

THE FUTURE OF COMMODITIES BUSINESS IN INDIA

Journal 2020

Commodity Participants Association of India
(Transforming Rural Economy into Global)



About CPAI

Commodity Participants Association of India was formed and registered as “Commodity Participants Association of India” i.e. CPAI, on 20th February, 2006 with registered office at 613, New Delhi House, 27, Barakhamba Road, New Delhi-110001.

Commodity Participants Association of India (CPAI) is the only registered All India Association of all the National Commodity Exchanges and comprising of Commodities Participants of the recognized Commodity Exchanges like MCX, NCDEX, NSE, BSE, ICEX etc. operating across the country. The Association has its Head Office in New Delhi and has four regions viz Western region, Eastern region, Northern region and Southern region.

The National Executive and four Regional Executive Committees of CPAI, comprising of the most sincere and dedicated members from all parts of the country, are working selflessly and tirelessly for the upliftment, growth and overall development of the commodity business in India. The unflagging efforts put in for transforming rural economy to global by the office bearers of CPAI can make any organization proud.

The basic objective of the Association is to work for the cause and concern of its members (Commodity Participants) so that they could do business smoothly and their problems could be discussed with the relevant authorities. It provides a platform to its members to voice their opinion on various policies and operations of doing commodity dealings for its clients. Also it provides professional assistance, guidance and special services to its members to function ethically according to the standard principles and practices laid down by the Government, Regulator and the Commodity Exchanges.

CPAI since its inception in 2006 has been striving hard to achieve its mission through assistance to Govt. & regulator, coordination with exchanges, guidance to members and education & awareness to investors, producers & consumers through seminars, awareness programmes, workshops, Journals and e-mails etc.

CPAI has earned recognition and appreciation from the Govt. & Regulators so much so that CPAI members have been given representation in all the committees formed by the Govt., regulators & exchanges.

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- Views expressed in the articles published the document in are the personal opinion of the respective authors and may not necessarily be the view of the association.
- The articles have been edited for the sake of brevity wherever necessary.

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Ravinder Kumar, Associate, Research, SMC Comtrade Ltd.

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Narinder Wadhwa
President, CPAI

From the President's Desk

CPAI 2.0 is here! It is a matter of great pleasure for CPAI and its members that your Association has shifted to its own office on 1 March 2020. Unflinching commitment as well as consistent efforts put in by everyone of us in last 14 years has made it possible to realise this goal of having an office of our own. By the end of this month and befittingly the financial year, the formal inauguration of the office at Surya Kiran Building, K G Marg in Connaught Place, the Central Business District of New Delhi . From the new office, it is an occasion to cherish for CPAI and its members to have the fourth and final issue of the quarterly journal for the year 2019-20.

First three months of Calendar Year 2020 have been very eventful even at regulatory front as well. Our interactions with SEBI, CDAC and RMRC committees yielded some positive results. Revised Norms for Regaining Matched Books were issued by SEBI rationalising the Compensation and Penalty on Tear Up options which members would remember was used in September 2019 for very first time ever in Castor Contracts. Earlier, the traders received relief amounting to almost Rs 300 million as waiver on penalties towards non-collection of margins that the Exchange agreed to provide following our intense efforts and representations. There was a pathbreaking circular on new margin framework for Cash and Derivative Segment that comes into effect from 1 May 2020 .The paradigms of trading are expected to

see a quantum shift with hedged positions requiring much lower margins. Hopefully it will be beneficial for the broking fraternity. SEBI also revised the norms pertaining to receipt of Electronic Contract Notes (ECN) for Ease of Investors and brought uniformity across all segments with regard to receipt of ECN. It was a quick acceptance of our submission by SEBI and incidentally our first submission from the new office. There were some disappointments also as the relief on Cost of Transactions specifically with respect to CTT was not provided in the Union Budget. Our earnest efforts and elaborate representations during Pre Budget Meetings with policymakers drew their appreciation but the final outcome was not as per expectations. Hits and misses with its vicissitudes is what sums up the life and makes it interesting!!

The Regional Seminars were held in Western Zone at Mumbai and Southern Zone at Cochin and our members chose interesting and relevant themes for the seminars. The theme of the Seminar held in Cochin on 18th and 19th January was "Stock and Commodity Market-Ecosystem- futures of broking industry" while the Seminar in Mumbai had intense penal discussions around the theme "Commodity Markets on the cusp of growth" on 18 February 2020.

Kindly exercise all precautions to protect yourself and all your team members from the Covid -19, the virus that has posed new challenge and stoked new fears. We are Risk Managers to the core and taking preventive actions to be safe are in our occupational DNA.

Friends! Your association CPAI in its 2.0 will face new challenges that the purchase of new office inevitably throws up and it requires even greater support and trust from each one of us to make it even stronger. Please keep putting forth your suggestions as well as views.

On behalf of CPAI, I would like to put on record our sense of gratitude to the editorial team led by Mr Jayant Manglik in getting this journal to you.

With Best Wishes for personal and organisational well- being as well as prosperity in Financial Year 2020-21.

Narinder Wadhwa



Jayant Manglik
Chairman, CPAI-NR &
Chairman, Editorial Board

From the Chairman's Desk

Much is happening in the world which is impacting commodity prices as well as commodity markets today including the surprisingly large impact of corona virus to highly volatile markets in equity, commodity & currency to China's slowdown to activism across the world in different spheres which is changing power equations. This dynamic environment is the opportune time to discuss about the future of commodity business in India – which is the topic of this quarterly journal.

So we have lined up several relevant articles in this direction with inputs from commodity exchanges, intermediaries and experts on the way ahead. Focus on product innovation, the role of commodities towards creating a \$ 5 Trillion economy, making India a single market, development of critical infrastructure and more are covered in this edition.

We express our sincere thanks to the contributors of the articles for sharing their thoughts with everybody via this

journal. It is our endeavour to continue to keep this CPAI quarterly journal as the preferred platform for presenting expert opinion on a variety of topics impacting commodity business and markets. Distributed widely, this magazine reaches senior government functionaries, regulators, exchange official, members, industry value chain participants and consumers. If you would like any specific specialist, authority or professional's view on a particular topic, please do let us know and we will try to get them to write here. Also, if you have any special requests regarding distribution, please do get in touch with us.

Having just moved into its spanking new office at Connaught Place in New Delhi, CPAI reiterates its commitment to its members and the commodity ecosystem. We hope you will enjoy reading this edition of the journal and, as always, we actively solicit your feedback to make this even better.

Jayant Manglik

The Way Forward



Vijay Kumar
MD & CEO, NCDEX

Commodity Derivatives markets in India, have made significant progress since the establishment of national commodity exchanges a decade and a half ago. During this period, Commodity Exchanges have successfully performed two significant economic functions viz., price discovery and price risk management in the commodities ecosystem. Various value chain participants such as Farmers/FPOs, Traders/Brokers, importers/ exporters, etc. have been using platform provided by Commodity Exchanges actively to hedge their price risk.

The price discovered in Futures markets also reflects the underlying physical market demand and supply dynamics and thus have helped to reduce information asymmetry. This has helped farmers to earn better return for their produce.

Further, they have also pioneered several reforms in the primary markets by creating a robust and efficient delivery ecosystem in the country. The enactment of Warehousing Development and Regulatory Authority (WDRA) Act for ease of borrowing funds against electronic negotiable receipts (eNWRs) has made it safer for every stakeholder including farmers to transact efficiently. Several initiatives taken by Regulator in recent past such as permitting Options on Commodity Futures, permitting participation of Category III Alternative Investment Funds (AIF), Eligible Foreign Entities (EFEs), Mutual Funds and Portfolio Management Service in Commodities Derivatives market, allowing introduction of futures on commodity indices has been like a shot in the arm for this market. Government of India through Gazette notification dated October 18, 2019 has change in the Securities and Contract Regulation Act (SCRA). Hence, SEBI may soon permit settling options on the basis of the underlying commodity. Such initiatives have not only helped in the strengthening and bringing stability to the market, but also led to evolvement of commodities as a new asset class. It has also opened new avenues to induce jobs, growth, and development in commodity derivatives ecosystem.

Individual farmers are usually not able to participate in Futures market, often limited by the large size of Futures contract. However, with the emergence of FPOs, farmers have learnt to aggregate their produce which gives them a competitive edge to aggregate, sort, grade and finally market their produce to institutional buyers, directly or otherwise thereby managing the price risk for their produce.

The government too is leaving no stone unturned to increase the income of farmers by empowering them on various fronts such as enabling their

access to regulated markets, increasing the minimum support prices, increasing the density of physical markets, permitting cost effective hedging products to hedge the price risk etc. However, recent surplus production years backed by good monsoon and resultant general downfall in prices below MSP has steered the government to further strengthen the procurement and channelizing of agricultural produce so as to protect the income of producers.

The Future of Commodity Business in India will depend on viable options that will keep the interest of the farmers upfront. This will include the unique options such as Agridex, Participation of Financial Institution in Commodities Derivatives Market, Weather Futures etc.

A Robust procurement mechanism

There is a need for a robust procurement mechanism that can translate the MSP in farmers' income, the new procurement policy announced by the Government called the 'Pradhan Mantri Annadata Aay Sanrakshan Abhiyan'. It contains components such as Price Support Scheme, Price Deficiency Payment Scheme, and Pilot of Private Procurement & Stockist Scheme. These schemes are a welcome step by the Government in the right direction and they can be supplemented by using commodity derivatives market for the procurement, price support, price stabilization and eventually hedge the price risk of procured commodities.

AGRIDEX – the game changer

With Regulator permitted introduction of futures on commodity indices, NCDEX has developed an index – AGRIDEX which is India's first return based agricultural futures Index which tracks the performance of the ten liquid commodities traded on the Exchange platform. It represents the basket of ten commodities which are selected based on the liquidity on exchange platform. Once futures

contract on AGRIDEX is launched it will serve as a benchmark or barometer and replicate the performance of the underlying commodities.

Mandating the Companies with Large Borrowings Having Commodity Exposure to Hedge their Risk

In May 2015 RBI issued the guidelines asking banks to encourage hedging by the large Agri-borrowers by creating awareness. There have been instances of commodity firms/companies getting bankrupt or defaulting due to losses arising from unmanageable commodity risks. One of the largest makers of edible oils, which had taken loans worth over Rs.10,000 crores defaulted before few years. It is high time that the advisories should further be converted into mandate that the companies with commodity exposures should hedge their exposure in commodities. This will not only protect the borrowers but also the banks and lower risks to the economy.

Participation of Financial Institution in Commodities Derivatives Market

Category III Alternative Investment Funds (AIF), Eligible Foreign Entities (EFEs), Mutual Funds and Portfolio Management Service are already allowed to participate in Commodities Derivatives Market. However, there is still a need to encourage and create awareness for these institution to start participating big time in this market.

Commodity Options as a cost-effective tool to hedge price risk

With the regulator allowing the introduction of Agri-Options in 2017, they emerged as a new-age efficient hedging tool in the hands of the value chain participants including farmers. Not only they help deepen the commodity market but also enable farmers to use them as insurance for getting remunerative prices of their produce. This is so because buying Option doesn't require any upfront

margin to be paid except for a premium amount which is a much smaller amount than futures margins. Also, buying Option doesn't involve Mark to Margins, a major hurdle of farmers. At the same time, the benefit of any upside price surge is preserved which serves as price insurance for the farmers. Using this instrument, even before planting his crop, a farmer can purchase the guarantee of a minimum price, without incurring the obligation to sell at that price should the market price be higher at harvest time. Therefore, Agri Options have the potential to serve as a tool to safeguard the interest of farmers. As buying the Put Options involve premiums to be paid by farmers, the government can subsidize the same, either partially or completely, to encourage the farmers towards the same.

Commodity Options could also augment to the social objective of the Government towards procuring food grains for strategic reserves, other social welfare schemes and providing minimum support prices (MSP) to farmers. The government procurements are often concentrated to certain higher producing states. For example around over 80% of wheat is procured mainly from 3 states viz. Punjab, Haryana and Madhya Pradesh. Similarly, over 80% of rice is procured from 6 states with 30% of rice was contributed only from Punjab. Therefore, farmers from other states producing these crops remained mostly deprived of the MSP procurement benefit. Using Agri-Options by the government would overcome this constraint by enabling farmers across the country through a national online platform to participate in the procurements.

Furthermore, Agri-Options could also enable banks and other financing institutions to improve the terms of financing to value chain participants including farmers. If Agri-produce is hedged by the owners/farmers, it ensures future realisation/revenues which in turn increases their creditworthiness providing extra comfort to

lenders. The benefit can be passed on in terms of lower interest rates to them.

Sustained growth in Commodity Options would help make Indian commodity market more efficient and give a strong impetus towards development and transformation of commodity ecosystem, ushering in a new era in price risk management by farmers and other value chain participants.

Weather Futures

Farmers are prone to weather risk during both pre- and post-monsoon periods. With the weather playing hide and seek, the weather derivatives could well be the answer to create awareness amongst farmers so that they can take informed decisions.

Improving market access

Market access is a key enabler for improving farmers' incomes. Strong links to markets for smallholders is essential for increasing agricultural production and generating economic growth in rural areas. Improving these links creates a virtuous circle by boosting productivity, increasing incomes and strengthening food security. Better access by small producers to formal regulated markets means that they can reliably sell more produce at higher prices. This, in turn, encourages farmers to invest in their own businesses and increase the quantity, quality and diversity of the goods they produce.

Price risk management

Farmers, especially marginal and small ones, are most vulnerable to price volatility due to their compulsion to sell almost entire or a major chunk of their produce at a time when prices tend to remain lower. However, the emergence of Commodity derivatives market helped them avoid serious losses when prices fall. Field-based evidence demonstrates that farmers are now learning to aggregate their produce and participate directly on

regulated market platforms to mitigate their price risk and secure better earnings than the prevailing prices at the time of harvest. Further, greater income predictability offered by hedged price risk also facilitates more effective planning and investment by farmers.

Farmers using regulated markets to manage their price risk

The growth of Farmer Producers Organisations (FPOs) has opened up a new horizon for farmers, for managing their post-harvest price risk using commodity Futures. While the larger lot size of Futures contracts remains impediments for smallholders to participate directly, the emergence of FPOs and the increased awareness gives them a competitive edge to aggregate, sort, grade and finally market their produce to institutional buyers, directly or otherwise thereby managing the price risk for their produce.

With the help of FPOs, thousands of farmers across various states have started using the commodity derivatives platform provided by commodity exchanges to lock in the price of their produce well in advance during the sowing stage of the crop itself. Additionally, the direct access to regulated markets helped them save towards transaction costs as compared to costs involved in selling the produce in the traditional market coupled with saving on account of eliminating the malpractices in weighing etc.

So far, NCDEX has been able to rope in over 251 FPOs across 13 states with over 5,22,296 farmer members on commodity Futures platform. These FPOs have successfully used Futures to hedge their price risks of around 33,355 MT of 17 different commodities.

Need for capital investment from private traders

Unlike manufacturing goods, seasonality factor plays a big role in the production of agricultural commodities. Agricultural crops are produced

once in a year either during Kharif season (Soybean, Cotton, etc.) or Rabi season (Chana, Mustard Seed, etc.) though the consumption takes place round the year. As per a rough estimate, around 60-70% of agricultural produce arrives in physical markets within first 2 to 4 months of harvesting season and farmers hold rest of the quantity for self-consumption or in expectation of better realization later on as the year progresses.

This massive arrivals of commodities in the first few month post-harvest coupled with an absence of matching support from private traders often results in prices trading below MSP. The poor holding capacity of farmers and limited buying capacity of processors and end users necessitates a need for capital investment from private traders who can absorb extra arrivals immediately post-harvest and hold it to ensure supply during farther months.

Stable policies related to procurement and distribution

There are pre-defined stable policies with regards to buffer stock, public distribution scheme (PDS), Other Welfare Schemes (OWS) and Open Market Sales Scheme (OMSS) in case of Wheat and Rice. However, same is lacking in case of pulses and oilseeds. Such pre-defined policies make entire process transparent and builds in confidence of private trade. Hence, pre-defined policy for every notified commodity is precursor for success of PM-AASHA scheme.

Encouraging private investment

On account of seasonality factor, physical trade of agricultural commodities works on carry model and any private investment is made with the expectation of getting a minimum return as equal to cost of carry. Therefore, expanding the price support operations to other agricultural commodities would further require a proper mechanism to take care of the interest of private trade so as to encourage them to stock the

commodities and help Government in achieving its objectives of increasing farmers' realization.

Smooth Warehousing Sector

Smooth warehouse and logistics infrastructure is critical for successful functioning of the Exchange ecosystem. On one hand, it reduces the need for distress sales by farmers at the same time, it also enables them to access more distant markets. Additionally, upgraded quality standards increase crop's suitability to end-user requirements thus improving quality of production by rewarding better quality and consistency of crop. Over the years, increasing adoption of commodity derivatives by the ecosystem has led market participants as well as farmers to recognize the value of meeting the Exchange quality standards and adopted grading and assaying practices.

Way Forward

Newer initiatives and out of the box thinking is required for the development of the commodity markets and agriculture sector. Besides the

commodity markets are slowly but steadily evolving into a new source to generate employment opportunities in a range of emerging subsectors. Therefore, awareness and education of the stakeholders are required to enable them to understand the commodities market in a better way and encourage them to participate in the market to benefit the entire commodity ecosystem.

Additionally, the increased participation of the government on various fronts such as using electronic markets, both spot and derivatives, to procure the stocks; using commodity Options as an alternative to provide minimum support price for farmers; and procuring the required commodity stocks at prevailing market prices instead of minimum support prices and paying the differentials to farmers as direct benefit transfer would provide the required thrust to the market and infuse the greater efficiencies in the ecosystem. This, in turn, would not only improve the confidence of the participants but also augment to the holistic development of entire Agri-ecosystem.



Indian Commodity Derivative Markets - A Future Perspective



Rishi Nathany
Business Development, MCX

Commodity derivative markets in India got a much needed boost after the Union government allowed the setting up of national multi commodity derivative exchanges in 2002.

The existence of regulated commodity derivative markets have been beneficial for multiple stakeholders in the economy – from producers to traders and end-consumers - irrespective of their direct involvement in derivatives trading. Directly, this market helps producers, traders and other commodity stakeholders lock in the prices of their future output or inputs, therefore, helping to hedge against the volatility in these prices. Indirectly, the Exchange helps them by providing a platform for efficient discovery of commodity prices and their wide dissemination across the country. These prices are used as reference prices for physical market transactions as traders place high trust in the integrity of the price discovery process of the exchange mechanism. Besides, commodity future markets have helped stakeholders know the future returns on their produce, thus aiding in their decision-making process. Commodity future markets have incentivised the growth of support infrastructure leading to unveiling of modern warehousing, grading, sorting and quality certification, etc.

Significant developments have taken place in Indian commodity derivatives markets after merger of FMC with SEBI in September, 2015 which includes launch of trading in commodity options, allowing Category III AIF, Mutual Fund and PMS participation, permitting bank broking subsidiaries to provide commodity derivative trading to the investors and banks being allowed to provide clearing services. With these developments commodity derivatives markets have made enormous progress in terms of technology, transparency, compliance and trading activity.

Further progress can be made under following areas which will place the Indian commodity derivative markets at par with their global counterparts-

Integration of Spot and Futures

Despite a regulated and vibrant futures market, the physical commodity markets in India are highly unorganised amid lack of quality standards and reliable information with an opaque system of trade deals. Be it agriculture, bullion or metal physical markets, there is an utter need to restructure the existing spot markets and integrate them with the derivative markets. A well-regulated, pan-India electronic spot market converging with a

functional derivatives market will help farmers and traders receive better prices benefitting other stakeholders in the commodity value chain.

Such a convergence of spot and futures prices will also enhance the effectiveness of the commodity ecosystem and connect farmers to a transparent market-driven production system as per the 'Report of Expert Committee on Integration of Commodity Spot and Derivatives Markets'. The report further adds that absence of a central law to regulate a pan-India spot market, lack of adequate storage, infrastructure and assaying facilities are challenges which needs to be addressed.

Adoption of Quality Standards

Physical commodity markets in India are highly unorganized and fragmented amid lack of uniformity in quality standards and transparent pricing. A unified authority for commodity standards and grades as per the need of the commodities ecosystem amid enhanced availability of quality testing, standardisation backed by a robust quality accreditation mechanism is a key requirement.

There needs to be uniformity in the standards for the growth of the markets. There are umpteen number of crop varieties for each agriculture crop in India leading to challenge in discovery of a uniform price for a particular commodity. Uniform graded produce will have more acceptability in markets and will fetch a premium as compared to the FAQ variety. Producers resist participation in derivative as well as electronic auction markets owing to lack of matching variety/grade/quality of produce in hand, which poses a challenge for a number of genuine sellers to deliver on exchange platform where rigorous quality norms are practised to maintain the integrity of delivery process.

Similarly in case of metals, both primary and secondary (scrap) metal markets need synchronized

quality standards graded with international standards as we are connected to global markets both by way of price reference and by way of exporting or importing some of these metals.

There is a dire need of quality testing & assaying labs to raise the standard quotient among the market participants. Just to take an example of Gold for which the government is planning to make hallmarking compulsory. There are a total of around 830 assaying & hallmarking centres in India against more than 4 lakh jewellers in India.

Warehousing of non agri commodities

Measures such as extending the purview of the Warehousing Development and Regulatory Authority (WDRA) to the non-agri commodities will be helpful in increasing the connect of these commodities to markets and to the world of finance.

A working group was constituted regarding development of regulated warehousing ecosystem for non-agriculture commodities to suggest ways to strengthen the warehousing ecosystem that would eventually facilitate efficient storage and handling of such commodities in the physical markets. The Working Group has made recommendations for the development of a regulated warehousing ecosystem for non-agricultural commodities in areas like legislative and regulatory changes, capacity enhancement at (WDRA), storage infrastructure for such commodities, warehousing procedures, adoption of global best practices etc.

Such developments will go a long-way to contribute to a well-developed forward curve for commodities, leading to efficient decision making by borrowers. Issuance of electronic warehouse receipts in non agri commodities will open opportunities to trade the standardized and quality tested commodities in the form of electronic negotiable warehouse receipts (e-NWRs).

Linking finance with commodities

A collateral benefit of warehousing is the ease it provides in making finance available. Producers can obtain eNWRs after delivering the products and use the same as collateral for short-term working capital loans and later sell the produce when they deem fit. With WDRA accredited warehouses, the owner of the commodity can take their produce to any such warehouse/vault, procure eNWR and offer it for accessing cheap credit.

Coming into being of e-NWRs in commodity markets not only monetizes idle commodities making them loan-worthy but also improves credit worthiness and hence provides a healthy financing option to the businesses involved in the commodities sector. Financing of e-NWRs would not only ease the working capital needs of the user/producer industries but also make the value chain more efficient by developing storage capacities to cushion against price fluctuations.

Need for allowing Banks to participate

Banks' participation could act as a catalyst for the development of commodity derivative markets. The vast network of banks and more importantly their credibility among the rural populace can play a significant role in taking the benefits of commodity derivatives markets to the Indian farming community. At present, banks are not permitted to trade in commodity derivatives as per extant provisions of Sec. 8, Banking Regulation Act, 1949, though the central bank has instructed banks to play an active role in creating awareness of commodity derivatives among various stake holders.

A Working Group (2017) of RBI has also recommended that banks offer customised hedging products to their borrowers exposed to commodity risks, while taking back-to-back positions on commodity exchanges. Some of the

other ways by which these institutions can participate in the market include:

- Banks (along with dealers) can provide OTC derivatives to agricultural commercial players as in the markets abroad. They can play multiple roles as aggregators or efficiently finance the eNWRs of the farmers through hedging their risk exposures in commodity financing thereby augmenting the liquidity in derivatives markets.
- RBI and NABARD can encourage cooperatives, banks and micro finance institutions to spread knowledge regarding functioning of commodity derivative markets and the futures prices to the farmers/farmers collectives.
- With the development of a credible warehouse receipt system as envisaged by the WDRA, banks should also be encouraged to lend against pledge of warehouse receipts issued by the commodity repositories under the regulatory supervision of WDRA. It will help farmers/ farmer collectives finance their produce at competitive rates from banks. Also, when this produce is hedged for delivery, it can help them to get a lower margin haircut, if they provide the contract note along with eNWR.

Allowing banks to participate directly on commodity derivative exchanges will increase liquidity in far-month contracts prompting higher participation by hedgers who can lock-in the prices of raw materials for an extended period. Lack of liquidity in far-month contracts is a major hindrance in participation of corporates who are looking to hedge in Indian commodity markets.

Promoting Hedging for Price Risk Management

With India being the fastest growing economy in the world, manufacturing companies have a key role to play in nation building. Such companies are large commodity consuming/producing entities

and have the need to hedge to protect themselves from vagaries of sharp volatility in commodity and currency markets. Hedging in the Indian commodity markets is slowly picking up pace and in the coming years more entities are likely to avail this unique platform to manage their price risks. The low adoption of hedging is attributable primarily to the lack of awareness of the economic benefits of hedging, lack of recognition of technical skills to trade in the derivatives markets, as also the lack of financial resources to maintain hedging through the life-cycle of operations. Exchange-traded derivative products enable users to lock-in input prices at a particular level and therefore protect themselves from the ill effects of adverse price movements. Initiatives need to be undertaken to build greater awareness about the risk management role of exchange traded commodity derivatives.

SEBI LODR mandate regarding disclosures regarding commodity risks by listed companies will prompt more entities to hedge on commodity exchanges.

Conclusion

Commodities are strong constituents of the

primary sector of India's economy. India is mostly a commodity-based economy wherein agriculture & manufacturing sector contributes more than 34% to the GDP and the two sectors form the basic structure of the Indian economy. With growing urbanization and population forecasted to rise to 1.44 billion by 2030 from the current 1.36 billion, the demand for commodities will propel the economy as housing and infrastructure develop. Going forward, we expect entry of banks and other financial institutions will soon be permitted which will prompt penetration of a larger investor community into the commodity markets.

The Indian commodity derivatives market is currently undergoing a number of reforms, aimed at broadening and deepening the market. Intermediaries and Exchanges are being strengthened and more products and participant categories, most notably institutional participants, are being progressively allowed in this market. These reforms are expected to bring in vibrancy and inclusion to the commodity market, which would surely benefit not only the commodity sector and its ecosystem but also the entire Indian economy, which is and shall remain highly commodity intensive for a long time to come.



Redefining the Landscape of Commodity Derivatives Market



Sameer Patil
Chief Business Officer, BSE

The Indian economy is undergoing several transformational changes and various sectors of the economy are expanding fast. Commodity markets, as an integral part of the economy, too are expanding, and in response to the increased demand for commodities, so is the need for efficient markets for better risk management and price discovery of commodities. The commodity derivatives market is itself undergoing a metamorphosis with introduction of new products and participant categories, opening new vistas of presenting commodities as an investible asset class.

The organized marketplace for commodity markets in India have evolved significantly with the introduction of commodity derivative exchanges in 2003, enactment of Warehousing Development and Regulatory Authority and the merger of FMC with SEBI effective September 28, 2015. Post the merger, commodity derivatives market has picked up momentum during the past few years, as number of long awaited regulatory measures were either cleared or under consideration for clearance. However, the commodity derivatives market have found a renewed vigor with SEBI permitting the formation of a universal exchange, i.e. integrating trading in equities, currency and commodities on a single platform from October 1, 2018. As a result, now there are multiple exchanges in the marketplace offering similar services, and competition among them is set to intensify gradually. This was good for both the market and its participants who will have a choice.

This move helped participants in various markets with a highly regulated, safer and more transparent trading, clearing and settlement framework. Moreover, trading in a universal exchange offers significantly greater convenience for investors and traders, who are able to trade in all asset categories from a single account, reaping benefits arising from enhanced competition across all categories, thus creating deeper markets with lower spreads and transaction charges. Clearly, SEBI is working to strengthen, deepen and widen the domestic market by encouraging exchanges to explore new products and new participants.

Commodity Derivatives Market - BSE Foray Opening New Vistas

Following SEBI approval in October 2018, BSE became India's first universal exchange and currently offers all assets classes permitted for trading that

includes equity, equity, currency, interest rate and commodity derivatives in its portfolio. Established in 1875, the BSE traces its roots to cotton trading during the 1850's, and it was natural for us to launch commodity derivatives trading.

In precious metals, BSE currently offers trading in delivery-based futures contract in gold (1 kg) and silver (30 kg). We also offer Oman Crude Oil futures, a tailored product for Indian oil producers and consumers followed by first of its kind delivery-based copper futures contract in India. In the case of agri, BSE offers futures trading in Guar Seed and Guar Gum with a trading unit of 10 metric tons, Cotton with trading unit of 25 bales and Turmeric with a trading unit of 10 metric tons. We have received overwhelming response in these contracts, with BSE registering considerable market share in a short duration of launch. BSE has always prided itself as an investment exchange and not one for speculators. With this principle, BSE has emphasized on physical delivery as an integral part of our commodity derivatives platform and attained delivery of close to 16,400 tonnes across all commodities on our platform as of December 2019.

BSE is appreciative of SEBI for approval of commodities to be traded on our platform, and we are happy to announce that we are in preparation to launch trading of first-of-its-kind Brent Crude Oil futures contract on January 27, 2020 which will be settled on Brent Oil price on ICE. This contract offers market participants a better hedging alternative as India's crude price is benchmarked to Brent Oil. We are also awaiting regulatory approval for launching Kapas, Steel and first-of-its-kind almond contracts. BSE also plans to launch futures on Kapas to add to the cotton complex as well as aluminum, lead and zinc to add to its existing portfolio of base metals. We can confirm that this is just the start of the long list of innovative products we plan to introduce on our commodity trading platform, thus deepening and adding more value to the existing commodities ecosystem.

With such a diverse commodity portfolio offered by BSE, we believe that Indian commodity derivatives markets are poised to take a new course on the back of slew of measures brought by the regulators and policy makers to ensure the market functioning is more efficient in terms of risk management and price discovery.



Partnerships with various Trade Bodies and Associations

For the growth and systematic development of commodity derivatives markets, and to deepen the understanding of commodity derivatives among stakeholders, BSE associated with various industry bodies and associations to launch new and innovative products, which will add more value to the existing commodities ecosystem. Some of the major agreements with trade bodies and associations include Gems and Jewellery Council, Indian Bullion Jewelers Association and Bullion Federation of India to launch novel futures contracts in precious metals. The association with London Metal Exchange and Bombay Metal Exchange is going to help us in Non-Ferrous metals space in designing new and innovative deliverable products in base metals. In the agri commodity space, our association with Rajkot Commodity Exchange, Federation of Indian Spices Stakeholders (FISS), Soybean Processors Association of India (SOPA), Shree Halad Vyapari Association-Sangli and Cotton Association of India (CAI), who played a key role in launch of cotton futures on our platform bode well for the growth and development of commodity derivatives market.

Additionally, we are also affiliating with leading international exchanges as we fully acknowledge and appreciate their strengths, resources, experience and expertise, therefore joining hands for mutual benefits and pursuit of common goals with the objective of developing and strengthening Commodity derivatives market.

BSE awaiting regulatory approvals to launch commodity options

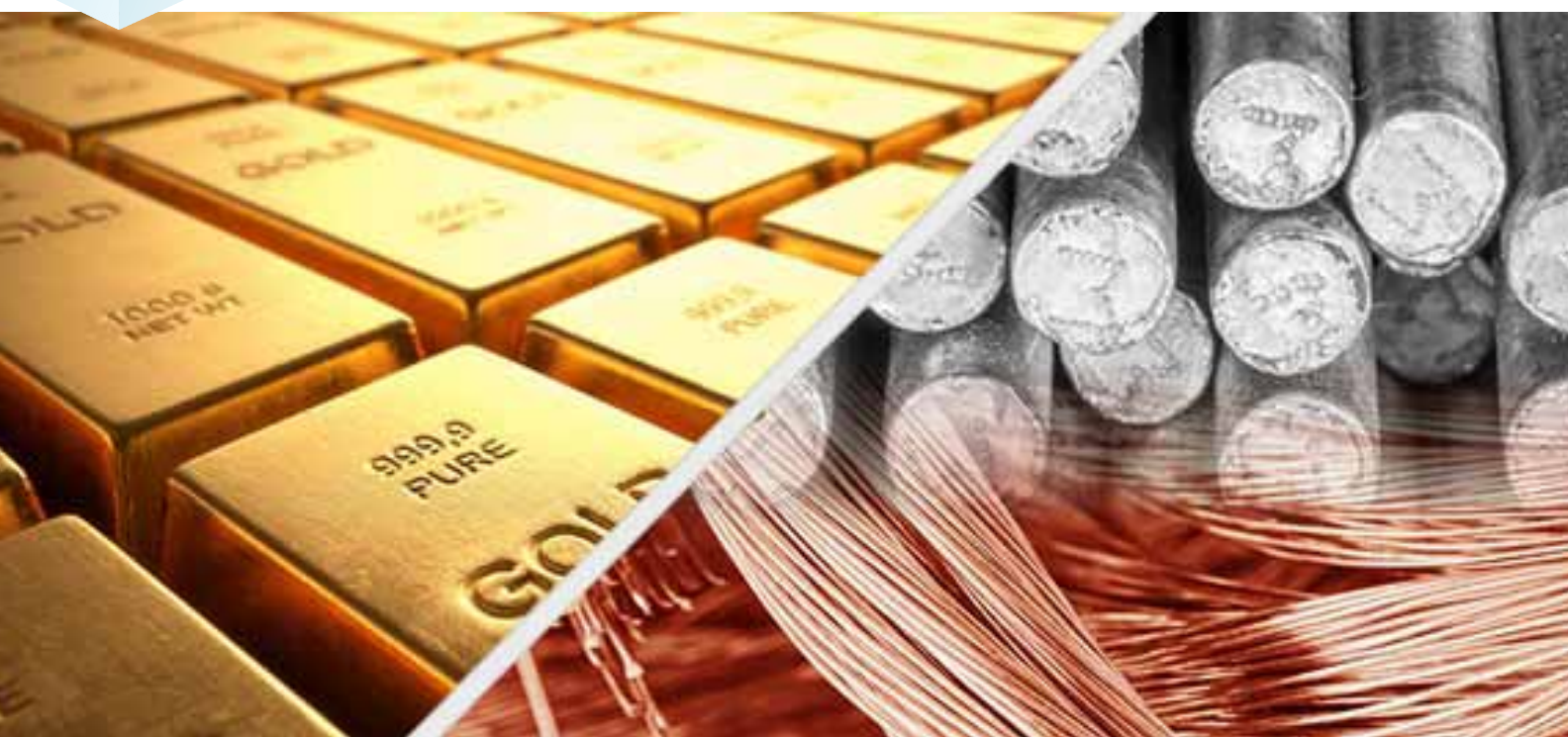
With a view to further widen and deepen the derivatives and commodity markets in India, a working group to study the introduction of derivatives contracts on new commodity derivative products and new commodities was

formed on the advice of SEBI. BSE took the lead and was designated as a coordinator of this working group consisting of representatives from all exchanges, traders, members, associations and individual experts was formed. One of the major recommendations of this working group was the introduction of the necessary framework for development of options segment by permitting exchanges to introduce options on spot prices of commodities

Subsequently, the Government of India issued a legal notification to this effect which will paved way for BSE and other exchanges to launch options trading based on spot prices. Commodity options can now be settled directly based on spot prices instead of the current practice of options devolving into futures first.

Currently, for launching options trading, a particular agriculture commodity should have registered a minimum average daily volume of over ₹200 crore on the futures market. For a non-agricultural commodity, it is over ₹1,000 crore. In addition, the options contract, on expiry, devolves into that particular commodity's futures contract. Following this, a trader has to start paying margins, which are not applicable on an options contract. With options on goods, options players can actually give or take delivery of the underlying without getting into the futures contract at the time of expiry. Secondly, in case of cash settled contracts, options can be settled on the spot of the underlying. This will not only enable exchanges to launch innovative by enable the rollout of farmer-friendly new options but also paves the way for the integration of the spot market with the derivatives market.

BSE is currently waiting for SEBI's circulars for the implementation and launching of options of commodities. We are excited about the bright prospects in the commodity markets with the impending launch of options to be settled on spot prices, rather than the existing futures prices.



Commodities Market Made More Vibrant

With foray in commodity space, BSE has made the market more vibrant and inclusive, and benefitting the entire spectrum of market participants from producers to traders and end-consumers. Apart from providing its platform for stakeholders of commodities markets to hedge against the price risk, the entry of BSE has provided participants with cost-effective and best-in-class technology solutions. The wide dissemination of prices discovered on the BSE platform are now being used as reference prices for physical market transactions. Our tie-ups, partnerships and alliances with various physical market participants has enabled strengthening of warehouses and other support infrastructure, which is essential for grading, sorting and quality certification, etc.

Additionally, we have leveraged on our existing members strength to create liquidity and ensured competitive transaction and membership charges. With best-in-class risk management, robust and

effective surveillance and compliance framework and globally recognized clearing and settlement systems, BSE has bought in much needed vibrancy and inclusion to the commodity market, which would surely benefit not only the commodity sector and its ecosystem but also the entire Indian economy.

Roadmap Ahead

BSE plans to systematically develop the commodity market via product innovation, awareness and research with a view to provide a wider product range to the market participants. The Exchange will be offering new products that will cater to the requirements of all participants in the ecosystem, thus adding more value to the existing commodities ecosystem. With several new and innovative products, stress on continuous improvement and an established culture of serving its stakeholders, BSE is aiming to attain greater heights and achieve the next stage of its growth.

Scientific Warehousing can address the storage problems of the Agricultural Sector



Sandeep Sabharwal
Group CEO, SLCM

The government has outlined its intention to make India a \$5 trillion sized- economy and for achieving this target, growth of agriculture sector is of utmost importance. Agriculture is the primary source of livelihood for about 60 percent of country's population. Despite having a central role in India's economy, the poor state of agriculture in India is a point of concern for everyone. It is distressing to note that every year; an enormous amount of food grains gets wasted due to archaic procurement, storage and inefficient warehousing methods. Typical storage losses for agri produce in India accounts for approximately 10% (only for the dry food grains) of the entire production which is staggering INR 1, 00,000 crores. This results in huge burden on the economy because one, it leads to inflation as additional supplies could have helped cool down prices and two, this production can go a long way in providing food to millions of poor people in India at subsidized rates.

Scientific Warehousing is the need of the hour and is one solution which can address the problem of wastage during storage to a large extent. A detailed FICCI Study in 2011 titled, "Partnership to Scale New Heights, India - US Collaboration in Agriculture", conducted to gauge the effectiveness of scientific warehousing ,has stated that a Warehousing company-the subject of the study- has adopted scientific storage techniques and have shown remarkable impact on the quantity and quality of goods. The FICCI study highlighted the Centralized Real Time Process Management System developed by the warehousing company and its impact on operational excellence in the facility.

The impact of the indigenous algorithm developed by the warehousing company and its role in combating the menace of post harvest losses has been explained in detail in the study. The study mentions how a scientifically designed system helps in generating a Standard Operating Practice (SOP) that allows management and preservation of any commodity at any location irrespective of geography, weather pattern or storage infrastructure whilst significantly reducing storage loss both in terms of quantity as well as loss of quality. Through Geo-tagging all the operational warehouses, the storage updates are received in real time thus helping in keeping track of inventories and other activities and ultimately combating the menace of post harvest losses.



The study concludes by stating that “With the help of the indigenously developed algorithm, the warehousing company has reduced the post-harvest losses which are pegged at 10% to merely 0.5%. The reduction in storage losses from 10% to 0.5% can have huge impact, to approx. INR 99,500 crores per annum in India alone, if replicated across the system. In a nation, where it is estimated that at least 200 million people go to bed empty stomach each night such post-harvest losses are bothersome. With the help of scientific warehousing the post-harvest losses can be reduced to a great extent and can provide an interim solution to the “Food Security Problem” of India which is a major social challenge for our society.”

The adoption of scientific warehousing has already started and Food Corporation of India (FCI) has started implementing it in Bihar where it is operating godowns in PPP mode under Private

Entrepreneurs Guarantee (PEG) Scheme. In these warehouses, it is adopting cutting edge technologies to bring down the post harvest losses significantly and is also using techniques like geo-fencing to Real Time tracking, bar-coded storage receipts to avoid thefts/ pilferage, Internal Audits along with a “Maker and Checker” policy at each level for effectively reducing the post harvest losses.

Agricultural growth needs warehousing reforms and it is important that Budgeted support to warehousing companies that are utilising existing infrastructure yet using cutting edge scientific linkages like REAL TIME information etc., should be provided. Rationalisation of indirect taxes on Agri warehousing is another step which could provide the much needed fillip to the sector. Organised warehousing companies' takes warehouses on lease where they have to pay GST.

GST for such commercial leasing should be exempt as collateral management companies cannot get input credit of the GST they pay on rent because the commodities in which they deal are agri commodities, which do not attract GST. In such a scenario a waiver of the 18 per cent GST will motivate farmers to store their produce and prevent distress sale.

To salvage farmers and to redeem Agriculture, it is important that the ongoing digital revolution touches the sector in totality which could lead to a much needed revival of this age old profession. We are living in a digital edge and informatics and communication, the two mainstay of this revolution, provides a great opportunity of linking farmers and agri scientists with the national and

international databases through which they can get timely information about farming systems. Also if the warehouses were networked and posted their stock positions daily to a central registry, the government could regulate supplies and have a better grip on prices.

A clear long-term vision for agriculture sector is required, where inter-sectoral linkages are delineated explicitly .New approaches and new institutions are required which are free from the shackles of bureaucratic and self-help framework and which can really pull our farmers from lifelong penury. It can easily happen if the organised players are encouraged to participate in the warehouse management in a big way.



The Future is Bright



Jigar Trivedi
Anand Rathi

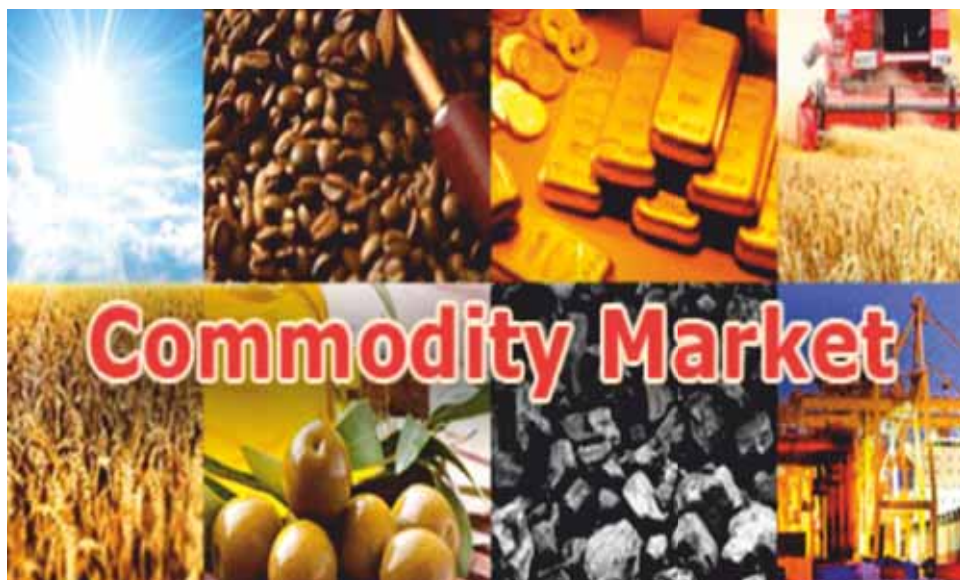
The future is bright !!

The evolution and growth of the commodities market in India has been impressive. Especially post-independence, right from irrigation and farmer education through better equipment and electricity to awareness on seed plantation, transportation to storage and development of a futures market.

The commodity futures market is poised to play an important role, of performing two important functions of price discovery and price-risk management for the development of agriculture and other sectors in the economy. The gradual evolution of the commodity markets in India has been of great significance for both the country's general economic distribution and its links to the financial sector. Being a unique hedging instrument, it provides efficient portfolio management arising from diversification benefits, which result in greater returns.

More than fifteen years after the launch of commodity derivatives trade through nationwide exchanges trading multiple commodities online, there is still a sense of under-achievement in terms of products and trading volumes. This feeling is palpable, especially among major stakeholders, and is wholly understandable.

No doubt, in recent years, the sector has seen some key developments. Primarily, the merger of the erstwhile regulator, The Forward Markets Commission, with the autonomous securities market regulator, The Securities and Exchange Board of India (SEBI), has taken regulatory oversight higher.





Other advances include the development and regulation of warehouses through a separate regulator, the introduction of options contracts in select commodities, and recognition of all exchanges as stock exchanges.

Clearly, SEBI is working to strengthen, deepen and widen the domestic market by encouraging exchanges to explore new products and new participants.

By their very nature, commodity markets are volatile, and business entities with exposure to commodities have to manage their price risk through what is known as 'hedging'. So, promotion of derivatives trading nationally for price-risk management ought to be a priority for policy-makers.

A progressive step would be allowing commercial banks to trade commodities. This would surely deepen and widen the derivatives market as well as encourage more scientific price discovery.

Importantly, we need a 'Trade in India' campaign and to do everything possible to facilitate trading nationally. This is especially critical when markets are subject to huge uncertainties and risks.

On structural reforms, it is critical to address the reform needs of the physical market first. A healthy and transparent cash market alone can ensure a robust derivatives market. The physical market,



especially of agricultural commodities, is surely crying out for policymakers' attention.

Further reforms in the administration of marketing yards (APMC mandis), improvement in rural connectivity and investment in infrastructure will go a long way in strengthening the physical markets for farm goods. As cash and derivatives markets are known to feed on each other, their operating ecosystem has to evolve.

There is no denying that the rapid growth in production and consumption of China and India has contributed to a massive surge in demand for commodities from energy to minerals in recent years. Besides, intense speculative activity by financial players, geo-political factors and supply constraints have significantly affected commodity prices and volatility.

The turnover of the commodity futures market has grown exponentially in a short span. With skewed market participation largely favouring speculators, the futures market leaves much to be desired as an effective instrument of risk management and price discovery for the benefit of growers, traders, processors and other stakeholders in physical trade. Policymakers have overlooked wider considerations involving the discipline of checks and balances. Owing to the massive size and non-zero-sum game character of these markets, they are likely to introduce a series of unsettling macro-economic effects, such as a possible redistribution of incomes from small players to large speculative financial market entities.

The sky is the limit for the commodity business in India

Comparing India's story to that of the world's advanced economies, our nation is far behind in terms of consumption. Bearing in mind the ever-increasing population, there is wide scope for demand, particularly for agricultural commodities, to soar in coming years. At the same time, though,

are farmers ready to bear the burden of consumption demand, is the 500-crore question.

The large-scale rural-to-urban migration amid uncertainty over income from traditional sources could turn out to be a major hurdle for agricultural output to keep pace with mounting consumption. Farmers are at the mercy of the monsoon, which has been erratic over the past several years. Meanwhile, distress selling at the time of harvesting and small and marginal land-holding are diverting the young generation from rural to urban areas. A revolution in this regard is a must to stop youth from migrating from rural areas. Here the commodity futures market, which could solve most farmer issues from weather vagaries to transportation and storage, among others, comes into focus.

Unfortunately, Indian growers are unable to cash in on the benefit of the futures market, and vast opportunities lie untapped. From the farmers' perspective too, commodity business can grow manifold.

Boosting farmers' participation in the commodity futures market in itself will grow the commodity business in India as they are the ones who could actually help keep production and consumption growth in sync.

For the futures market to achieve the objectives of price discovery and risk mitigation and have an impact on Indian agriculture, it is necessary that more farmers and farmer-producer organisations (FPOs) participate. Commodities with less government intervention should be focused on initially as they help gain confidence in its functioning.

The future is commodity portfolio-management services

Investments in commodities have dramatically increased in the last decade to the point where commodities are now becoming a mainstream asset class. Their increasing popularity reflects the desire



of investors to benefit from the diversification into commodity investments. Globally, a number of mutual funds have started addressing this investor interest and are actively involved in commodity investment through strategies such as futures-based exchange-traded funds (ETFs), long-only or short-only strategies, actively-managed commodity funds, commodity-arbitrage funds, etc.

The mutual fund industry of India, as well as globally, has been continuously evolving. The participation of mutual funds will not only help broaden the domestic commodity market, but larger volumes will render the markets efficient and safe.

Commodity exchanges and well-informed clients are very important for a strong commodity ecosystem. Exchanges provide transparent price discovery and efficient trading platforms for clients to hedge price uncertainty. A fair value for commodities can be determined through the participation of a large number of stakeholders in the value chain.

MCX has told the regulator to promote 'trade in India'. It has asked all major metal and mining companies to hedge a small part of their total bet on the local exchanges. At present, large companies are hedging all their risks in metals prices on overseas exchanges such as the Chicago Mercantile Exchange and the London Metal Exchange.

A new frontier has opened up in India's investment landscape. The market watchdog, SEBI, has allowed mutual funds to invest in commodity derivatives. Measures such as strengthening exchanges and intermediaries through policy changes, adding entities such as mutual funds and Portfolio Management Services, permitting new products such as options and index trading are likely to increase the scope of commodity trading in the country. India's largest commodity exchange, the Multi-Commodity Exchange of India, has launched a series of new indices based on commodity futures contracts traded on the platform.

The move has the potential to boost the commodity market and be a game changer. From the day that the regulation of commodity markets was brought within the scope of SEBI in the 2016 Union Budget, there has been talk of a closer integration between the commodity and equity markets. This should pave the way for retail investors to access and participate in the commodities market in a structured manner. SEBI had earlier permitted Alternative Investment Funds (AIFs) to invest in commodities, and a few schemes have already accessed the market.

- Institutional participation will play an important role in adding liquidity and depth to the commodity derivatives market, leading to



greater efficiency in price discovery and risk management. Moreover, this would provide Indian investors easy access to a new asset class and cater to their diversified investment and trading needs.

- Trading in commodities requires knowledge of fundamentals as each commodity is driven by its own demand-supply dynamics. As a result, many retail investors feel inadequately equipped to break into the commodities markets. Financial entities such as mutual funds have access to high-quality research and can venture into the Indian commodity derivatives market, thereby offering multi-asset investment products with diversification benefits to a large pool of retail investors.
- For sophisticated investors, opportunities may arise in AIF, where they can develop commodity-trading strategies that aim at absolute returns rather than merely participating in trades. Active commodity trading uses a combination of fundamental and technical parameters to take positions in different commodities dynamically, and has

the ability to take long as well as short views. These products form a part of alternative allocations from an investor's perspective.

- Commodity MFs can provide protection against equity-market fluctuations. Commodities such as crude oil, silver and gold are not prone to market trends as in the case of other commodities. They are of immense value and provide good returns even when the equity market is down.
- Besides, the presence of Mutual Funds in commodity-derivatives markets can make such markets more robust by providing liquidity, especially for far-month contracts. Enhanced liquidity and diverse participation groups, including hedgers, can strengthen the price-discovery mechanism of the commodities market and make risk management on exchange platforms more attractive to stakeholders by lowering the impact of the cost of trades.

How commodity derivatives would help MFs

By allocating a part of funds to commodity derivatives, mutual funds will be able to diversify the overall risk in their portfolios. As markets turn more macro in structure, it will become difficult to reduce risk by diversifying into other stocks. In such circumstances, including commodity derivatives in a portfolio will offer diversification since commodity prices tend to run by their own logic.

Dedicated MF and PMS schemes based on commodity derivatives may be a good option for retail investors to indirectly participate in commodity markets. At present, retail investors find commodity markets too erratic and volatile. The presence of institutional operators would mean that retail investors can participate in commodity derivatives with lower risk implications.



SEBI has permitted Category -III Alternative Investment Funds to participate in exchange-traded commodity derivatives. Also, Eligible Foreign Entities with actual exposure to Indian commodity markets to hedge their exposures are permitted to participate in the commodity derivatives segment of recognized stock exchanges. To further this objective, mutual funds have been permitted to participate in exchange-traded commodity derivatives.

ETCDs with gold as the underlying would be considered 'gold-related instruments' for gold exchange-traded funds.

SEBI has said that no mutual-fund scheme should invest in physical goods, except in 'gold' through gold ETFs. Further, as mutual -fund schemes participating in ETCDs may hold the underlying goods in case of physical settlement of contracts, mutual funds should dispose of such goods from

the books of the scheme at the earliest, not exceeding 30 days from the date of holding the physical goods.

To widen and deepen the commodity market, systematic development of markets through continuous innovation, education, research and spreading of awareness among various stake holders is indispensable. Also, product innovation in line with changing market dynamics and emerging challenges would make the platform more vibrant.

To summarise, markets grow due to innovation, flourish due to participation and sustain due to trust. The recent regulatory notifications have encouraged the market to bring in new products and increase participation by allowing a new set of institutional players. This will enhance the depth in the segment, overall. Institutional participation will play an important role in adding long-term liquidity and depth to the commodity derivatives market, leading to better price discovery and enhanced efficiency in risk management. Moreover, it will provide the Indian investors easy access to a new asset class and cater to diversified investment and trading needs. Commodities are a credible asset class, which offer investors a great opportunity. Nevertheless, their behavior and complexity mean that investors need to watch their performances closely and regularly. One thing is for sure: commodity-derivative trading in India is set for rapid expansion after SEBI's recent moves.



The Future of Commodities Business in India



Manoj Kumar Jain
Director
India Nivesh Commodities

In 2003, the Ministry of Consumer Affairs, under the Government of India, amended the Forward Contracts (Regulation) Act, 1952 – paving the way for setting up of commodity derivatives exchanges in India.

The two primary objectives behind the initiative to introduce commodity derivatives exchanges were fair price discovery and price risk management of commodities. Over the last one and half decades since then, the commodity exchanges in India not just have fulfilled these two objectives with great efficiency but have also gone on to establish innumerable milestones.

More vibrancy was injected into the entire commodity exchange ecosystem after commodity exchanges were brought under the purview of Securities Contracts Regulation Act, Ministry of Finance from September 2015 onwards, along with strong regulatory oversight of Securities Exchanges Board of India (SEBI).

Still a long way

Over the 15 years of its existence, the Indian commodity derivatives markets have been witness innumerable ebbs and flows.

Several milestones were achieved in the course, such as daily average volume touching 1 lakh crores in 2013, inclusion of Crude oil, Silver and Natural Gas contracts among the top traded global commodities contract list, and many others. Yet, there's lot that remains to be achieved.

In a country having second largest-population in the world, one of the fastest-growing economies and the designation of the fifth-largest economy in the world in terms of GDP, there are ample opportunities to make the Indian commodities market even more vibrant.

Two key vision of our present government – one, making India a \$5 trillion economy by 2025 and second, doubling of farmers' income by 2022 – provides huge scope for the Indian commodities derivatives market to grow further.

\$5 trillion economy goal – an opportunity for Indian commodity derivatives market

The vision of our Hon'ble Prime Minister Shri Narendra Modi to make India a \$5 trillion economy by 2025 creates ample opportunities for the Indian commodity derivatives market.

Currently, the Gross Domestic Product (GDP) of the country is \$2.97 trillion and India is ranked No. 5 among the world's largest economy. Commodity and the allied sector presently contribute around 20% to the total GDP of India.

In order to increase the size of India's GDP from the existing \$2.97 trillion to \$5 trillion by 2025, it would require adding around 65% of the total value of the existing GDP in the next six years. Efforts made to expand growth of our GDP would automatically trigger growth in the commodities sector, including the commodity derivatives market.

As per reports, India will need to export around \$1 trillion to reach the \$5 trillion economy mark. For creating this \$1 trillion export market, the government is focusing on the manufacturing sector under the “Make in India” programme.

More and more commodities would be required as basic raw material for the manufacturing sector, which in turn, would prove to be a catalyst for growth of the Indian commodity derivatives markets.

Processors, manufacturers, producers and other end users will be able to give and take delivery from the domestic commodity derivative exchanges and also hedge their price risk domestically in rupee-denominated commodity derivatives contracts. Consistent export of \$1 trillion will lead to higher participation and volumes on the commodity exchanges.

Doubling of farmers' income: More opportunities for Indian commodity business

Doubling of farmers' income by 2022 is one of the key agendas of the present government to end farm distress and to provide better livelihood to farmers.

Presently, 70 percent of India's rural population depends on the agriculture sector. It contributes around 18% to India's total GDP, as per data from the Department of Agriculture & Cooperation &

Statistics, 2014. Around 50% of India's total population is engaged in agriculture activities. Apart from employment, the agriculture sector also plays a key role in food security.

However, the growth of the agriculture sector in India has been highly inconsistent due to various reasons such as its excess dependence on monsoon rains, traditional system of farming, a large population of marginal and small farmers engaged in this sector, etc.

The government is taking several initiatives to ensure realisation of its goal of doubling farmers' income by 2022. For example, the government has launched programmes to spread awareness among farmers on ways to take advantage of the commodity derivatives exchanges for fetching better prices for their farm produce.

Farmers Processor Organisation (FPO) is one of the key initiative through which farmers can sell their produce on the commodity derivatives platform or even can hedge their position to get a better price.

More and more FPOs are enrolling themselves on exchange platform through registered brokers of exchanges. On an average one FPO represent around 200-300 farmers. So, if 2-3 lakh FPOs get enrolled by 2022, at least 3 crore farmers will be represented and they will be able to sell their produce directly on the transparent exchange platform.

At present, 585 eNAM are working in India and the government is keen to bring all mandis under this framework. Successful implementation of eNAM throughout the country will bring more vibrancy in the commodity business.

Through FPOs and eNAM, the Indian commodities market have ample opportunities in terms of attracting participation, volumes and handling bulk agriculture commodity deliveries on the exchange platform.

Regulatory push to make Indian commodity derivatives market more robust

The regulator always plays a key role in the success of any market.

Over the last 16 years, both the government and the regulators have initiated a number of reforms measures for the Indian commodity derivatives market with the goal of establishing it on par with global markets as well as for opening up the sector.

In the last four years, especially since SEBI's appointment as the regulator, several measures were taken to infuse greater efficiencies and robustness in the Indian commodity derivatives market.

In 2017, the regulators allowed introduction of commodity options. Category three Alternate Investment Funds (AIFs) were allowed to bring more liquidity in the segment. Portfolio Management Services in commodities was also introduced for diversification of asset classes and give entry to equity investors in the commodity segment. Mutual funds were allowed to participate in commodity derivatives market to give opportunity to small investors to add commodity as an asset class in their investment portfolio. Through mutual funds, commodity investing will now be within reach of more than four crores mutual fund investors.

SEBI is keen to convert all commodity futures contracts into delivery-based contracts to attract participation from producers and hedgers. Now, all commodity derivatives contracts are deliverable in India, including base metals, except Crude oil, Natural Gas and Crude Palm oil contracts.

With the move to make base metal contracts deliverable, now small producers can take delivery from Indian commodity derivatives market platform and also hedge their price risks in rupee denominated contracts.

Recently, the regulator has also given permission for introduction of index futures contracts in

commodity derivatives, thus completing the full basket of commodity derivatives offerings available in India.

Currently, there are around 4 crore mutual fund investors with assets under management of Rs 27 lakh crores, portfolio management services have around Rs 17 lakh crore assets under management and the market capitalization of the Indian equity market is around \$2 trillion. Now with the full basket of commodity derivatives products available in India, we expect commodity as an asset class to also become a preferred investment avenue for more and more investors, leading to a complete transformation of the Indian investment scenario.

One Nation-One Market – could be a next game changer for commodity business

The government introduced 'one nation-one tax' framework with the introduction of GST in 2017, resulting in elimination of trade barriers between the states. Yet another key prerequisite for India's commodity markets and market participants is the establishment of the 'one nation-one APMC licence' framework. This reform is the need of the hour for this sector for better contribution to GDP and for enabling the economy's growth to reach \$5 trillion by 2025.

Currently, market participants require several APMC mandi licences for operating their businesses and also need to maintain detailed records, which are big hurdles for producers and farmers alike. Producers, thus, are unable to increase their reach to farmers and in turn, farmers are not getting better price realisation for their crops.

The 'one nation-one APMC licence' norm could serve both the above purposes, leading to maturity of the Indian commodity derivatives market. Though eNAM, more and more deliveries could be handled on the exchange platform, farm wastage can be reduced, availability of commodities for

producers can be increased and India's dependence on imported commodities can be eliminated.

Year 2020 brings new hopes for a bright future

Year 2020 has begun on a positive note for the commodity business in India.

The Government has announced its plans to invest a whopping amount of Rs 102 lakh crores on infrastructure over the next five years, which will provide an impetus for growth to the domestic commodity business. Higher spends on infrastructure sector will trigger increase in demand for steel, cement, oil and several other commodities.

This year, sowing of Rabi crop has also reached a new high following record rainfall in most parts of the country during the monsoon season. Since water reservoirs are also at record levels, there are wide expectations of better productivity for Rabi crops this season. Production of wheat is expected to touch the record figure of Rs 10.20 crores and production of other agricultural commodities could also reach new highs this year. Higher domestic production of agric- commodities will brighten up the commodity business this year.

The year 2020 started with the positive reports of a trade deal between the US and China, marking an end to the 18-month-long trade war between the world's two biggest economies. Recently, the US President Donald Trump via a tweet also communicated that the first phase of the trade deal

between the two countries would be signed on January 15th, 2020. After the first pact is signed, negotiations are expected to begin between both the nations for the next round, which is likely to provide further support to global economies.

Though the news of the US-China trade pact has led to a recovery in base metal prices, however the recent tensions between the US and Iran will now be a reason for worry for global economies. With investors turning cautious and choosing to move to safe haven assets, Gold and silver prices reached record levels again. Crude oil prices also jumped due to geo-political tensions in the Middle East and worry of supply disruptions.

Together, factors like the news of the US-China trade deal, tensions in the Middle East and better domestic agriculture production are likely to ensure better business for commodities this year.

Factors like the government's push on infrastructure spending, increasing farmers' incomes by raising productivity and removing intermediaries by introducing FPOs and eNAM, along with the US-China trade deal building up of hopes of a global revival, would together ensure that this year is a good one for the commodities business in India.

Lastly, along with government's efforts to make the Indian commodities market more robust, rationalisation of costs for the commodity derivatives market could become the next game changer for commodity business in India.



'The Sky Is Pink' for the Commodity Market



Siddhartha Bansal

Director

Rudra Shares & Stock Brokers Ltd.

The commodity market can be seen as an infant who has just learned to walk but wishes to win a marathon, one fine day.

The irony is that the footprints of the market are embedded in the history of our past or we can say the commodity market is as old as our civilisation. Trading in commodity market started years ago when the barter system was the only mode of exchange. Well, an organised form of the market was established way before 19th century with the advent of Bombay Cotton Trade Association but the perils of adversity turned around during 1952, when future trading in most commodities was prohibited due to shortage of essential commodities. Later, in 2002 several electronic exchange for trading commodity derivatives sprung up including MCX, NCDEX, NMCE and many. Since then, the Indian commodity landscape has been evolving and the national commodity exchanges have made a big headway since their inception, with volumes surging up with every passing year.

The commodity market is not new to any of us as the products of the market are directly connected to the ground base population. Even an Indian housewife tracks gold prices closely irrespective of the fact that she will be buying the shining metal someday. Similarly, a farmer tracks cotton and sugar prices regularly but rarely makes use of it for hedging its growth. The market has a tremendous impact on the economy and the life of the people.

The greatest strength lies in its low volatility accompanied with more secular trends, especially in the case of agro-commodity segment. It also provides high leverage as the margin requirement lies within the range of 5-10% as compared to 30-40% of individual stocks. Moreover, trading in commodity does not require more fundamental analysis but is a pure case of demand & supply.

The canvas of the market was recreated, after 2015's budget announcement of the merger of SEBI - a reputed superior in terms of surveillance, risk monitoring and enforcement mechanism with the Forward Market Commission, thereby creating a robust body for the sector. SEBI implemented slew of measures to elevate the commodity market arena.

From permitting NSE & BSE to bring commodity derivatives on the trading platform to allowing stock brokers to deal in commodity derivatives. From introducing option contracts in commodity trading to permitting FPI to participate in commodity derivatives contracts. From adding new entities like Mutual Funds and Portfolio Management Services (PMS), permitting new products like options and index trading. SEBI has directed the Indian



commodity market towards better days. These efforts by SEBI have helped to broad base the market by removing obstacles and making the platform viable to reach genuine participants. Thus, various reforms undertaken by SEBI has added sugar to the pie of commodity market.

Whereas, the leading commodity bourse MCX aspires to provide the best-in-class benchmarks to the commodity investors. Recently, MCX is about to launch a new series named MCX iCOMDEX. It is a return based indices which consist of composite index, sectoral indices and single commodity indices. These indices are based on commodity future contracts traded on MCX and conform to SEBI prescribed guidelines for the design of commodity index. The live index values are being disseminated on a continuous basis through various modes. These indices have a base value of 10,000 as on December 31, 2015. The underlying constituent of the MCX iCOMDEX are rolled over on their expiry thereby providing roll returns over and apart from the price returns.

The index also comes up with the feature of basket trading under which you can diversify your

portfolio with different commodity derivatives. It also provides a cross margin benefit of 75% on total applicable margins.

Along with this, MCX undertook various reforms for the elevation of non-agriculture segment:

MCX the market leader in non-agricultural derivatives does away lot of metal contracts. It introduced uniform delivery lots across all its metal & energy contract. At present the Nickel contract have a lot size of 1.5 tones, while copper is traded in a lot size of 2.5 tones. The move is aimed at ensuring all speculative bets which are concentrated in one contract per commodity can be tracked easily. MCX has avoided large contracts with a lot size of 5 tones and have a preference smaller to the lot size to attract SME participants. MCX had also launched a contract with delivery based settlement and a one-gram trade lot. It revised its gold petal future contract with delivery option of 8-gram coin to 1 gram of a gold coin. The major advantage lies here is it will deliver 999- purity gold. It also caters to the small investors demands as the coin can be held and accumulated in the electronic holding format.



Along with this, the leading agro-commodity bourses MCX and NCDEX, added new dimensions to the agro commodity segment.

The exchange provides large number of buyers to the farmers. It helps them to discover the 'fair price' of their produce. The prices discovered on the exchange provides an idea to the farmers about the prices which are likely to prevail at future point of time. By discovering these prices, they can produce such commodities which are trading at greatest volume as per the future exchange or they can postpone their sale to a more favourable period for greater price. Not only this, the farmers can also hedge their positions and save their losses. Hedging particularly means offsetting price risk in stock market by taking an equal and opposite position in future market. Offsetting loss in one market by generating profits in future market. Hedging would manage their price risk and save them from further losses.

Along with this, the exchange has led to an improved infrastructure in the form of well-defined warehouses and quality assayers. It encourages better storage practices and save the farmers from adverse climatic conditions, thereby avoiding wastage. The warehouse also upgrades quality standards which increases the crop suitability. It also provides easy credit availability to the farmers. As recognised by WDRA in case of warehouses storing agricultural commodities, the owner of the commodity can take its produce to any of the warehouse/vault, procure a warehouse receipt and offer it for accessing affordable credit. It not only provides easy short term working capital loans to the farmers but also increases employment opportunities for related industries,

NCDEX also announced the launch of NKrishi an agricultural commodity index with an aim to provide reliable benchmark for traded agricultural commodity in India. Nkrishi will track and replicate the performance of the ten most liquid commodities traded on the NCDEX platform. It

will act as a robust indicator of the broader market with a strong surveillance which will give enough confidence to traders. Therefore, the NCDEX's index launch is in continuance with SEBI's plan to broaden its horizon in commodities trading through the introduction of a new set of players and products.

Well, after realising the importance and timely information of prices the government is trying to enrich farmers with various aspect related to post harvest scenario such as current and future prices risk management alternative market and demand and supply of different commodities. Moreover, in the budget speech of the Union Budget FY20, the Union Finance Minister, has set a target of creating 10,000 FPOs (Farmer Producer Organisation) in the next 5 years. FPOs will mainly focus on providing easy access of market to farmers.

NCDEX has also been trying to deepen FPOs participation in market for the next few years. The exchange is trying to leverage technology to broaden market access to farmers. It will help small producers to aggregate their demand and supply and receive competitive prices for their input materials and commodities produced, to increase their benefits. Therefore, linking farmers to FPO and FPO to commodity Market will be mutually beneficial both for the market and the farmers. It can help farmers in better price discovery and hedging their price risk while taking planting decisions based on future prices rather than last year's prices and also provide more liquidity to markets.

Unknowingly, the implementations undertaken within the commodity affects the equity market also:

When the prices of the commodities increase, the input cost of the company also increases as a result there is shrink in operating margin of the company. To meet their operating cost, the company increases the price of their products which further leads to

reduction in demand and ultimately push down the value of the stock. Therefore, this can be easily elucidated if the companies start entering in forward contracts by booking the price of the key commodity in advance for the next quarter. This would help the company in mitigating the risk of input prices and ensure partial insulation. Therefore, adding commodity to the portfolio would mitigate the overall exposure to fluctuating company prices.

To Conclude, the growth in the commodity derivative market is expected to show an upstick in performance for the year 2020. All thanks to the US China trade truce, increasing supplies and easing monetary policies. Therefore, the treasured metal Gold is likely to benefit from a slew of supportive factors including geopolitical risks, an accommodative monetary policy and a slightly weaker dollar. Base metals such as copper, nickel,

zinc and aluminum should brace for improved market conditions in 2020.

Therefore, the commodity derivative market has found a new vigor from several reforms initiated by SEBI, including the focus from government and the exchanges, which have helped in strengthening and bringing a stability to the market. Where Centre has been striving hard to integrate the fragmented physical mandis, on the other, the SEBI and the market indices has been working overtime to bring new products and players. Thereby, SEBI is building a block by block to strengthen the commodity market. It has always tried to introduce transparency, reduce risks and include new participants such as banks, mutual funds, foreign portfolio investors (FPIs) and alternative investment funds, in an effort to improve liquidity.



Agri Market is the Key to the Future



Siraj Chaudhary
NCML

Commodity derivatives trading in India has been re-introduced from 2003 after lifting a ban of almost 40 years giving birth to national online, demutualized multi commodity exchanges such as National Multi Commodity Exchange (NMCE), National Commodity & Derivatives Exchange Limited (NCDEX) and Multi Commodity Exchange (MCX), Indian Commodity Exchange (ICEX). The initial 10 years of derivatives trading has seen healthy growth in terms of volumes and participation. Exchanges have offered derivatives trading in almost 100 commodities including Agricultural and non-Agricultural commodities and an entire eco-system has been developed to handle physical deliveries of commodities on the Exchange platform. The efforts towards price dissemination have improved transparency, resulting in lowering of the margins and shortening of the value chain. Increased awareness about quality testing, scientific storage, and value addition have led to emergence of a number of eco system ventures contributing to agricultural infrastructure creation and increasing post-harvest credit flow in agriculture which is quite visible.

The sector has witnessed lot of positive developments during the last 17 years and efforts by the Exchanges, Regulator, policy makers and other players of the eco system have led to good growth in volumes and participation. However, this growth has not been without several challenges. Frequent suspension of certain commodities either due to manipulation or due to heavy speculation, prohibition of derivatives trading in certain commodities, introduction of Commodity Transaction Tax (CTT) have led to lower volumes and participation in the commodities. Off late, during the last three years, volumes at the derivatives Exchanges are either stagnant or lower from the average daily turnover which were recorded during the first 10 years. Volumes in the non-Agricultural commodities have been stagnant while the volumes at the Agricultural commodities have shrunk drastically posing a threat to the survival of few exchanges. In fact, a close look at the profile of the participants projects a scary picture to the growth of the sector as such. No new set of participants in the trading of Agricultural commodities have shown interest to participate despite the Regulator giving permission for Alternate Investment funds, HNI's and other players. Further, participation of farmers, for whom the ban has been lifted and the derivatives sector has been re-introduced, has been quite nominal and restricted to few commodities. Moreover, with the frequent changes in the contract design and risk management initiatives taken by few Exchanges, confidence of the

existing players has started to decline which can be seen in the form of lower volumes.

Global commodity markets in the recent past have witnessed higher volatility, uncertainty, Complexity and ambiguity while India is no exception to this. Price swings have been sharp. No commodity is an exception to this – whether Agricultural commodities or metals or energy products. The markets have seen new highs and new lows in the last 7-8 years. Every commodity participant, whether a hedger with genuine exposure to the underlying asset or an investor betting on favorable price changes, has to take quick and informed decisions to be able to survive in the market. The fast changing global environment is also throwing several challenges to the growth of Indian commodity sector.

The agricultural infrastructure and eco-system of the country has seen drastic transformation in the last two decades ever since the re-introduction of the derivatives market. The Sector will have to further undergo disruptive changes so as to align itself to the international best practices. Commodity derivatives sector is one such instrument which make this transformation at a much faster pace which otherwise would take longer time than usual. Introduction of e-NAM by the Indian Govt is one more initiative towards transforming Indian post-harvest agricultural eco-system. Though the implementation of e-NAM is slow and lagging behind but once the e-NAM achieves its desired goals, it will further boost the commodities trading sector in general and derivatives segment in particular. A vibrant physical market is a necessary precursor for the active derivatives markets and e-NAM will exactly fill this gap which was existent since the reintroduction of derivative market in the country.

Indian post-harvest Agricultural eco system will further see rapid changes in the next one decade. At the moment, excessive bilateral exposures with

insufficient collateralization were built up in the commodities trade posing a threat to the proper functioning of the physical markets of the country. A structured and stringent Over the Counter (OTC) markets will evolve and will lay a strong foundation for more sophisticated derivative instruments such as Swaps and will also boost liquidity in the existing derivative instruments such as futures and options. For this transformation to happen, lot of policy interventions are required to boost the liquidity of existing derivative instruments. An active and liquid commodity derivatives market will work as an efficient risk management tool and will boost the confidence of the entire value chain participants besides moving closer towards promoting collateralization of bilateral exposures.

India has become self-sufficient in food grain production and eliminated the threat of food security. The next step in front of the country is to move closer towards rationalization of imports of agricultural commodities by a timely shift in cropping patterns. An active commodity derivatives market can make this shift timely and policy makers can use the commodity derivatives market as an early warning system for a sustainable food security program. Besides policy makers, it will also boost confidence of various financial institutions for a robust credit flow in to the sector with minimal risk. Financial institutions, especially banks, play a key role in enabling the commodity markets realize its true potential. Given the rural economic environment of the country, these institutions are best suited to act as change agents from transforming an unorganized commodity sector into an organized sector by offering tailor made products to the needs of the farmers and value chain participants. These institutions can play this pivotal role provided there is a robust and efficient commodity derivatives market. It is these institutions which also play a critical role in upgrading the agri infrastructure of the country.

The future for commodity sector in the country is bright provided timely initiatives and interventions at the policy level are taken to boost agri infrastructure, rural penetration of the formal financial sector. Indian commodity sector will

gradually move towards aligning the cropping patterns of the farmers with global supply chains and commodity derivatives segment will play a critical role in achieving this objective.

About the Author :

Siraj Chaudhry is an industry expert, thought leader and innovator in the agriculture and food industry.

He is a key voice on issues concerning agriculture, food safety and nutrition and has worked extensively with industry, the social sector and the Government on related projects.

Siraj has over 32 years of experience in building, turning around, acquiring, divesting businesses. Prior to his current role as Managing Director & CEO NCML, India's largest, integrated post-harvest solution provider company, Siraj was the Chairman of Cargill India, the Indian arm of Cargill Inc, where he pioneered edible oil fortification as a practice, recognised by Fortune Magazine as a Change The World activity.

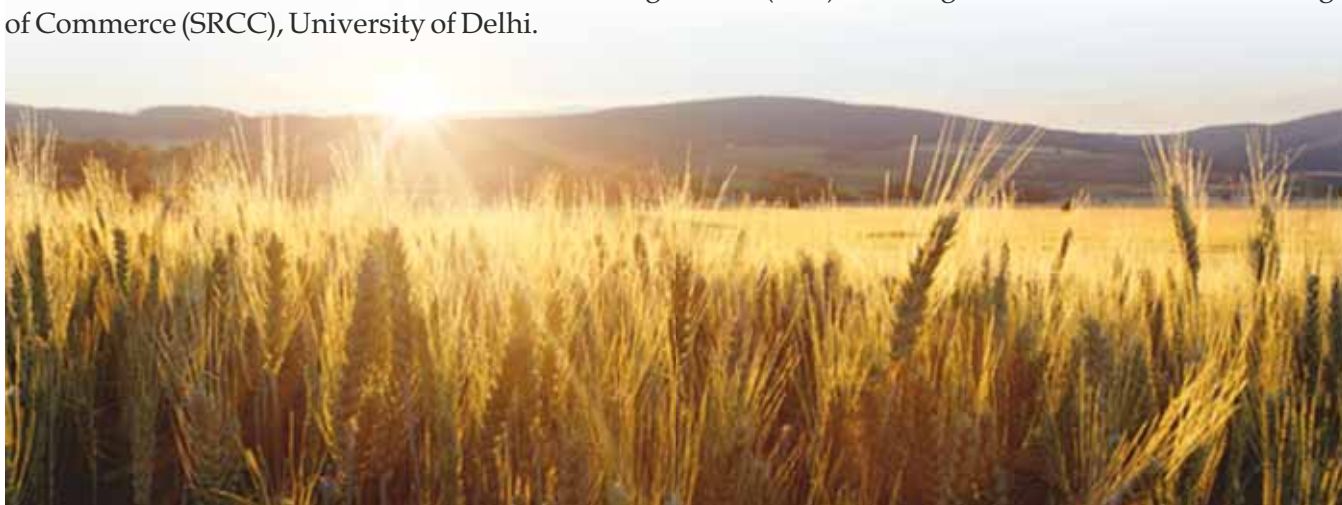
Siraj also serves as an Independent Director on the boards of Tata Global Beverages Ltd and Tata Coffee Ltd.

He is currently the Co – Chairman of the FICCI Committee on Agriculture. He has also been the past chair of National Committee on Food Processing at FICCI and the National Alliance for Edible Oil Fortification, a joint initiative by CII and GAIN to address malnutrition through food fortification.

He has also been past President of the Food Industry Skill Council under the NSDC. He has chaired the Agriculture and Food committee at American Chambers of Commerce and as also the Agriculture and Food committee of USIBC in India.

Siraj is an eminent industry spokesperson and is a sought after key-note speaker at prestigious events. He is a recognised thought leader in agri space, featured and quoted in stories on agriculture for leading publications.

He holds an MBA from the Indian Institute of Foreign Trade (IIFT) and is a graduate from Shri Ram College of Commerce (SRCC), University of Delhi.



Gold: “The All Time Favourite”



Vandana Bharti

AVP, Commodities Research
SMC Comtrade Ltd.



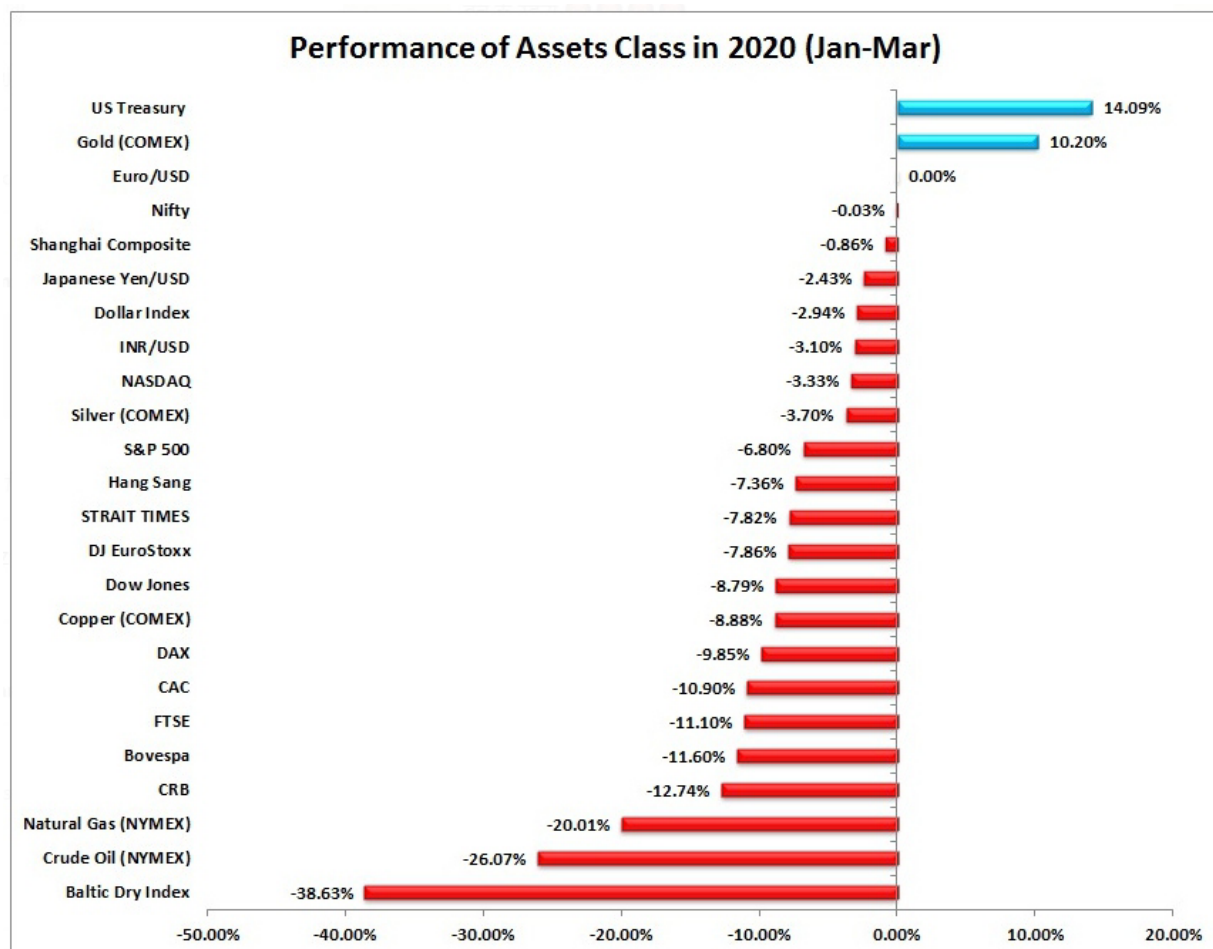
Ravinder Kumar

Associate, Research
SMC Comtrade Ltd.

The entire 2019 was full of event risks and financial markets were on toes due to US and China trade war, many sanctions, geopolitical tensions, so called slow down. At the end of US and China first phase trade deal happened and world took a sigh of relief. Stocks market made new highs despite all odds. Frequent rate cuts along with stimulus cushioned up world economies and in the last quarter, world started to give some green shoots via, improved PMI, trade data's etc. Many banks revised their growth prospect of global as well as individual economies.

2020 started with some positivity though a natural calamity was undergoing to attack the mankind in the worst way and the world named it as "Covid19". After mid January the news broke out and the concentration was in Huwai Province China, it surfaced very quickly not only in China but in more than 90 countries. World is still trying hard for its Antidote.

All business activities are coming to a halt and the pinch is being felt everywhere in the world. Automobile, aviation, manufacturing, service industry etc all saw sharp decline in the activities and February months gave horrible economic data's depicted the actual situation worldwide. In the wake of Coronavirus outbreak Chinese Manufacturing and Services PMIs posted all time low in February. Official manufacturing PMI plunged to 35.7 from 50.00 in January outpaced the last low of 38.8 in November 2008. Similarly Services PMI dropped to 29.6 from 54.1 in January, the lowest since November 2011. The employment index, dropped to 31.8, a decrease of 15.7 points from the previous month, indicating that the employment level within manufacturing enterprises had decreased. Inevitably the steep decline in Chinese business activities will take lot of time to revive. As it spread outside China and now covered more than 70 countries, stock market started to react and now most of them are trading in negative territories. Once again gold emerged as friend of bad time and buying returned aggressively in this counter. We saw return of more than 10% in 2020 so far. Along with gold it was US treasuries which gave more than 14% return in 2020. Both are well known to perform in bad economic situation. Speculative investors have also been rushing into safe-haven assets, boosting net long gold positions to the highest on record going back to 1993, according to the latest CFTC data. Frequent revision of GDP and various economic data's estimates further strengthened the yellow metal. Expectations for further monetary easing among global central banks in response to the virus's economic impact continued to provide support for haven gold.



Source : Reuters SMC

At present, currency debasement by global central banks, extremely low to negative yield on bond prices and continued geopolitical tensions will remain cushioned up the prices and won't let it slip below \$1520. According to WGC, global gold ETFs and similar products added 61.7 tonnes to their holding in January 2020. Now the holdings are on all-time high of 2,947 tonnes. Futures market open interest began moving higher, from \$68.7 billion in December 2018 to \$141.8 billion in February 2020, the highest since January 2013. Factors such as protracted monetary easing and currency debasement by global central banks, extremely low to negative yield on bond prices and continued tensions caused by the ongoing anti-globalization wave have pushed gold prices higher.

In the bullion counter, Yellow metal can extend its upside momentum on safe haven buying but silver to remain laggard as it have dual properties of industrial metal and precious metals. Steps to cut back the interest rate alongwith stimulus are stimulating buying for the yellow metal. The US central bank cut interest rates by half a percentage point, its biggest single cut in more than a decade, as a pre-emptive move to protect the economy from the coronavirus. Looking back almost half a century, the price of gold has increased by an average of 10% per year since 1971 when the gold standard collapsed. Continuous buying by Central banks is not depicting confidence in their economies. Fragile Financial market and currency amid ongoing slowdown is likely to persist for more time now after the hit of Covid 19.

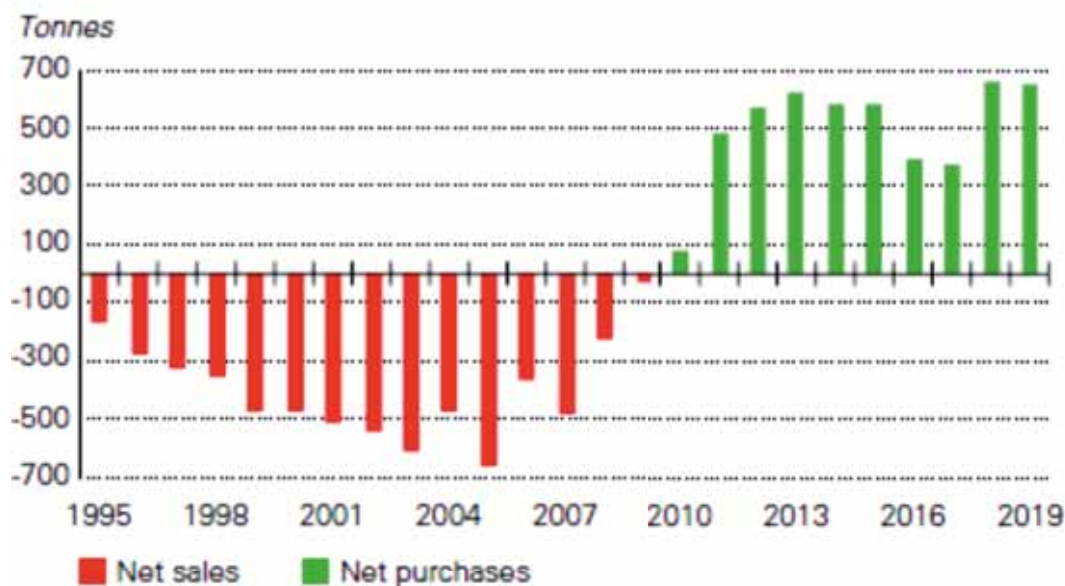
Emerging market economic development has created consumer demand and market share in India and China*



*Consumer demand is defined as the sum of jewellery, bar and coin demand.

Source: Refinitiv GFMS, Metals Focus, World Gold Council

Net global central bank gold demand



Source: Refinitiv GFMS, Metals Focus, World Gold Council

So far, the virus outbreak has spread from China to more than 90 countries, infecting more than 95,000 people and killing more than 3,000. The coronavirus likely halved China's economic

growth in the current quarter compared with the previous three months, more severe than thought just three weeks ago and triggering expectations for earlier interest rate cuts. It could knock \$211 billion

off the combined economies of the Asia-Pacific, with Japan, Hong Kong, Singapore and Australia among the most exposed. With no remedy insight, gold is still the favorite of all and it is likely to continue its Bull Run in 2020 as well. Now first two quarters of 2020 is more likely to depict the bearish picture of economy. Once it gets over then in second half of 2020, world economy may try to come back on track then we may see a pause in the rally of gold. Investment demand is on the higher side though at the same time physical demand is very low.

Gold/Silver Ratio

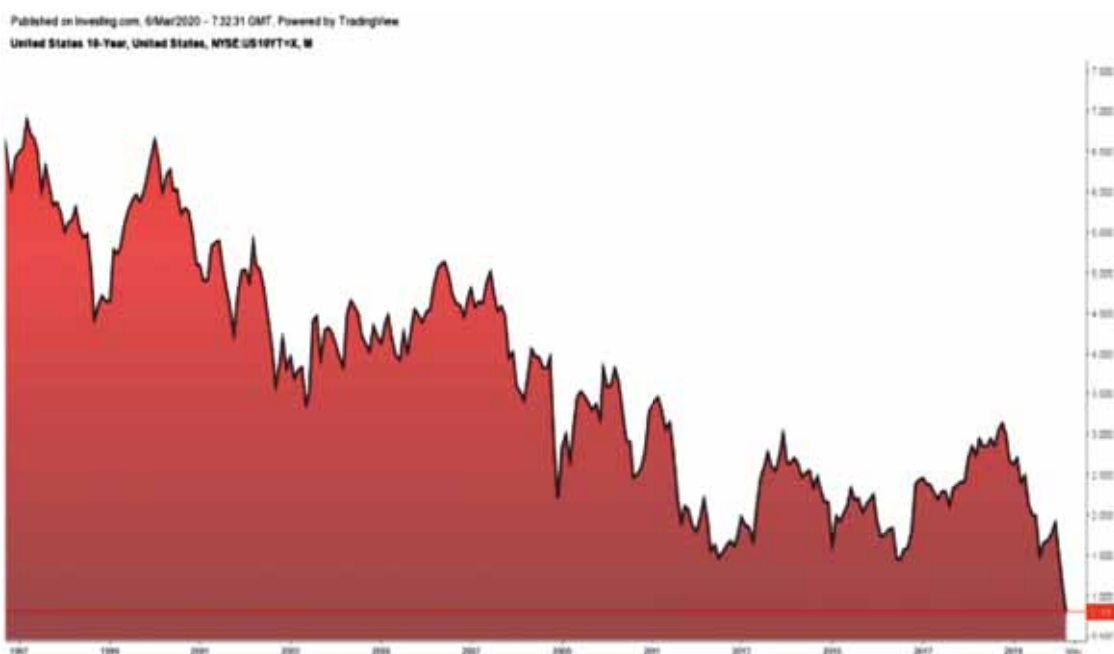
Before we interpret the charts of gold/silver we should have a proper understanding of the fundamentals. This gives us a basic idea of how both the commodities will react and what will be the end result. Ratio measures the relative strength of gold versus silver prices. It shows how many ounces of silver it takes to purchase one ounce of gold. In simple words, it tells us which of the two metals is gaining value relative to others.

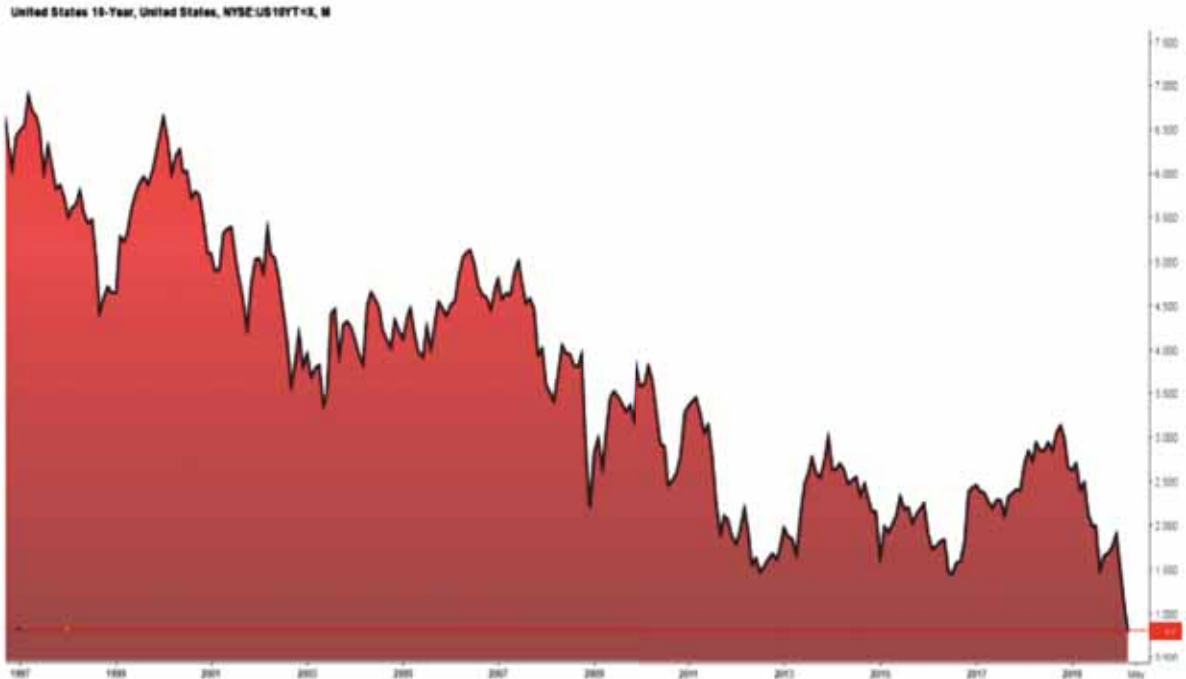
Whenever the ratio rises, it means gold becomes more expansive relative to silver. In the present

scenario, many things are behind the rally in gold but because of less understanding, we supposed to relate silver with gold and anticipate that it should rise by close to the same amount. But this is not the case.

Yet, there has been a disparity in the metals market, and the famous "gold-silver ratio" is now at the widest level in 20 years. On the heels of the surprise U.S. Federal Reserve interest rates cuts, more central banks around the globe are expected to add further economic stimulus to neutralize some of the negative effects of the coronavirus outbreak.

At current prices of \$1,680 per ounce of gold and \$17.35 per ounce of silver, the current gold-silver ratio is touching around 97. Numerous things have acted as catalyst for the rally behind gold & the major factor in the current scenario is Coronavirus. Investors & Central bankers across the globe looking for safe haven and park their funds in gold instead of silver. U.S. Treasury yields fell to record low where 10 years at 0.700 & US 30 year to 1.439, and at the same time the global equity markets are being bruised and battered.





According to the World Gold Council's 2020 outlook for gold, the interplay between market risk and economic growth was expected to be the key driver for gold demand this year. The focus was on financial uncertainty, lower interest rates, slower global economic growth and gold price volatility. That was on the heels of gold rising over 18% in 2019, the best year since 2010 in dollar terms. The council's views also noted:

- Financial and geopolitical uncertainty combined with low-interest rates likely will bolster gold investment demand.
- Net gold purchases by central banks likely will remain robust, even if they are lower than the record highs seen in recent quarters.
- Momentum and speculative positioning may keep gold price volatility elevated.
- While gold price volatility and expectations of weaker economic growth may result in softer consumer demand near term, structural economic reforms in India and China will support demand in the long term.

Technical Outlook



COMEX Gold has been in long term uptrend with the formation of higher tops and higher bottom. The higher bottom at \$1540 on spot remains the key for bulls in the short term and prices should not break below it. On the upside, it looks that it may test \$1750-\$1790. On the other hand, silver also trades with bullish bias where support holds at \$15.60 whereas upside for the counter remains open. But technical indicators still suggests that Gold will outperform silver. The Gold/silver ratio shows that it may approach 1991 high 98.80 and if sustain above it then it may extend the rally towards 109.60, taking support near 92.

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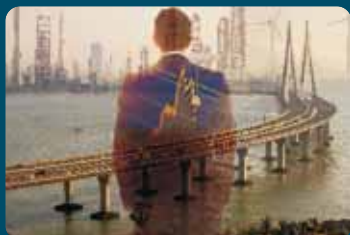
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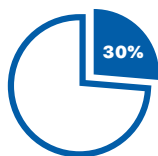
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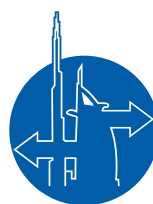
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