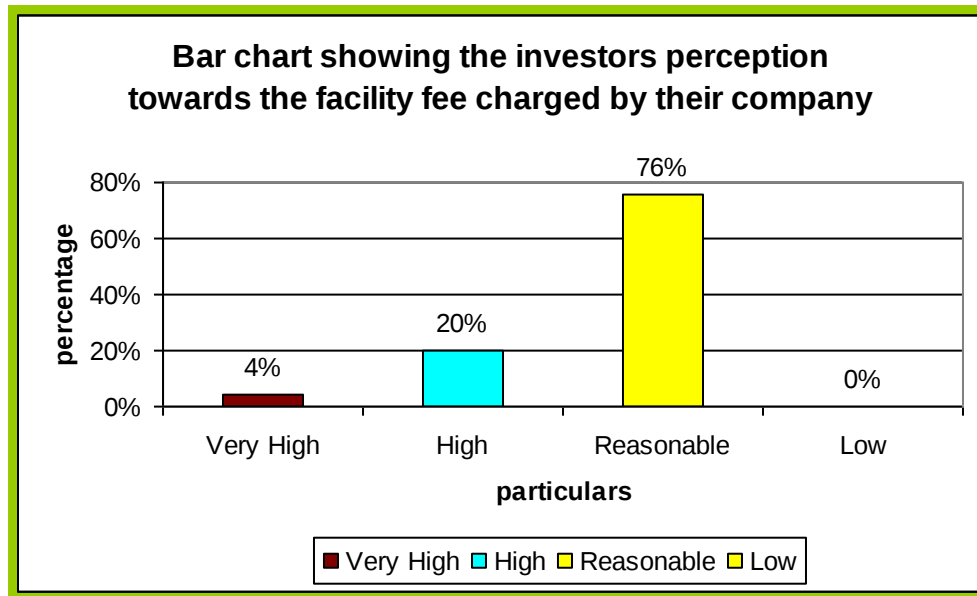
It can be seen that, 60% of the investors got to know about commodity futures through their friends/family, 16% got to know through media and 24% of the investors got to know through self-research.

Interpretations

It can be concluded that most of the investors got to know about commodity futures through friends/family.

15) What do think about the felicitation fee charged by your company?

Particulars	No. of Respondents	Percentage
Very High	1	4%
High	5	20%
Reasonable	19	76%
Low	0	0%



Findings

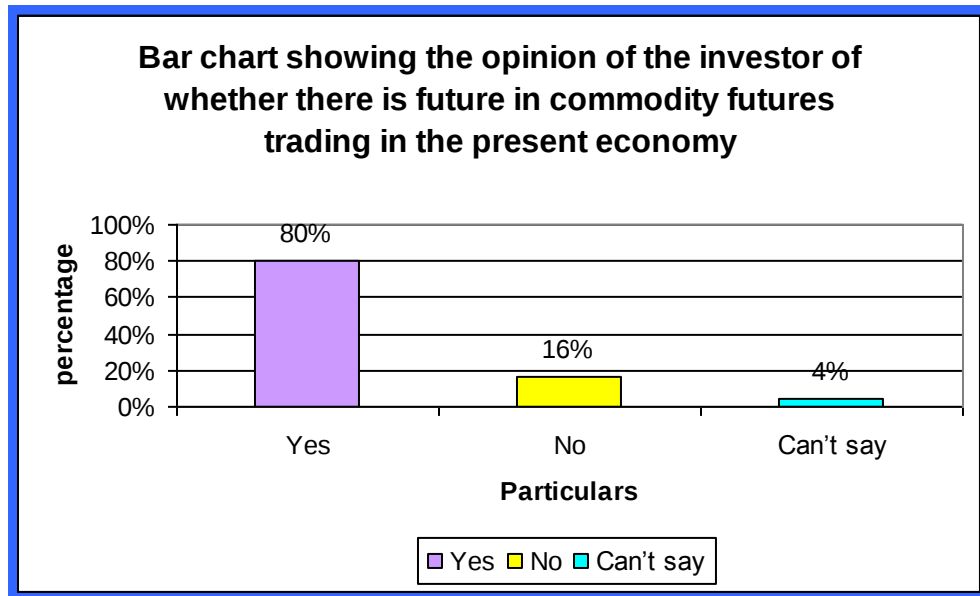
It can be seen that, 76% of the investors feel that the facility fee charged by their company is reasonable, 20% of them feel that the facility fee charged by their company is high and 4% of the investors feel that it is very high.

Interpretations

It can be concluded that most of the investors feel that the facility fee charged by their company is reasonable.

16) Do you think there is future in commodity future trading, in the present economy?

Particulars	No. of Respondents	Percentage
Yes	20	80%
No	4	16%
Can't say	1	4%



Findings

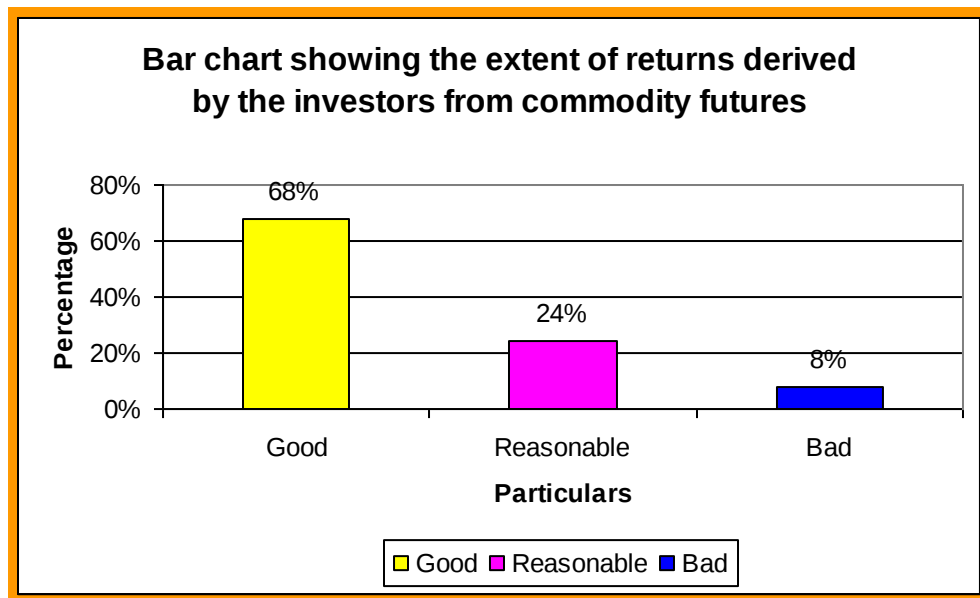
It can be seen that, 80% of the investors feel that there is future in commodity futures trading in the present economy, 16% of them feel that there is no future in commodity futures, 4% of the investors were unable to come to a conclusion.

Interpretations

It can be concluded that most of the investors feel that there is future in commodity future trading in the present economy.

17) What do you think of the return derived from commodity futures?

Particulars	No. of Respondents	Percentage
Good	17	68%
Reasonable	6	24%
Bad	2	8%



Findings

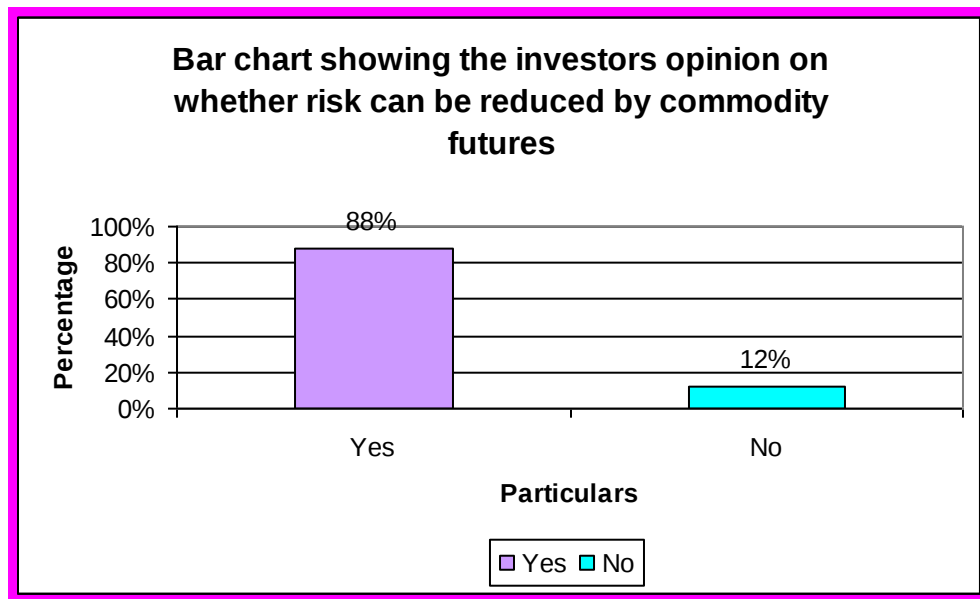
It can be seen that, 68% of the investors feel that they got good returns from commodity futures trading, 24% of them feel that they got reasonable returns commodity futures, 4% of the investors felt they got bad returns from commodity futures.

Interpretations

It can be concluded that most of the investors got good returns from commodity futures.

18) Do you think commodity futures can reduce risk?

Particulars	No. of Respondents	Percentage
Yes	22	88%
No	3	12%



Findings

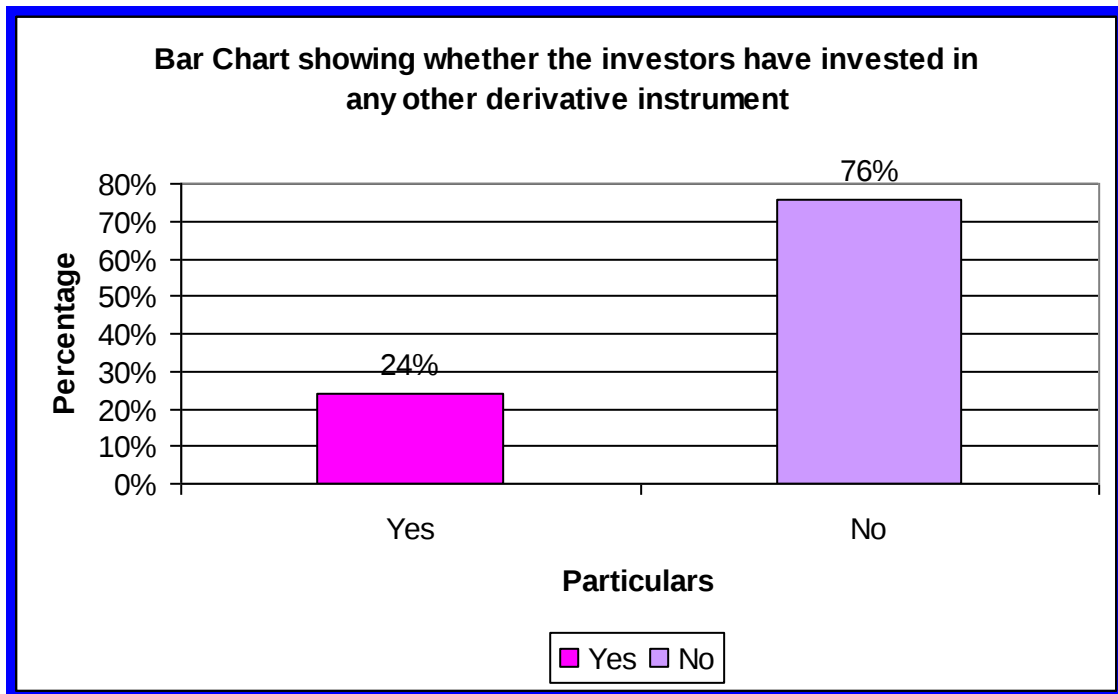
It can be seen that 92% of the investors feel that risk can be reduced through commodity futures, and 12% of the investors feel that risk cannot be reduced through commodity futures.

Interpretation

It can be concluded that most of the investors feel that “risk can be reduced” through commodity futures trading.

19) Have you invested in any other derivative instrument?

Particulars	No. of Respondents	Percentage
Yes	6	24%
No	19	76%



Findings

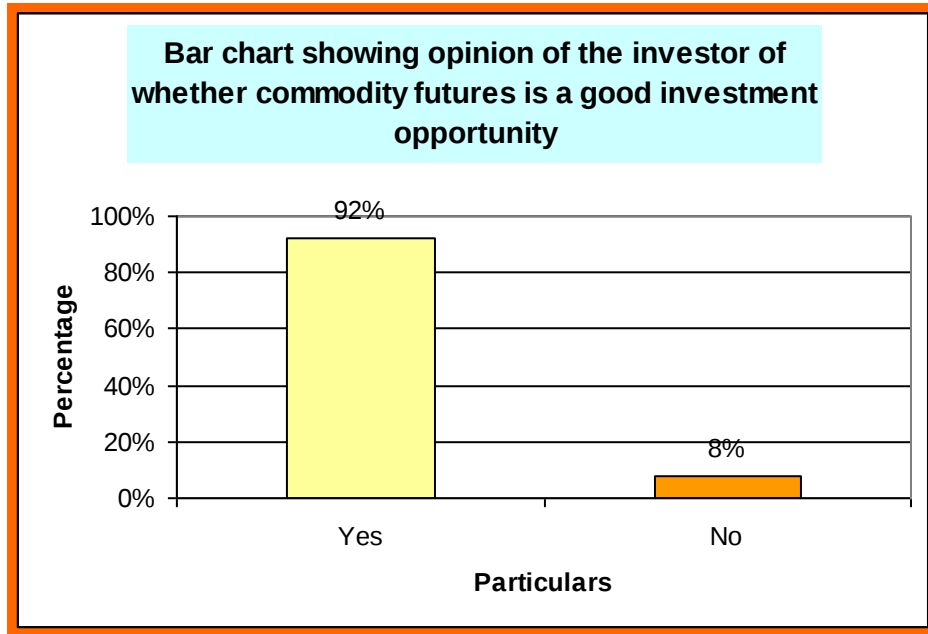
It can be seen that 76% of the investors have not invested in any other derivative instrument and 24% of the investors have invested in any other derivative instrument.

Interpretation

It can be concluded that most of the investors have not invested in any other derivative instrument.

20) Do you think commodity futures are a good investment opportunity?

Particulars	No. of Respondents	Percentage
Yes	23	92%
No	2	8%



Findings

From the above table and chart, it can be seen that 92% of the investors feel that commodity futures is a good investment opportunity, and 8% investors feel that commodity futures is not a good investment opportunity

Interpretation

It can be concluded that most of the investors feel that commodity futures is a “good investment opportunity”

SUMMARY OF FINDINGS

From the analysis made in the previous chapter the following findings can be derived:

- There are many types of risks involved commodity futures trading, the various risk management techniques can be used to minimize the risk, and henceforth benefit from the different price movements.
- The ‘modus operandi’ of commodity futures is well defined at every level and standardized. Thus, there is very little scope for ‘manipulation’. Thus, the ‘modus operandi’ of this derivative is efficient.
- By making use of both the fundamental and technical analysis, one can take a favorable position in the commodity futures market, and thus benefit from price movements.
- The commodity futures markets are experiencing tremendous growth in the recent past. This can be emphasized by the fact that the trading volume of most commodities is increasing.

CONCLUSION

The prime objective of this study is to attempt to prove that commodity futures can be efficiently used to reduce risks of a person who is directly involved with the trading of the commodity. Another objective was to prove that it was a sound investment opportunity.

In order to prove both the objectives, a few sub objectives were earmarked and analyzed. The first being the trading system of commodity futures. The trading system included the exchange, where the trade takes place, the clearinghouse, which ensures that the money is transferred to the right person at the right time. The trading system also includes trading and intermediary participants, who ensure the correct price discovery. Thus, the trading system is one of the factors, which reduce the risk in commodity futures.

Another objective was to analyze the risks involved in commodity futures. As in any market there are various types of risk. But by using the various risk management techniques, a person can reduce the risks.

The next objective was to analyze the 'Modus Operandi' of commodity futures. The 'Modus Operandi' includes various concepts and legalities. Which ensure that commodity futures trading operated smoothly. Thus, 'Modus Operandi' of Commodity futures is efficient.

Commodity futures trading included the intermediary and trading participants likes brokers who make use of the various technical analysis tools in order to make predictions of the price movement's they also take into consideration the fundamental analysis. Thus with the help of the various analysis tools, efficient price predictions can be made, where the investors in commodity futures can benefit from the price movements.

There was also an objective to analyze the growth of commodity future. From the analysis, it can be concluded that, commodity futures trading is experiencing tremendous growth. . This can be emphasized by the fact that there

has been an increasing trend in the volume traded in most of the commodities. Thus, commodity futures are a growing market.

To find out the investors perception towards commodity futures, questionnaire survey was conducted, wherein various parameters were taken into consideration. From the questionnaire, it could be concluded that most of the respondents felt that risk could be reduced through commodity futures and that it was a sound investment opportunity.

Thus from all the above conclusions of the sub-objectives, it can be concluded, “commodity futures can be used as a risk reduction and a sound investment instrument”

Recommendations

- Since commodity futures are a new concept, more awareness must be created by marketing this investment instrument appropriately. The people who have already invested in commodity futures, to recommend their friends and family to invest here too, can create this awareness.
- If the minimum investment is reduced, this might induce more people to invest in commodity futures.
- The facility to trade in Indian exchanges must also be made.
- More commodities must be introduced for trading.
- Better analysis tools should be used to make better predictions.
- The clients must be advised not to make their opinion while trading, as a wrong position can prove to be very risky.
- More females should be induced to invest in commodity futures trading
- All age groups of people must be asked to invest in commodity futures.
- One must not trade in commodity futures everyday, just for the sake of it, but should only trade only when there is a good price.
- One must invest in commodity futures, because of very good returns too.
- It is recommended that one should invest in commodity futures from a long-term position perspective too.
- It is not a necessity that one must be very educated to invest in commodity futures. So, it is recommended that those who are not so well educated also can invest in commodity futures.
- It is recommended that people other than businessmen also should invest commodity futures.

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QUESTIONNAIRE

PART – A

1) Name:

2) Sex:

☐ Male

☐ Female

3) Age:

☐ 20-30 Years

☐ 30-40 years

☐ 40-50 years

☐ Above 50 years

4) Education:

☐ Higher secondary

☐ Pre-university

☐ Graduation

☐ Post-graduation

5) Occupation:

☐ Government employee

☐ Self-employee

☐ Commodity futures analyst

☐ Private sector employee

☐ Businessman

☐ Others _____

6) Income:

☐ Below 4 lakh

☐ 4,00,001 – 10,00,000

☐ 10,00,001 – 25,00,000

☐ Above 25,00,000

PART – B

1) Have you invested in commodity futures?

☐ Yes

☐ No

2) Have you invested in any other security?

☐ Yes

☐ No

3) Which are the investments you have made (excluding commodity futures)?

☐ Shares

☐ Bonds

☐ Mutual funds

☐ Bank deposits

☐ Real estate

☐ Jewelry

☐ Others _____

4) What is your experience in your previous investment (excluding commodity futures)?

☐ Good

☐ Reasonable

☐ Bad

5) How often do you trade in commodity futures?

☐ Everyday

☐ Once a week

☐ Trade only when there is a good price

6) What is your objective when trading in commodity futures?

☐ Less risky investment

☐ Diversification of portfolio

☐ Very good returns

☐ Others _____

7) What is the amount you have invested in commodity futures?

- | | |
|--|---|
| ☐ 2,00,000 | ☐ 2,00,001-3,00,000 |
| ☐ 3,00,001-5,00,000 | ☐ 5,00,001-10,00,000 |
| ☐ Above 10,00,000 | |

8) Which commodities have you traded in the most?

- a. _____
- b. _____
- c. _____

9) Do you, as a client use fundamental/technical analysis when giving an order?

- ☐ Yes ☐ No

10) Which commodity do you think is the most volatile?

11) What percentage of savings have you invested in commodity futures?

- | | |
|--|---------------------------------|
| ☐ 0-10% | ☐ 10-20% |
| ☐ 20-30% | ☐ 30-50% |
| ☐ 50% and above | |

12) How did you get to know about commodity futures trading?

- | | |
|---|--|
| ☐ Friends/family | ☐ Self-research |
| ☐ Media | ☐ Others _____ |

13) Which is the risk management technique, which you use mostly?

☐ Switching

☐ Averaging

☐ Locking

☐ Cut loss

14) What do think about the felicitation fee charged by your company?

☐ Very high

☐ High

☐ Reasonable

☐ Low

15) What do you think about the margin requirement charged by your company?

☐ Very high

☐ High

☐ Reasonable

☐ Low

16) Do you think there is future in commodity future trading, in the present economy?

☐ Yes

☐ No

☐ Can't say

17) What do you think of the return derived from commodity futures?

☐ Good

☐ Reasonable

☐ Bad

18) Do you think risk can be reduced by commodity futures?

☐ Yes

☐ No

19) Do you think commodity future is a good investment opportunity?

☐ Yes

☐ No