AGRI
NEW DIMENSIONS

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

cpai

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 up liftment, 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, co ordination 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.

National Executive Committee 2019-20

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2.	Mr. Narinder Wadhwa	SKI Capital Services ltd	President
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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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Narinder Wadhwa
President, CPAI

From the President's Desk

It is a matter of great pleasure for CPAI and its members to have the third issue of the quarterly journal for the year 2019-20.

In the quarter gone by CPAI has continued to interact with MoF, our sector regulator SEBI as well as Exchanges to put across our views and we have been effective in getting our perspectives getting heard, appreciated and acted upon also. Our delegation met the Hon'ble Finance Minister who was very receptive to our representation on key issues like High Cost of Transactions, Ease of doing business and need of the hour for feel- good measures in the economy. Penalty on Castor Seed Contracts was a seemingly intractable issue which our member fraternity had to grapple with during the festival month and it was a matter of immense satisfaction for all of us that our intervention helped alleviate the distress with waiver of penalties of hundreds of millions of rupee.

We are excited by the bright prospects in the market with impending launch of Index Derivatives in commodities market possibly by the end of the financial year with expected size of the contract around Rs 5 lacs as suggested by the Association. We could see good traction in the Index Derivatives with its potential in terms of hedging and trading. The slashing of the corporate tax to 22% from 30% for existing companies, and to 15% from 25% for new manufacturing companies which is now at par with most Asian nations would be a great catalyst to the Make in India programme for attracting foreign investment was the biggest reform .The pre budget discussions with policy makers will kick off soon and we are hopeful that reform agenda will pick up pace and the Association will present its submission on cost of transaction and review of transaction taxes.

Friends! With such exciting prospects ahead, your beloved association CPAI requires more support, trust and opinions/ suggestions of vast majority of Commodity Participants. Please put forth your suggestions as well as views and we will greatly appreciate your efforts and together we will ensure robust development of Commodity Derivatives Market.

On behalf of CPAI, I would like to put on record the Associations sense of gratitude and copious amount of research to the editorial team chaired by Mr. Jayant Manglik in getting this journal to you.

I wish you all a Happy Christmas and a rocking 2020 and hope that year bestows on us a 20/20 vision – absolute clarity and sharpness to grow this business together in a twenty-twenty format time horizon.

With Warm Wishes.

Narinder Wadhwa

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

From the Chairman's Desk

This issue is special. At a time when agri commodities are in focus and specifically agri-trading on electronic exchanges is being closely scrutinized, this journal edition brings the spotlight back on growth and the new dimensions which will enable agri as a sector and merge it into a contemporary environment.

As always, we have been able to get very good contributors who have graciously taken time out to share their thoughts in the form of articles for the benefit of all.

Our readers too have been very encouraging and your feedback enables us to identify and address topical issues, while we try to use our network to get the relevant experts in the field.

CPAI as an organisation has gone from strength to strength over the years and knowledge dissemination in commodities has always been among its foremost agenda with international conventions, seminars across the country & finally via this journal for maximum outreach to all stakeholders including the public at large, people in the trade, government, regulators, exchanges, and employees of trading companies. This journal has become a platform of choice for those who want to share their views and we take no sides on the views.

We hope you will like this issue and we solicit your feedback on content and ideas

Jayant Manglik


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7th
INTERNATIONAL
CONVENTION


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Involving Commodity Derivative Markets for Farmers' Upliftment

Rishi Nathany
MCX

Organised futures trading in commodities started in India with the setting up of the Bombay Cotton Trade Association in 1875, only a decade after world's first futures exchange, the Chicago Board of Trade (CBOT) was established in 1865. Subsequently, a number of trade associations for futures trade came up at regular intervals in various parts of the country. Key among them included : the Gujarati Vyapari Mandali in 1900 to facilitate futures trade in oilseeds; the association to trade in gold futures in 1920; and the exchanges for facilitating futures trade in commodities such as jute, pepper, turmeric, potato, gur (jaggery), sugar, etc.

Commodity derivative markets in India have come a long way since 2002-03 when commodity trading was permitted after the Kabra Committee recommended resumption of futures trading. The markets have come under the regulation of Securities and Exchange Board of India (SEBI), following merger of FMC with SEBI, with effect from September 28, 2015.

As India is integrating more and more with the global economic system, it is essential to bring competitiveness in domestic agricultural production, marketing and value chain processes through institutionally supported marked based mechanisms. These can ensure remunerative prices to farmers and create rural employment opportunities in the warehousing and other infrastructure industries, while minimizing government intervention thereby reducing the fiscal burden. Existence of a vibrant commodity derivatives market has to play a crucial part in the success of an agriculture based economy thereby bringing efficiency in to the domestic market system.

Some of the key roles played by derivative markets for the same have been discussed below-

- **Fair Price Discovery -** The futures exchange is a platform to bring together, the forces of demand and supply to determine market equilibrium or 'fair' price or 'real' price of commodities. The participants on futures exchanges put in their bid and ask prices based on their assessment of the demand and supply situation at the time, which could be based on specific market-related issues, expert views and comments, government policies, international trade, inflation, weather forecasts, hopes and fears, market dynamics, and so on. The successful execution of trades between buyers and sellers is an indication of an assessment of an 'unbiased fair value' of the particular commodity.

- **Future prices to farmers' advantage -** Prices discovered on futures exchanges provide an idea about the price that is likely to prevail at a future point of time. Equipped with this knowledge, the farmer/producer can decide between various competing/alternative commodities to produce, which best suits their situation. It can also suggest postponement of sale to a more opportune time for a more favourable price. Free and wide dissemination of futures price information to farmers will empower them in negotiating and extracting a 'fair' or better price for their produce from traders/buyers. Assuring the farmers that there will be a buyer for their produce is a key feature of the futures market.

- **Early signal to supply demand mismatch-** Commodity future prices provides an early clue to any mismatch between the supply and demand in the physical market, which even policymakers can observe and take timely corrective measures on.

- **Improved infrastructure-** Commodity exchanges have led to improved infrastructure in the form of certified warehouses and quality assayers. Moreover, financing companies and professional information providers have been seen in almost all commodities with successful futures contract. The entry of professional, dedicated service providers help in fast-paced and sustained development of the market infrastructure, which becomes beneficial to the entire commodity ecosystem. Creation of required infrastructure strengthens the farming sector and helps the farming community receive fair prices for their produce.

- **Stable Markets Benefit Farmers/Agriculture**

  The futures markets bring in price stability that is beneficial to farmers and farming (even to farmers who do not directly participate on futures exchanges). Price stability is important to the farm economy since absence of stability in markets means unpredictability in incomes to farmers. Income unpredictability would mean less farm-related investments and poor planning of agricultural activities. Also, since there is a time lag between planning and production, the futures market-discovered price information will encourage farmers to make investment decisions based on market demand.

- **Credit accessibility**

  Agriculture in particular and the commodity sector in general are chronically starved of institutional capital. A collateral benefit of warehousing is the ease it provides in making finance available. Producers can obtain warehouse receipts 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 commodity exchanges recognizing and accrediting warehouses which are of high quality (and recognized by WDRA in case of warehouses storing agricultural commodities), the owner of the commodity can take their produce to any such warehouse/ vault, procure a warehouse/vault receipt and offer it for accessing cheap credit.

- **Improved Product Quality**

  The futures exchanges assures their participants of guarantee of quantity, quality, and prices. The exchange requires use of modern warehouses for facilitating storage and delivery. The assured price offered on the exchanges provides a strong reason for participants to produce and trade in standardized or quality commodities. Trading on exchanges encourages standardization of commodities. The quality certification system set up by the futures exchanges has the potential to become the norm for even the physical trade.

Hedging for Price Risk Management

Hedging is a popular market-mediated price risk management mechanism. It is used as a preferred instrument to manage price risk by a large number of stakeholders, who have an exposure to the physical commodity. In fact, the first-ever organized commodity futures exchange in Chicago was set up in 1864 as a platform for hedging in grains by farmers and traders in the US. Hedging is the strategy of offsetting price risk that is inherent in the spot market by taking an equal but opposite position in the futures market. The idea is to offset the loss in one market with profit in other market. Producers like farmers, manufacturers, mining companies, etc. and consumers like processors, merchandisers, manufacturers, exporters, importers, etc. benefit from hedging. An effective commodity derivatives market can therefore minimize price risk for all stakeholders in an agricultural value chain.

Example : Hedging by a Wheat Miller

A miller enters into an agreement to sell wheat flour to a bread manufacturer. He agrees to deliver an agreed quantity at an agreed price on an agreed date, say in 4 months. The miller is apprehensive that the price of wheat may increase in the interim, the date of signing the agreement to deliver and the date of delivery.

To manage his price risk, the wheat miller decides to take a buy position or go long on the futures platform. He buys the required wheat quantity (number of contracts) for delivery in 4 months on the exchange. When the deadline for supply of wheat flour nears, he finds that the wheat prices have gone up in the spot market. He ends up paying more for wheat. This makes the cost of wheat flour to go up, squeezing his margins.

However, the loss in the spot market is offset since the miller has hedged on the futures exchange. By squaring off his position, i.e., by selling an equal amount on the exchange, he makes a profit (because spot and futures prices converge at the time of expiry of the contract). Thus the miller offsets his loss in the spot market by making profit in the futures market. This will enable the miller to protect his margin.

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.

Some of the other ways by which these institutions can enter the market include:

a. Banks (along with dealers) can provide OTC derivatives to agricultural commercial players as in the markets abroad and can act as aggregators. 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 finance their produce and the same when hedged for delivery shall help them have lower haircut over the exchange assured prices.

b. Banks can operate large brokerages for exchange traded derivatives crafting specialized services for agriculture markets.

c. RBI and NABARD can encourage cooperatives, banks and micro finance institutions to disseminate the knowledge about functioning of commodity derivative markets and the futures prices to the farmers/farmers associations.

Conclusion

Indian agriculture needs robust institutions and transparent, price-based signals to the stakeholders wherein the farmers could have access to competitive market channels. Along with allowing banks' participation, there needs to be other support incentives in order to further build the rural infrastructure in conjunction with derivatives markets. The private sector may be offered fiscal incentives to open warehouses near the growing areas which would result in reduced logistics costs and encourage farmers to deposit crops in exchange accredited warehouses. A market information system, similar to that of USDA, covering comprehensive information on crop acreage progress, output estimates, demand estimates etc., using latest technology like remote sensing needs to be developed and disseminated through various media channels. There have been calls for closer linkage between agriculture physical and derivatives markets to benefit farmers.

The futures markets will enable the farmer to grow what's sustainable, providing him with assured buyers, improving credit availability and a host of other measures, thus boosting India's agricultural ecosystem and making farming profitable.

Commodity ⟺ Equity

Ajay Kedia
Kedia Stocks & Commodities Research Pvt Ltd.

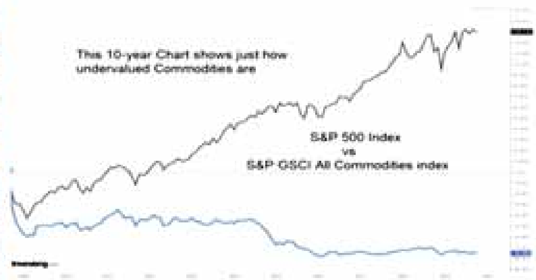
Importance of Agriculture in India

Agriculture is the primary source of livelihood for about 60 per cent of India's population. The agricultural and allied sectors in India have grown at an annual growth rate of nearly 2.9 per cent from 2014-15 to 2018-19. Indian Agriculture has been the backbone of the economy for several thousand years. It contributes a significant figure to the overall. economic growth of the country (GDP). For many years, India is expected to remain an agricultural society. One cannot underplay the role of agricultural growth in improving rural incomes and securing India's food and nutritional needs. Indian agriculture and grocery market are huge. It is the world's sixth-largest, with retail contributing around 65 to 70% of the sales. The recent data revealed that the country's foodgrains production during the rainfed Kharif season is estimated at 140.57 million tonnes - 0.8% down from the total output estimated in 2018-19 Kharif. However, it is 6.38% more than average foodgrain production of the previous five years' (2013-14 to 2017-18).

Agriculture as a major input in all companies

The daily price movements in the equity markets are influenced by a multitude of factors, ranging from large institutional block trades and program trading to earnings and economic reports. However, one factor that is frequently overlooked is the influence of commodity prices. Sudden commodity price movement badly impacts on the earnings of public companies whereas due to less awareness and low volumes, companies do not use the exchange trading platform to hedge the price risk. The commodities cycle has yet again turned bullish.

The Rising of Commodities



Equity markets just enjoyed their best month of the year after the Corporate Tax Cut showing Govt would once again ride to the rescue of equities and inflate asset prices by cutting rates.

Plotting the S&P GSCI and the S&P 500 for 10years shows the indices long-term upward trend line and the current disconnect between commodities and equities. To return to this trend line – which happens on average every 6 to 8 years – the S&P would have to fall and the GSCI to rise. This gives as good opportunity to invest in Commodities.

Companies use a variety of means to protect their bottom lines from escalating input costs. But they forget to enter into forward contracts by booking the price of a key commodity in advance for the next few quarters. There are others, which hedge their commodity exposure by taking a position in the futures market equivalent to their physical market requirement. Some other companies ensure the supply of raw materials at competitive prices through contracts with farmers or producers. While all these measures do help in mitigating the risk of input prices, none of these is enough to ensure complete insulation. Though companies from almost all sectors are impacted, some sectors bear the brunt more so than others. Even within a sector, some companies end up getting severely impacted than others due to their distinct product profiles.

In our research, we observed that many stocks prices are correlating with Agri prices movement. Below some facts and figures justifying the above statement.

To understand this better, we studied the impact of rising costs commodities on a sample of companies. We analysed the impact of increasing input costs on companies, which spend more than 40% of their revenues to cover raw material costs. We excluded corporate producers of commodities.

Rubber

Leading tyre companies, MRF and Apollo Tyres, have reported shrinking operating margins due to higher rubber prices. To meet the rising cost of production, these companies have increased prices of their products by 15-20% last year. But the

Commodity /Script	Correlation	
	1 Year	6 Months
Rubber		
NIFTY	**-0.68**	**-0.16**
MRF	-0.56	-0.60
MARUTI	-0.51	-0.04
APOLLOTYRE	-0.50	0.20
CEAT	-0.68	-0.17
BALKRISHNA	-0.56	-0.23
Maize		
NIFTY	**-0.90**	**0.87**
PRATAAP SNACKS	-0.77	-0.70
BRITANNIA	-0.67	-0.62
MONSANTO	-0.84	-0.88
VENKYS	-0.82	-0.80
SKM EGGS	-0.75	-0.70
Wheat		
NIFTY	**-0.26**	**-0.30**
BAYER CROP	-0.31	-0.42
BRITANNIA	-0.67	-0.67
ITC	-0.38	-0.40
NESTLE	0.27	0.27
FUTURE CONSUMER	-0.25	-0.25

Commodity /Script	Correlation	
	1 Year	6 Months
Soybean		
NIFTY	**0.23**	**0.10**
MONSANTO	0.12	0.16
KSE	0.33	0.21
EMAMI	0.12	0.13
GUJARAT AMBUJA EXP	0.23	0.31
GOREJAGROVAT	0.39	0.45
Cotton		
NIFTY	**0.20**	**0.24**
BAYER CROP	-0.31	-0.42
BASF	0.27	0.37
MONSANTO	0.21	0.32
CENTURY TEXT	0.25	0.24
RAYMOND	0.31	0.34
Coffee		
NIFTY	**0.14**	**0.32**
CCL PRODUCTS	-0.39	0.25
TATA GLOBAL	0.62	0.33
BBTC	-0.38	-0.35
TATA COFFEE	-0.31	0.11
GOODRICKE GROUP	-0.30	0.25

Script	Correlation		Return
	1 Year	6 Months	Ytd
Rubber	-	-	1-3.37
NIFTY	-0.68	-0.16	3.20%
MRF	-0.56	-0.60	-8.19%
MARUTI	-0.51	-0.04	-11.41%
APOLLO TYRE	-0.50	0.20	-29.79%
CEAT	-0.68	-0.17	-28.44%
BALKRISHNA	-0.56	-0.23	-20.54%

measure has proved inadequate. Though top lines may show some buoyancy, these companies are expected to report a further contraction in profitability.

Wheat

Wheat is the primary ingredient in many popular cereals and foods. While cereal and other food producers may be able to pass along some of these costs, they may have to absorb some as well. This can impact their margins and, by extension, their profits. Of course, makers of such products aren't the only ones affected. Grocery and convenience stores must purchase the items to keep shelves stocked. Also, don't forget about the impact on distributors and any middlemen. Fluctuating wheat prices can have a far-reaching impact on a variety of companies and consumers.

Script	Correlation		Return
	1 Year	6 Months	Ytd
Wheat	-	-	-2.16
NIFTY	-0.26	-0.30	3.20%
BAYER CROP	-0.31	-0.42	-21.46%
BRITANNIA	-0.67	-0.67	-5.38%
ITC	-0.38	-0.40	-9.21%
NESTLE	0.27	0.27	22.35%
FUTURE CONSUMER	-0.25	-0.25	-48.03%

Coffee

Rising or declining coffee prices can certainly have an impact on consumers that enjoy drinking it in the morning. It can also affect companies that do a brisk breakfast business, such as diners and fast-food chains.

Script	Correlation		
	1 Year	6 Months	Ytd
Coffee	-	-	3.21
NIFTY	0.14	0.32	3.20%
CCL PRODUCTS	-0.39	0.25	-13.49%
TATA GLOBAL	0.62	0.33	21.70%
BBTC	-0.38	- 0.35	-17.09%
TATA COFFEE	-0.31	0.11	-24.56%
GOO DRICKE GROUP	0-.3	0.25	-46.11%

Soybean

Soybean is the world's most important seed legume, which contributes to 25 % of the global edible oil, about two-thirds of the world's protein concentrate for livestock feeding. Soybean meal is a valuable ingredient in formulated feeds for poultry and fish. Soybean contributes 40 and 25 % to the total oilseeds and edible oil production of the country and earns valuable foreign exchange by exporting soya meal.

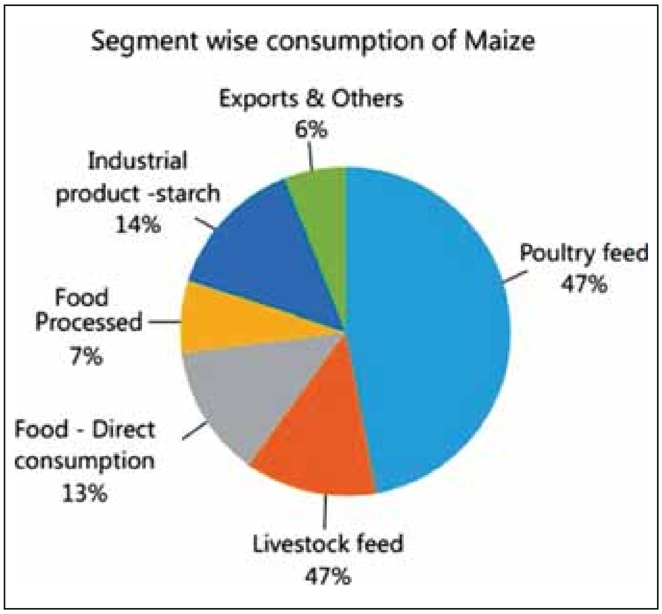
Script	Correlation		Return
	1 Year	6 Months	Ytd
Soybean	-	-	12.47
NIFTY	0.23	0.10	3.20%
MONSANTO	0.12	0.16	-14.84%
VENKYS	0.05	0.11	-33.14%
EMAMI	0.12	0.13	-28.59%
DABUR	-0.06	-0.05	0.19%
GOREJAGROVAT	0.39	0.45	5.16%

Soybean prices gained tracking strong domestic demand against restricted supplies. The current

Kharif Oilseed acreage stood 178.04 lakh hectares as against 178.17 lakh hectares last year same period. Soybean acreage is reported at 113.45 lakh hectares as compared to 112.62 lakh hectares last year same period. As per trade sources, around 10 to 15 per cent of the Soybean crop is damaged in Madhya Pradesh. While in Maharashtra crops are in very good condition and expecting higher yield size for this year. According to the Department of Agriculture Madhya Pradesh, heavy rains and flooding in parts of Madhya Pradesh have damaged around 25 per cent of the Soybean crop.

Corn/Maize

Maize in one form or another is used in a variety of products ranging from cereals, building materials, alcohols and even tires. It's also worth noting that the price of maize is impacted by the demand and production of ethanol, which is an increasingly popular corn-based fuel. As the demand for alternative fuels ramps up, maize prices could go even higher. Food manufacturers, retailers, consumers and, by extension, stock prices can be affected by fluctuating corn prices. India has emerged as one of the largest and fastest-growing compound feed markets in the world. The feed industry is growing at a CAGR of 8%, with poultry, cattle and aqua feed sectors emerging as major growth drivers. According to estimates by leading industry sources, the demand for animal protein and dairy products in India has increased the compound feed consumption volumes to 28 million tons by FY 2017-18.



With the delayed arrival of monsoon, the withdrawal has also been delayed this year. Met experts believe that the withdrawal is likely to commence only by the end of September. In June this year, the delay in the arrival of monsoon and the subsequent impact of cyclone Vayu resulted in the worst performance of monsoon in the last five years. However, bountiful rains in July and August made up for a substantial deficit of 33 per cent. Now, the 2019 monsoon figures are the best in the last five years with over 5 per cent excess rainfall. India received a total of 931.6 mm rainfall from 1st June to 30th September as against the normal of 869.4 mm. Heavy rains in August and September caused floods across Rajasthan, Maharashtra, Karnataka and Kerala. Maize prices gained sharply as support seen after the news that Maize crops are falling prey to the deadly Fall Armyworm (FAW) in Bihar, India's third-largest corn producer. There are officials reports of FAW attacks on maize crops from the districts of Muzaffarpur, Vaishali, Begusarai, Bhagalpur, Saran and Sheohar. It is an invasive and polyphagous (feeding on many foods) pest. It can attack cereals and forage grasses. The deadly pest has since spread across many states in

Script	Correlation		Return
	1 Year	6 Months	Ytd
Maize	-	-	35.52
NIFTY	- 0.90	0.87	3.20%
PRATAAP SNACKS	- 0.77	- 0.70	- 16.07%
BRITANNIA	- 0.67	- 0.62	- 5.38%
MONSANTO	- 0.84	- 0.88	- 14.84%
VENKYS	- 0.82	- 0.80	- 33.14%
SKM EGGS	- 0.75	- 0.70	- 41.03%

the country. Last year, FAW was detected at a few places in Bihar, but maize crops were not infected. This year though, things are different. Thousands of maize-growing farmers in Muzaffarpur and neighbouring districts are worried about the latest attacks of FAW.

Cotton Prices

Cotton is used in a wide variety of products. For example, many types of clothes contain large amounts of cotton; therefore, rising prices can hurt an apparel retailer's cost of goods sold and declining prices can have a positive impact. Of course, those in the apparel industry aren't the only parties that can be impacted by changing cotton prices. It's also a key component in things like furniture, coffee filters and a variety of other materials that we all have come to depend on. As such, companies that sell these items have only a couple of choices when dealing with rising cotton prices. They can raise the price of the product, and/or eat the rising cost. Again either or both of these choices can have an effect on income and by extension stock prices.

Price Outlook : Cotton prices traded firm in spot markets due to strong demand from mills amid strong possibilities of large-scale damage to the standing crop. Fears of damage to crops due to heavy rains mainly supported prices in Gujarat. This year Cotton sowing across the country was up 5.5% on year at 12.8 mln ha, according to the latest data released by the farm ministry. While the acreage in Gujarat was down 1.7% on year at 2.7 mln ha, and that in Madhya Pradesh down 12.6% on year at 609,000 ha. The fall in sowing area in Madhya Pradesh was attributed to a shift to soybean and maize due to higher returns. Cotton acreage in Maharashtra was at 4.4 mln ha, up 3.6% from the previous year. Maharashtra, along with Gujarat, accounts for 55-60% of the country's cotton output. Currently, the new crop of cotton has started arriving in small quantities in north India, while harvest in other states will begin from mid-October. According to trade sources, there is a possibility of damage to the crop due to heavy rains in the major cotton- producing areas of the State. In many areas, the ready-for harvest crop has damaged. It is believed that rains may also affect quality. In Maharashtra, the availability of fine quality cotton is less, while new arrivals will take time. In Madhya Pradesh, prices were also up amid listless arrivals. According to the Ministry of Agriculture, 2019-20 Kharif Cotton sowing as on 27th September 2019 was up by 5 per cent at 127.67 lakh hectare as against 121.05 lakh hectare during the same period last year. As per the 01st Advance Estimates released by Ministry of Agriculture, Cotton production for 2019-20 is estimated at 322.67 lakh tonnes (of 170 kg each) as against 287.08 lakh tonnes last year. As per our source, there is a possibility of delay in harvest due to rain in the

Script	Correlation		Return
	1 Year	6 Months	Ytd
Cotton	-	-	-5.63
NIFTY	0.2	0.24	3.20%
BAYER CROP	-0.31	-0.42	-21.46%
BASF	0.27	0.37	-35.56%
MONSANTO	0.21	0.32	-14.84%
CENTURY TEXT	0.25	0.24	-6.14%
RAYMOND	0.31	0.34	-34.89%

State. In South India, prices declined in Karnataka amid higher arrivals. It is worth noting that cotton is strong in the whole country, whereas there is pressure in Karnataka. Cotton is more competitive in Maharashtra than Karnataka, whereas in the south there has also been a sudden increase in arrivals. Hence overall the price here is weak. Lower cotton prices and upcoming demand recovery are expected to support textile sector profitability.

The Bottom Line

Commodities are an insurance policy offers a hedge against inflation and equity portfolios. We have seen above, that the commodities prices affects the stock prices more significantly than stocks affect commodities. Changes in commodities prices create a trickle-down effect that ultimately influences prices in the stock market.

Since commodities represent the basic building blocks of all products in an economy, the prices of commodities affect the operational costs of corporations. This can force corporations to change the prices they charge consumers, and this ultimately leads to a different financial picture being presented in quarterly and annual reports. The annual reports then prompt stock market investors to make different decisions that affect the prices of individual stocks and larger trends in entire industries and stock market segments. The key takeaways :

Individual

For people who have exposure in equities should commence looking toward commodities to diversify their portfolios, as commodities can act as a hedge for them.

Companies

Fluctuating commodity prices, especially on a consequential part of the value chain, can cause

cash flow fluctuations in the business. Hence, forecasting and projecting future cash flows become vital. Hedging commodity price risk will benefit their Cash flow, helps them to mitigate the overall exposure to fluctuating commodity price with the net exposure being hedged - consequently shielding that portion of the impact of the exposure from fluctuating commodity prices. Utilizing exchange-traded derivative contracts which will help to lower the cost of hedging as compared to undertaking an OTC derivative contract for hedging.

Mutual Funds

So far mutual funds were not allowed to invest in commodities. But that is set to change with SEBI issuing final guidelines on May 21, 2019, sanctioning MFs to invest in exchange-traded commodity derivatives, to deepen the nascent commodity market.

Agri-Commodity Derivatives Market : Augmenting Holistic Development of the Agri-Ecosystem

Vijay Kumar
NCDEX

Agriculture, despite having a smaller share (around 15%) of its contribution to Gross Domestic Product (GDP), has always been the primary source of livelihood for more than half of the country's population. Agricultural commodities, apart from production, often encompass a range of activities such as post-harvest storage and warehousing, trading, mandi operations, financing etc. augmenting rural household livelihoods. Government has envisioned to double farmer incomes by 2022 and taking numerous initiatives to achieve the same. During the recent budget, the government has also envisioned to make India a $5 trillion-sized economy. Growth of agriculture sector including agricultural commodity derivatives would play a pivotal role in achieving these objectives.

The Indian commodity market has evolved significantly since the commencement of commodity derivatives exchanges in 2003. The development in the commodity markets coupled with the enactment of Warehousing Development and Regulatory Authority (WDRA) Act for ease of borrowing funds against electronic negotiable receipts (eNWRs) and reforms in the regulatory system have paved the way for next level of reforms in Indian commodity markets that aim not only at deepening and widening of the market but also make it safer for every stakeholder including farmers to transact efficiently. Not only the standardized derivatives contracts enabled market participants including producers of commodities to offload their price risk to other financial market participants, commodities have also evolved as a new asset class over the years.

Commodity derivatives market have found a new vigour from several reforms initiated by the Securities and Control board of India (SEBI) since 2015. Not only the focus from the government and the regulators have helped in its strengthening and bringing a degree of stability to this market, but also opened newer windows for untapped sources of jobs, growth and development in the commodity derivatives ecosystem.

Figure : Emerging subsectors of Agri-commodity derivatives market

Augmenting Farmers' Economy through Reducing Information Asymmetry

Farmers have become increasingly exposed to high price volatility which risks their realisations. Uncertainty about the price level that will be ultimately received by them deters investment and dampens growth and thus creates and sustains rural poverty. Commodity exchanges leverage technology to broaden market access to farmers and provide price signals. Local price discovery on domestic exchanges provides better price guidance to farmers as it reflects the domestic demand and supply rather than foreign fundamentals. An efficient and developed commodity market enable farmers to become more informed about market and pricing information. This is visible through increasing participation of farmers on commodity derivatives platform. Since January 2016, NCDEX alone has been able to connect to over 4.6 lakhs farmers through 246+ FPOs across 13 states. Around 100 FPOs representing over 2.3 lakh farmers have already participated on the Exchange platform to hedge their price risk. Also, around 60,000 farmers are already registered for free of cost price dissemination services through SMS. This further led to a better price realisation of their produce as compared to the prices of respective commodities during arrival season.

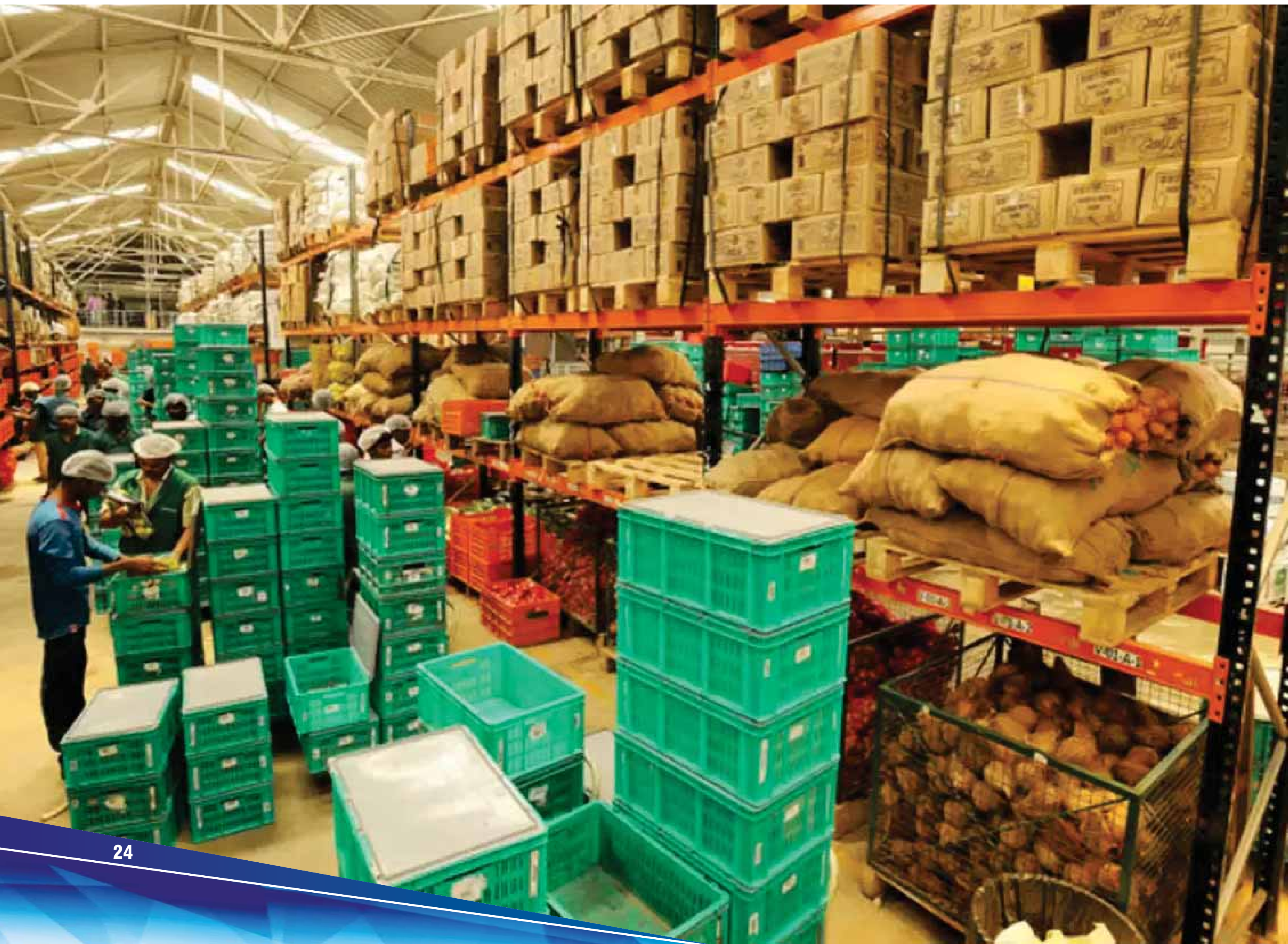
Realizing the importance of accurate and timely information on prices, demand, supply, weather and other market related inputs for farmers, the government is also trying to enrich farmers with knowledge and information on various aspects related to post-harvest scenario such as current and future prices, risk management, alternative markets, demand and supply of different commodities. Various state governments viz., Odisha, Andhra Pradesh and Maharashtra have already initiated their production and price forecasting cells /market intelligence units within state function. They will focus mainly on raising farmers' income, provide easy access to markets for farmers and revamp agricultural value chains to promote farming in the state through production and price forecasting models; create decision matrix tools for farmers; trade and government. These will necessitate the requirement of skilled manpower with domain knowledge thus augmenting the employment generation in the rural hinterland.

Accelerated Reforms in Primary Markets

Development in commodity derivatives ecosystem has further necessitated the reforms in the primary agricultural markets also. While Unified Market Platform (UMP) model of Karnataka gained accolades and recognition for setting up a benchmark and for being an inspiration for other state governments, a new market architecture - National Agriculture Market (eNAM) - is the gift from the central government to the farming community of the country. NITI Aayog has already recognized the impact of new market architecture on the average realization by farmers which has increased by 38% in nominal terms and 13% in real terms (after deflating with WPI of the respective commodity) in 2015-16 over 2013-14. Apart from increased transparency in price discovery, operational efficiency, and increased realizations for the entire ecosystem of farmers, traders, mandis and government agencies, these reforms have also been able to create newer opportunities in various fields such as of assaying, warehousing and warehouse based financing.

Development in Warehousing Sector

A developed commodity derivatives market necessitates the efficient and adequate storage and logistics infrastructure to cater to the need for deliveries through the Exchange ecosystem. This, on one hand, reduces the need for distress sales by farmers, it also enables them to access more distant markets through logistics. Additionally, it encourages better or more 'scientific' storage practices and avoids wastages. The 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. Hence, the increasing interest and participation in commodity derivatives induce the development of new warehousing infrastructures which further opens a range of opportunities in related industries.



Improving Ecosystem through Increased Institutional Participation

Recognizing that the institutional participation could play a pivotal role in development commodity derivatives market, the regulators tried to promote the same by permitting them to participate in Exchange Traded Commodity Derivatives (ETCDs).

In line with the same, SEBI allowed Mutual Funds to participate in Exchange Traded Commodity Derivatives except in derivatives of sensitive commodities. Custodians are allowed to add commodities as an asset class and provide physical delivery of both the securities and commodities. The foreign entities (as defined in Foreign Exchange Management Act, 1999) having actual exposure to Indian commodity markets, also known as "Eligible Foreign Entities" (EFEs), are permitted to participate in the commodity derivatives for hedging their exposure. On the other hand, The other regulator RBI allowed bank subsidiaries of banks to provide broking services in commodities derivatives opening the newer opportunity for banks.

To ensure a smooth transition and adoption by the market, certain restrictions are put for these institutions viz., mutual fund schemes cannot invest in physical goods except in 'gold' through Exchange Traded Funds (ETFs) and barring them from having a net short position in any commodity and onboarding Foreign Portfolio Investors (FPIs) in commodities until they are permitted to participate in ETCDs. Despite these restrictions, institutional participation is poised to bring the efficiencies by providing an opportunity to diversify the product portfolio and provide a new avenue for retail investors.

Way Forward

Numerous initiatives taken by the government and the regulator towards the development of commodity markets and agriculture sector as whole are paving the way towards a deeper and inclusive commodity physical as well as derivatives market and benefitting the farmers, intermediaries and other participants of the ecosystem to diversify their risks, offer new asset class to their existing clients and stay lucrative. Besides, slowly and steadily, commodity markets are evolving with the vast potential to generate newer employment opportunities in a range of emerging subsectors. However, 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.

Will Agri Futures have "Achhe Din" ?

Suresh Manchanda
Market Times

In an agriculture-dominated economy like India, producers of agricultural products permanently face the risk of price and production. Production risks arise from factors such as weather conditions, genetics, insect damage and diseases which impact yields, while price risks come from fluctuations in price caused by factors of demand and supply. At the same time, the rise of the global free market and variations in agricultural policies within countries serve to increase these risks.

Commodity futures and derivatives have a vital role to play in the price risk management process, especially in agriculture and India has a long history of Futures Trading in Commodities. Trading in Commodity Futures has been in existence in India from the 19th century with organized trading in cotton, through the establishment of Bombay Cotton Association Ltd. in 1875. In 1952, futures' trading in most commodities was banned due to shortages of essential commodities, which resulted from wars and natural calamities. The ban was lifted in 2002 and several national level electronic exchanges and regional exchanges for trading commodity derivatives sprung up, including the BSE, NSE, MCX, NCDEX, ICEX in addition to numerous regional exchanges.

Over a period of time, various other commodities were allowed to be traded in futures Exchanges. India is a commodity based economy where two-third of the total population depend on agricultural commodities.

Despite its potential, commodity futures trading has remained controversial in India for long, especially for major agricultural commodities. This is substantially because of the sensitivity regarding food commodity prices, and concerns regarding their price volatility and price rise, especially in the context of poverty and underdevelopment.

Improving agricultural marketing and reducing price risk for India's small and marginal farmers has been a significant policy agenda for several decades, The major problems include small quantities of produce/ marketed surplus, large numbers, and low financial capacity and literacy of small and marginal farmers. Other than a few efforts and activities, farmer participation in commodity terminal markets in India has remained minimal and the aggregator model has often failed to sustain. The history continues to be chequered with many policy reversals. Several challenges including liquidity and participation have poised problems. The effects of CTT (Commodity Transaction Taxes), NSEL (National Spot Exchange Ltd.)

scam, pepper delivery case, sudden urad dal contract changes, ban on pulses trading, ban on various other commodities, turmeric scam, Castor Seed Scam, potato delivery, cotton seed oil cake crisis have sapped the investor confidence and affected the overall market rating and trust.

Moreover, In India commodity market is still not recognized by spot market traders and farmers. It is still seen as speculation.

Not only this, there is a scarcity of statistics related to agriculture in the country. Today, where India is moving towards Digitalisation, lot of important data is either not available (like state or district level data) or it is released with delay. Very often, it is not consistent with other data sets. ie. When advance estimates of crop production are announced by the DAC (Department of Agriculture, Cooperation) state-wise estimates are not released. So, it is not possible to assess the damage caused by drought or flood or disease in terms of the production of a particular crop in a state. For example, the production of food grains and other crops in Bihar, Maharashtra, Madhya Pradesh, Punjab and Gujarat, which have been reeling under flood August-September 2019-20, is not known from first advance estimates of production of major Kharif Crops for released on September 23 this year.

Someone has rightly said that "In the Agriculture Business, data is the new oil and new wealth. India's Agriculture data must be controlled and owned by Indian Farmers and not by corporates, traders, especially global corporations."

For good data, there are 3 conditions : Agriculture related data should be available without much delay (it must be real-time), should be consistent over time and must be comparable with other data sources.

Despite being over a century old, the agri-futures market lacks depth and liquidity in India. There is limited association of farmers with futures market." Lack of awareness and trust among farmers belie any understanding in its working.

Learning from China

Majority of farmers do not understand its functioning and view it with suspicion. And India can learn lessons from China to boost farmers' participation in the country's commodities futures market. Having started in 1993, China has exhibited an outstanding performance in terms of its contribution to the global agricultural futures trade.

An interesting feature of the Chinese agri-futures market which might have aided in its development is participation of State Trading Enterprises for example China National Cereals, Oils and Foodstuffs Corporation (COFCO) Futures Group in China. It has two shareholders, COFCO which owns 65 percent of total shares and China Life which has 35 percent share. COFCO, founded in 1952 is state owned food processing holding company and is the largest food processor, manufacturer and trader in China. It is directly administered by China's state council and is the sole agricultural products importer and exporter operating under direct control of the central Government. COFCO Futures was formed in 1996 and has full membership of all domestic futures exchanges. Their services include futures brokerage, investment consulting, overseas futures business among many others.

COFCO's volume traded has increased over the years and they trade in agricultural commodities like soybean oil and meal, palm oil, cotton, sugar, etc in the last ten years2 . Participation of state enterprises like COFCO in futures market instills positive sentiments and reliability among other players in the market.

Another interesting aspect of the Chinese futures markets is that contracts are compulsory delivery based contracts. All agri-commodities traded in the Dalian Commodity exchange, viz. soybean complex, corn, corn starch, eggs, palm oil are compulsory delivery based. This helps the control the level of speculation in the market and makes policymakers and the regulator comfortable with the functioning of the market. Both state participation and the assurance of delivery are features which we believe makes the state comfortable by controlling speculation and encourage hedgers in the market.

While not only the trust of traders and farmers on agri commodities in India has come to an end, there has been a tremendous decline in volumes. At the same time, China's agri commodity market saw a jump of more than 13 times in volume.

At the other end in India, today only a few corporate houses are benefiting from commodity futures. One of the most serious problems is that 2-3 big business houses together have the power to shift the attitude to change the direction of any agriculture commodity where the actual fundamentals of the business also fail.

Despite that there is immense potential in the agricultural sector in the country, but along with this till the participation of the farmers will not be included in the futures market, the market of agri commodities will keep writing new scripts of scams.

Everyone knows the problem, now commodity exchanges should come forward and make some improvements and set some examples ie.

First, Bring FPOs with exchanges and ensure participation of farmers involved in FPOs

Second, for government to have high level of comfort that speculators are not rigging markets, it may be useful if the regulator allows only delivery based contracts, at least till markets deepen.

Third, Government of India can encourage its Agriculture based PSUs to trade on agri-futures platform. This will boost Government's confidence in agri-futures as it will have ample information from its Agri PSUs.

The monopoly of the Commodity Exchange is believed to have ended after the country's large stock market exchanges (NSE and BSE) were allowed to trade in the commodity market.

As far as concern with the job creation in the Commodity Future Markets, until the confidence and participation of common man will not come, till then it is simply something to aspire for.

In the last 16 years, the possibilities of creating employment opportunities in the commodity market have been delayed due to the immaturity of the commodity futures market.

The need of the hour is to make market sentiments favourable so that genuine players find it attractive to trade in the market and a lot of opportunities stand up to welcome you.

Ultimately, “ Acche din” will then come to agri futures.

cpai

New Frontiers in Commodity Markets : Opportunities and Challenges

Rajesh K Sinha
NCDEX eMarkets Ltd. (NeML)

Synopsis

Information Communication and Technology (ICT) innovations in past decade and policy support towards the trinity of Jandhan, Adhar and Mobile (JAM) has made "Digital" a commonplace. Coupled with social media and telecom revolution in India, information is now more easily accessible and available than ever before. This calls for an introspection amongst the commodity market participants in India to retain their competitive edge as valued service providers to the investors in India and abroad.

Not very long ago, adopting "digital mechanism" in commodity trading was looked as a progressive step in the commodity markets. Be it the primary agricultural markets/ mandis /APMC markets or the forward markets. This is not true any longer, being digital is the least that is required to remain relevant in the market. It is no longer a competitive edge as thought before. Instead, it has brought new challenges to the service providers. This has happened because of easy availability and higher penetration of smart-phones, and popularity of social media networks.

One of the major ramification of the above trend is the redefinition of the "securities trading ecosystem" including the exchanges, financial intermediaries in general and financial broker in particular. While the financial exchanges consolidate or become obsolete as they no longer add sustained value to the customers, the implications on the financial intermediaries calls or

Success of "zero brokerage internet based financial intermediaries" has forced a redefinition of not only roles of the financial brokers but also their revenue model. As time passes by, service providers offering enhanced and sustain value beyond broking services are likely to fare better in a competitive market.

New service offerings to the customers without charging for the same may further reduce the margin of the traditional financial intermediaries. Providing customized analyzed reports is one such example. To ensure easy availability of analyzed data in a simplified way would be a necessary requirement. To develop such an expertise or seek access to relevant reports would entail additional costs without adding to the revenues.

The new government policies encourages compliant, transparent, auditable and verifiable transaction mechanisms. This entails employment of qualified work force and engagement of professional entities to ensure timely compliance of the regulations. This again adds to the cost and does not increase revenues.

While relationship and efficient service provisions remain the core components of retaining and growing an account, new technology tools are fast catching up. Emergence of Uber, Ola and similar other entities has taken away significant market share from traditional business models by providing “reliable, better services at more competitive costs”. The value propositions remain the same while its delivery mechanism have changed i.e. it has become digital/ electronic with least human interface. There are lessons to learn from the experience for the financial markets.

There are change underway in the way information is exchanged between spot markets and forward markets. There are innovations on the financial side as well as delivery side. There are electronic faceless models based on efficiency, convenience, transparency and above all “ value for money”. As the interface and the mechanism of the communication between the financial eco-system with markets is changing rapidly, there are no easy answers to the future of financial markets.

However, if the experience from other parts of the world are to be considered, there is no looking back i.e. We must embrace the new changes wholeheartedly.

The Decoupling Impact of Indian Agri-business

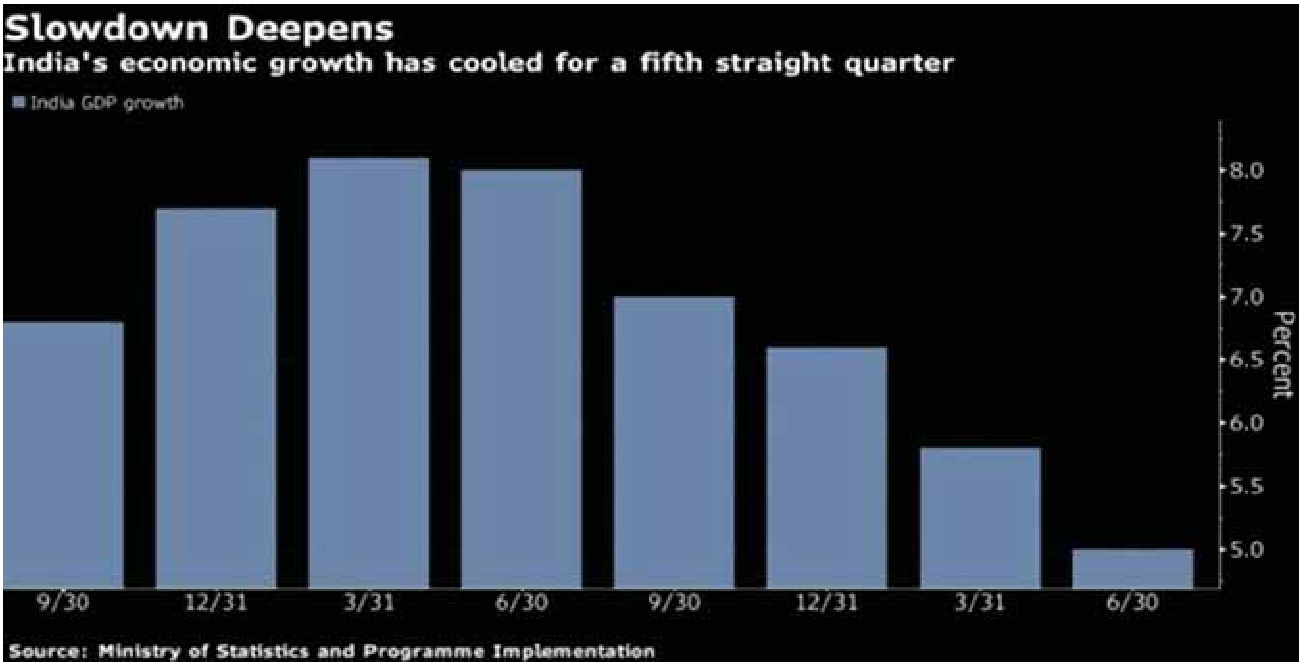
Subhranil Dey
SMC

After the 2008 global economic crisis, there has been attention on decoupling conditions between emerging and advanced economies. To understand whether India is de-coupled with international markets, three factors should be analyzed i.e economic growth, market trends and foreign flows.

Gauging the economic growth, India's GDP growth rate slipped to 5 per cent in the first quarter of 2019-20, the lowest in over six years, according to latest official data.

Regarding market trends, Indian stock markets have not performed so well as compared to international markets. This year till date Nifty has given nearly 9% return, in contrast globally this figure is 27% for NASDAQ, 23% in CAC & S&P and many more like these. While, the foreign flows India's FDI inflows in 2018-19 remained strong at USD 64.375 billion marking a 6% growth over the previous year. Also, FDI equity inflows in India in 2019-20 (till June) stood at US$ 16.33 billion

According to the results of our analysis, the Indian markets are decoupling with international markets. This phenomenon has impacted to commodity producers and the related stakeholders of the business community.



In recent times, the dwindling China-U.S. relations are creating turmoil in financial markets, and endanger global trade and economic growth. The market participants were hoping that these two super powers would take a "constructive attitude" toward resolving differences. But, the prolonged indifference over changes in structural changes is giving an indication that US-China Trade War will never end & remain locked in an escalating trade war for over a year. When this commotion is still going on in the international market, India has still not able to encash much of the opportunity with regards to agro based commodities export deal with China even though in geographically advantage the position. The India's exports of agricultural produce after hitting a record of $43.2 billion in 2013-14, began declining gradually which is a sign of decoupling.

India is an agrarian economy and according to the figure provided by the FAO, 70% of its rural households still depend primarily on agriculture for their livelihood, with 82% of farmers being small and marginal. Combination of rich knowledge of farmers of technology should act as a catalyst for growth of exports.

Dwindling exports

However, unfortunately the scenario is completely different from the expectations. The latest statistics from the Economic Survey 2018-19 that the growth of agriculture sector has been fluctuating: it increased from -0.2% in 2014-15 to 6.3% in 2016-17, and then declined to 2.9% in 2018-19. Gross fixed capital formation in agriculture has decreased from 17.7% in 2013-14 to 15.2% in 2017-18.

MSP FOR AGRI PRODUCE

₹/qtl	'13-14	'19-20	% chg
Jowar	1,500	2,550	70.0
Bajra	1,250	2,000	60.0
Gram	3,100	4,875	57.3
Moong	4,500	7,050	56.7
Soyabean	2,500	3,710	48.4
Barley	1,100	1,525	38.6
Paddy	1,310	1,815	38.5
Wheat	1,400	1,925	37.5
Tur	4,300	5,800	34.9
Maize	1,310	1,760	34.4

Source Ministry of Agri Compiled by BS Research Bureau

INDIA EXPORTS OF AGRI & ALLIED PRODUCTS

FY	$/mn
FY14	32,954
FY15	30,147
FY16	24,522
FY17	24,549
FY18	27,778
FY19	28,616
H1FY19	13,798
H1FY20	12,857

Source: Ministry of Commerce
Compiled by BS Research Bureau

The reasons are lack of innovation and competitiveness in the international market and the sustained increase in minimum support prices (MSP). Between FY13 and FY19, the government of India raised MSP of various agricultural commodities by 40-70 per cent. Hence, the over-priced the country's agricultural commodities in the world market, reducing India's competitiveness in farm exports. In the present scenario, the bulk consumers of commodities have started importing to meet their demand as sourcing from local farmers has become costly. Consistently falling prices, changing preferences and domestic policies have also contributed to fall in major items such as buffalo meat, guar gum and oil meal. Hence, the government should project the prices of the international commodities and then include them while pricing the MSP's.

There is a huge demand for India's agricultural produce in but there is red flag on India's competitiveness in the global agricultural produce market. Indian commodities would be able to find space in the international market only if they are quality- and price-competitive. Apart from this, the major factor is the quality of the produce, which our Indian farmers are not able to grow, due to lack of knowledge of crop choices, higher input costs, and the dismantled supply chain. Farming is indeed a hard-hitting job with remunerations not matching to the sweat involved. In fact, annual earnings of a 3-acre farmer are much lower than an IT sector or corporate newbie.

Opting out of RCEP

Inorder to address all these issues, the Government is continuously making efforts to fight these challenges. In recent step, Prime Minister Narendra Modi has done the wise thing in keeping India out of the ambitious Regional Comprehensive Economic Partnership (RCEP), the planned ASEAN-plus free trade area with ten members of the Association of South East Nations (ASEAN) joining Japan, Oceania, South Korea and China.

For knowledge, RCEP is a trade agreement where associating countries agree upon reducing or completely eliminating tariff and non-tariff barriers on imports and exports. India's trade deficit with the ASEAN bloc - Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Vietnam and the five others in the RCEP pact - China, Japan, South Korea, Australia, and New Zealand is already massive, and only increasing every year. Trade deficit with the above countries which stood at \$54 billion in 2013-14 had increased to \$105 billion in 2018-19. While India currently sends 20 per cent of all its exports to the above countries, 35 per cent of all imports are from this bloc of countries. Strikingly, China, which is in the forefront pushing RCEP after breaking ties with the US, is the largest exporter into India.

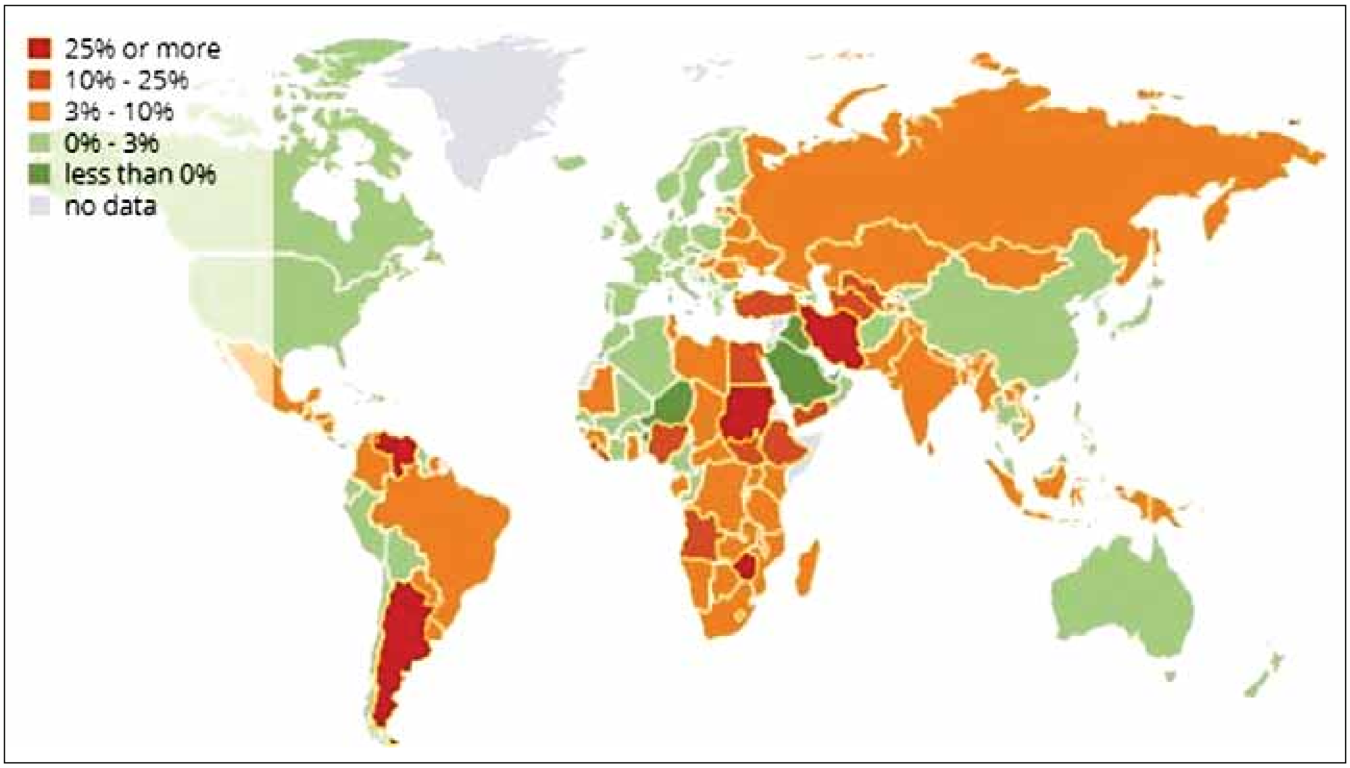
Higher imports from the above mentioned countries could have threaten farm sector competitiveness while rising farm prices threaten consumer price stability for the industry and service sectors. Hence, India refraining from signing up for the Regional Comprehensive Economic Partnership (RCEP) step was taken in the direction towards achieving doubling of farmers income, and protecting interests of the farmers in the nation.

Fear factor - Monsoon

Inflation is a problem for India as surging oil prices and monsoon fears take hold. Monsoon has always been playing a major role in deciding the fate of the farmers wealth. This year, rain gods have been kind to India's farmers, showering normal and well-distributed rainfall during the supposed "monsoon period" of June to September. However, the unseasonal rainfall continuing until almost the first week of November is delaying the sowing of Rabi crop such as mustard, chickpea, dhaniya & jeera. The harvesting as well as arrivals of Kharif crops are also getting slowed down for Kharif crops majorly soybean & cotton. During the week (24 to 30 October), rainfall was above Long Period Average (LPA) by 200% over the country as a whole, whereas as a whole, cumulative rainfall during this year's post- monsoon season (1st-30 October, 2019) is above LPA by 42%. Due to these kind of unwanted factors prices of the agriculture produces increases and raises the inflation bar.

Inflationary effect

Retail inflation which make up almost half of the inflation basket, inched closer to the Reserve Bank of India's medium-term target of 4% in September for the first time in 14 months on higher food prices. Increasing inflation is blessing in disguise for the farmers and according to our point of view this pain should be taken by the end consumers, as it gives financial benefit to farmers.



Let us take a look onto the worldwide inflation rate, average consumer prices (Annual percent change):

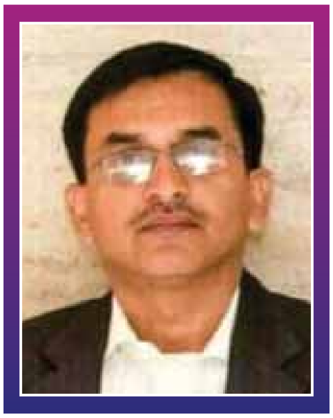
Ripples in global market

Crude prices have also kept the agriculture producers on toes since past one year. The volatility in the oil due to various global tensions directly affects agricultural prices through higher input and transportation costs. A rise in the price of crude oil hurts the economy because crude accounts for a significant portion of India's overall imports. When crude rises, it only impacts the stability of the rupee, but also produces an inflationary effect. The ripple direct and immediate impact effect is seen on the exports and imports of a country, especially agro commodities.

One of the emerging recent issues that the Indian exporters of agro commodities are facing is the increasingly erratic payments from Iran owing to the banking sanctions imposed by the United States. This is leading to dis-balance in the all the agri community stakeholders business model. Soybean meal exports to Iran, which accounts for more than 25 per cent of the 1.5-2 million tonnes of the commodity exported from India, have come to a standstill. Indian basmati rice exporters are facing issues in getting payments of over Rs 1,500 crore for rice exported to Iran. There is a huge demand in Iran for Indian sugar. If the payment issue is resolved then we can see an exponential increase in exports.

To conclude, various long term strategic options should be considered which are the need of the hour. Some of them include increasing supplier power, producer - consumer linkages, advanced technology adoption by making farmers aware about the e-commerce business and last, but not the least, a roadmap approach for different crop groups. Hence, for a safe and food secure future, the agriculture landscape has to undergo tremendous transformation and shift from the philosophy of 'green revolution' to 'techie methods' to sustain growth in agriculture.

न्यूनतम समर्थन मूल्य......किसानों के लिए सुरक्षा कवच



शिवानन्द उपाध्याय
एमएमसी ग्लोबल सिक्योरिटीज लि.

दिवाली से पहले किसानों के लिए एक बड़ी घोषणा के तहत सरकार ने मार्केटिंग सत्र 2020–21 और वर्ष 2019–20 की रबी या सर्दियों की फसलों के लिए 23 अक्टूबर को न्यूनतम समर्थन मूल्य में बढ़ोतरी की। एमएसपी वृद्धि की घोषणा केन्द्रीय मंत्रिमंडल ने कृषि लागत और मूल्य आयोग (सीएसीपी) द्वारा की गई सिफारिशों पर आधारित है। रबी मार्केटिंग सत्र 2020–21 के लिए चिन्हित रबी फसलों के एमएसपी को मंजूरी देकर उत्पादन की औसत लागत के करीब डेढ़ गुने तक लाने का प्रयास किया जिसकी घोषणा सरकार ने केन्द्रीय बजट 2018–19 में ही किया था। यह 2020 तक किसानों की आय को दोगुना करने के लक्ष्य को प्राप्त करने लिए कृषि नीतियों में क्रांतिकारी बदलाव है। केन्द्रीय बजट 2018–19 में ऐसा पहले हुआ था कि न्यूनतम समर्थन मूल्य में वृद्धि का फोकस केवल उत्पादन लागत पर नहीं है बल्कि किसान परिवारों की आय में समुचित बढ़ोत्तरी करने पर भी गया।

फसल वर्ष 2019–20 (जुलाई–जून) या मार्केटिंग सत्र 2020–21 के लिए प्रमुख फसलों का न्यूनतम समर्थन मूल्य (रु./क्विं. में)

फसल	एमएसपी 2018–19	एमएसपी 2019–20	उत्पादन लागत 2019–20 (रु. प्रति क्विंटल)	कुल वृद्धि	लागत पर रिटर्न प्रतिशत में
धान (सामान्य)	1750	1815	1208	65	50
गेहूँ	1840	1925	923	85	109
जौ	1440	1525	919	85	109
ज्वार (हाइब्रिड)	2430	2550	1698	120	50
बाजरा	1950	2000	1083	50	85
रागी	2897	3150	2100	253	50
मक्का	1700	1760	1171	60	50
चना	4620	4875	2801	255	74
तूर (अरहर)	5675	5800	3636	125	60
मूंग	6975	7050	4699	75	50
मसूर	4475	4800	2727	325	76
उड़द	5600	5700	3477	100	64
मूंगफली	4890	5090	3394	200	50
सूरजमुखी बीज	5388	5650	3767	262	50
सोयाबीन (पीला)	3399	3710	2473	311	50
तिल	6249	6485	4322	236	50
नाइजर बीज	5877	5940	3960	63	50
सरसों	4200	4425	2323	225	90
कपास (मध्यम रेशा)	5150	5255	3501	105	50
कपास (लंबा रेशा)	5450	5550	–	100	–

स्रोत : प्रेस इंफॉर्मेशन ब्यूरो

निम्नतम समर्थन मूल्य में निम्न को शामिल किया गया है :

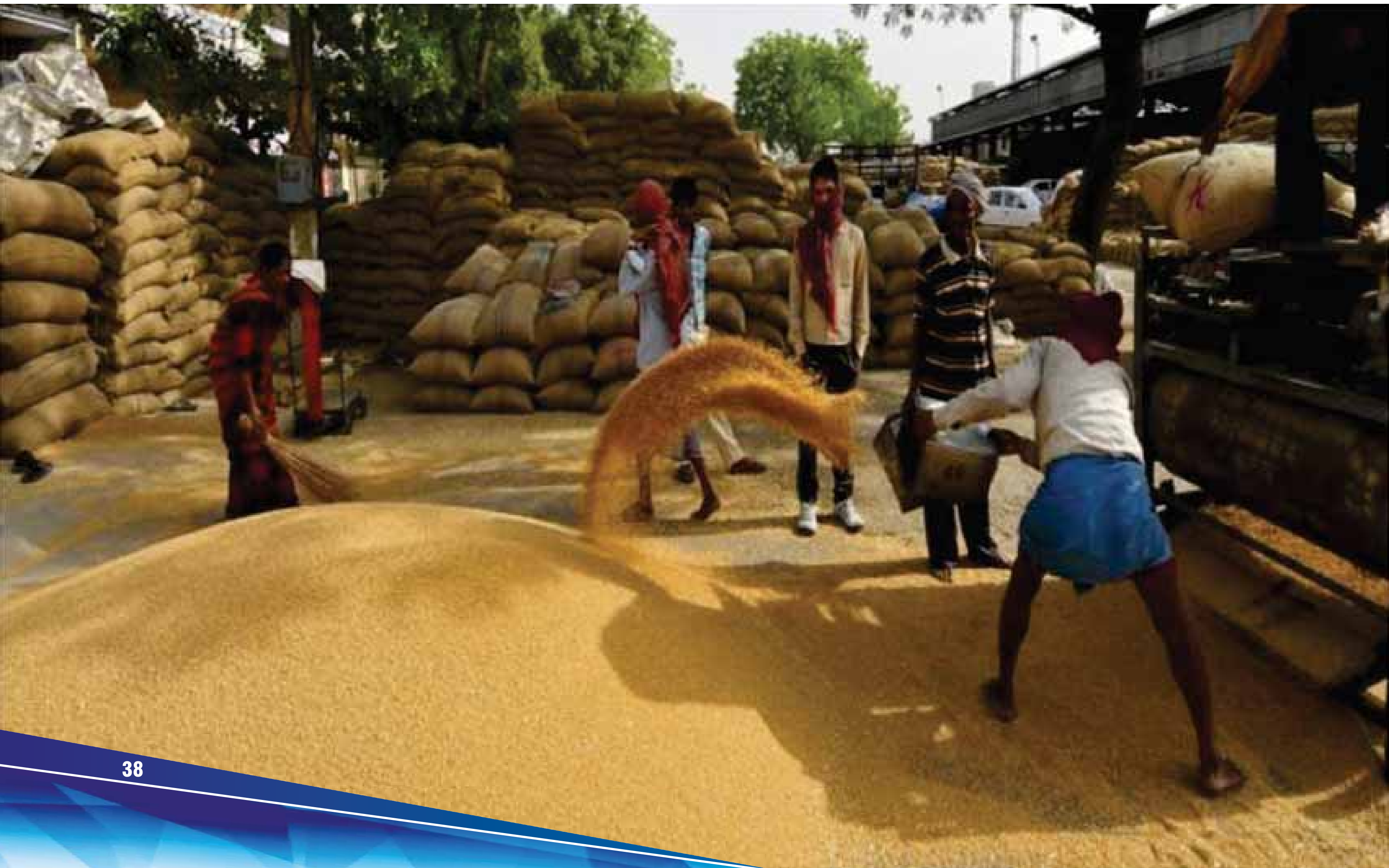
– भाड़े पर लगाए गए मानव श्रम
– मशीन या पशु श्रम पर लागत
– भूमि के पट्टे पर किया गया भुगतान
– बीज, ऊवर्रक, सिंचाई, कीटनाशक जैसे के इस्तेमाल पर लागत
– किसान परिवारों के श्रम की लागत

न्यूनतम समर्थन मूल्य केन्द्र सरकार की कृषि निर्धारण नीति का एक भाग है। इसे बाजार में हस्तक्षेप और कृषि उत्पादकों के लिए सहायक (बचाव) उपाय माना जाता है। न्यूनतम समर्थन मूल्य का प्रावधान 1960 के दशक के मध्य में प्रमुख खाद्य फसलों के उत्पादकों के लिए अनुकूल वातावरण बनाने और कीमतों में उतार–चढ़ाव से किसानों को बचाने के लिए शुरू किया गया था। यह नीति कई मायनों में बहुत मददगार साबित हुई। बड़े पैमाने पर खाद्यान्न की कमी की स्थिति से उबरकर भारत आत्मनिर्भरता के साथ एक खाद्यान्न अधिशेष देश के रूप में उभरा है। यह वर्षों से न्यूनतम समर्थन मूल्य में लगातार वृद्धि सुनिश्चित करके हासिल किया गया है। आर्थिक उदारीकरण के दौर में नयूनतम समर्थन मूल्य का बाजार से गहरा रिश्ता है। इस स्थिति में तीन मुख्य पहलुओं पर ध्यान देने की जरूरत है :

1. अंतरराष्ट्रीय बाजार में कीमतों में उतार–चढ़ाव के कारण कीमतों में अनवांछित परिवर्तन और अधिक उत्पादन के कारण भारी गिरावट से कृषि उत्पादकों को सुरक्षा प्रदान करना।

2. किसी विशेष फसल को बढ़ावा देने के लिए संसाधनों के आवंटन के लिए कृषि उत्पादकों को प्रोत्साहन देना और

3. मानसून के असफल होने या कालाबाजारियों द्वारा कृत्रिम अभाव पैदा किए जाने से खाद्य वस्तुओं की कीमतों में तेज उछाल से उपभोक्ताओं को सुरक्षा प्रदान करना। इसके साथ ही इसका फोकस उत्पादकों को लाभकारी मूल्य भी प्रदान करना है।



कृषि लागत और मूल्य आयोग (सीएसीपी) की भूमिका

कृषि लागत और मूल्य आयोग (सीएसीपी) कृषि उत्पादों की कीमतों की घोषणा करने से पहले राज्य सरकारों के प्रतिनिधियों और संबंधित विभिन्न समूहों से कमोडिटीज की कीमतों के बारे में विचार–विमर्श करता है। सीएसीपी उत्पादन की लागत, उत्पादन कार्यों में लगने वाली वस्तुओं की कीमतों मे बदलाव, माँग और सप्लाई, बाजार में कीमतों के रूझान और जीविका निर्वाह में लागत जैसे कारकों को ध्यान में रखते हुए न्यूनतम समर्थन मूल्य निर्धारित करता है।

कृषि लागत और मूल्य आयोग उत्पादन की लागत के तीन प्रकारों को वर्गीकृत करता है : A2, A2+FL और C2। A2 बीज, उर्वरक और किराए पर मजदूर सहित खेती की वास्तविक लागत का प्रतिनिधित्व करता है। A2+FL, A2 के अलावा परिवार के मजदूरों का प्रतिनिधित्व करता है। A2, A2+FL के अलावा निवेश की गई पूंजी पर ब्याज या भूमि पर किराया की लागत का प्रतिनिधित्व करता है। 2006 में, स्वामीनाथन आयोग ने C2+50 प्रतिशत न्यूनतम समर्थन मूल्य की सिफारिश की थी क्योंकि वह किसान को निवेश पर अधिकतम लाभ देता है। लेकिन सरकार ने एमएसपी की गणना के लिए उत्पादन की लागत के रूप में A2+FL को स्वीकार किया है और C2 को नहीं माना है।

एफसीआई की भूमिका

केन्द्र सरकार की ओर से भारतीय खाद्य निगम राज्य सरकारों और एजेंसियों के साथ सीएसीपी द्वारा तय किए गए न्यूनतम समर्थन मूल्य पर कृषि उत्पादों की खरीद के लिए जिम्मेदार है। लेकिन एफसीआई किसी खास कमोडिटी को उन्हीं राज्यों से खरीदती है जहा उसका उत्पादन सरप्लस में होता है। चावल और गेहूँ की खरीद मुख्य रूप से पंजाब, हरियाणा और उत्तर प्रदेश के कुछ भागों से होती है जहाँ इसका उत्पादन काफी अधिक होता है। चावल की खरीद आंध्रप्रदेश से भी होती है। इससे दो तरह की समस्याएं होती हैं : पहला, एफसीआई के पास बफर स्टॉक बढ़ता जा रहा है और हमारे गोदामों में खाद्यान्न का भंडार रखने की जगह नहीं है। जबकि देश के कुछ भागों में भूखमरी की हालत है। दूसरी, इन कमोडिटीज का उत्पादन करने वाले देश के शेष भागों का न्यूनतम समर्थन मूल्य का लाभ नहीं मिल पाता है और इन राज्यों के किसान समर्थन मूल्य के लाभ से वंचित हो जाते हैं। इससे देश में मुख्य फसलों की मांग और सप्लाई भारी असंतुलन पैदा होता है।

फार्म हार्वेस्ट मूल्य या बाजार मूल्य और न्यूनतम समर्थन मूल्य क बीच संबंध

ऐसे बहुत से उदाहरण हैं जहाँ न्यूनतम समर्थन मूल्य औसत फार्म हार्वेस्ट प्राइस या बाजार मूल्य से अधिक होता है। इसी तरह, ऐसे कई उदाहरण हैं जहाँ कमोडिटी के थोक मूल्य की तुलना में न्यूनतम समर्थन मूल्य अधिक है। इस स्थिति में मूल्य हस्तक्षेप तंत्र शायद किसानों और उपभोक्ताओं की रक्षा करने में विफल रहा है। इससे पता चला है कि एमएसपी केवल साधन संपन्न किसानों और वाणिज्यिक फसलों को सुरक्षा प्रदान करता है।

हम देखते हैं कि बाजार मूल्य और न्यूनतम समर्थन मूल्य के बीच का संबंध धान के मामले में सबसे बेहतर रहा है, जबकि अन्य अनाजों और दालों के मामले में कमजोर रहा है। कुछ फसलों के बाजार मूल्य के साथ एमएसपी का कमजोर संबंध इन फसलों के मामले में प्रोत्साहन मूल्य के रूप में एमएसपी की भूमिका पर सवाल खड़ा करता है। दुर्भाग्य से, फसलें गरीब किसानों द्वारा उगाई जाती हैं और बड़े पैमाने पर गरीब क्षेत्रों में होती हैं।

क्या न्यूनतम समर्थन मूल्य किसानों को सुरक्षा प्रदान कर सकता है?

अभी भी प्रमुख सवाल यह है कि क्या एमएसपी अकेले किसानों को बचा सकता है? क्या बढ़े हुए एमएसपी से किसानों की वास्तविक आय में बढ़ोत्तरी हो रही है?

सर्वप्रथम न्यूनतम समर्थन मूल्य में इस बढ़ोत्तरी से किसानों को काफी राहत मिलेगी क्योंकि इससे ईंधन की कीमतों में बढ़ोत्तरी, कृषि उपकरणों पर लागत और ऊर्वरकों की कीमतों में बढ़ोत्तरी जैसे लागत बोझ का भुगतान किया जा सकेगा। दालों की खेती को बढ़ावा किए जाने से भारत को पोषण की समस्या से निपटने, मिट्टी में नाइट्रोजन की मात्रा में बढ़ोत्तरी से उपजाऊपन बढ़ाने और किसानों की आय बढ़ाने में मदद मिलेगी। इस प्रकार, दालों के न्यूनतम समर्थन मूल्य में बढ़ोत्तरी से किसानों की प्रति एकड़ आय में वृद्धि होगी।

इसके अतिरिक्त न्यूनतम समर्थन मूल्य में बढ़ोत्तरी से तिलहनों के उत्पादन को भी बढ़ावा मिलेगा और भारत को अपना आयात खर्च कम करने में मदद मिलेगी। पोषक अनाजों के न्यूनतम समर्थन मूल्य में बढ़ोत्तरी से पोषण सुरक्षा में सुधार होगा और किसानों को अधिक कीमतें मिलेंगी।

हालाँकि वास्तविक समस्या, दशकों की लापरवाही का परिणाम है। खाद्यान्न का उत्पादन बढ़ाना हमेशा किसानों को बनाए रखने और परोक्ष रूप से देश को भोजन में आत्मनिर्भर बनाने की रणनीति रही है। हालाँकि इस रणनीति ने किसानों के संकटों को कुछ हद तक कम करने में मदद की है, लेकिन यह खाद्यान्न के बढ़ते उत्पादन के साथ तालमेल रखने में विफल रहा है। यह देखा गया है कि अधिक उपज के साथ, बाजार को अधिक हस्तक्षेप की आवश्यकता होती है। बम्पर उत्पादन वाली फसलों के व्यापार करने के लिए बाजारों की आवश्यकता होती है, वह भी इस कीमत पर कि उनके निवेश पर अधिक से अधिक कमाई हो।

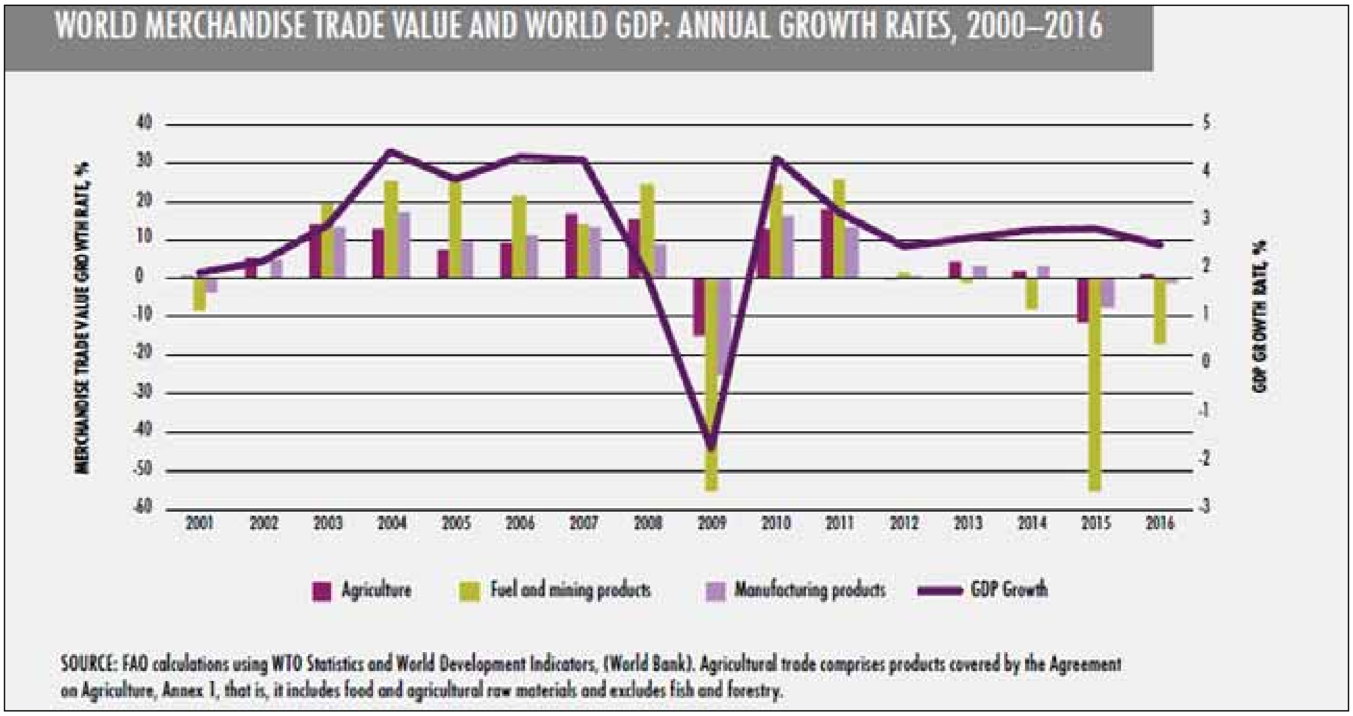
शांता कुमार कमेटी की रिपोर्ट के अनुसार, न्यूनतम समर्थन मूल्य से केवल 6 फीसदी किसानों को फायदा होता है, जबकि 94 फीसदी किसान न्यूनतम समर्थन मूल्य का लाभ नहीं उठाते हैं। हालांकि किसानों के बैंक खातों को आधार संख्या से जोड़े जाने के बाद से इस स्थिति में काफी हद तक सुधार हुआ है। लेकिन कई राज्यों में अभी भी उचित खरीद और बुनियादी भंडारण ढांचे का अभाव है। कई राज्य सरकारों को पर्याप्त भंडारण सुविधा की कमी के कारण किसानों से खरीद बंद करनी पड़ती है। इसलिए यदि किसान अपनी उपज न्यूनतम समर्थन मूल्य पर नहीं बेच सकते हैं या यदि सरकार न्यूनतम समर्थन मूल्य पर उपज की खरीद नहीं कर सकती है, तो यह किसानों को संकट से मुक्ति नहीं दिला सकती है। किसानों की वास्तविक आय का निर्धारण इन कीमतों पर कितने प्रतिशत फसलों को खरीदने से होगा। इसका कोई मापदंड नहीं है।

न्यूनतम समर्थन मूल्य......अहम भूमिका

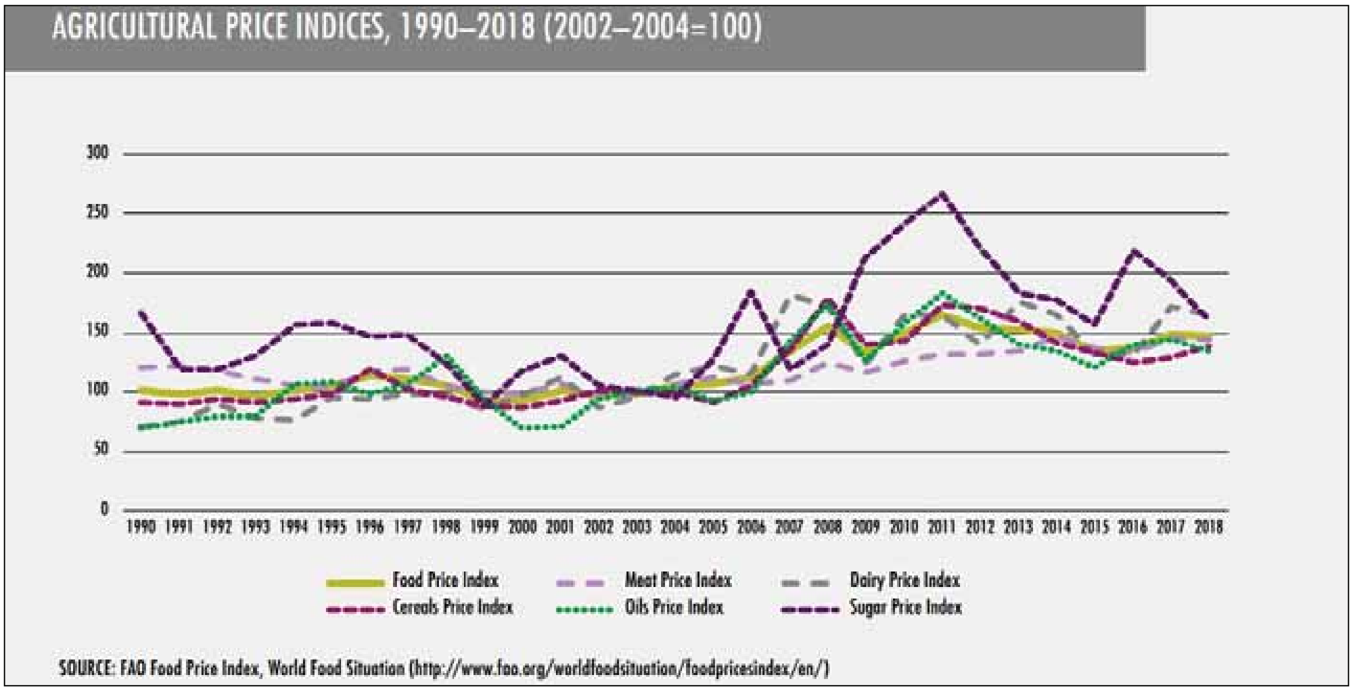
न्यूनतम समर्थन मूल्य ने कृषि उत्पादन में बढ़ोत्तरी और किसानों की आय में वृद्धि के लक्ष्य को प्राप्त करने में अहम भूमिका निभायी है। एमएसपी नीति का कृषि आय पर अनुकूल प्रभाव पड़ा है, इसने आर्थिक विकास को बढ़ावा दिया है क्योंकि इसने किसानों को न्यूनतम 50 प्रतिशत लाभ मार्जिन का आश्वासन दिया है क्योकि यह 2022 तक किसानों की आय को दोगुना करने और उनके कल्याण में सुधार लाने की दिशा में महत्त्वपूर्ण और प्रगतिशील कदम है। न्यूनतम समर्थन मूल्य के कार्यान्वयन से किसानों की आय और क्रय क्षमता बढ़ेगी, जिसका व्यापक आर्थिक गतिविधियों पर प्रभाव पड़ेगा। हालांकि, एमएसपी में बढ़ोत्तरी से राजकोषीय घाटे में बढ़ोत्तरी होगी। यह कदम मुद्रास्फीति को बढ़ा सकता है, भारतीय रिजर्व बैंक (आरबीआई) को ब्याज दर बढ़ाने के लिए प्रेरित कर सकता है। इससे चावल, गेहूँ और सरसों मील का निर्यात भी बुरी तरह प्रभावित हो सकता है क्योंकि इन फसलों की घरेलू कीमतें अंतर्राष्ट्रीय कीमतों से अधिक हो सकती हैं।

Graphical Understanding of World Agriculture Market

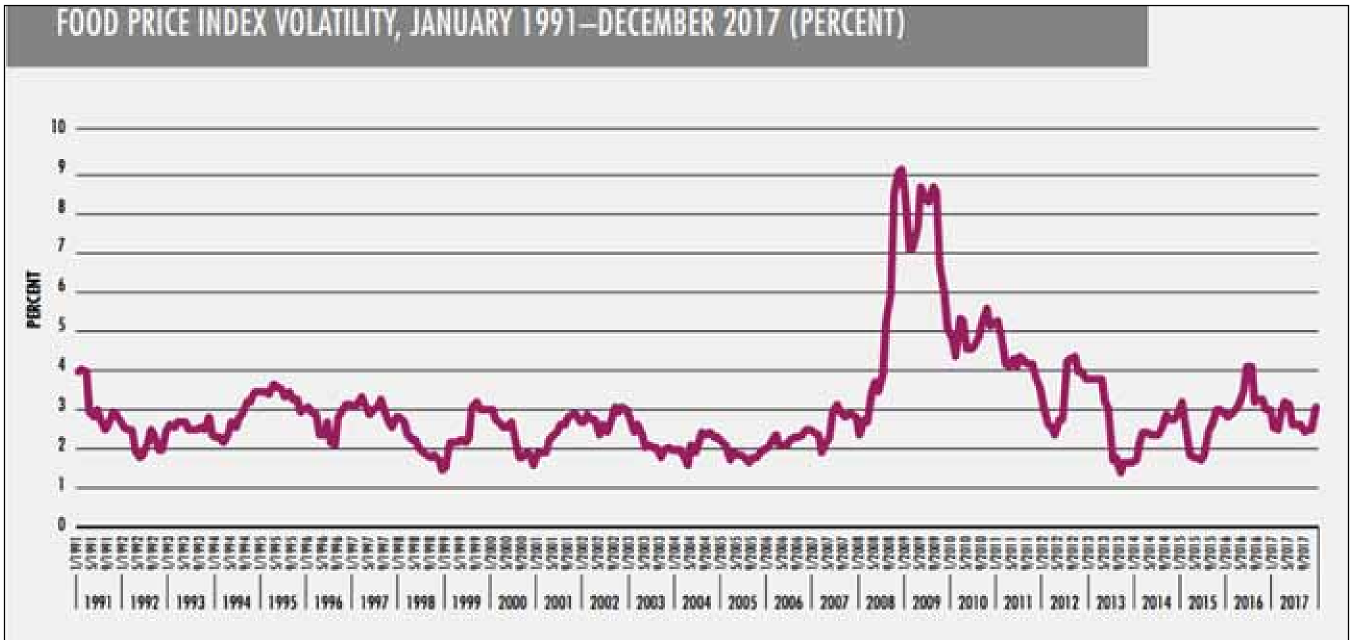
Agriculture Trade – Key Dynamics and Trends



Price Indices



Price Volatility



SOURCE: FAO, monthly food price indices (2002–2004=100), computed every 12 months

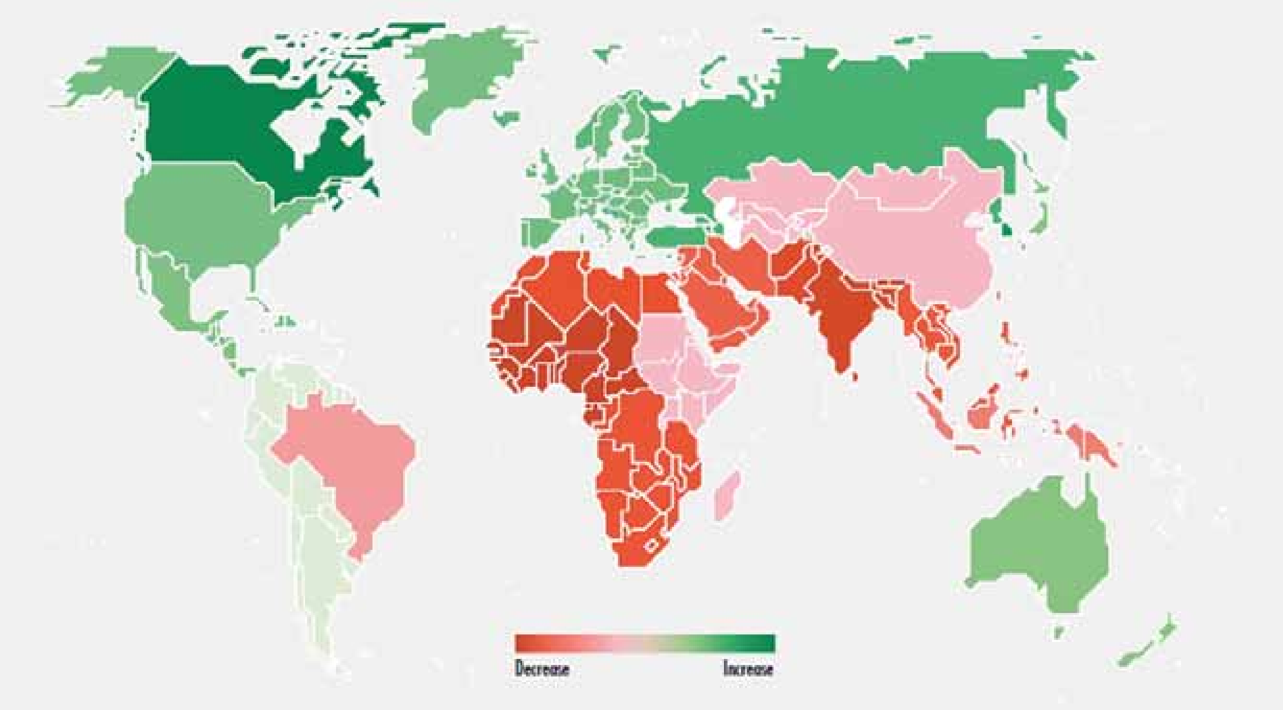
Climate Change Scenario – The Linkage between Agriculture Trade, Food Security and Climate Change.

CLIMATE CHANGE AND FOOD SECURITY[10]

Dimension of food security	Climate change effects on food security	Time horizon
Availability	▸ Global mean crop yields of rice, maize and wheat projected to decrease 3–10 percent per degree of warming ▸ Impacts on livestock through reduced feed quantity/quality, pest and disease prevalence, physical stress; meat, egg and milk yield and quality decrease ▸ 5–10 percent decrease in potential fish catch in tropical marine ecosystems	Slow onset, long term
Access	▸ Increasing food prices ▸ Relocation of production with impacts on prices, trade flows and food access	Slow onset, long term
Utilization	▸ Reduced food safety due to higher rates of microbial growth at increased temperatures ▸ Reduced nutritional quality of crops due to decreases in leaf and grain nitrogen, protein and macro- and micronutrient concentrations associated with increased carbon dioxide concentrations and more variable and warmer climate	Slow onset, long term
Stability	▸ Damage to crops and livelihoods from extreme events (heatwaves, droughts, floods, storms, etc.) ▸ Short-term disruptions of trade through effects on transport systems	Extreme events, short term

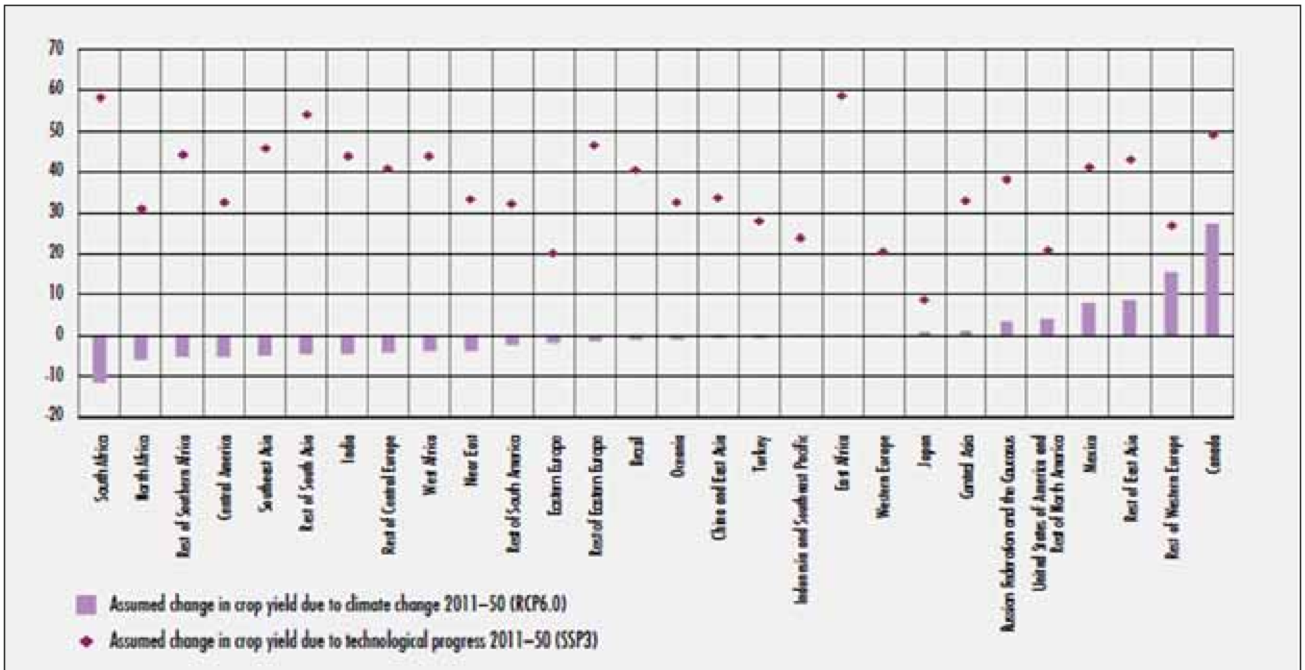
SOURCE: Based on FAO (2016); Campbell *et al.* (2016); and Schmidhuber and Tubiello (2007).

Change in Agriculture Production in 2050

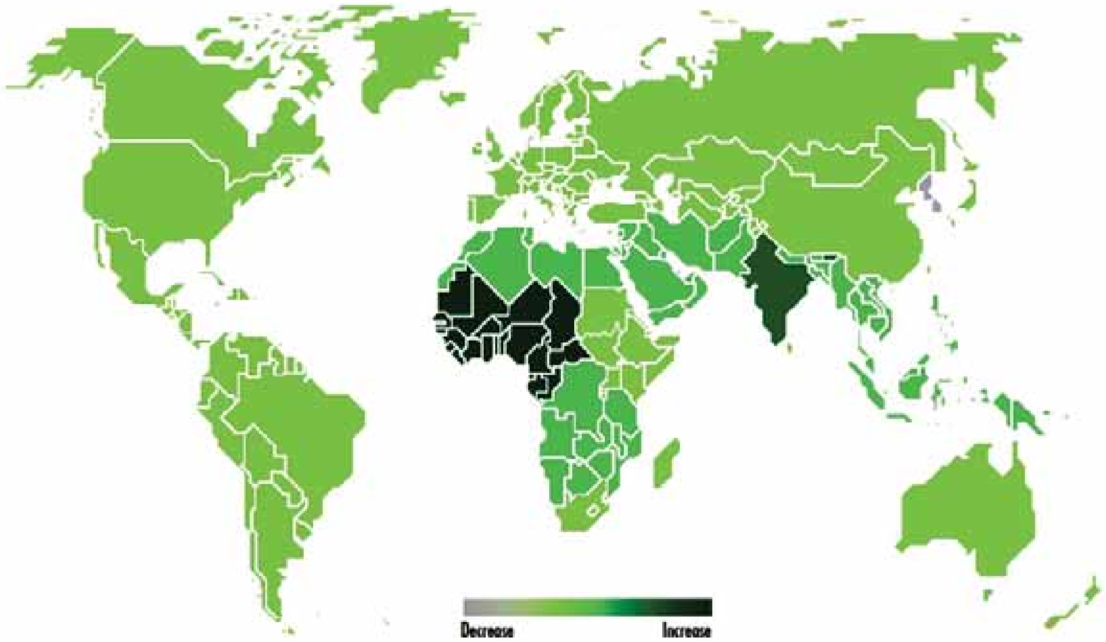


NOTE: The final boundary between the Republic of the Sudan and the Republic of South Sudan has not yet been determined. Final status of the Abyei area has not yet been determined.
SOURCE: Based on data provided by Wageningen Economic Research. 2018. Climate Change and Global Market Integration: Implications for global economic activities, agricultural commodities and food security. SOCO 2018 Background Paper, Rome, FAO.

Crop Yield Assumption, (% Change 2011 – 2050)

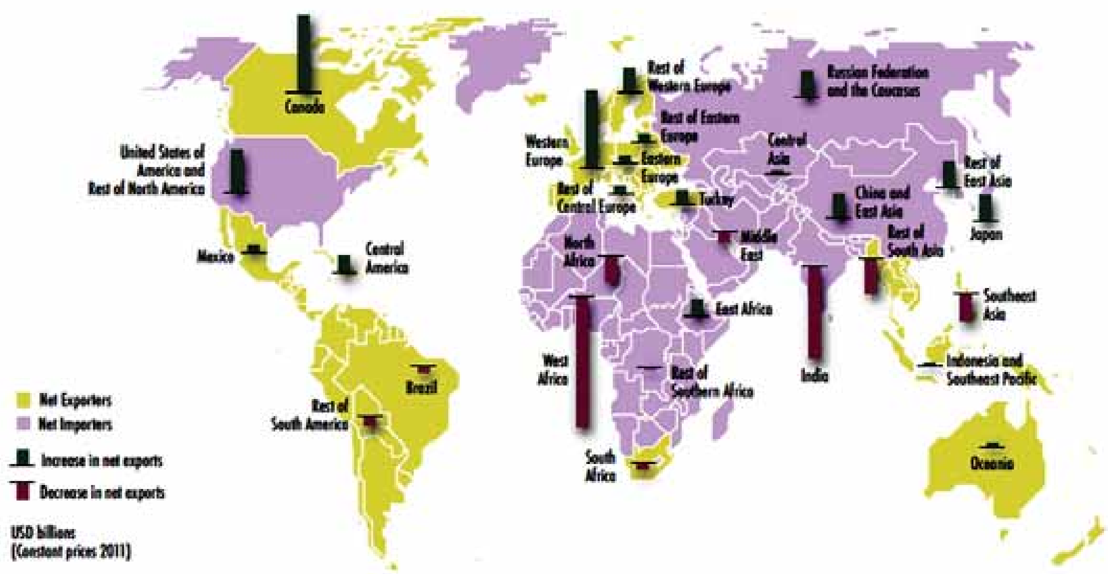


Change in Food Price in 2050.



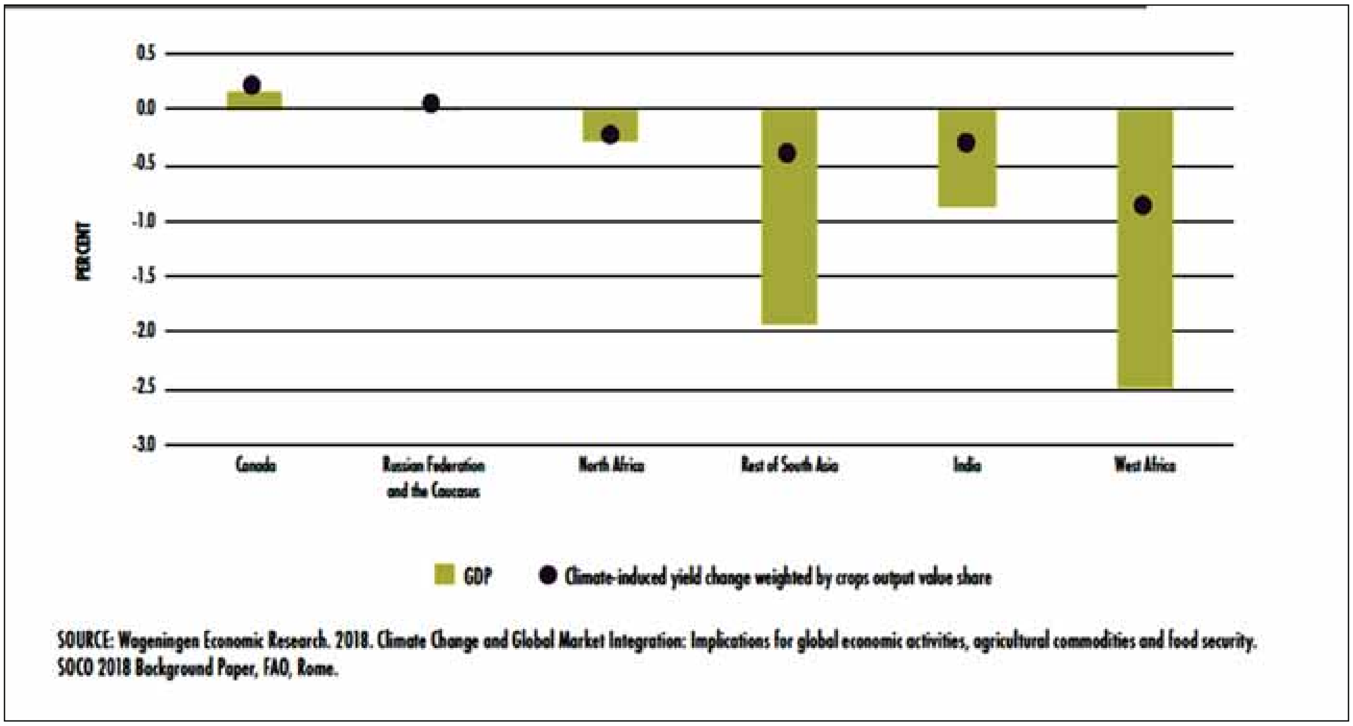
NOTE: The final boundary between the Republic of the Sudan and the Republic of South Sudan has not yet been determined. Final status of the Abyei area has not yet been determined.
SOURCE: Based on data provided by Wageningen Economic Research. 2018. Climate Change and Global Market Integration: Implications for global economic activities, agricultural commodities and food security. SOCO 2018 Background Paper, FAO, Rome.

Change in Agriculture Net Trade in 2050 : (In billion US Dollar)



NOTE: The final boundary between the Republic of the Sudan and the Republic of South Sudan has not yet been determined. Final status of the Abyei area has not yet been determined.
SOURCE: Based on data provided by Wageningen Economic Research. 2018. Climate Change and Global Market Integration: Implications for global economic activities, agricultural commodities and food security. SOCO 2018 Background Paper, FAO, Rome

Change in Food Price in 2050.



Launch of NISM-Series-XVI : Commodity Derivatives Certification Examination

NISM initiated a Certification Examination of Commodity Derivatives and invited CPAI in launch programme.

NISM-Series-XVI: Commodity Derivatives Certification Examination" was launched by Shri S K Mohanty, Whole Time Member, SEBI, Shri Nagendraa Parakh, Executive Director, CDMRD, SEBI, Sunil Jayawant Kadam, Registrar,

National Institute of Securities Markets (NISM), Mr. Narinder Wadhwa, National President, CPAI and other senior officials of SEBI on 11th October 2019 at SEBI Bhavan II, Bandra Kurla Complex, Bandra(E), Mumbai - 400051

The examination aims to enable a better understanding of various derivatives products available in commodity derivatives markets, regulations and risks associated with the products and the exchange mechanisms of trading, clearing and settlement.

Examination Objectives:

On successful completion of the examination the candidate should:

- Know the basics of the Indian commodity derivatives markets.
- Understand various trading strategies that can be built using commodity derivatives.
- Understand the clearing, settlement and risk management as well as the operational mechanism related to commodity derivatives markets
- Know the regulatory environment in which the commodity derivatives markets operate in India.

For more details candidate can go to the NISM Website via below link http://www.nism.ac.in/certification/index.php/nism-series-xvi-commodity-derivatives-certification-examination.

CPAI's News

Business Standard

Sebi seeks hedging by firms on exchanges; approaches RBI

DILIP KUMAR JHA
Mumbai, 7 September

Corporates have largely stayed away from hedging price risk of raw materials on domestic exchanges. To bring them on board, the Securities and Exchange Board of India (Sebi) is seeking help from the Reserve Bank of India (RBI).

The markets regulator, along with members of the Commodity Derivatives Advisory Committee (CDAC), is planning to meet RBI officials who can ask banks to advise corporates (borrowers) to hedge their commodity price risk on the domestic exchanges.

The mandatory hedging of commodity risk on domestic exchanges is set to serve the dual purpose and protect the interest of both buyers as well as sellers from price volatility.

This will eventually lead to a surge in trading volumes on commodity exchanges. Unfortunately, commodity exchanges failed to grab corporate hedging opportunity in the 17 years of their launch (since 2002).

"In the last CDAC meeting, it was discussed that Sebi will lead a delegation of the commodity value chain and other committee members and meet RBI officials with a request for banks to advise their clients to make corporate hedging mandatory on domestic exchanges," said Narinder Wadhwa, president, Commodity Participants Association of India (CPAI).

Meanwhile, Sebi has already tried to attract corporate participation. Through a recent circular, the regulator asked exchange-listed entities to disclose their hedging details in the annual report. Corporates, in their respective annual reports, have disclosed minimal hedging on the domestic commodity exchanges.

"Except in a few commodities, corporate hedgers have stayed away and that has posed a severe threat on businesses that are exposed to highly volatile commodity prices. Lack of hedging has eroded profits in the high-risk commodity business. Companies on their own are not hedging. If on RBI's instructions, banks that are lending money to these borrowers insist on corporate hedging on commodity exchanges, that would protect banks lending also," said the source.

Sebi, however, cannot direct corporates on their business decisions. Hedging of commodities — either raw materials or finished products — should be done by the respective corporate entities only. Lenders can advise their corporate clients to hedge their risks wherever they have commodity exposure. They can do so especially with their borrowers who have placed commodities as collateral or have taken loan for manufacturing them.

"Hedging should be a decision of an individual corporate to protect itself from commodity price volatility," said Kishore Narne, associate director, Motilal Oswal Financial Services.

Sources, however, raise issues of thin liquidity on many contracts and several commodities are still not available for hedging. However, the market regulator is of the view that once hedgers comes, financiers and exchanges will be ready.

Apart from corporate participation on commodity exchanges, the CDAC meeting discussed issues like enhanced disclosures with respect to exchange accredited warehouses and lean-month policy for derivatives contracts on agricultural commodities. The CDAC delegation is set to meet RBI officials by the end of September.

Wadhwa, however, said even the RBI cannot impose business decision on banks or change the banking regulation to force corporates hedge their commodity risk on domestic exchanges. "The concerned lenders can only advise their clients. Beyond advise, even banks cannot do anything," he added.

Meanwhile, commodity exchanges have witnessed 44 per cent increase in their cumulative daily average turnover (DAT) to ₹41,363 crore for September from ₹28,744 crore crore in January.

The Multi Commodity Exchange recorded 50 per cent growth in its DAT this calendar year to ₹39,577 crore in September compared to ₹26,473 crore January. Other exchanges posted a decline in their DAT this calendar year.

TRADING GAMES

Daily average turnover for the month (in ₹ crore)

	BSE	ICEX	MCX	NCDEX	NSE	Total
January '19	284	758	20,473	1,009	20	28,744
February '19	186	257	27,021	1,448	26	28,948
March '19	29	732	27,498	1,557	20	29,109
April '19	293	225	26,356	2,378	26	29,290
May '19	747	209	27,292	2,106	20	29,830
June '19	291	180	28,045	1,909	21	31,209
July '19	208	182	31,471	1,908	22	33,712
August '19	298	125	34,964	1,816	69	37,209
September '19	180	77	34,577	1,646	55	41,363

Source: Exchanges

BusinessLine

Fillip to farm sector: Government green-lights options trading on spot commodity prices

PALAK SHAH
SURESH P IYENGAR
Mumbai, October 20

In a move that would make it easy for the farmers to hedge, commodity options can now be settled directly based on spot prices instead of the current practice of options devolving into futures first. The government has issued a notification to this effect which will pave way for online commodity derivatives exchanges to launch options trading based on spot prices.

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.

An options contract allows an options buyer the right, without the obligation, to buy or sell an underlying asset in the form of a commodity at a particular price until a designated date.

Through a notification on September 27, 2016, the government allowed derivatives trading in 91 commodities, including many sensitive commodities such as onion, potato and eggs in the farm sector, and petrol, diesel and methanol in the non-farm segment.

Sanjit Prasad, Managing Director & CEO, Indian Commodity Exchange, said at present, options are allowed based on the liquidity of the futures contract. Now, options will be allowed without a futures contract, provided the physical market is liquid.

"This notification paves the way for options on goods rather than options on futures. We will witness robust growth in the commodity options market, with hedgers using options effectively," he said.

Narinder Wadhwa, National President, Commodity Participants Association of India, said the decision will pave the way for the integration of the spot market with the derivatives market and will enable the rollout of farmer-friendly new options by commodities exchanges.

It will also provide an opportunity for exchanges to launch options on benchmark spot prices in the farm and non-farm markets, which is not possible in the current framework wherein norms such as a minimum daily turnover of ₹200 crore in futures contract for trailing one year are a major criteria, he added.

newKerala.com

(07th August 2019)

Mumbai, Aug 7 : Bankers and experts on Wednesday hailed the RBI's unprecedented cut of 35 bps in repo rate acknowledging the economic slowdown and lending support through the fourth successive reduction in the rates.

They also appreciated efforts steps taken by the apex bank to enhance credit flow to the NBFCs and classification of priority sector lending.

B. Prasanna, Head, Global Markets Group, ICICI Bank, said "The MPC surprised positively with a 35 bps cut given on the back of a continued growth slowdown. The MPC remains sanguine on inflation with projections up to Q1 FY2021 remaining well under 4 per cent while it downgraded GDP forecasts to 6.9 per cent with downside bias.

"Steps to enhance the credit flows to NBFCs and classification of certain sectors to the priority sector lending through NBFC on-lending are also welcome. Going forward, given the rhetoric that supporting private investment remains 'highest priority', we do not rule out further accommodation if growth impulses continue to be slow."

Narinder Wadhwa, President, Commodity Participants Association of India (CPAI) said "The decision of a cumulative rate cut for the fourth time in a row was to ease the situation of liquidity tightening in the system. The regulator has retained its accommodative stance, which indicates its willingness to remain flexible till the economic conditions improve. The uptick in gold prices with the rate cut announcement indicates the investors confidence in this traditional asset during uncertainties."

BusinessLine

Fresh crisis brewing in NCDEX castor contract

SURESH P IYENGAR
Mumbai, October 1

A fresh crisis seems to be brewing in settlement of the NCDEX castor seed contract, with its subsidiary National Clearing Corporation making frequent changes in settlement processes and reversing the same as castor prices hit the lower circuit continuously over the last few days, reflecting the dynamics of the developing situation.

Traders expect a default of ₹100 crore in the contract, which expires on October 18.

On Tuesday, NCCL used the option of contract tear-up (compulsory closure of trading position) to restore the matched book. The clearing corporation said it will select the short positions in Castor Seed contracts, and on a pro-rata basis, allocate the positions for tear-up.

Compensation will be paid to the non-defaulting members whose contracts have been selected for tear-up.

The compensation shall be paid at 12 per cent on the Daily Settlement Price of respective Castor Seed contracts as on September 30.

The partial tear-up trades will be executed at the Daily settlement Price of the respective contracts of Castor Seed as on September 30. Compensation will be settled through credit in the settlement account on October 3, it said.

Special auction

The exchange also conducted a special auction for sale of 23,870 tonnes of castor, for an hour, to close out the buy positions of members who had failed to meet their margin obligations.

On September 26, the exchange advanced the staggered delivery from October 11 to 3 but rolled it back on September 30. Similarly, it rolled back the 5 per cent additional margin on both the buy and sell side within two days of its announcement late last month.

A mail sent by *BusinessLine* to both NCDEX and NCCL remained unanswered.

Narinder Wadhwa, President of the Commodity Participants Association of India, said the clearing corporation is clueless on how to tackle the situation and is making frequent adhoc decisions impacting the market.

In a meeting along with SEBI and the exchange, the CPAI had suggested a levy of 50 per cent additional margin on the sell side but the exchange had put only 20 per cent, which the traders sitting on 16 per cent profit easily absorbed, said Wadhwa, who is also the Managing Director of SKI Group.

Unfortunately, he said, the crisis in the NCDEX castor contract is pulling down spot market prices when farmers are about to bring their kharif harvest for sale.

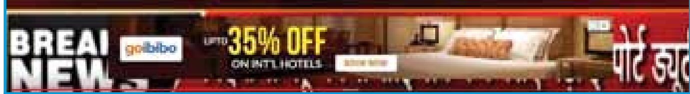
Big decline

The castor seed contract has fallen from a high of ₹5,900 a quintal early in September to the current level of ₹4,638 after hitting the lower circuit last week.

Wadhwa said as castor is a narrow commodity with a market value of ₹1,600 crore, a few traders can come together and jack up prices easily in the futures market. Exchanges levy few restrictions when agricultural commodity prices move up unilaterally.

In fact, Wadhwa said the association had told the exchange to levy a client-wise margin rather than putting it on a trading and clearing member.

CPAI's News



BusinessLine

Centre ready to examine demand for CTT cut

Commodity transaction tax is making India an expensive market to hedge price risk

वीर अर्जुन

भारत के पास जिंस बाजार में उचित दाम की खोज करने वाला देश बनने की क्षमता : ठाकुर

Business Standard

MCX, NCDEX gear up to roll out index futures

the pioneer

India can be price setter in commodity market: Min

बिज़नेस स्टैंडर्ड

सूचकांक में वायदा की तैयारी

The Economic Times

SEBI BAN on pledging client's shares to curb their misuse may cause a liquidity crunch for brokers, who will now have use their own funds to extend credit

Brokerages Could Lose Ease of Doing Business, Make Losses In Some Cases

NO MORE LEVERAGE