आत्मनिर्भर भारत
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Accelerating Growth through Capital Markets Beyond India@75

Special Convention Edition

Commodity Participants Association of India

(Transforming Rural Economy into Global)

About CPAI

Commodity Participants Association of India (CPAI) is the registered all India association of all the national commodity exchanges and comprising commodities participants of recognized Commodity Exchanges like MCX, NCDEX, NSE, BSE, ICEX, MSEI as also other commodity market participants in the value chain 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.

CPAI's mission is to work for a transparent, efficient, safe & vibrant commodity derivatives market and creating world-class infrastructure for commodity spot markets. CPAI has a vision of Indian Commodities Market making an impact & influencing world commodity markets along with providing an efficient platform to consumers, producers, traders and the industry.

The basic objective of the association is to work for the cause and concern of its members so that they can do business smoothly and their problems can 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.

By virtue of its proactive role, sincere and logical approach in the development of commodity derivatives markets and the integration of spot market, CPAI has earned recognition and appreciation from the government & the regulator, such that SEBI has included it as a member in its Commodity Derivatives Advisory Committee (CDAC), Risk Management Review Committee (RMRC) and its sub-committees. In addition, CPAI has also been given representation in various committees formed by the exchanges.

CPAI is serving its members and the commodity markets through its head office in New Delhi and four regional offices. The National Executive and four Regional Executive Committees of CPAI comprise sincere and dedicated members from all parts of the commodity business in India. The unflagging efforts put in for transforming rural economy to global by the office bearers of CPAI has helped in reshaping the commodity industry in India.

CPAI works as a team and takes a view after detailed deliberations with members and such considered views are submitted to Government, Regulator & Exchanges and has been receiving high acceptance.

CPAI looks forward towards creating a transparent and safe commodity derivatives market in India to make it an international Commodity hub while transforming our rural economy to global.

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- The articles have been edited for the sake of brevity wherever necessary.

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From the Chief Mentor

Ashok Kumar Agarwal
Chief Mentor, CPAI

Dear Members,

I would like to welcome you to the 8th CPAI convention to be held in Delhi. It is a great pleasure that we are meeting physically and I am sure the presence is going to be all time high considering that we have been missing physical meet since 2019 because of Covid. In this period a lot has happened and our capital and commodity markets have seen many reforms such as client collateral segregation as well as T+1 settlement which makes our market one of the unique and most efficient market in the world. We are in the 75th year of independence and the country is celebrating "Azadi ka Amrit Mahotsav" and the good news is that our markets have seen phenomenal volume and also large participation from retail investors.

The number of Demat accounts has gone up from 4 cr, as of 31/03/2020, to 8.97 cr, as of 31/03/2022. This shows that India which was a country where the savers' money was going more to all other sectors like real estate, bank's fixed deposit and not to the capital market are now getting diverted to capital and commodity market.

It is also heartening to note that even the market; NIFTY NSE that went down to 7,511 on 24/03/2020 due to covid has bounced back to more than 18,000 in October 2021 even though it is hovering around 16,000 right now.

I think, our GDP is poised to grow more than 7-8% for a decade or two and are one of the best market for the investor. But this also puts a lot of responsibilities on us as market intermediary to focus on investor education and protection. As only that will ensure long term growth of our capital market and country and also the broking community. In this time of "Azadi Ka Amrit Mahotsav" let us resolve to make our capital and commodity market one of the best place for an investor to invest their hard earned money.

Needless to say, CPAI has done a tremendous job in representing our community before various authorities for market related issues and I am sure CPAI will contribute more towards the development of our market in the future.

Before I conclude, I would like to thank SEBI, the Government, the commodity & equity exchanges and all the office bearers and members of CPAI for their continuous support.

My best wishes for you!!

Ashok Agarwal

From the President

Narinder Wadhwa
President, CPAI

Hello Friends!!

CPAI brings to you a special edition of Journal for our Convention.

A plethora of opportunities has emerged in the Commodity and Capital market that the market participants can take advantage of. There have been numerous changes in the macro environment since our previous convention in 2019. This year's convention discusses these opportunities.

Our nation is taking firm steps to march towards attaining $ 5 Trillion GDP. According to a McKinsey study, around 40% of this will be contributed by commodities. The household savings are Rs 17 lacs crore at the current level of GDP. A staggering amount of household saving of 50 lacs crore will need to be channelized for investment. That is a huge opportunity for the capital market intermediaries.

Over the past few years, FINTECH has made things faster, simpler and safer. Fintech is speeding up the Onboarding process besides improving the investor and customer relationship. The humungous addition in Demat accounts is testimony of this Fintech revolution.

According to the China Business Report published by the American Chamber of Commerce of Shanghai the India is among the top four options for relocation or diversification in 2019 and 2020 for American companies. The Production Linked Incentive schemes, a large domestic market, skilled labor, low labor costs have enhanced the attractiveness for Investment in Manufacturing and supply chain resilience. The soaring prices of commodities which are critical inputs for manufacturing will accentuate the importance of hedging the risk and price discovery.

Our Gift City is emerging as global financial hub and gateway for global capital. There is a tremendous opportunity for our markets to be Global Price Discovery centre for financial assets.

Although India is world's second largest gold consumer largest and there is a great affinity for investing in Yellow metal, trading was allowed only in futures. There were other avenues like SGB and Gold ETF. Yet there was a gap. Spot Exchange for Gold would create a national pricing structure, provide efficient price discovery, liquidity, and assurance in the quality of gold and bring in new class of investors who traditionally prefer to invest in tangible assets.

I extend a warm welcome to the Panellists and the Guests of the convention.

They will make it crackerjack of discussions!!

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

Narinder Wadhwa

From the Chairman, Editorial Board

Jayant Manglik
Chairman, Editorial Board

It has been an extraordinary two years, and hopefully the likes of which we will never see again. Now covid seems to be fading away and everybody is moving back to the old normal. Well, almost everyone.

Markets have been on a rollercoaster during this period and the ride continues. Whether it is equity, commodities or currencies, the trading markets have seen volatility like never before. It is also fair to say that market movement has been surprising to say the least.

CPAI continued to be hyperactive during this two year period and conducted innumerable activities - largely on zoom as the situation demanded. Now it is back to physical interaction with the government, regulator, exchanges and members with double the enthusiasm. Likewise, we periodically put out this journal during this time to keep members informed and updated.

The current edition is a special one and is released on the 8th Annual Convention of CPAI. The articles in this issue resonate with the theme of the convention: "Accelerating Growth through Commodity & Capital Markets: Beyond India@75". We have articles contributed by some of the thought-leaders of the industry on a wide range of topics which share information, knowledge, perspectives and insights with readers. As always, our readership includes government functionaries, decision makers, influencers, regulatory officials, exchange officials, members, industry persons and consumers.

We thank the contributors for their expertise, time and effort in writing these articles. Our readers have benefited from the dozens of articles printed over several editions and we look forward to feedback as well contributions from an even wider range of industry experts using this journal as a platform to share their thoughts.

Jayant Manglik

From the Alternate President, CPAI

Rajeev Agarwal
Alternate President, CPAI

Today's Capital and Commodity market participants recognize innovations as a positive practice in their business operations. New technologies, evolving investor expectations and the globalized market place catalyze the need for the market participants to adapt quickly, identify new opportunities to capitalize on them faster than ever. The reality is that majority of market participants are struggling to master all the dimensions of transcending requirements of the financial market. In this context, the present convention proceedings talk about the challenges and methods of facing the changing scenario of financial markets

I am sure that this convention will help in understanding about the ever-changing financial markets ecosystem and the emerging opportunities and the concern areas.

I appreciate the keen interest shown by the members, the market participants, sponsors and the speakers and moderators that helped us in organizing a successful convention of the CPAI and contributing new ideas.

I extend our sincere thanks to Hon'ble Minister of State (Finance) ,Senior Economic Advisor, Executive Director SEBI, MD & CEO of Stock and Commodity Exchanges and the Depositories for their constant support ,encouragement and taking out the time from their hectic schedule to grace the convention and share their perspectives.

I congratulate all the participants for their enthusiastic participation and I extend my thanks for the support in the convention.

With warm regards,

Rajeev Agarwal


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Accelerating Growth through Commodity & Capital Markets: Beyond India@75

Debojyoti Dey
AVP
Multi Commodity Exchange of India Ltd.

One of the significant developments in recent times is the near-universal acceptance of market as the most effective institution for effecting socio-economic changes. The age of dirigisme in the Indian economy is practically well behind us, as the benefits of market institutions are progressively being realized in all sectors of the economy. Towards this end, public policies are being shaped and directed in order to enable market institutions play their optimum role in achieving socio-economic development. Indeed, such is the experience and expectation of most emerging economies today. It is, for instance, interesting to note that our neighbouring country, Bangladesh, has chosen the theme 'Capital Market as the source of development and financing' as they commemorate 50 years of their creation.

Within the realm of institutions, the role of rule-based and regulated Exchanges in facilitating socio-economic changes cannot be overstated, as they bring in a host of tangible and intangible economic benefits within the economy. When the Exchange happens to be a commodity Exchange, especially in a commodity-intensive country like India, the benefits percolate deeper in the real economy, encompassing larger stakeholder groups. In many developing countries, commodity Exchanges and their support infrastructure institutions such as warehouses, lending institutions, logistics providers, quality testing centres, etc. have been instrumental in bringing forth sustainable and inclusive growth in their respective real economies.

So also in India. When the Union government in 2002 allowed the setting up of national multi commodity derivative Exchanges, MCX was one of the first commodity Exchanges to be created. Leveraging on innovative product design, sound domain knowledge, and cutting-edge technology, commodity Exchanges grew rapidly, providing many a benefit to their multitude of stakeholders along the way. According to Futures Industry Association, MCX was world's 7th largest commodity exchange during 2021, by the number of commodity Futures contracts traded and world's 6th largest by the number of commodity Options contracts traded. Today, the Exchange and its subsidiary, the MCX Clearing Corporation Ltd., offer trading and settlement services respectively in derivative contracts across varied commodity segments including bullion, industrial metals, energy and agricultural commodities, as well as commodity indices.

The existence of an institution like MCX, and the commodity market it serves, is beneficial for multiple stakeholders in the economy – from producers to traders and end-consumers - irrespective of their direct involvement in derivatives trading. Directly, this market helps producers, traders and other commodity stakeholders lock in the prices of their future output or inputs, therefore, helping to hedge against the volatility in these prices. This provides a very effective and cheap 'proofing' of future incomes against volatility-induced shocks. Indirectly, the Exchange helps them by providing a platform for efficient discovery of commodity prices and their wide dissemination across the country. Indeed, the prices discovered on the MCX platform are used as reference prices for physical market transactions as traders place high trust in the transparency of the price discovery process of the exchange mechanism. In many commodities, notably gold and cotton, the Exchange-discovered prices are used by market stakeholders to fix the physical market price. Besides, commodity Exchanges help reduce the price volatility in the spot markets and also help stakeholders know the future returns on their produce, thus aiding in their decision-making on production, warehousing, timing of sales, etc. All these benefits and more have been well-documented by numerous independent research studies.

Commodity Markets in India @75

India's commodity derivatives market has come of a certain age in the two decades of its existence in the modern avatar. In this period, the market has grown in volume and reach, as also witnessed several changes in its structure – most notably in the expansion of products and eligible participant categories – which in turn has enabled enhancing the connectedness among various users of the commodity derivatives market.

The commodity derivatives market received a shot in the arm in 2018-19 following announcement of the long awaited policy measures allowing the participation of institutional participants such as eligible foreign entities (EFEs), Mutual Funds and Portfolio Management Services(PMS). Following

release of detailed guidelines on participation of mutual funds in Exchange Traded Commodity Derivatives (ETCD), Asset Management Companies (AMCs) started participating in commodity derivatives. Currently several AMCs have included commodity derivatives as part of their mutual fund schemes, offering the benefit of portfolio diversification and inflation hedging to their clients. With this, the participant base in commodity derivatives has widened considerably, as compared to what was possible earlier. The market regulator has recently floated a discussion paper on allowing Foreign Portfolio Investors (FPIs) too in this market. If and when this category of institutional participants are allowed, one can expect further deepening of the market with enhanced liquidity in far-month contracts which shall, in turn, make many potential hedgers enter the market to manage their commodity price risks.

Within the community of institutional participants, the entry of banking institutions into the commodity derivatives market is particularly significant. The Reserve Bank of India, on September 25, 2017, permitted banks to become Professional Clearing Members (PCMs) and their broking subsidiaries to offer broking services in the commodity derivatives segment of SEBI recognized exchanges. Subsequently, a number of banks have become PCMs in the commodity derivative segments of exchanges, while several broking subsidiaries of banks have started distributing commodity derivatives. With their high capital base and reputation, banks as clearing members bring more confidence among participants, especially among institutional participants. Besides, bank-owned broking subsidiaries have larger distribution networks and physical presence across the country and have large number of clients registered with them. They are significantly contributing in enlarging the footprint of the commodity derivatives market by making the products accessible to their vast client base.

In terms of the products traded in commodity derivatives market, the progressive expansion of the basket of products available for trading has been another significant development. Trading in commodity Options commenced in 2017, with the launch of Options on futures of Gold. Subsequently, Options trading on futures of commodities like Crude Oil, Natural Gas, Copper, Silver, Nickel, Zinc, etc. was also introduced. MCX has recently introduced Options on Gold Mini futures, further expanding the product suite in the bullion Options segment.

A significant addition in the commodity derivatives product basket has been the introduction of derivatives on commodity Indices. In 2019, following release of SEBI guidelines on commodity indices, MCX launched indices with commodity futures as underlying constituents. In accordance with the SEBI guidelines and conforming to international standards for financial benchmarks propounded by IOSCO, MCX launched the iCOMDEX series of indices, which consists of a composite index, sectoral indices and single commodity indices. Subsequently, the Exchange launched futures contracts on the MCX iCOMDEX Bullion Index (BULLDEX), Base Metal Index (METLDEX) and Energy Index (ENRGDEX), to enthusiastic response from the investing public. MCX BULLDEX futures was world's most traded commodity index futures in the year 2021, as per data released by Futures Industry Association.

India beyond 75 - Perspectives on commodity markets

Given the commodity-intensity of the Indian economy and expectation of rapid economic growth in the years ahead, there is a perpetual need for a transparent mechanism for discovering prices which are fully reflective of the fundamentals of the domestic market, not just international benchmarks. In order to develop domestic price benchmarks in metals, MCX had launched delivery-based futures contracts in Base Metals, starting January 2019. These delivery-based contracts are traded and settled based on the prices polled from the stakeholders in the value chain of domestic metal industry.

Further, after the Bureau of Indian Standards issued good delivery standards for refined gold and silver bars, MCX has taken several steps so that bullion meeting the India good delivery standards can be assimilated into the country's bullion derivatives market, supporting the government's vision of financialisation of the stock of gold in Indian households. In order to bring in local players into the Exchange delivery mechanism, MCX has expanded the Good Delivery list in Bullion by empanelling Indian refineries that meet the Exchange's eligibility criteria. With the same objective of indigenisation and to bring local players in the Exchange delivery mechanism, MCX has been empanelling domestic producers in Base Metals too.

Thus, measures such as the expansion of delivery-based futures, together with setting of standards and empanelment of local suppliers are expected to not only bring transparency in the domestic price discovery process thereby setting domestic benchmarks, but also facilitate adoption of internationally accepted quality standards among stakeholders and ultimately leading to the emergence of an 'India benchmark' for commodity markets throughout the country and even in the Asia-Pacific region. Policies that support this transformation need to be put in place so that the intended benefits can be realized faster.

Some further actions can pave the way to a strong and sustained growth momentum in India's commodity derivatives market. These actions also lie mostly in the realm of expansion in products and participants.

Among products, market participants look forward to Exchange Traded Funds (ETFs) based on commodity derivatives. Being leveraged products, futures-based ETFs can provide collateral returns to investors while also possessing the benefit of a cash-settled product. The demand for ETFs in commodity markets is particularly high for cash-settled futures such as Crude Oil and Natural Gas, and the demand for ETFs has grown after the launch of commodity indices, as the investing public is now looking forward to commodity index-based ETFs on the lines of ETFs in equity indices. Similarly, market stakeholders are also looking forward to introduction of new products like electricity futures.

Insofar as expansion of eligible participants is concerned, stakeholders have long been looking forward to banks' participation in the commodity derivatives market. This requires the government to permit banks to trade in commodity derivatives under the Banking Regulation Act, 1949. Banks can play significant and diversified roles in enriching commodities markets with their wider outreach across large sections of the population by offering commodity-based loans and hedging such exposure, handholding smaller participants to hedge, as well as aggregating farmers and other small participants. Many independent studies, including Committees set up by the Government of India and the Reserve Bank of India, have called for allowing banks to participate in the commodity derivatives market. A 2017 report of the RBI had, for instance, called for banks to offer commodity hedging facility to their constituents, initially on a back-to-back basis, on both OTC and Exchanges.

Similarly, financial institutions with a long term investing perspectives, such as insurance companies and pension funds, would also play a catalytic role in market development through their participation, if permitted.

Foreign entities are another category of participants whose presence can enrich the market. Foreign hedgers, also termed as Eligible Foreign Entities (EFEs), are already allowed in the market, but the norms for their participation may be further liberalized to encourage their entry. Moreover, as mentioned earlier, it is time that the market is opened up to all types of foreign entities, including foreign investors like FPIs. Foreign institutions, like the domestic institutions, would participate based on their professional research capabilities. As such, their participation is likely to contribute to higher quality of information flow into the price discovery process, thereby adding to the knowledge base of commodity ecosystem and buildup of technical expertise for better risk management using commodity derivatives.

Enhancing the scope of eligible participants, especially institutional participants, would benefit the market not only by enhancing its liquidity and depth, but also by bringing in new retail participants, all of which would help in the overall market development.

Given the rapid and transformational developments witnessed in the Indian commodity derivatives market, this market is possibly undergoing a historic watershed moment currently. As the Indian economy looks towards a faster growth in the post-Covid era, it is essential to envision a vibrant commodity derivatives market, setting up global standards, facilitating better integration between spot and futures markets, and offering efficient derivative instruments with high liquidity and reaching out to diversified market participants of the commodity ecosystem. It is in realizing this vision that the institution of the commodity derivatives market would not just realize its true potential, but also play its rightful supportive role for the Indian economy which is looking for rapid and inclusive growth in the decades ahead, as the country observes her 75th year of independence.

State of Indian Commodity Derivative Markets – Taking Stock

Dr V Shunmugam
National Institute of Securities Markets (NISM)

Naveen Pratap Singh
National Institute of Securities Markets (NISM)

The modern Information and Communication Technology (ICT) enabled version of commodity derivative markets dates back to 2003, when national electronic commodity exchanges were permitted to launch trading in commodity futures contracts. Before that, regional exchanges with traders on the floors facilitated trading in commodity derivative contracts on commodities of regional interests. As most commodities traded were agricultural commodities whose prices are sensitive to the consumers, rightly so, the Forward Markets Commission remained the regulatory authority for commodity derivative markets since 1953. Forward markets commission continued to be the regulatory authority for the modern national online commodity exchange from 2003 onwards until 2015, when the regulatory responsibility was switched over to the Securities Exchange Board of India (SEBI). Been regulated under the relevant law - Securities Contract Regulatory Act, commodity derivatives as instruments would have to be defined as 'securities'.

Commodity derivatives have been defined as 'securities' empowering SEBI to regulate commodity derivative markets and enabling the launch of other derivative instruments such as options and indices. It also allowed other institutional participants in the securities markets to access commodity derivative instruments subject to issuing guidelines for their participation. With these opportunities in the background and to make the merger of regulations and institutions seamless, the regulators have first empowered the intermediaries to be securities brokers or intermediaries of stock exchanges, as was the case. As the intermediaries became the securities market members, the second logical step was taken to permit trading in commodity derivatives on the existing stock exchanges such as NSE and BSE. While the earlier process was completed in 2017, the latter was enabled in 2018. Stating it the other way, with stockbrokers connected with them, the traditional commodity exchanges recognized as stock exchanges were also empowered to trade other asset classes subject to regulatory requirements. In the meantime, the SEBI appointed the Commodity Derivatives Advisory Committee, which drew a roadmap for further developing Indian commodity derivative markets, including enablement of trading in new products and new participants.

New Products and Participation

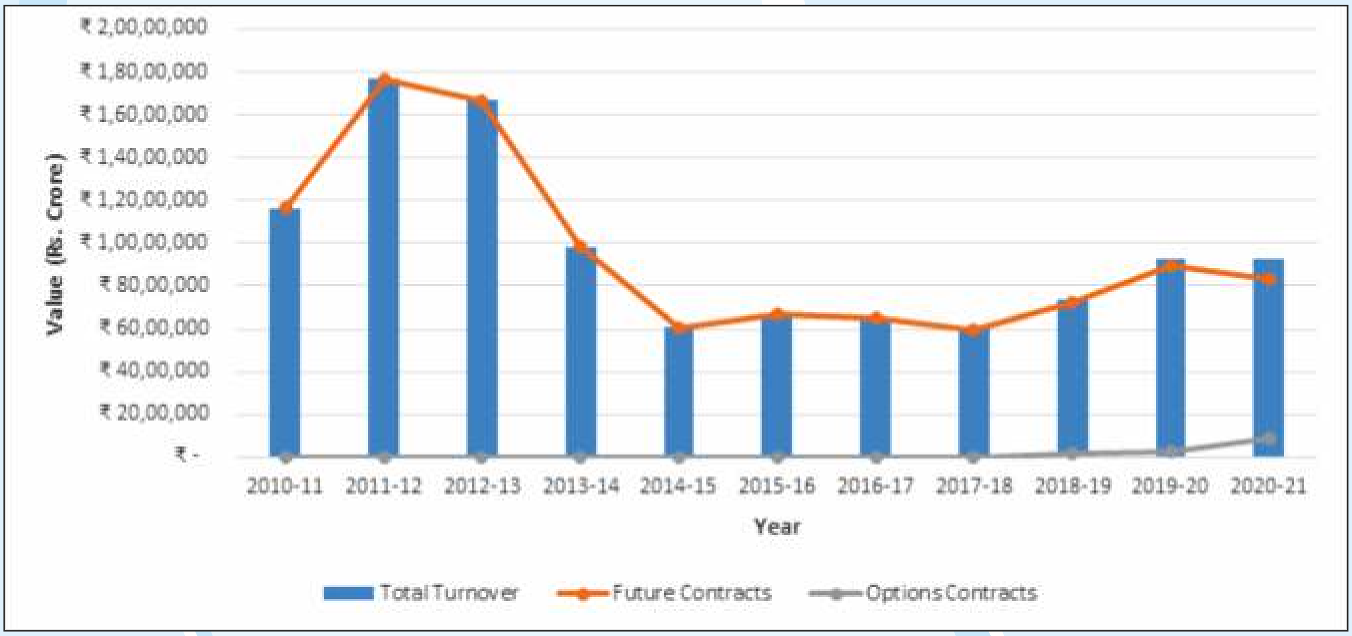
Options on commodity futures remained the first such product to be launched for trading. Apart from this, index futures and options on commodities were also allowed to be traded. New participants such as bank subsidiaries - such as their securities arms and banks as clearing members were allowed to participate in the commodity derivatives segment by the central bank. Foreign entities which did not have a legal presence in India have been empowered to hedge their products of Indian origin. At the same time, the regulators also allowed custodians to provide custodial services in the Indian commodity markets as a precursor to permit domestic institutional investors such as PMS, AIFs and Mutual Funds to participate in the commodity derivatives segment subject to the guidelines issued to enable their participation. Listed entities with exposure to commodity prices were mandated to identify such commodities, measure risks arising out of price movements, and disclose it along with risk management strategy if any to nudge them to manage their risks through market or market based instruments and develop the culture of 'risk management' amongst them.

Regulatory Reforms under the New Regulatory Regime

While the developmental efforts are on in the Indian commodity derivative markets, SEBI has also streamlined the risk management mechanism on the exchanges to enhance the trust of the market participants. Post the regulatory merger; it was ensured that the trades done on the exchanges were cleared through clearing corporations. The regulators have also examined the existing products and changed them to make them relevant to the Indian physical market ecosystem. One such measure includes making the base metal futures contracts deliverable. The warehousing mechanism for agricultural and non-agricultural commodities was streamlined to secure the markets and the ecosystem. The clearing corporations continued to perform their duties more effectively. Other processes and products were streamlined to bring them on par with their securities market peers in an effort to render markets safe and secure for all the participants.

Impact of New Participants and New Products

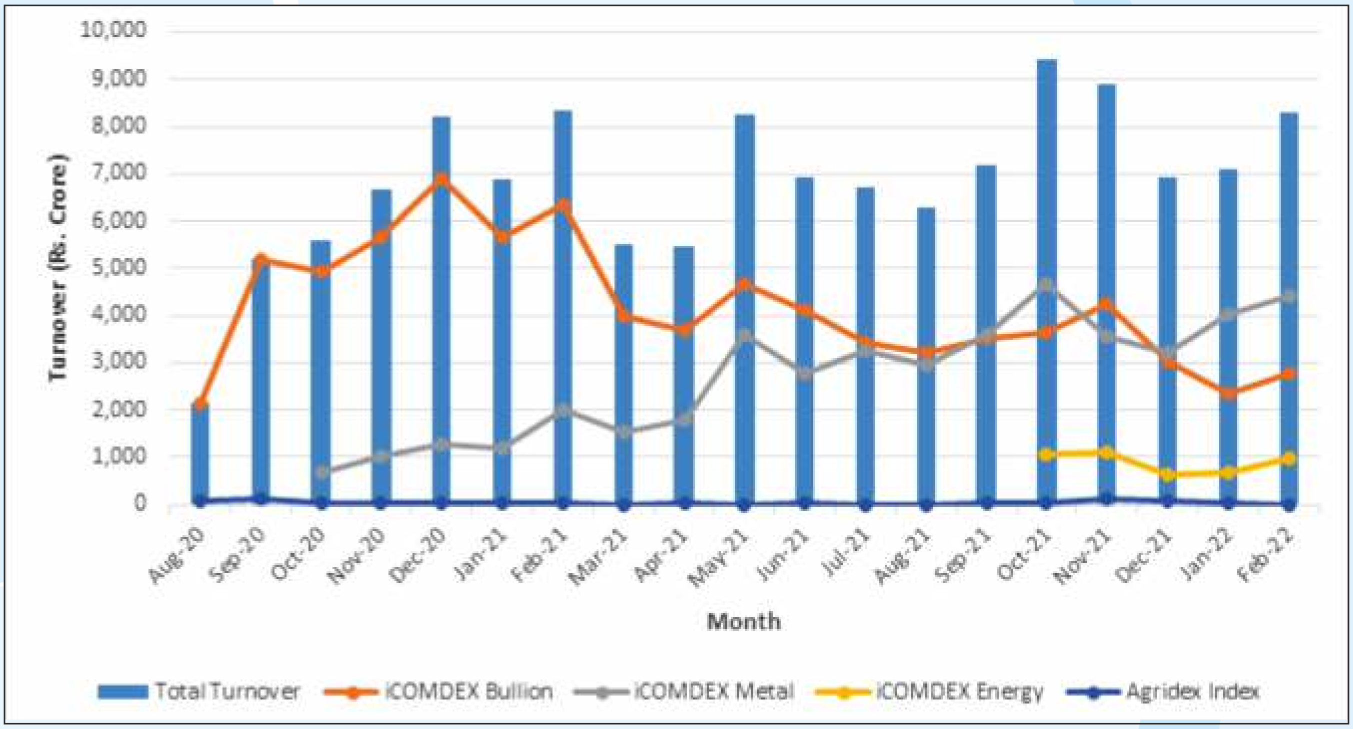
The pandemic induced volatility that followed during the recovery and the ensuing volatility arising out of the Russia-Ukraine conflict had shown the commodity-based corporates, the importance of commodity price risk management. The options on futures contracts were introduced to make the risk management process seamless, similar to buying Insurance. The introduction of the options contracts had seen the participants quickly adapt to trading in options leading to more remarkable growth in turnover, 333 per cent on a YOY basis from 2017-18 to 2020-21 in the options segment across all the exchanges (MCX, NCDEX, BSE, NSE) (Fig 1). However, the growth in turnover estimated for the futures segment for the same period stood at 16 per cent on a YOY basis, and did not even account for the actual increase in the prices of respective commodities. The irony is that trust in the options markets' price discovery will be a function of the efficiency of the underlying futures prices on which the settlement is likely to happen. It is necessary that the futures market too have healthy growth to sustain the growth momentum in the futures markets.



Source : SEBI Handbook of Statistics

Fig 1 : Total Turnover of Commodity Derivative Market

The index futures launched during 2020 that serves as a perfect financial tool for financial market participants had witnessed a growth of 8 per cent MOM basis in turnover from August 2020 until February 2022 (Fig 2.). Accelerated development of the index futures segment would help provide cost-effective financial exposure to the given basket of underlying commodities and boost DII



Source : SEBI Monthly Bulletin (MCX, NCDEX)

Fig 2 : Index Futures Monthly Aggregate Volume Trends participation. Robust growth in trading volumes can achieve the true financialisation of commodities through growth of investments in commodity index derivatives segment.

New Participants: AIFs, Mutual Funds, ETFs, PMS

With the custodians providing commodity/ derivative related services to the domestic institutional participants, they have started exploring participation strategies in the commodity derivatives segment. In terms of Open Interest maintained in the commodity futures markets, their growth was 9 per cent, MOM, from June 2020 until March 2022 (MCX). However, their participation was limited to commodities like Gold, Silver, Crude Oil, etc. While it's an excellent start to the DII participation in the Indian commodity derivatives segment, it is essential that their participation spreads across all non-sensitive commodities and enhances its inherent strength.

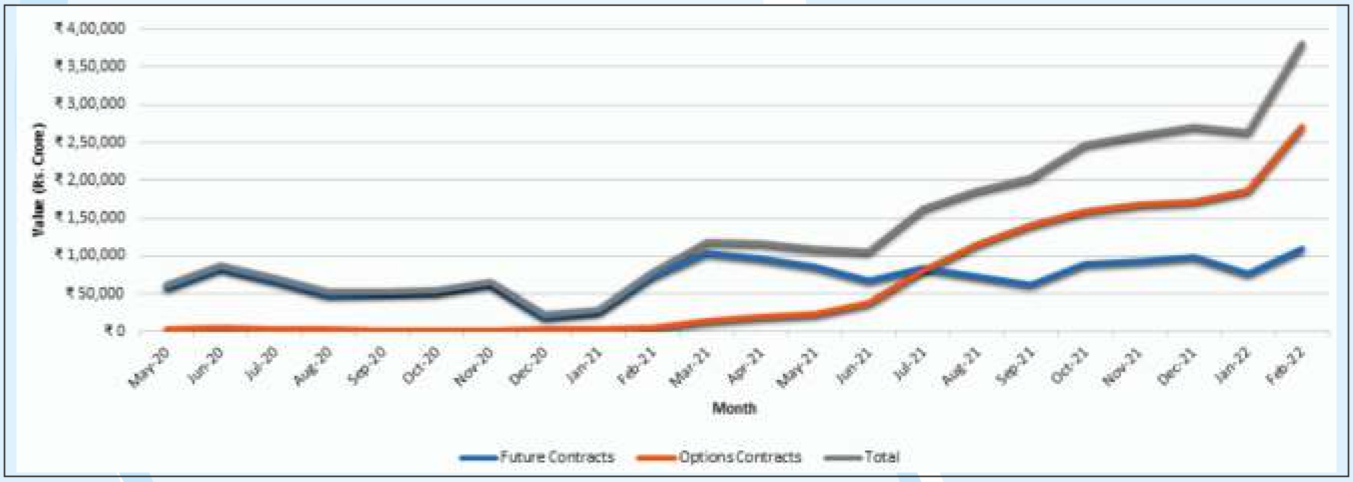
The Challenges to the Growth and Development of Indian Commodity Derivative Markets

Options in commodities - yet to pick up steam.

Options on futures were introduced to enable farmers to use the derivative instruments to hedge their exposure and deliver their produce at prices visible on the exchange platforms. However, the then introduced options on futures would entail that farmers would have to take up a short-term exposure to the underlying futures contracts prior to delivery of their produce. This means that farmers pay up for margins and mark to market margins for a short period on the expiry of the options contract, during which their positions would have been transferred to the underlying futures contract. It means that it may not be as simple as it was envisioned in the past for farmers to participate in the options on futures contract to manage their commodity price risks. With aspirations to enable participation and delivery of the underlying commodity without the regulatory requirements associated with futures, such as payment of margins and MTM margins, options on commodities were introduced in the market after making necessary amends to introduce such a product. However, trading in options on commodities had not picked as much to support real participant aspirations, if any. The lack of an active underlying market and hence price signals and lack of participation from institutions who can appropriately price the options contracts do not bode well for its emergence. Active participation of options writers in this segment would be critical to proving its utility to the real users in the markets. Who can be better writers than banks? But, their participation in the commodity derivative segment is awaited yet.

Options in Futures - Is the foundation getting weaker?

Markets saw turmoil on the back of pandemic induced supply constraints starting March 2020. Further central bank actions to augment the liquidity situation fueled the commodity rally. It has also augmented the existing volatility conditions in the commodity derivatives markets. The pandemic and post-pandemic volatility conditions have made trading in options on commodity futures more attractive, aided by the lower transaction tax applicable to selling options contracts and, hence, lower two-way trading costs. However, these options on commodity futures gather their strength from the strength of trading that exists in the underlying commodity futures. However, an analysis of the volume in the respective underlying commodity futures contracts reveals that trading growth in the options on such futures contracts outweighs growth in the underlying futures contract volumes. There is the significant increase of 9 per cent MOM basis in the



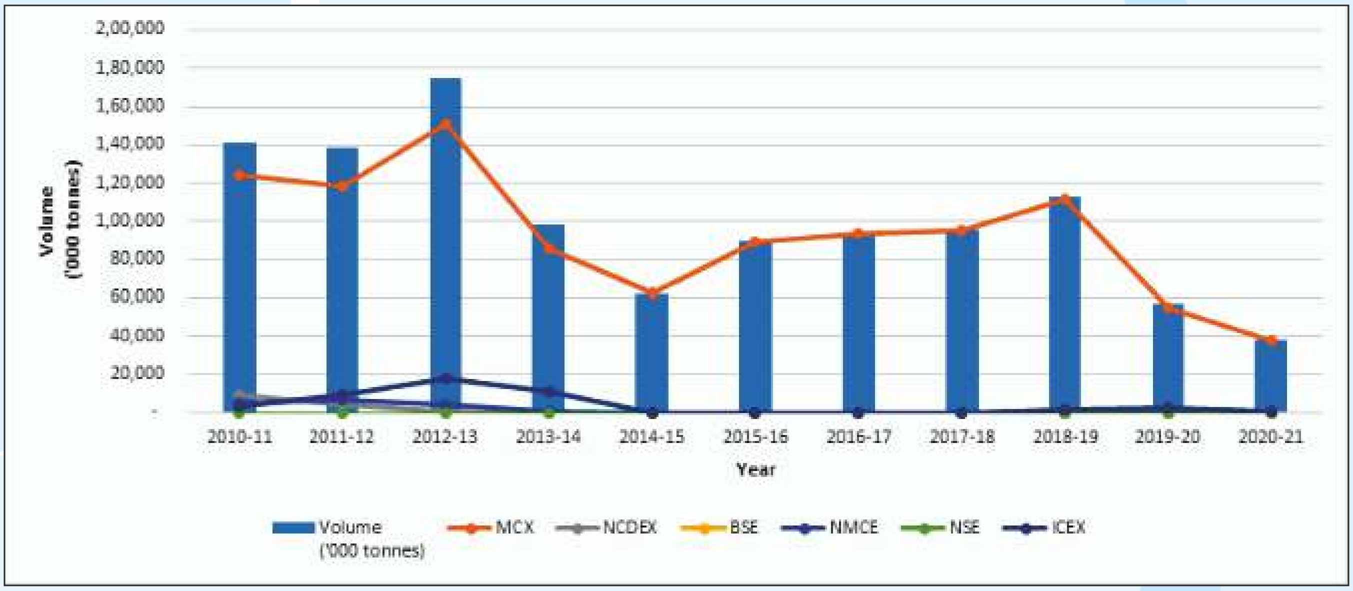
Source: SEBI Monthly Bulletin

Fig 3 : Growth in Crude Oil TO - Futures Vs Options (MCX)

total turnover of crude oil derivatives on MCX. The increase in options of crude oil derivatives is around 24 per cent MOM basis, whereas futures contracts of crude oil derivatives increase at 3 per cent MOM basis from May 2020 to Feb 2022 (Fig 3) .

Similarly, while the growth in metal futures is yet to gain traction since the settlement mode turned physical, the options market gained traction. From 2013-14, there was an increase of 3 per cent in the volume and 8 per cent in the turnover of the metal's futures on a YOY basis till 2018-19. But from 2018-19 onwards, there is a continuous decrease in the total turnover and the volume of the metal's futures in commodity markets of 28 per cent and 33 per cent on a YOY basis, respectively.

Essentially, it means that the efficiency of price discovery in the underlying futures markets has been witnessing a downfall. Options on futures markets on a solid foundation of the futures market would enable efficient discovery of risk premiums for the ecosystem to manage the volatility in the underlying.



Source: SEBI Handbook of Statistics

Fig 3 : Growth in Crude Oil TO - Futures Vs Options (MCX)

Source: SEBI Handbook of Statistics

Fig 5 : Growth Performance of Futures V/S Options segments (Gold, Copper, Chana, Guarseed)

However, the same trend of strengthening volumes in the options on commodity futures has been pronounced in the global markets with the increase in the commodity price volatility during the last year. The shift may be driven by the volatility in the markets. Still, if driven by other considerations such as the cost of participation, the shift could make it unhealthy for both segments when volatility gets tamed (Fig 5).

Sluggish Growth in Hedgers' Participation

An analysis of hedgers' participation as disclosed by key MIIs providing for trading commodity derivative contracts reveals that over the last three years, there has not been a significant increase in hedgers' participation in the commodity derivatives markets despite various regulatory and policy measures taken to enhance hedgers participation in the derivatives markets. In terms of Open Interest maintained in the commodity futures markets, their growth shows a decline of 8 per cent MOM from June 2020 until March 2022. While the reasons for poor hedging culture may range from awareness to lack of peer pressure, there have been various measures taken by the government and regulators to strengthen the culture of risk management. It shows that the MIIs have to go a long way to leverage the reforms on the regulatory and policy aspects to connect markets closer to the physical markets ecosystem. In the interests of business stability of the exchanges, sincere efforts are taken up to ensure enhanced participation of physical market participants and make the market discovered prices widely benchmarked. Apart from the disclosure requirements, policymakers may also attempt to nudge through appropriate fiscal tools to promote hedgers participation that aim to promote healthy development of the manufacturing sector in India.

Institutional Participation

The regulation of commodity derivatives markets under the Securities Exchange Board of India and the definition of commodity derivative contracts as 'securities' opened up a window of opportunities for the institutional participants as far back as 2015.

However, the guidelines enabling custodians' participation in commodity derivative markets and the guidelines for institutional participation in commodity derivative markets issued during 2019 were a dream come true for the commodity markets ecosystem.

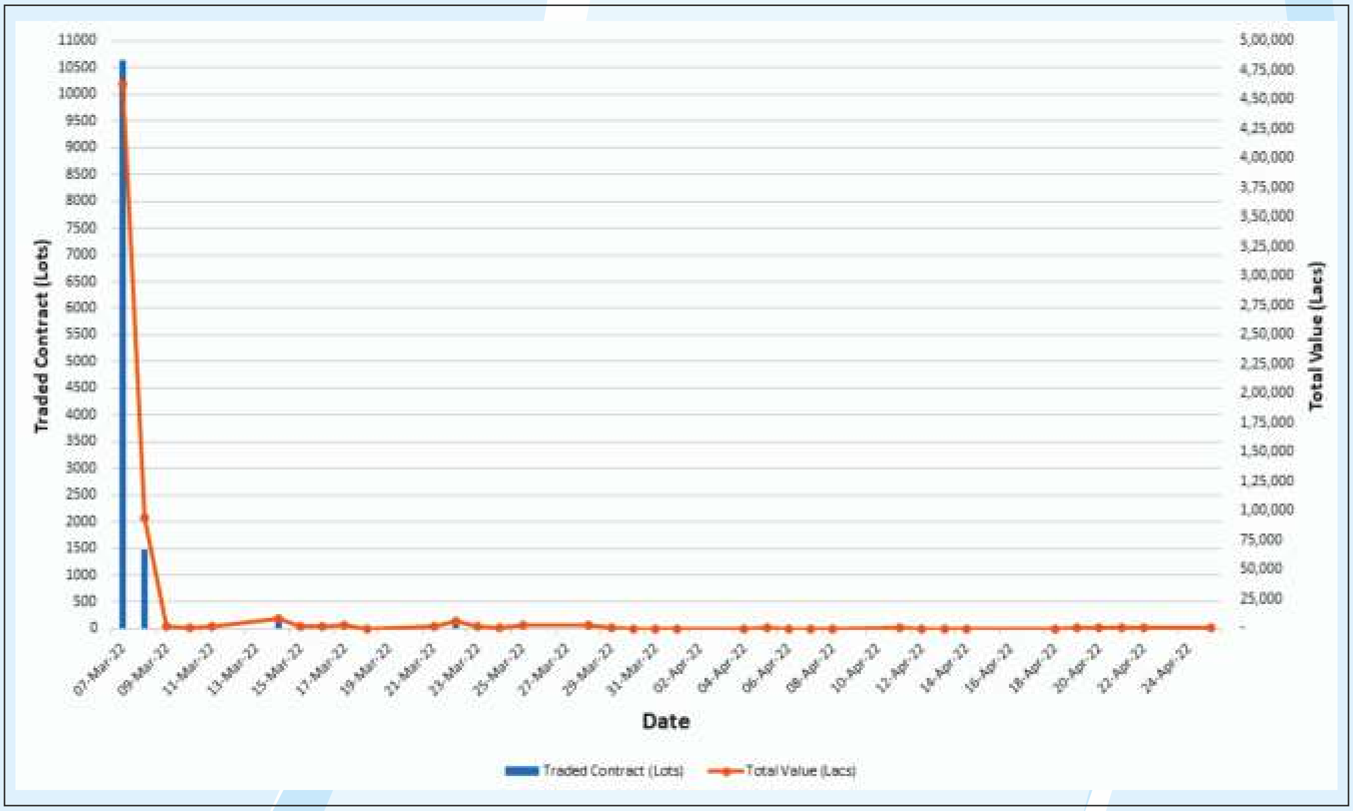
The scope for further growth - The recipe

Strengthening of the foundation - Product Perspective

The agricultural and non-agricultural commodity derivative markets have a completely different set of constraints, one that emerges out of the pricing power of the markets, as in the case of metals and energy and the other the regulatory confidence on the price discovery of the derivative markets. Especially in the metal markets, it is essential to have strong physical market participation in evolving futures prices of metals from Indian markets to be seriously discounted into the global markets. On the other hand, as the stakeholder participation is limited in the agricultural commodity derivatives, it has no support from any corner of the ecosystem, especially when transparency hurts and shutting off transparency is no harm to the participants. The malaise arises from the lack of hedgers' participation in both cases. The MII ecosystem must work together to enhance the hedgers' participation through various initiatives ranging from awareness to capacity building in commodity markets, commodity fundamentals and various aspects around commodity risk assessment, management strategy and accounting for exposure in derivative instruments.

Additionally, in commodity derivative markets where liquidity is significant from an efficient risk management perspective, it is necessary that the derivative contracts have strong participation, thereby lowering the indirect costs of participation. More importantly, the direct cost of participation shall be reduced significantly by revisiting the 'Commodity Turnover Tax' (CTT), especially to those with relevant proven exposures in the underlying markets (Hedgers). Currently, the 'CTT' has been pegged at the same level as that of equity derivatives, considering the speculative objective of participation in both markets. It would have to be revisited, keeping in mind the need to pass on the benefits of the existence of risk management culture amongst commodity stakeholders to millions of consumers of respective commodities through competitive pricing. Consumption at competitive prices would help augment India's exports through competitive pricing, thereby augmenting the balance of payments situation. The difference in the economic objectives behind the existence and the strength of the markets would have to be kept in mind while designing fiscal tools.

Further, the crude market slide of 2020 into the negative territory and the nickel squeeze during early March 22 reveal that commodity markets are prone to run-ons as well. The global regulators must reform their regulatory regime to prevent its recurrence. Unless this is done, it could repeat more such incidences in the international markets, spilling on to Indian markets for global commodities making participants lose trust on the markets. Under such a condition, the growth of the affected commodity segment remains stunted as participants get wary of unfair price movements. This is proven by the significant decline in the number of traded contracts as well as the total value of nickel futures contracts on MCX. There is a decline of 15 percent (Compounded Growth Rate in Daily Volumes) in the traded nickel contracts as well as the total value from 7th March 2022 until 26th April 2022 (Fig 6).



Source: MCX (Data on daily basis)

Fig 6 : Declining Nickel Futures Volumes after Short Squeeze

What's next? - The Early Arrival of New Institutional Participants will strengthen the markets - Banks/PFs/Insurance Firms

Banks are critical in delivering unbiased and robust research that shall empower the participants, especially the hedgers, enabling them to take the right hedge decisions and be advised in an unbiased manner. Banks in some commodities also play an essential role in the international markets of intermediating the derivative markets through customized products suiting the hedge requirements. Mainly, in India's metal markets with not so well-developed forward curves restricting the metal producers and traders to produce to the demand could be rewritten by banks when they are allowed to participate in the Indian commodity derivative markets. This is particularly important from the perspective of Indian aspirations to become the world's manufacturing hub and become 'AtmaNirbhar', that India sets up Indian prices for 'metals'. Banks can also offer OTC products to the metal players aligned with their banking business. Backed by the strength of their research regarding future price trends of the metals, banks can help the markets develop a forward curve for metals, thereby strengthening participation in the far month derivative contracts.

As far as commodities serve as good portfolio diversifiers, the concerned regulators of the Pension Funds and Insurance sector must permit the participation of their regulated entities in commodity-related financial products. However, their participation in the derivative markets would be limited until the regulations and commodity derivative markets evolve. Until such time, as the commodity ETFs enhance their exposure in the derivatives markets, providing participants an additional edge over holding physical commodities, institutional participants such as Insurance/Pension Funds can empower them by having exposure to commodity prices in their portfolio with the objective of diversification. Till the time the market and participation mature, it will help Insurance have access to commodities through simple and easy to understand products such as commodity ETFs. As Gold and Silver ETFs are currently allowed to be traded in the Indian derivative markets, it is time that the sectoral regulators shall examine issuing guidelines for their participation in the commodity derivatives markets. The next phase of commodity markets growth lies in the launch of more innovative commodity derivative products, rationalization of the existing fiscal regime, enhanced value chain participation, strengthening of information flow, augmented capacity development efforts, and the participation of the missing institutions.

महंगाई का वायदा कनेक्शन

मृत्युंजय कुमार झा
कमोडिटी एडिटर
जी बिजनेस

बढ़ती महंगाई से दुनियाभर में हाहाकार मचा हुआ है। अप्रैल में देश में रिटेल महंगाई दर 8 साल में सबसे ज्यादा हो गई है। यही वजह है कि अब तक भारत समेत दुनिया के 20 से ज्यादा सेंट्रल बैंकों ने ब्याज दरें बढ़ी दी हैं। आमतौर पर महंगाई दो वजहों से ज्यादा बढ़ती है। पहला... या तो मांग तेजी से बढ़ जाए। और दूसरा... सप्लाई तेजी से घट जाए। इस बार की महंगाई सप्लाई कम होने की वजह से ज्यादा बढ़ी है। यूक्रेन–रूस युद्ध की वजह से दुनियाभर में खाने–पीने की चीजों के साथ–साथ कच्चा तेल, नेचुरल गैस की सप्लाई घट गई है, जिससे दाम तेजी से बढ़ने लगे हैं। ऐसे में सवाल ये है कि महंगाई को कम करने या फिर महंगाई घटने–बढ़ने का सही अंदाजा लगाने में कमोडिटी डेरिवेटिव मार्केट की क्या भूमिका हो सकती है?

दरअसल जब से एग्री कमोडिटी का वायदा कारोबार शुरू हुआ है, तब से इस बात को लेकर बहस चल रही है कि क्या महंगाई बढ़ाने में एग्री कमोडिटी का वायदा कारोबार जिम्मेदार है? हालांकि लंबी बहस के बाद भी ये साबित नहीं हो पाया है कि महंगाई बढ़ाने में वायदा कारोबार जिम्मेदार है। हालांकि वक्त–वक्त पर बढ़ती महंगाई के बीच एग्री वायदा के कारोबार पर शिकंजा जरूर कसा गया है। अभी भी बढ़ती महंगाई के बीच तेल–तिलहन, चने का वायदा एक्सचेंज के कारोबार से बाहर है। कई बार तो ऐसा देखा गया है कि जो कमोडिटी वायदा में नहीं होती है, उसके दाम ज्यादा बढ़ जाते हैं। और दूसरी तरफ वायदा वाले कमोडिटी कॉन्ट्रैक्ट्स बंद करने के बावजूद उन कमोडिटीज के भावों में कोई कमी नहीं आई है। दरअसल मंहगाई बढ़ने की पीछे की बड़ी वजह मांग का

बढ़ना और सप्लाई का घटना ही होता है। हालांकि कई बार वायदा बाजार के प्लेटफॉर्म का गलत इस्तेमाल किया जाता है और अनावश्यक तेजी–मंदी कर मार्केट का सेंटिमेंट खराब किया जाता है। लेकिन ऐसे मामलों से रेगुलेटरी कार्रवाई के जरिए निपटा जा सकता है।

एग्री वायदा को बेहतर तरीके से समझने वाले लोगों की राय वायदा को लेकर आम मान्यताओं से अलग है। एक्सपर्ट्स का मानना है वायदा बाजार कीमतों का आइना है और इससे भाव का सही अंदाजा लगता है। मान लीजिए किसी कमोडिटी की सप्लाई आगे कम होने की आशंका है, उत्पादन घटने का अनुमान है, तो वायदा बाजार उसका संकेत देने लगता है और आगे के फ्यूचर में दाम बढ़ने लगते हैं। ये संकेत सरकार और बाजार को पूरा मौका देता है कि आप वक्त रहते एडवांस प्लानिंग कर लें। मसलन सरकार आगे सप्लाई कैसे बढ़ेगी, इसको लेकर योजना बना सकती है। आगे दाम बढ़ने की संभावनाओं के बीच एक्सपोर्ट–इंपोर्ट पॉलिसी में बदलाव कर सकती है। सप्लाई घटने की आशंकाओं के बीच जमाखोरी ना हो पाए, इसको लेकर नीति बना सकती है। वायदा बाजार की भूमिका यहीं तक सीमित नहीं है। वायदा बाजार से एक साथ कई मोर्चों पर मदद मिल सकती है। जब भाव का आगे का अंदाजा मिलता है तो उससे ना सिर्फ महंगाई की एडवांस प्लानिंग में मदद मिलती है, बल्कि किसानों को अच्छा भाव मिले, इसकी प्लानिंग करने में भी आसानी होती है। मान लीजिए आगे के वायदा सौदों में दाम ज्यादा दिख रहे हैं तो किसान उस फसल की अच्छी खेती कर सकता है, आगे के वायदा में दाम कम दिखे तो सरकार ये योजना बना सकती है कि किसानों को कैसे प्राइस सपोर्ट दिया जाए। वायदा बाजार किसानों, ट्रेडर्स, एक्सपोर्टर्स, इंपोर्टर्स और सप्लाई चेन से जुड़े सभी वर्गों को सही भाव पर अपना उत्पाद खरीदने और बेचने की सुविधा देता है, जिससे डिमांड–सप्लाई का संतुलन बना रहता है। इससे महंगाई को भी काबू करने में भी मदद मिलती है।

हमारा देश एग्री कमोडिटी का बहुत बड़ा मार्केट है। हम दुनिया के बड़े कंज्यूमर, बड़े प्रोड्यूसर, बड़े एक्सपोर्टर और बड़े इंपोर्टर में शामिल हैं। भारत में एग्री कारोबार के ग्रोथ की अपार संभावनाएं हैं। वायदा बाजार, हाजिर बाजार के बीच अगर ठीक से तालमेल बिठाया जाए तो हम महंगाई से निपटने को लेकर एक मजबूत पॉलिसी बना सकते हैं।

India's Agricultural Exports...... A New Script of Self Reliance

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VP
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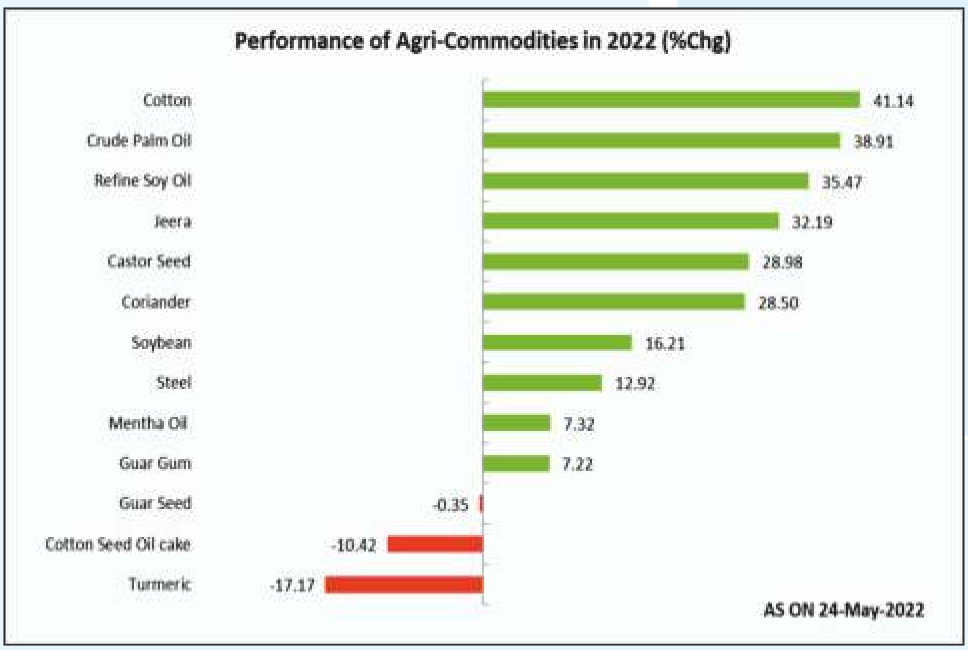
The entire world is now looking towards the growth story of Indian economy and now India is playing important role in driving the growth engine. Agriculture which was on back foot from many decades, is now taking the center stage. Contribution of agriculture gas increased significantly, especially after covid in which it played the role of Savior. Agriculture and the allied sector proved to be the most resilient to the Covid-19 shock as it registered a growth of 3.6 per cent in 2020-21 and improved to 3.9 per cent in 2021-22, driving the overall Indian economy's real GDP expansion of 9.2 per cent in 2021-22, according to the Economic Survey 2021-22. According to the estimate, the share of the agriculture and allied sector in total GVA has improved to 20.2 percent in 2020-21 and 18.8 percent in 2021-22.

In recent years, India had record production and in 2022 also we are expecting bumper crop, which resulted in smooth supply. Now, comfortable stocks amid better export demand zoomed up the export figures and attracted huge revenue. Russia and Ukraine war created tight supply situation and world is facing decade's high inflation. Furthermore, agricultural exports from the country is supporting the rural economy as it largest source of livelihood in India. In the recent years, agricultural production is increasing faster than growth in domestic consumption;



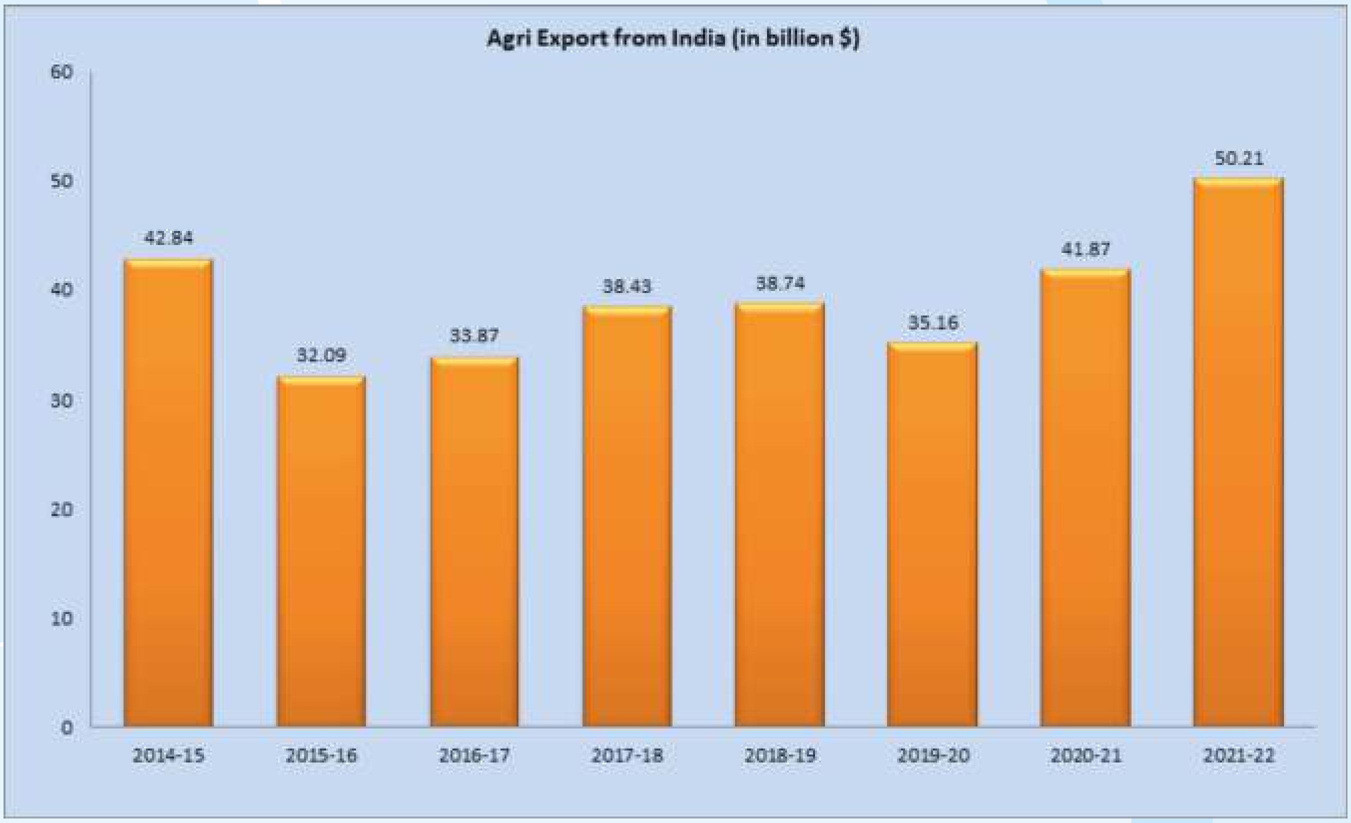
therefore, the surplus volume is available resulting in accelerated export growth. Amidst the gloominess and uncertainty about global growth, due to the Ukraine war, agricultural export (including marine and plantation products) from India crossed the $50 billion mark for the first time ever in FY22, higher than the previous record of $42.84 billion, which was achieved in 2014-15.

Emerge as a reliable supplier

The impressive export from the country helped by opening up of the global economy from covid restrictions, export oriented government policies and high agri-commodity prices. Moreover, because of the institutional framework, already in place at State and district levels, and special efforts made to overcome the pandemic-induced bottlenecks, India was able to emerge as a reliable supplier of food. Additionally, even during the current crisis due to Russia-Ukraine war, the world is looking at India for supplies of wheat and other food grains.

This remarkable achievement during FY22 was accomplished despite witnessed two waves of the Covid pandemic, especially the vicious second wave at the start of the financial year from April to July when world is facing unprecedented logistical challenges like of high freight rates, container shortages etc.

The agriculture sector contributed to exports, especially during the pandemic, with India emerging as a major global supplier of food grain, vegetables, fruits and other essential agriculture products. India's agriculture and allied exports have grown at a whopping 19.92% in FY22 compared to last fiscal. Exports boosted by an increased access to markets in the US, European Union and the United Arab Emirates, and targeted efforts by the government to expand the global reach of processed food from India.



Source : Ministry of Commerce, GOI.

Record Exports of Agri-commodities

As per Commerce ministry data, Wheat has recorded an unprecedented growth of more than 273%, jumping nearly four-fold from $568 million in 2020-21 to touch close to $2119 million in 2021-22. Moreover, country also achieved highest ever export of staples like rice (USD 9.65 billion), sugar (USD 4.6 billion) and other cereals (USD 1.08 billion). Increase in exports of these products has benefitted farmers largely. India has captured nearly 50% of the world market for rice.

Spices exports have touched USD 4 billion for second year in a row. Despite facing tremendous supply side issues, coffee exports have crossed USD 1 billion for the first time, which has improved realizations for coffee growers in Karnataka, Kerala and Tamil Nadu.

How did it happen?

The Government of India's consistent and concerted endeavor has to steer in reforms for boosting agricultural exports have been highly fruitful. These record exports volumes achieved through consistent and sustained efforts on the part of the Department of Commerce and its various export promotion agencies like APEDA, MPEDA and various commodity boards. India has been able to step in through Indian missions abroad and interacted through virtual buyer-seller meets, removed many bottlenecks, coordinated with port/customs/State/district authorities, etc, to meet the increasing global demand. All these efforts led India emerging as a global supplier of food and other essential agricultural products.

The government made special efforts to engage State Governments and district administrations in promoting agriculture exports provide export market linkage directly to farmers and FPOs in order to ensure that the farmers benefit from exports and reached out directly at cluster and farm levels to give farmers a stake in export of their produce.

During pandemic time, emergency response cell created to help exporters in addressing their issues related to movement of consignments/trucks/labour, issuance of certificates, lab testing reports, sample collection, etc, ensured the real time clearance of exports. Government also facilitates direct export market linkage to farmers/FPOs and to encourage export-oriented production, 46 unique product-district clusters have been notified for export promotion.

Government have promoted and created Farmer Connect Portal for providing a platform for farmers, FPOs/FPCs, cooperatives to interact directly with exporters. This approach has resulted in agriculture exports taking place from hitherto unexplored areas.

Challenges for agri-exports

Indian agri exports in the FY22-23 will face challenges if unusual climatic and weather conditions affect the sowing and cut the production prospects. Already it has restricted India's momentum on agri exports as country have banned wheat exports due to early spells of heat waves, reducing the production and also affected production of vegetables and fruits in the large parts of the nation, mainly north, central and western India. One more challenge, which can hit the export from India, is higher freight rates that increased 4 times in last 2 years.

To conclude, India is emerging as a reliable supplier to the whole world and its role is increasing. At the same, government is putting all effort to contain the inflation too. Normal monsoon will give another boost to the agri exports. Ease of doing business amid record packages to develop infrastructures will help to increase the agriculture sectors in coming years and the time will come when India will become "Prices Setter" instead of "Price Taker".

Aatamnirbhar Bharat & Role of Commodities

Manoj Kumar Jain
Director & Head of Commodity Research
Prithvi Finmart

Government of India under Ministry of Consumer Affairs amended Forward Contract and Regulation Act and gives permission of commodity derivatives exchanges in India in the year 2003 with two basic objectives fair price discovery and price risk management. Commodity derivatives exchange fulfills the set objectives and set several milestones in last two decades. Vibrancy is increased more after commodity exchanges comes under purview of Securities Contract Regulation Act under Ministry of Finance Government of India from September 2015 with strong regulator of Securities Exchange Board of India (SEBI). We are celebrating "Aazadi ka Amritmahotsav" at 75 years of Independence and the vision of our Honorable Prime Minister Shri Narendra Modiji for making India aatamnirbhar in commodities are going in good directions. Government of India's fast track reforms pushing Indian commodity sector on path for making Aatamnirbhar in coming years.

Reformers push for making India Aatamnirbhar in commodities production

Indian commodity derivatives markets will complete two decades of its operation next year. Our Prime Minister vision for making India an aatamnirbhar in commodities production to reduce dependence on imports are going in great directions. India exported $400 billion of goods first time in the history in last one year. We are setting new milestones not only in commodity productions but also in making exports of commodities. Visionary Prime Minister of the country making reform push in the benefit of farmers to increase farm produce, get better pricing and reduce import dependency and electronic exchanges are playing pivotal role in the same.

Two key vision of our visionary Prime Minister; making India $5 trillion economy by 2025 and making farmers' income double by 2022 create huge scope for Indian commodities sector for creating robust and vibrant market.

Making India $5 trillion economy by 2025 and opportunities for Indian commodity market

Vision of our Honorable Prime Minister Shri Narendra Modi ji to make India $5 trillion economy by 2025 creates ample opportunity for Indian commodity market. Current Gross Domestic Product (GDP) of India is around $3 trillion and ranked number 5 in the world. Commodity and allied sector contributes around 20% to total GDP of India. With the growing GDP from existing $3 trillion to $5 trillion by year 2025 will add around 60% total value to existing GDP in next three years. With the growth of our GDP simultaneous growth could be seen in commodities sector and will help our commodity markets to grow. As per study India needs to export around $1 trillion to reach $5 trillion economy. For creating $1 trillion export markets, government is focusing on manufacturing as well as farm sector under make in India program. More and more commodity will be required as basic raw material for processing and will give booster to Indian commodity markets. Farmers will get benefited for producing more and will get better pricing from the processors; manufacturer and other end users. Consistent export of $1 trillion will definitely give booster to Indian commodity sector and farming community.

Making farmers income double by 2022 and opportunities for Indian commodity derivatives market

Making farmers income doubled by 2022 is one of the key agenda of present government to end farm distress and increase income of farmers. Presently, 70 percent of rural population is having dependence on agriculture sector. It contributes around 18% to the total GDP of India (Department of Agriculture & Cooperation & Statistics, 2014). Similarly agriculture sector in India is also the largest employer, contributing around 50% of the total workforce. Apart from employment, agriculture also plays a key role in food security. However, growth rate of the agriculture sector in India is very much fluctuating from various reasons. Excess dependency on monsoon, traditional system of farming, larger population of

marginal and small farmers keeps agriculture growth fluctuating. Vision of the present government to make farmers income double by 2022 and enthusiasm to achieve the set target is really excellent. Government has already taken several initiatives to make farmers income double a reality by end of the year 2022 as government is making farmers aware to take better advantage of Indian commodity derivatives exchanges to get better prices of their farm produce. Farmers Processor Organisation (FPO) is one of the key initiative through which they can sell their produce on commodity derivatives platform or even can hedge their crop to get better price. ENAM could be the next game changer for Indian farmers to reduce middle man and increase reach to processors for better remuneration of their crops. Government reforms agenda is reaping fruits and farmers are getting excellent pricing from last 4-5 years. Blending of ethanol reduce stress of sugarcane farmers, oil mission is reducing dependence on imported edible oils and benefiting farmers as India produces record oil seeds in the crop year 2020-21, Prime Ministers main objective is "Aapda me Awasar" also benefited Indian farm industry at large extent. Indian farming community produces more during COVID-19 time and global supply bottlenecks provides opportunity to Indian farmers to get better pricing of their produces. Recent Russia-Ukraine crisis is also gives upper hand to export of Indian wheat to many countries and generating foreign exchange for the nation and benefiting farmers.

Conclusion

Government's reform push to reduce bottlenecks, overcome hurdles and increasing productions are a step towards making India aatamnirbhar in commodity sector. Government of India is already taken steps to make all agriculture mandies online to have transparent platform for farm produce, making regulatory aspects as simple as possible, helping farmers with technology innovation to reduce cost and increase productions, allowing AIF's and mutual fund industry in commodities market will also give booster to these markets and will not only benefit to the farming community but also to the manufacturing industries.

We hope governments reform push to make Indian economy $5 trillion by 2025 and also doubled farmers income by end of the year 2022. Government will also keep in mind the contribution of commodities sector and address the requirements of the electronic exchanges to make this market more robust and vibrant. With the agenda of "sabka sath, sabka vikas, sabka vishwas and sabka prayas" will achieve the set objectives.

Role of NBFCs in the growth of Small & Micro Enterprises (SME) and Road Ahead

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Introduction

Non-Banking Financial Companies (NBFCs) are also known as shadow banks. There are more than 9,500 NBFCs registered with Reserve Bank of India (RBI).

The Non-Banking Financial Companies (NBFC) sector in India has seen many highs and lows to reach where it is today. Their scale of operations and diversity in financial intermediation are testimony to their adaptability in transforming their business models, understanding needs of a growing economy and the fast changing regulatory norms. NBFCs complement banks in the credit intermediation process by offering diversified, tailor-made financial products through innovative service delivery mechanisms. Furthermore, they facilitate financial inclusion by providing credit to unbanked sections of the population in different geographical areas and different business segments whether its Manufacturing, trading or services;

whether it's in B2B (wholesale) or B2C (retail) business. Over the years, NBFCs have assumed systemic importance due to their inter-linkages with the banking sector, capital market and other financial sector entities. NBFCs' credit to Gross Domestic Product (GDP) ratio increased from 8.6 per cent in 2012-13 to 12.2 per cent in 2018-19 before moderating slightly to 11.6 per cent in 2019-20 in the wake of the pandemic as per Reserve Bank of India reports.

India has always been home to a vibrant spectrum of microenterprises even before that term became popular in mainstream economics. The small business sector in India is deeply rooted in familial customs and niche skills. Today, that sector has been recognized as a legitimate business sector with its own set of nuanced workings. This sector now includes 51 million microenterprises, each with its specific need for credit. These microenterprises were traditionally not financed by banks due to the need of too many financial documents and credit records. Non-Banking Financial Corporations (NBFCs) are offering more interesting propositions to these microenterprises. NBFCs are playing an increasingly important role in the growth of microenterprises.

In terms of distribution of number of companies, non-systemically important non-deposit taking NBFCs (NBFCs-ND) with an asset size of less than ?500 crore have a large share 9,100 or 83% of total NBFCs. A non- deposit taking NBFC with asset size greater than ?500 crore is considered systemically important (NBFCs-ND-SI). In terms of total count they are only 292 however in terms of assets, NBFCs-ND-SI constituted around 83 per cent of the total assets of the sector.

Challenges

The NBFC sector which was booming as a favorite investment destination till 2017 witnessed some challenges in the form of Demonetization, implementation of GST which were somehow met by the industry successfully. However, NBFCs faced liquidity and trust issues in September 2018 when some large NBFCs witnessed huge ALM (Asset and Liability Management) gap coupled with other serious concerns; this not only resulted in larger investors and banks to stop providing liquidity to other NBFCs but also created panic in the market. The market also witnessed several more NBFCs getting downgraded by rating agencies and having corporate governance issues.

The IL&FS default in September 2018 impacted market confidence and resulted in liquidity stress and higher borrowing costs for NBFCs. The Reserve Bank strengthened its regulatory oversight over the sector, and NBFCs also took proactive steps in correcting asset-liability mismatches. NBFC credit grew even after the IL&FS default, though at a slower pace, aided by bank borrowings and supportive policy measures. However, just as the NBFC sector was finding its bearings, the COVID-19 pandemic struck and exacerbated the challenges faced by the sector.

Why microenterprises favor NBFCs

Microenterprises are generally categorized under the riskier borrower segments of banks. While many banks have their own MSME (Micro, Small and Medium Enterprises) divisions, their drive towards evaluating the low-credit health

applications of microenterprises is limited. The reason for the low-credit health is the non-availability of the traditional means of collateral. NBFCs are however, more innovative towards the evaluation of the credit risk. Factors like the business stability (which may be undocumented), family repute, product idea or market monopoly are hard to weigh on a credit scoring scale. NBFCs today carry the expertise and the technology to evaluate these seemingly unquantifiable parameters and arrive at an informed decision about the credit health of microenterprises. The banks generally fail to make such judgments or find the loan application to be too risky by their measures.

Due to this difference in the approach towards lending, the banks' total share in the loan market fell from 49% to 28% according to a report (https://www.bcg.com/documents/file15284.pdf) by the Boston Consulting Group. The same report also states that the share of NBFCs rose from 21% to an impressive 44%. This happened in just three years, between 2014 and 2017.

NBFCs are also being favored by the younger entrepreneurial populace, which has taken a liking to the lesser bureaucracy and flexibility of NBFCs. The same report states that NBFCs had the lion's share of the market for loans to persons aged between 21 and 35, at 49%.

Why NBFCs favor microenterprises

Most microenterprises seek loans under project finance, equipment finance or loan against property (LAP). In these three categories, LAPs are the most popular amongst microenterprises, where the business owner's residential or commercial property is put up as collateral. The rate of delinquency for microenterprises are in the range of 7.4% to 8.1% as against the much more discouraging figures of 12.25% to 22.3% for large corporates. This is ironic because, microenterprises

get routinely turned down to their perceived credit health issues, the keyword here being 'perceived'. NBFCs favor microenterprises because they have the analytics to tell them the real story and not just consider the presence of large office space or employee strength.

NBFCs are also generally working with lesser opex, more flexibility and greater agility. These factors lead to NBFCs being comfortable with the microenterprise lending arena, which would generally discourage a bank. Microenterprises also offer partnership options or profit-sharing options to NBFCs that seem attractive because of the entrepreneurial spirit that NBFCs yearn to kindle. These kind of benefits are different from the traditional money-lending advantages, that NBFCs make ample use of.

The introduction of the Goods and Service Tax (GST) is a move that has placed the transactions of many undocumented microenterprises on the map. NBFCs are able to view the business activity of a microenterprise with much greater clarity than before.

NBFC 2.0 are attracting more microenterprises

The marriage of financial technology and the existing set of financial services that NBFCs provide is churning out more futuristic companies that are said to be a part of NBFC 2.0. These

companies are using a mix of different analytics' tools to conduct their credit health check. By checking the website traffic of the microenterprise, the social media activity, the track record of the entrepreneurs, the innovation introduced in the product or service, NBFC 2.0 is processing loan applications at a much quicker pace. This is helping the growth of microenterprises which in turn feeds back to the growth of NBFCs. NBFCs are also growing in terms of technology and expertise and not just size. This growth is helping them become better at providing financial services to microenterprises.

In the last few years Reserve Bank of India (RBI) has come out with various guidelines to improve the working of NBFCs.

- Merging of housing finance companies with RBI: the housing finance companies or home loan companies which were regulated by National Housing Bank (NHB) have now been brought under RBI for regulation purpose.
- A new category of NBFCs Account Aggregators (AA) have been introduced, this category is expected to have better data of all borrowers and provide the same digitally for better underwriting and information flow.
- New scale based regulation for NBFCs: RBI has proposed to regulate NBFCs based on the asset size; they are named as Base Layer, Middle Layer, Upper Layer and Top Layer; a short definition of the same as below: -

Base Layer

The Base Layer shall comprise of (a) non-deposit taking NBFCs below the asset size of Rs. 1000 crore and (b) NBFCs undertaking the following activities- (i) NBFC-Peer to Peer Lending Platform (NBFC-P2P), (ii) NBFC-Account Aggregator

(NBFC-AA), (iii) Non-Operative Financial Holding Company (NOFHC) and (iv) NBFCs not availing public funds and not having any customer interface.

Middle Layer

The Middle Layer shall consist of (a) all deposit taking NBFCs (NBFC-Ds), irrespective of asset size, (b) non-deposit taking NBFCs with asset size of ?1000 crore and above and (c) NBFCs undertaking the following activities (i) Standalone Primary Dealers (SPDs), (ii) Infrastructure Debt Fund - Non-Banking Financial Companies (IDF-NBFCs), (iii) Core Investment Companies (CICs), (iv) Housing Finance Companies (HFCs) and (v) Infrastructure Finance Companies (NBFC-IFCs).

Upper Layer

The Upper Layer shall comprise of those NBFCs which are specifically identified by the Reserve Bank as warranting enhanced regulatory requirement based on a set of parameters and scoring methodology. The top ten eligible NBFCs in terms of their asset size shall always reside in the upper layer, irrespective of any other factor.

Top Layer

The Top Layer will ideally remain empty. This layer can get populated if the Reserve Bank is of the opinion that there is a substantial increase in the potential systemic risk from specific NBFCs in the Upper Layer. Such NBFCs shall move to the Top Layer from the Upper Layer.

In new development the tech-enabled of Fintech NBFCs are using India stack 2.0 with extensive use of GST data and other data available through government sources.

The companies are fast adopting Video KYC, Video PD and digital signatures for faster and better services to their customers.

Conclusion

NBFCs will continue to do better in the microenterprises' arena compared to their banking counterparts. They already have a competitive market share that is only expected to grow as microenterprises become more familiar to the nation and the economy.

The quickness to respond, utilization of technology, analysis of non-standard credit health aspects and desire to innovate will make NBFCs, preferred choice for credit for microenterprises.

In my view three (03) Vs shall decide the dominance of NBFCs who adopt them faster, these are (1) Voice (2) Video and (3) Vernacular. And extensive use to technology shall put NBFCs far ahead of banks or convert them to digital banks.

Prest Loans (www.prestloans.com) is a new age Fintech NBFC that uses technology and analytics to provide easy finance options to MSMEs.

Impact of US Inflation Data

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Anand Rathi Share and Stock Brokers

The US consumer price growth slowed in April as gasoline prices eased-off record highs, suggesting that inflation has probably peaked, though it is likely to stay hot for a while and keep the Federal Reserve's foot on the brakes to cool demand. The consumer price index rose 0.3% last month, the smallest gain since last August. That stood in sharp contrast to the 1.2% month-to-month surge in the CPI in March, which was the largest advance since September 2005.

But the deceleration in the CPI is probably temporary. Gasoline prices, which accounted for most of the pull back in the monthly inflation rate, are rising again and were about $4.161 per gallon early this week after dipping below $4 in April, according to the Energy Information Administration. Russia's unprovoked war against Ukraine is the main catalyst for the surge in gasoline prices. The war has also driven up global good prices.

Inflation was already a problem before Moscow's February 24 invasion of Ukraine because of stretched global supply chains as economies emerged from the COVID-19 pandemic after governments around the world injected large amounts of money in pandemic relief and central banks slashed interest rates.

Inflation and Commodity

When it comes to inflation, the alarm bells are ringing louder with the commodity markets shattering records and governments continuing to pile on stimuli. Expectations of price pressures are apparent in the commodity markets, with iron ore, copper, aluminium and other metals either soaring or nearing record levels.

Basic commodity prices no longer have any significant effect on long-term inflation. Consumer inflation figures are based on the prices consumers pay for the things they ordinarily buy directly. Consumers do not buy commodities directly. They buy manufactured consumer products. Commodity prices affect consumer prices indirectly, and partially. For many of the products people buy today, commodities constitute a very small percentage of the manufactured cost, and an even smaller percentage of the retail price.

Most manufacturers do their best to smooth out commodity price fluctuations, absorbing some costs during the period of rising prices, and enjoy margin improvements during downward moves, keeping the prices to their customers more stable. As a result, commodity prices are uch more volatile than CPI.

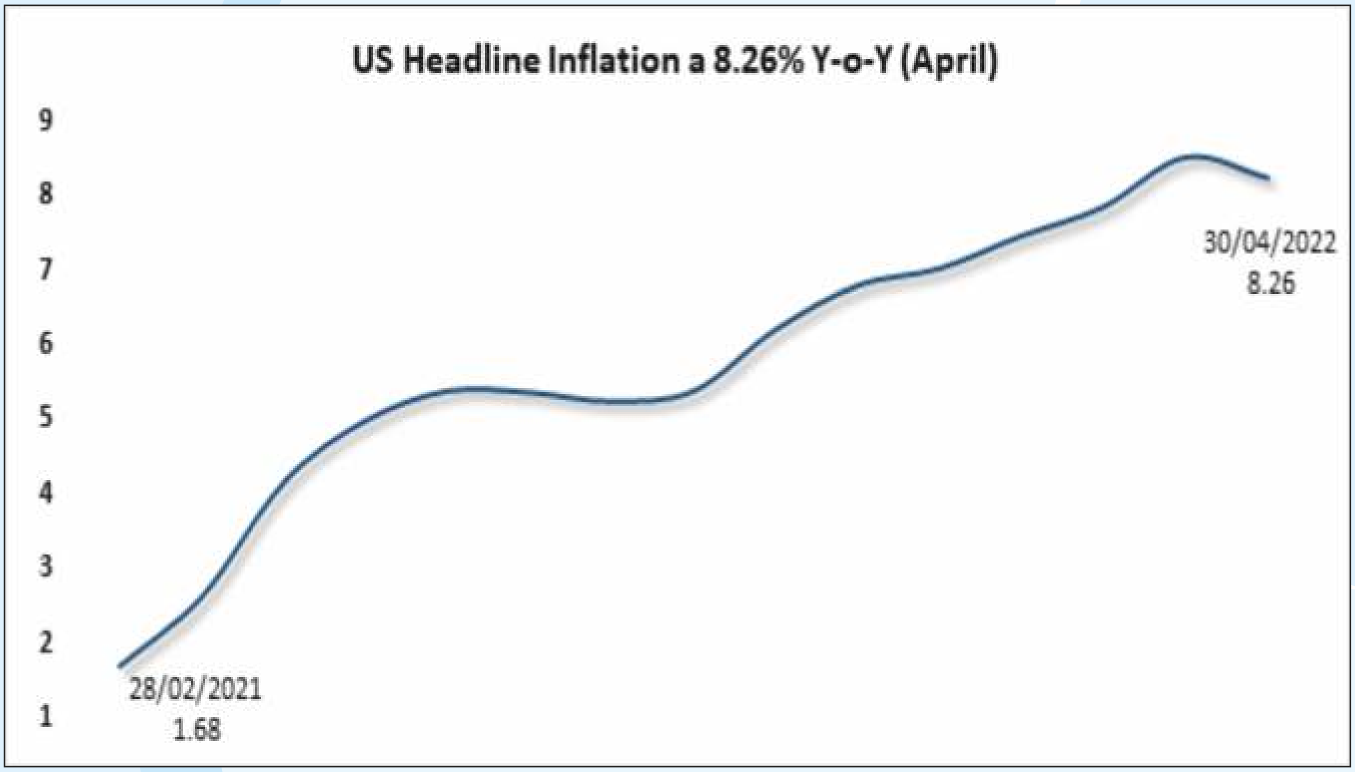
The impact of inflation on dollar

Higher inflation isn't necessarily a bad thing for the average American. When inflation runs high, workers are empowered to ask for bigger raises to keep up with the cost of living, and debt holders get a break on their obligations as their borrowed money becomes comparatively less valuable. But life becomes a little more complicated for savers and retirees living on fixed income, as inflation erodes the purchasing power of every dollar. Higher inflation could force the Fed to raise rates, which may have a positive impact on the dollar. Having said that, consider the current scenario, the dollar index is likely to appreciate owing to the hawkish Fed stance and that will put pressure on the commodity prices globally.

President Joe Biden acknowledged the pain that high inflation was inflicting on American families and said bringing prices down "is my top domestic priority." The Fed raised its policy interest rate by half a percentage point, the biggest hike in 22 years, and said it would begin trimming its bond holdings next month. The U.S. central bank started raising rates in March.

In the 12 months through April, the CPI increased 8.3%. While that was the first deceleration in the annual CPI since last August, it marked the seventh straight month of increases in excess of 6%. The CPI shot up 8.5% in March, the largest year-on-year gain since December 1981. Economists had forecast consumer prices gaining 0.2% in April and rising 8.1% year-on-year.

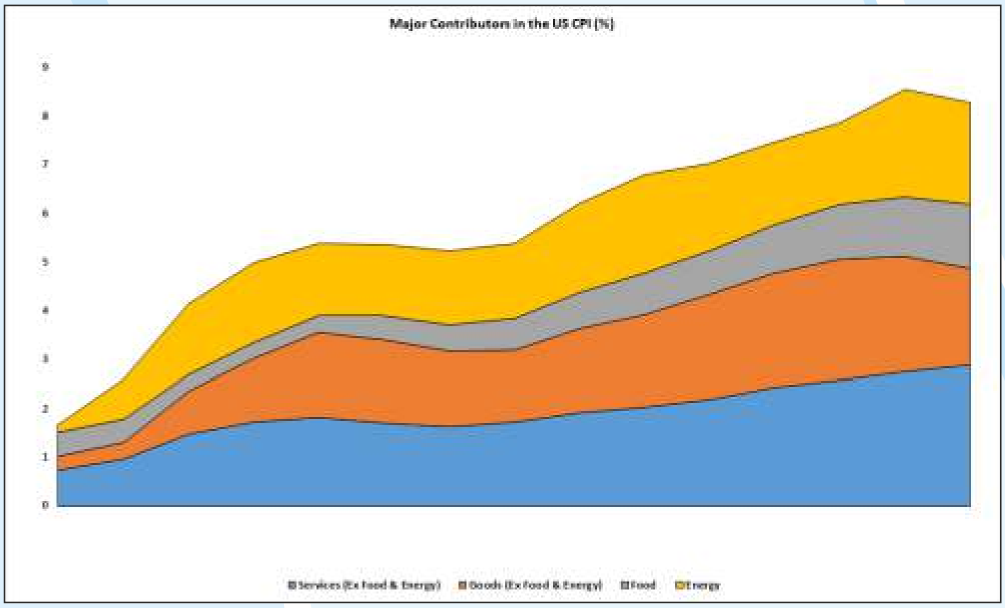
While monthly inflation will likely pickup, annual readings are likely to subside further as last year's large increases fall out of the calculation, but remaining above the Fed's 2% target at least through 2023.



(Source : Bloomberg)

China's zero tolerance COVID-19 policy is seen putting more strain on global supply chains, driving up goods prices. Prices for services like air travel and hotel accommodation are also seen keeping inflation elevated amid both strong demand over the summer and a shortage of workers.

Contributions to annual US inflation rate



(Source: Bloomberg)

Where inflation cooled the most

The bulk of the slowdown was powered by declining energy prices. The group saw prices broadly dive 2.7%, led by a 6.1% decline in gasoline costs. Prices of used vehicles and apparel also fell slightly in April.

Transportation services and utility gas services posted the largest price jumps through the month, with each category posting a 3.1% increase. New cars followed with a 1.3% jump, and grocery prices broadly rose 1%, according to the report.

The core CPI gauge, which excludes volatile food and energy prices, rose 6.2% year-over-year, slowing from the 6.4% pace seen in the year through March. The core measure also rose 0.6% in April alone, reflecting a sizeable acceleration from the 0.3% uptick seen the month prior. Core inflation is generally viewed as a more reliable indicator for factors lifting overall inflation, as it strips out many sudden and temporary price changes. The latest print hints that, while headline inflation eased slightly, there are still several dynamics boosting price growth throughout the economy.

Inflation rapidly heading towards 9%

In the near term, inflation will head even higher. The surge in gasoline prices to $4.25/gallon from the February average of $3.50 will be enough to push headline inflation above 8.5% in March. Additionally, the rising cost of labour and agricultural and metal commodities will inevitably translate into higher input costs for businesses. In a strong corporate pricing environment, it will get passed onto consumers in the coming months so we cannot rule out inflation hitting 9%.

This will erode spending power and is likely to translate into weaker consumer activity than otherwise would have been the case. Nonetheless, the economy does have strong momentum and is creating jobs in significant numbers. Given there are more than 1.7 vacancies for every unemployed person in America, corporates are clearly desperate to hire and are prepared to raise wages to get workers so incomes will continue to grow.

US: Slowdown risks mount as the Fed hits the brakes

The Federal Reserve has raised interest rates and signaled that we should be prepared for much more to come as it seeks to get inflation and inflation expectations back under control. We look for a 3% Fed funds rate, but rapid-fire hikes run the risk of an overshoot and we see a strong chance of corrective action again in late 2023.

Rapid fire Fed hikes are coming

Last March the Federal Reserve told us that inflation was largely transitory. It was primarily the result of post-pandemic re-opening frictions, and in an environment of significant labor market slack, it wouldn't need to raise interest rates before 2024. Fast forward 12 months and the story couldn't be more different. The economy is now 3% larger than before the pandemic struck, the unemployment rate is below 4%, and inflation is proving to be far more durable, running at 40-year highs and still rising. The Fed responded with a 25bp rate rise at the March Federal Open Market Committee meeting. With inflation pressures visible throughout the economy, we believe the Fed will indeed deliver half-point interest rate increases at the May, June and July policy meetings.

We also expect the Fed to announce a shrinking of its balance sheet (quantitative tightening) in the second quarter. Initially, this may be via allowing $50bn of maturing assets to roll off the balance sheet in July, August and September with any additional proceeds reinvested. This could then be accelerated to $100bn from October onwards.

Growth risks are moving more to the downside

From a domestic perspective, higher borrowing costs, a strong dollar and a potentially fraught political backdrop as we head towards the November mid-terms means that the US economy will likely face even more headwinds. In addition, supply chain strains remain while the commodity price shock resulting from Russia's invasion of Ukraine continues to reverberate around the economy. As such we have revised down our 2023 GDP growth forecast markedly from 3% to 1.8%.

Energy and food will cause a further spike in inflation

Inflation has been increasing mostly on energy prices in recent months and the war has caused a further jump in prices. March will see another increase in energy inflation and the months ahead will still be boosted by serious base effects. While many scenarios are imaginable at this point, futures do still point to modest declines in prices from current levels, which should result in a slow downward impact on the inflation rate. But still, energy inflation which was expected to trend down from late last year already has become a key driver of the higher for 2022 narrative. Forecasting based on current oil and gas futures suggests a contribution of energy to headline inflation of 2.7%. Projecting out using current spot prices would lead to an even higher contribution of 3.5%. Food prices add to this as global food prices are soaring on the back of high transport costs and failed harvests. For March and April, we already expect food inflation to add around 1ppt to headline inflation and it could well be that this increases further on the back of the war given the key position of Ukraine and Russia in the global food supply.

Core inflation also set to trend higher due to supply chain problems and second-round effects

Core inflation has also been running up. Goods inflation rose markedly in January as supply chain problems caused producer prices to soar, which have been priced through to the consumer. While supply chain problems had been abating since November and input shortages were dropping, they have recently reared their head again. The war in Ukraine and new lockdowns in China are adding to supply chain disruptions again, which could keep pressure on consumer goods prices elevated for longer than we initially expected.

On top of that, second-round effects from high energy prices will play into core inflation. That is not just the case for goods, but also services. Services prices have also been trending higher, mainly thanks to the reopening of economies now that the pandemic is in a less restrictive phase. Prices had been growing at about 1.5% in the years leading up to the pandemic, and what we see is that the second half of 2021 saw a catch-up to this trend after which it settled at the pre-crisis trend again. This suggests that we shouldn't expect too much from the reopening inflation effect from here on, especially as real wages are being squeezed at the moment. That does not mean that there won't be a further increase in services inflation from here on though. While reopening effects have faded, second-round effects from higher energy prices and in some service sectors from wages are set to be priced through.

Policy reversal on the cards for late 2023

A weaker growth environment and a hopefully more benign geopolitical backdrop in 2023 will help to ease price pressures and inflation could fall relatively quickly through the second half of 2023. Remember too that housing costs carry a weight of around a third of the consumer price index (CPI) and if house price growth slows sharply, this will feed through into weaker CPI inflation readings with a 12-14 month lag.

Next move by the Central Bankers

The Federal Reserve has primary responsibility for controlling inflation, the administration has taken steps to combat price increases. Mr. Biden announced that a summertime ban on sales of higher-ethanol gasoline blends would be suspended this year, a move that White House officials said was aimed at lowering gas prices. But even if inflation slows slightly, it is likely to spend 2022 running far above the Fed's goal, which it defines as 2% on average using a related but more delayed price index. Policymakers are expected to make a half-point interest rate increase at their meeting in early May, and have indicated that they will soon begin to quickly shrink their bond holdings, a change that should reinforce higher rates and soften demand.

Higher inflation in the US will make the dollar strong as the Fed will be raising interest rates hence this is considered to be a bearish for the commodities globally and commodity prices may fall. Moreover, for India, higher the dollar index, weaker the rupee. Hence the fall in the commodities may not be as intensive as it would be in the international market. Still the outlook for the commodities would be bearish.

Russia-Ukraine War – Can We Still Achieve Growth in Agriculture Sector ?

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A war creates lot of uncertainties for the global economy. A war not only causes havoc amongst the population, but also disrupts several economies for the years to come. The country under invasion or the one who is invading both are affected adversely, only the magnitude may differ. In this world of economic liberalisation, when most of the nations have some or the other business linkages with one another, there are huge economic repercussions on rest of the connected world as well.

Speaking in context to the Russia-Ukraine conflict, the unfortunate invasion of Ukraine this year has raised concerns about global food crisis. As a matter of fact, Ukraine is known as the 'bread-basket of Europe'. Russia and Ukraine play a major role as global suppliers, contributing almost 12% of food items traded globally. These two nations are one of the leading providers of wheat, maize and sunflower oil, with Russia being the world's top exporter of fertilisers. Ukraine leads in the global exports market of wheat, sunflower, barley, rapeseed and maize with a share of 10 per cent, 47 per cent, 17 per cent, 20 per cent and 14 per cent respectively. Russia also has a strong presence with global exports of sunflower, wheat and barley, and has a market share of 25 per cent, 18 per cent and 14 per cent respectively. A lot of countries are presently dependent on imports from Russia and Ukraine for meeting their basic food supply. Studies and surveys have revealed that Russia and Ukraine together contribute for nearly half of the cereal imports in North Africa and the Middle East. The Eastern African countries on the other hand import nearly 72% and 18% of their cereals from Russia and Ukraine respectively.

Ukraine & Russia's Share of Global Exports of Major Agri commodities during 2021

Commodity	Ukraine	Russia	Combined Share of Russia & Ukraine
Wheat	10%	24%	34%
Maize	15%	2%	17%
Barley	13%	14%	27%
Sunflower Oil	31%	24%	55%
Sunflower Cake	61%	20%	81%

Source: USDA, FAO.

The Food and Agriculture Organization (FAO) has reported in the recent weeks that due to the ongoing war, food security risks have increased significantly. Already around 800 million people were undernourished till 2020, and the FAO now expects the number to increase by another 7.6 to 13.1 million by end of 2023. Countries like Jordan, Yemen, Israel and Lebanon depend largely on basic commodities imports, with significant supplies contributed by Russia and Ukraine. These nations are therefore prone to maximum risk of higher prices and food shortage.

Likewise, the African countries are facing the similar risk. The sanctions on Russia have resulted in sky-rocketing oil prices which may result in higher inflation, higher deficits, in addition to negative impact on consumption as well as the corporate profit margins. Nearly 25 million tonnes of wheat is needed to meet worldwide food demand in the current and the next season, according to the European Commission estimates.

Here it is worth mentioning that impact on global food supply because of the war will largely depend on the following factors:

A. There has been a significant reduction in exports and production of essential commodities from Russia as well as Ukraine because of the conflict, as well as economic sanctions being imposed on Russia.

B. Global food prices were already at record levels before the war. There is no indication with respect to a ceasefire anytime soon, therefore further spike is expected in prices of food supplies and inputs (fertilisers and energy) needed for agri-food production.

C. In order to get a respite from the ongoing crisis, various measures have been taken by different nations. Whether effects of the export bans or speculative measures shall get alleviated or minimised, needs to be analysed. Various countries including Egypt, Argentina, Indonesia, Serbia, Turkey, the EU and Hungary have already imposed or indicated their interest to impose some control over exports of essential agricultural commodities.

The duration and the evolution of various scenarios shall influence the impact to a great extent.

However, there are positive aspects as well. In the medium to longer term, two optimistic scenarios may emerge from the current state of affairs:

Scenario 1 : Russia is likely to export more quantities of wheat going forward since Ukraine's exportable surplus is expected to be lower in the coming months. This would help in balancing the rising global demand to a large extent. Russia is one of the world's largest exporters of wheat. Because of high carry-over stocks, a record crop forecast, and the expiry of a state export quota, Russia is likely to increase exports in the upcoming July-June season. This projection is as per the Sovecon Consultancy forecast report, released on April 21, 2022. Sovecon has estimated Russia's wheat exports in the July-June 2022-2023 marketing season at 41.0 million tons, versus 33.9 million tons in the current season. Sovecon has raised Russia's wheat production forecast by 900,000 tons to 87.4 million tons. Sovecon has also estimated that Russia still has 3 million tons of wheat to export within the quota, for the next two months.

Scenario 2 : For Ukraine, wheat exports from its southern ports can be executed comfortably in case a ceasefire agreement is reached by this summer. This is because the Kyiv port has the priority to sell its high stocks and earn foreign currency to finance imports.

It can be inferred that both the scenarios will be beneficial in easing the global concerns over food security and also lead to a cool off in the global prices. This also implies that the less developed nations which were under pressure from rising costs for imported wheat can hope for easing of the economic burden. If Ukraine's ports remain closed, a significant percentage of the demand will switch to Russia. On the other hand, Ukraine will start supplying speedily in case the peace agreement is successful. Therefore global demand will be compensated largely in both the scenarios.

There is a silver lining with respect to the India's agriculture growth - It has been observed historically that the most markets including agricultural commodities turn strongly bullish during the periods after the war or any pandemic, and usually a swift recovery of the respective economies occur. Prices of most of the agricultural commodities in Indian markets have risen sharply since the March 2020 lows, after the COVID pandemic threat started showing signs of easing. The upside rally was sustainable once the unlocking began and demand moved close to the pre-COVID level. As the prices have been surging, it would lead to an improvement in the financial situation of the entire value chain i.e. farmers, producers, traders, stockists etc. - thereby benefitting the sector as a whole. The pandemic has prompted everyone to understand the value of agriculture products/food items, because whether the world faces any challenge like the pandemic or any other adversity - demand for food items shall always persist and that too, every day. In the last one year the prices of wheat, mustard, barley, cotton and soybean have appreciated by approximately 15 per cent, 30 per cent, 75 per cent, 105 per cent and 36 per cent respectively.

Market talks suggest that once the harvest season of wheat is over, prices of this commodity can gain further by roughly 20-25 per cent, considering the sustained global supply chain disruption and robust export demand scenario. Palm oil imports from India have increased by nearly 19 per cent in March versus the previous month, as traders sought alternatives to sunflower oil, which can no longer be purchased from Ukraine because of the ongoing war with Russia. India is likely to import palm oil with higher volumes in the forthcoming months due to a limited availability of sunflower oil in the global market. The recently imposed ban of palm oil exports by Indonesia has raised global concerns. The global buyers have turned their attention towards the closest substitute, i.e. palm oil after February 24, when the war started. As a result, the worldwide demand for palm oil has enhanced, leading to a rise in exports from Indonesia. Indonesia came out with a ban on palm oil exports in order to control the price rise. Due to limited exportable surplus of sunflower in Russia and Ukraine, prices of sunflower oil are likely to shoot further. Rise in palm oil and sunflower prices will result in pushing up soy oil prices as well.

The conflict between the two nations is also likely to affect global coriander exports, as Russia and Ukraine are the key suppliers of coriander to the European markets. India leads in coriander production and is a traditional exporter. But this year, the supply pipeline will dry up in next 5-6 months, due to which the import possibility will increase as an exception. Since production is affected in Russia and Ukraine, the overall scenario will be quite challenging for compensating the supply deficit. All in all, this would translate into better prices for farmers and other members of the coriander value chain.

As the prices of agro commodities are likely to remain firm due to the supply chain constraints, the agriculture sector will be benefited in the longer run. Additionally, companies in agrochemicals are likely to experience an improved financial situation from the current scenario. The Russia-Ukraine war has resulted in disruption of the global agri commodity chain, therefore further rise in price levels can be observed moving forward. India's rural economy is also expected to grow because once the harvesting of crop is over and there is clarity over the monsoon progress, rural demand can improve swiftly, thus boosting the agriculture growth. Various infra initiative measures on agriculture, taken by the government will be an additional driver for enhancing the agricultural economy. IMF has recently projected India's growth rate at 8.2 per cent for during FY 2022-23 , which is the fastest among the major economies in the world. So despite the Russia-Ukraine conflict, India's agricultural growth is still expected to be satisfactory this financial year.

Commodity Derivatives - Bright Future

Ramesh Varakhedkar
Head - Commodities & Currency
ICICI Securities

Importance of commodity trading for Indian economy

India is one of the largest producer, consumer, importer and exporter of one or other commodity thereby making value chain participants exposed to the price volatility. Price volatility happens because of various factors such as supply, demand, growth in the economic, trade policies of the government, environmental condition etc. Hence, it is very necessary for value chain participants to remain protected from such price aberration to increase their profit margins.

The commodity derivatives market was in existence in late 19th century at various places, which was suspended post-independence to control unscrupulous price movement affecting the purchasing power of the common citizen. As the Indian economy is growing leaps and bounds through stronger financial market dominated by stock market, there is a need to develop the Indian commodity derivatives market to the level of stock market.

Considering the need for establishment of commodity derivatives market in India, the central government permitted nationalized, online based commodity exchanges in the year 2003 and accordingly, two major commodity exchanges namely Multi Commodity Exchange of India and National Commodity and Derivatives Exchange were established.

Commodity derivatives market gives ample benefits to the participants and create a robust and transparent price discovery platform for actual users of the commodities. At the same time, it opens a new door for retail investors to diversify their portfolio by investing in different asset classes such as equities, commodities, currencies and bonds.

Price Discovery : The commodities market in India provides a transparent means of determining the true price of commodities such as pulses, spices, cotton, and so on. The market ensures that they do not sell their commodities to intermediaries at a low price, incurring massive losses in the process.

Superior Quality : The commodities market has stringent policies governing the quality of commodities traded on exchanges. The policies result in higher commodity quality throughout India, which benefits both suppliers and end users.

Hedging : Farmers and extractors of various commodities find an ideal way to mitigate their losses through the commodities market. They can sell commodities futures or buy PUT options to ensure a fixed price for their commodity regardless of price fluctuations.

Diversification : Trading in India's commodities market is an excellent way for investors to diversify their portfolios. Because commodity prices have an inverse relationship with the prices of equities and bonds, investing in commodities can protect an investor's capital if the equities and bonds markets fall.

Leverage : Trading in commodities futures involves the use of leverage via margin held with the broker. As a result, a large transaction can be completed with a smaller amount of cash.

Challenges and Opportunities

Challenges : Each and every system brings pros and cons with it and commodity derivatives market is no exception. Besides, helping retail investors to diversify their portfolio and hedgers using this platform for risk mitigation, it also carries certain challenges such as long trading hours in line with global markets, higher government intervention in sensitive commodities, bans and suspension in agri commodities, very low deliveries against traded volumes etc.

Opportunities : Being an agrarian economy, Indian farmers make distress sale of their produce immediately after harvest to meet their cash requirement, hence, they are deprived of better price for their produce. In such scenario, a robust and strong agri commodity derivative with stricter rules and regulations is very essential, which helps farmers to know price for their produce well in advance as well as make better cropping decision. India should emulate the successful commodity exchange systems of the global markets such as CBOT, Bursa Malaysian Derivatives Exchange, Dalian Commodity Exchange, TOCOM etc.

Despite of one of the largest producers, consumers, importers and exporters of various commodities, Indian is the price follower not the price setter. Hence, there is a need to develop the Indian commodity to become the price benchmark for the global market.

Further, with conversion of base metals contracts into deliverable contracts, it opens the better risk management doors for MSMEs who are using base metals as raw materials for hedging as well as taking delivery from the exchange platform.

Every year, the Indian government procures millions tons of food grains for supplying through Public Distribution under MSP. However, the

government incurs huge loss in terms of quantity and quality, supplying the procured goods at much lower prices. Hence, all these government procurement and disposal should be routed through exchanges to ensure smooth transaction.

Scope for growth

The modern investor is astute and always on the lookout for appealing investment opportunities to diversify his portfolio. Traditional instruments, such as stocks, bonds, mutual funds, and gold, remain popular among many investors. Commodity trading allows all investors to gain exposure to a new asset class that includes agricultural products, metals, livestock, and bullion.

The commodity market is critical in reducing the risk that investors typically face. Commodities, in fact, can be used as hedging instruments because the risk is spread across a large group of investors. A jewellery manufacturer, for example, who wants to hedge against gold price volatility can purchase gold futures to lock in the price.

Commodity markets ensure the efficient aggregation of agricultural products. Farmers benefit from this market's institutional mechanism for raising financing, which reduces their reliance on the unorganised sector. Because of such markets, the sale of agricultural products is also streamlined.

For a long time, Indian investors' investment options were limited to gold, real estate, bonds, FDs, and equities. While investors have participated in commodities indirectly through the equity market mechanism, they do not participate in commodities as an asset class directly. Small and medium-sized investors can actively participate in a new asset class through the commodity exchange. They are also able to diversify their concentration risk of the existing asset classes as a result of this process. There is also a large selection for investors and traders. They can invest in agricultural products or precious metals such as gold and silver.

Hedging price and risk distribution is one of the most important functions of the commodity market because it helps distribute risk and protects the risk originator. Consider the case of a jeweller manufacturer who wishes to protect itself against gold price volatility. Selling gold futures and locking in the price achieves the same result. Similarly, an FMCG food products company that wants to hedge against agricultural product volatility can use the futures market to do so. The market causes the overall risk to become more granular, and a greater number of traders to share the risk.

Growing importance of commodities market

The commodity derivatives market in India has been growing day by day with increasing investment attraction by various stakeholders. An initiative by the regulator in the form of unification of exchanges and broker members made the life of investor easy as the investors are allowed to trade across different asset classes with single client code. Further, increased volatility across various asset classes making investors worried about losing the invested amount in the single asset classes, hence, commodities give an opportunity to diversify their portfolio and earn an additional income.

After taking over the regulation of commodity market from the erstwhile Forward Markets Commission (FMC), the new regulator Securities and Exchange Board of India (SEBI) has been taking various initiatives to strengthen the Indian commodity market ecosystem. Some of bold initiatives taken were unification of exchanges and allowing exchanges to offer cross products. Accordingly, the National Stock Exchange and Bombay Stock Exchange entered into commodity segment by offering few commodity futures. Other initiatives taken by the regulator was making all the

commodities deliverable contracts except liquid products; allowing institutional participation on commodity derivative, which led to entry of bank backed brokers, mutual funds, alternative investment fund - category III, foreign participation in the form of Eligible Foreign Entities.

Since the participation of Eligible Foreign Entities is very limited, hence, SEBI has circulated a consultative paper asking opinion for allowing Foreign Portfolio Investors in the commodity derivatives market.

As all the commodities except energy products are made deliverable contracts, Indian commodity producers and buyers can exchange the commodities through exchange platform in stead of traditional way of selling in their neighborhood market. Increasing knowledge sharing about commodity market as well as market outlook along with simplified trading platforms is attracting retail investors towards commodity trading.

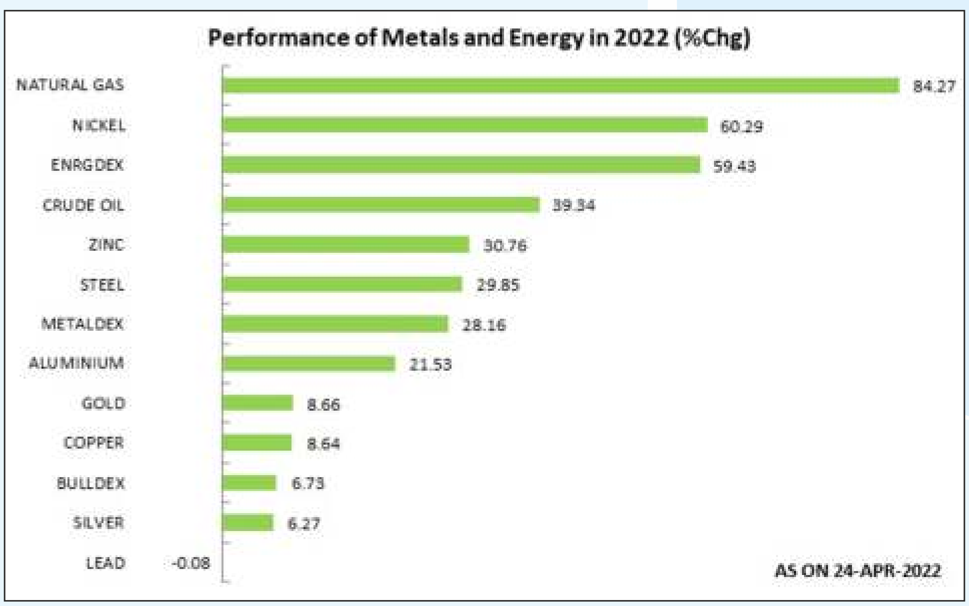
Summary

Commodity derivatives market has been an untapped asset in Indian context unlike in the developed countries. Since inception in 2004, the Indian commodity derivatives market saw many ups and down in terms of suspension in certain commodities, imposition of commodity transaction tax, taking over of regulation by SEBI, introduction of options, allowing institutional participations, making all the commodities deliverable contracts and many more. Nonetheless, the market is gaining traction in recent years following increased volatility, SEBI's initiative of unification of exchanges and brokers, which is attracting customers to trade across different markets/ asset class using single client code as well as bank. The future of Indian commodity derivatives market is very bright given the growing importance of hedging, portfolio diversification, introduction of new products and many more.

Commodities will be cynosure but be wary of inflation

Vandana Bhati
Commodity Research Head
SMC Global Sec Ltd

The world is going through an unprecedented time in past 2-3 years and so is the commodities. From the slowdown 2019 due to trade war between US and China and other countries, made a base for cut in the production of commodities; including crude oil, to the unexpected downside in commodities due to the Pandemic in 2020, to the swift recovery owing to the record stimulus worldwide amid breakthrough in Covid vaccine in 2021. The US-China trade war featured the return of high tariffs and other protectionist measures that have generated far-reaching knock-on effects throughout the global economy. Here comes 2022, which is eventful since the beginning. Swift recovery with record stimulus amid acute supply tightness, record shipping congestion sent commodities prices on either record highs or multi year highs. In between all volatility, Ukraine and Russia war added record premium in commodities prices. Plethora of strict measures and sanctions resulted in supply tightness and we saw never seen volatility in commodities prices. War is still going on with no peace possibility in sight and congestion is still there across the globe but despite that commodities prices are cooling off. Over the past month, after Russian troops entered Ukraine, key commodity indices have gained between eight and 21%. The Thomson Reuters CRB index comprising 21 commodities has increased by over 15 % to 328.48. The rising prices of crude and petroleum derivatives (e.g. ethanol, bio fuels and polyester) have dragged up the price



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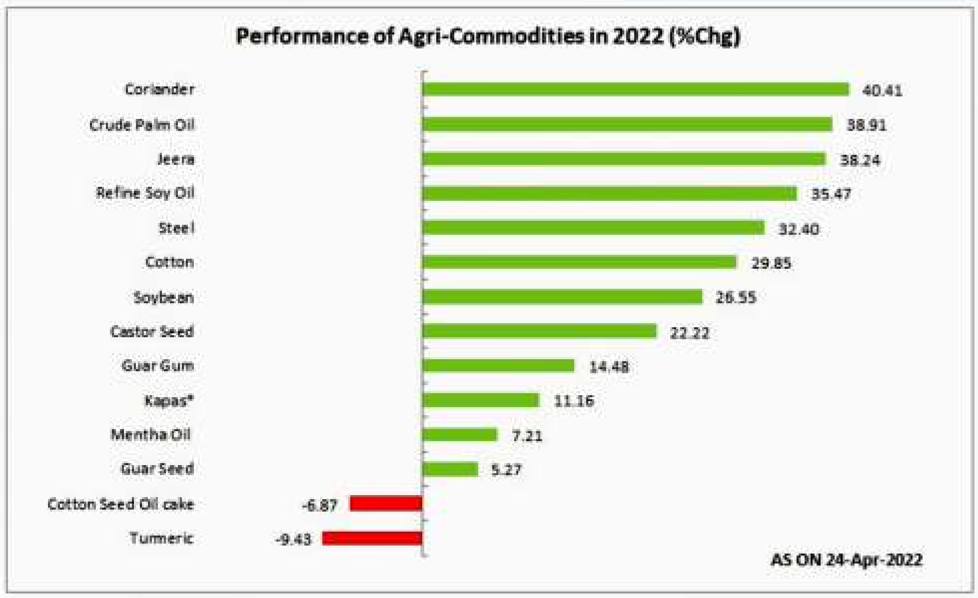

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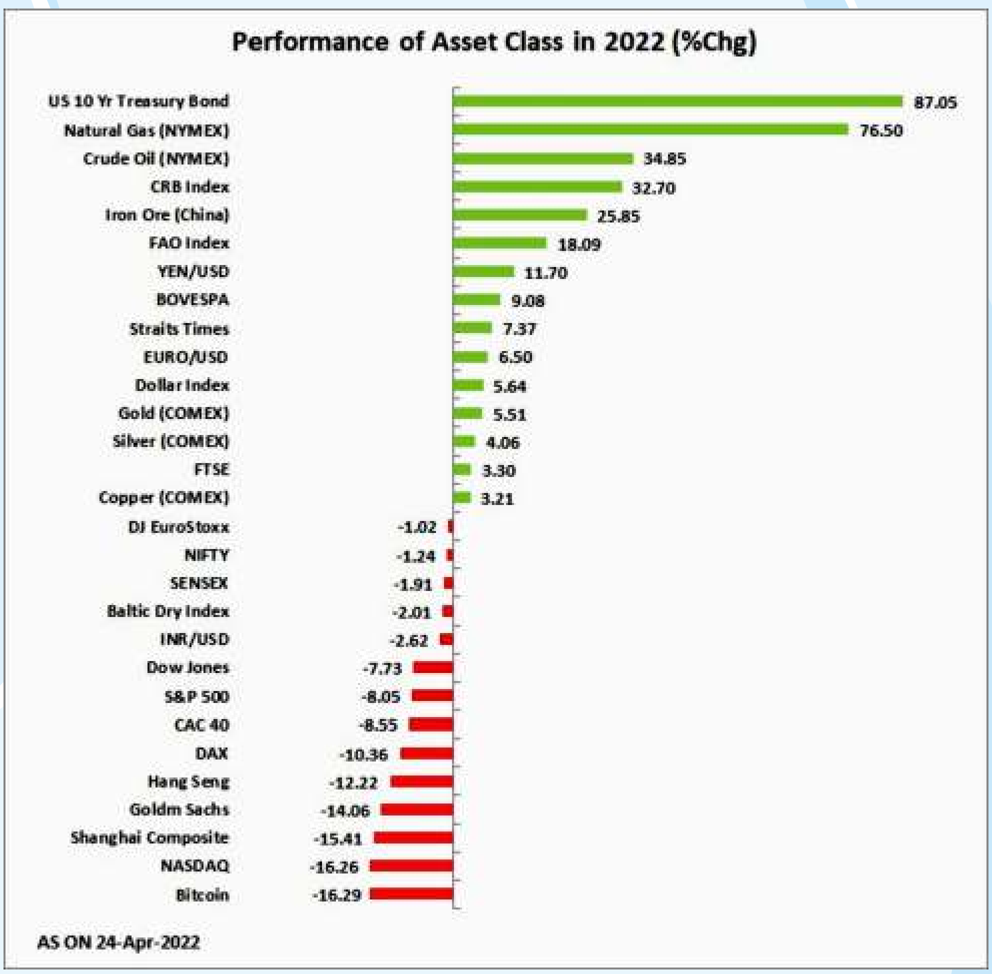
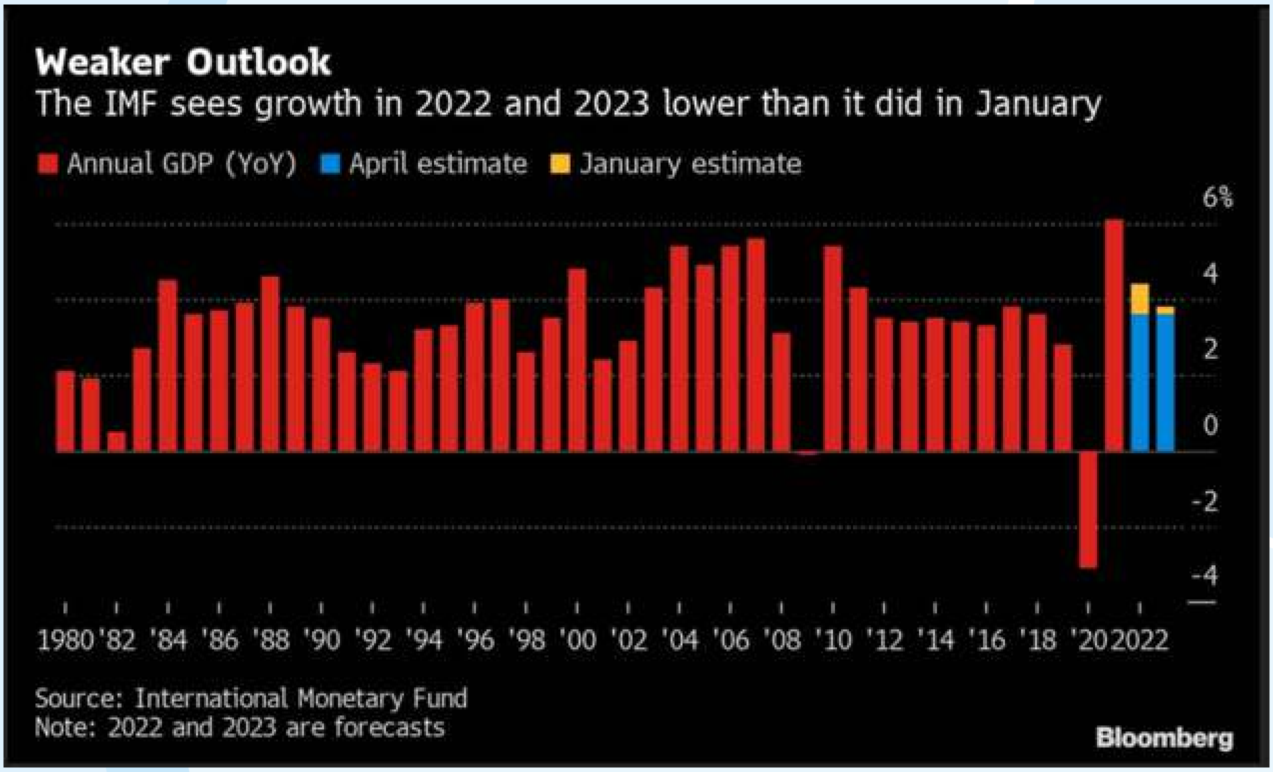


Source: SMCReuters

for various softs, notably sugar, palm oil and cotton. The London Metal Exchange (LME) index has gained nearly 9% to 5,262.90. The S&P GSCI Index, a composite index of commodities sector returns, has gone up over 20% to 3951.41.

Inflation…record and multiyear high inflation have become major concern for the world economy under war situation and to contain that major world bank have started tapering and increasing interest rate. Annual inflation rate in the US accelerated to 7.9% in February of 2022, the highest since January of 1982, matching market expectations. Fed increased the rate by 25 bps and soon in the month of May it can further rise 50 bps. It strengthened dollar index and Treasury yield is on record high are giving pressure to the commodities prices amid slowdown and covid issues in China. The reason that interest rates and raw material prices are so closely correlated is the cost of holding inventory. In a low-interest-rate environment, the cost of financing stockpiles is lower than when interest rates are high. Since the 2008 financial crisis, the central banks of the world have been in a long-term accommodative or dovish cycle. In this dovish phase, the central banks have attempted to stimulate growth by encouraging borrowing and spending and inhibiting saving. China has adopted monetary easing but it will take time to bring the result. Furthermore, after the first quarter, amid war situation, various research agencies and major banks are revising GDP rate downwards. It is reflecting in commodities prices too as there are major hiccups in the market; including new trade agreements, new sanctions, record high freight rates, record congestion in shipment etc. It is rare for the organisation to revise down sharply its projections for economic growth. Global growth has been revised for 2022 - from 4.4% to 3.6%, it has lowered its forecast for next year from 3.8% to 3.6%. The war has disrupted the supply of corn, gas, metals, oil and wheat, as well as pushing up the price of critical inputs such as fertiliser (which is made from natural gas). These developments have prompted warnings of a looming global food crisis.



Sanctions will give long term impact and commodities prices will remain on higher side as long as war rages on. Sanction may remain in place for the entire forecast period (2022-26). The most damaging of the sanctions are those that target the Central Bank of Russia (CBR), as they prevent the CBR from accessing about half of the US $643 billion that it holds in foreign-exchange reserves by blocking its ability to convert assets held in US dollars and Euros into Roubles.

The major triggers for the commodities and entire world economy would be end of war and control in covid situation. Furthermore, central banks will have to make their monetary policies accommodative. If they adopt hwakish stance to curtail the notorious inflation. It will hurt the growth story. End of war can resume the growth story and it will raise the actual physical demand for commodities. Agricultural commodity prices will remain elevated reflecting the increase in input costs like energy and fertilisers. Ukraine will struggle to export corn and next season's spring sowing could be affected. Ukraine makes up 20 per cent of global corn shipments. However, countries such as Argentina, Australia, Brazil and the US, will help stabilise the market as well as the prices to some extent. Hence, I am not expecting that inflation will vanish in near time soon and so the safe haven buying in bullion counter will continue and it will reflect in ETF's buying as well. Silver can outperform gold in coming years on increased industrial uses amid strong ETF's buying. Backwardation story is also depicting high demand amid tight supply. As evidenced by the Bloomberg visual below, 19 out of 28 raw materials are trading in backwardation, something not seen since 1997. We're experiencing many commodity futures in backwardation (the current price of a commodity is higher than its price in the futures market), which highlights the short supply, resulting in higher prices.

To conclude, commodities will remain attractive throughout 2022 at least; downside would be limited and any sharp fall will lead to contribute in the growth story as demand is still intact. Hence, keep it in your portfolio to make it safe.

Crude Oil - the Elephant in the Room

Mr. Ketan Shah
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Angel One Ltd

Price Movements in Crude Oil

The performance of commodities has been astonishing for consecutive second year in a row. In 2021, WTI Crude and NYMEX Natural gas were the top performers with gains of 55% and 47% respectively. In 2022 also, these two commodities have given spectacular return of 35% for WTI Crude and 84% for NYMEX Natural Gas respectively. (YTD as on 26th April 2022).

In absolute terms, WTI and Brent Crude Oil prices both skyrocketed from $92 to highs of $130/bbl (WTI) and $99 to highs of $139/bbl for Brent, after the invasion of Ukraine by Russia.

Oil and gas are the benchmark indicator of growth in the global economy, however, the rise in oil prices in 2022 is on account of the invasion of Russia on Ukraine. What were the other factors responsible for creating the risk premium, what if the war continues, where are oil prices headed are some questions that needs a thorough analysis.

Oil Supplies - The Russian Risk

Oil markets are on a boil for a host of reasons ranging from increased demand from overall global economy, Russia's invasion of Ukraine, sanctions by the US and Europe on trade and exports from Russia, monetary support from Peoples Bank of China to support the economy, rebound in China's domestic flight demand and factors alike.

Russia is the world's largest exporter of crude and fuels. Numerous buyers have shunned Russian barrels since the invasion, sparking fears of a disruption of millions of barrels of daily crude supply. Those fears now look overdone. Russia's invasion of Ukraine was the prime reason for the premium in oil prices (From $99 to $139/bbl) as the market digested reports from the International Energy Agency that said some 3 million barrels per day of Russian oil output could be shut-in due to Western sanctions and as buyers snub Russian exports. That would exceed a 1 million bpd drop in demand anticipated because of higher prices.

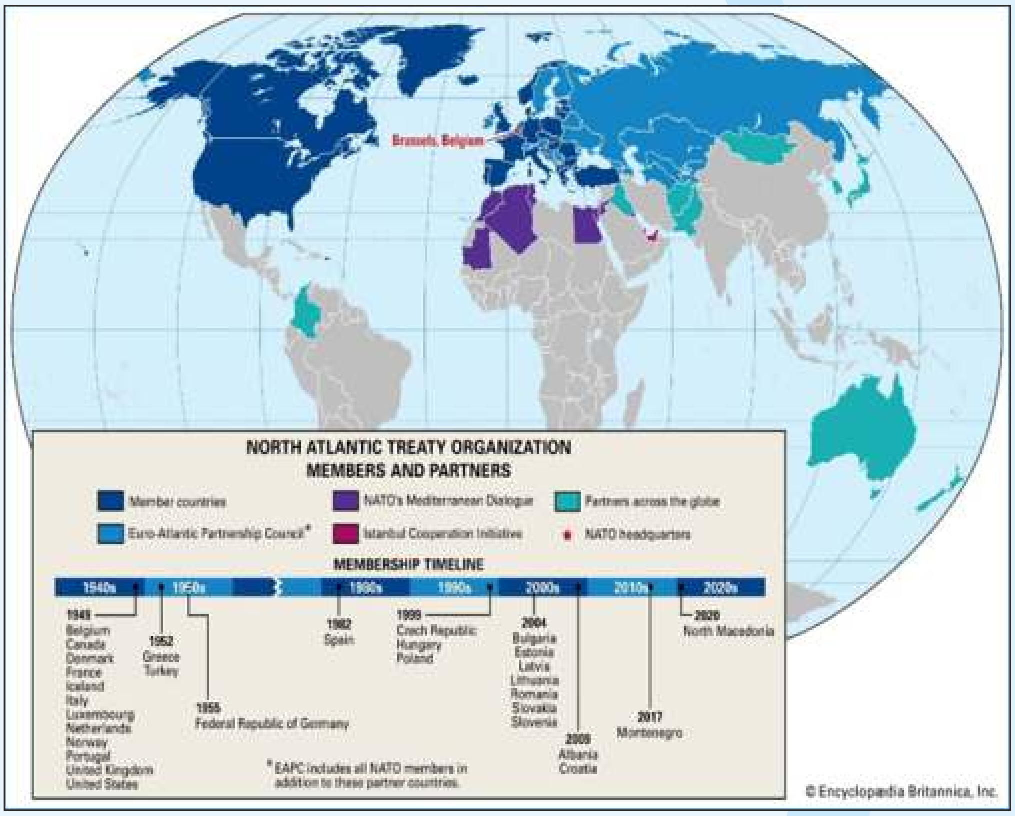
Moreover, the Organization of the Petroleum Exporting Countries also said that the oil demand in 2022 faced challenges from the invasion and rising inflation as crude prices soar, increasing the likelihood of reductions to its forecast for robust demand in 2022.

Why Russia Invaded Ukraine- The Breaks In Supply Chain

NATO (North Atlantic Treaty Organization) is the world's most powerful alliance in the whole world. North Atlantic Alliance is an intergovernmental military alliance between 30 member states, of which 28 are in Europe and the other 2 in North America. An alliance is based on its 30 allied and their partner nations to support missions and operations. Through this alliance, all the employees work in a group to fulfil any purpose. NATO does not have its own armed forces, but it has a permanent unified military command structure by which civilians and the military of all member states work together.

For Russia's leader Putin, the West's 30-member defensive military alliance has one aim i.e to split society in Russia and ultimately destroy it. Ahead of the war, he demanded that Nato turn the clock back to 1997 and reverse its eastward expansion, removing its forces and military infrastructure from member states that joined the alliance from 1997 and not deploying "strike weapons near Russia's borders". That means Central Europe, Eastern Europe, and the Baltics.

Ukraine's was about to be a part of an alliance with NATO which Russia did not like and hence invaded Ukraine and the entire new chapter on Russia- Ukraine war disturbed the global peace.

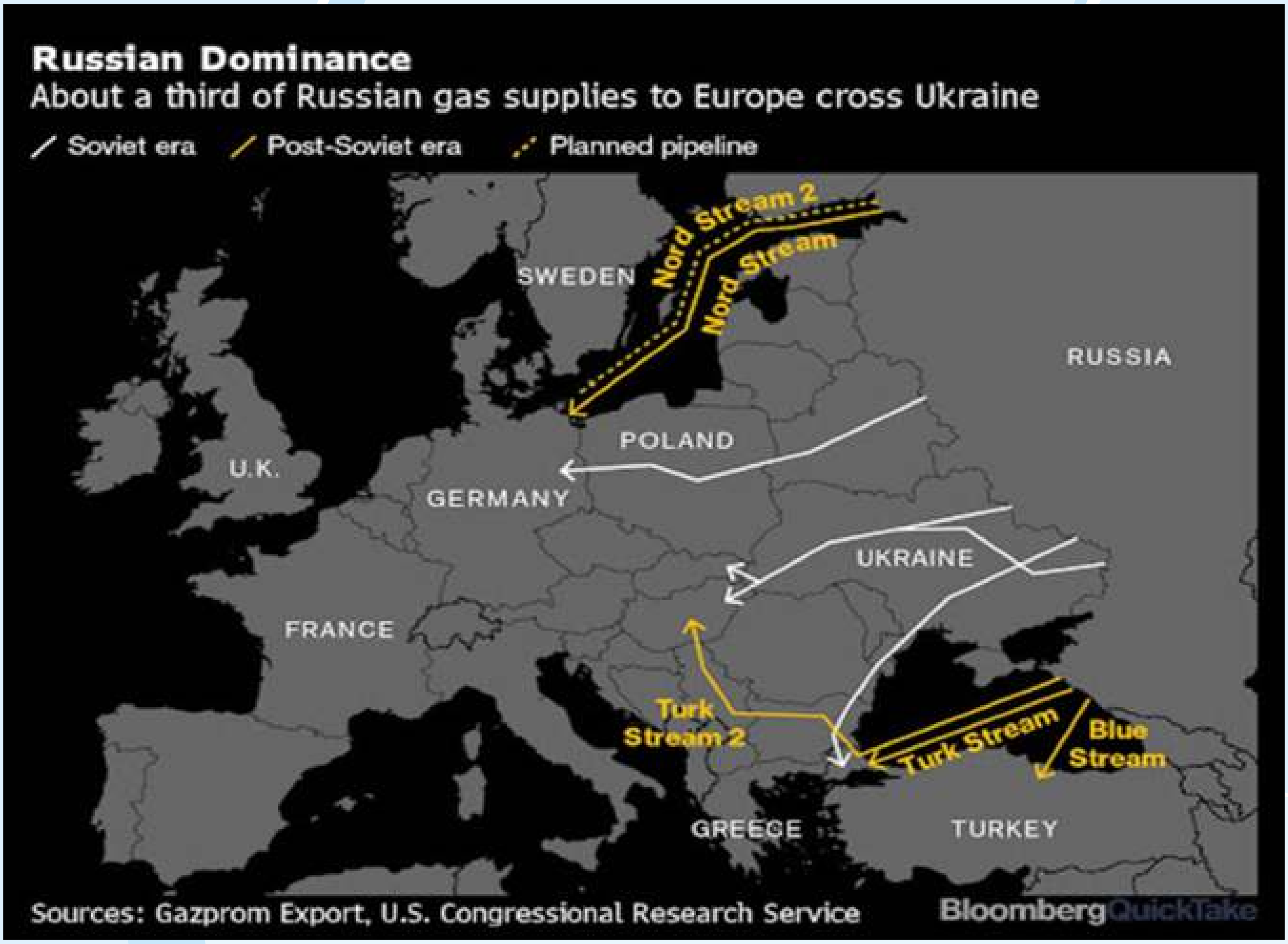


Europe - The Hub For Russian Exports Of Oil & Gas

Europe appears to be the region most exposed to the consequences of this conflict. Replacing all Russian natural gas supply to Europe is impossible in the short to medium run and current price levels will have a significant effect on inflation. While Germany, Italy or some countries in the Central and Eastern European region are more dependent on Russian natural gas, the trade interdependence of Eurozone countries suggests a general slowdown.

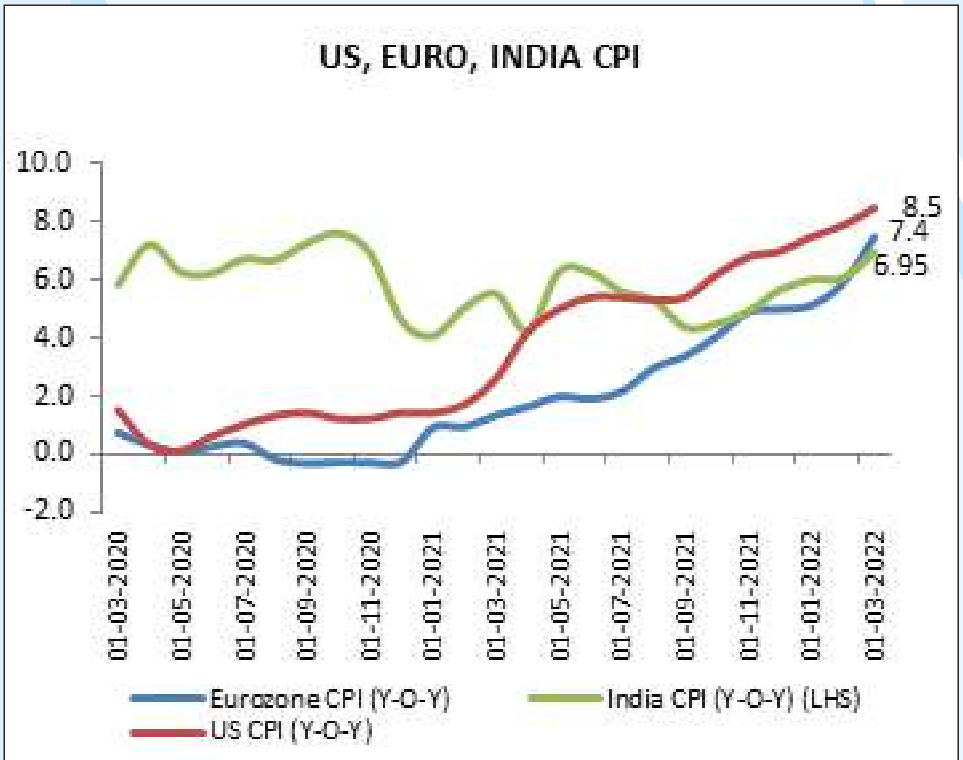
In the rest of the world, the economic consequences will be felt mainly through the rise in commodity prices, which will fuel already existing inflationary pressures. As always when commodity prices soar, net importers of energy & food products will be particularly affected, with the spectre of major supply disruptions in the event of an even greater escalation of the conflict. The drop in demand from Europe will also hamper global trade.

In Asia-Pacific, the impact will be felt almost immediately through higher import prices, particularly in energy prices, with many economies in the region being net energy importers, led by China, Japan, India, South Korea, Taiwan and Thailand.



Inflationary Concerns Develop Across Global World

Rising oil prices has led to inflationary concerns across the global economy as visible in the chart alongside. US CPI inflation as on March 2022, stood at 8.4% the highest in decades while the Eurozone inflation at 7.4% and India CPI inflation as on March 2022 stood at 6.95% respectively.



Source - Refinitiv

The spill-over effects of the war is getting transitioned to the global economy by way of increasing food and energy inflation resulting in to a dilemma for central banks wherein the key objective of the central bank is to balance the growth of the economy as well as inflation.

As far as the US FED is concerned, the stance of the central bank is to wind up the easy monetary policy by raising the interest rates and reducing the size of the balance sheet. The US FED balance sheet as on 26th April stood at $8.3 trillion while the interest rates are in the range of 0.25-0.5%. One rate hike of 0.25% was already done in March 2022 and it is projected that the US FED might hike 50 basis points in its May 2022 meeting. The median dots show seven hikes projected in 2022 which means 3 and a half rate hikes projection is still possible for the rest of the year.

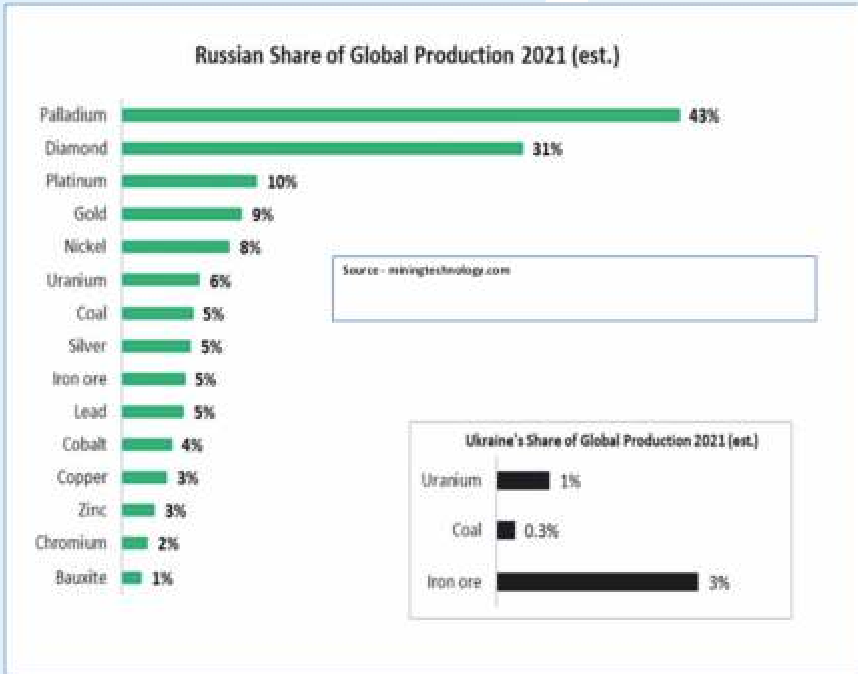
In the EURO area, European Central Bank balance sheet size as on 26th April stands at Euro 8.5 trillion and the current interest rates stand at 0%. Inflationary concerns in the Euro Area might lead the central banks to hike rates and walk the path of policy normalization in the months ahead.

Global central banks are already troubled with the slowdown on account of COVID-19 related disturbances and the Russia-Ukraine war has increased the risks of inflationary pressures coming out of the supply chain disturbance. Hence, there is no option with the central banks, but to raise the interest rates and wind down the easy money policy to control inflation.

What Next for the Oil Markets?

Besides oil, there are various commodities that are at risks of supply disturbances as can be seen in the chart alongside. The disturbances in oil supplies have already raised the risk premium for oil prices.

It means, inflation will be a consistent threat till the time the war is on, and the role of the central banks is of great importance in this current situation to balance the growth and inflation trajectory of the global economy.



Moreover, reduced business confidence, higher investor uncertainty risk of stagflation and social unrest will further slowdown the recovery path ahead.

Although, the major producers of oil like US and the OPEC nations have decided to come out with release of Strategic Petroleum Reserves to balance the supply disturbance from Russia, the supply risk of oil coming out of Russia is a constant threat. The ultimate risk for oil prices is skewed on the upside taking into consideration the factors surrounding oil markets and the dynamics.

What if the war continues is the next question for analysts across the globe? High commodity prices will be the norm going forward and the food and the energy inflation will be a cause of global concern. Already, the global economy was recovering from the slowdown caused by COVID-19 disruptions, and the war between Russia and Ukraine has intensified the disruptions to the global trade, supply chains and remittances.

All the factors stated in the report and the uncertainty of supplies makes a strong case for oil prices moving higher.

In 2022, we foresee Brent Oil (CMP as on 29th April 2022- $110/bbl) to move higher towards $120 - $140/bbl mark while WTI Ooil (CMP as on 29th April 2022 - $105/bbl) prices might move higher towards $135/bbl mark in the same time frame.

India : Rapid Strides in Global Agricultural Markets

Arun Raste
Managing Director & CEO
NCDEX

World over financial markets are significant barometers for determining the growth of an economy. The global arena is witnessing fading trade boundaries, growing liberalization and the realization amongst economies that with scattered natural resources self-sufficiency is still work in progress. Back home our domestic commodity markets are witnessing record levels of produce in grains and pulses with agriculture being the sole sector that has consistently grown even during these challenging times. India also witnessed the highest ever Foreign direct investment of 83.5 billion dollars in 2021-22 mirroring investor confidence. The pandemic followed by the Russia Ukraine tensions have impacted most developing nations adversely but it's India's inherent strengths that have ensured we keep growing and also support the struggling economies. All these factors indicate India's preparedness to play a greater role in an evolving new world economic order.

One of the statistics that ascertain the growth in the financial markets is the increase in the number of investors that has expanded nearly three times during the pandemic with millennials and young professionals diversifying from traditional tax-saving instruments to other asset classes like capital

markets and commodity derivatives as well. The number of active demat accounts jumped 63% in 2021-22 to a little below 90 million, the data disseminated by depositories showed. The momentum may slow a bit amid expansion in the base, but the absolute number would still swell above 100 million in the current fiscal for sure.

The Indian equity market witnessed a record capital raising of Rs. 1.2 trillion from 63 Initial Public Offering in 2021 and in the current calendar the number is estimated to top Rs. 2.0 trillion. Despite a reasonable sell-off by foreign portfolio investors in equities, the domestic inflow continues at a record pace due to good-quality long-term money from a new set of well-informed and well-researched investors and mutual funds. India's forex kitty still hovers comfortably around $600 billion, a convincing factor that India's journey towards a 5-trillion-dollar economy is on track.

Financial market and commodity markets are two wheels of nation building. The commodity segment has witnessed an unprecedented transformation during the pandemic period providing India an opportunity to play a bigger role in the international landscape, particularly in agri commodities. In the commodity derivatives ecosystem, the enhancements in products and the participation from institutional players has elevated the prominence of this asset class in the economy.

India's landmark achievement of $400 billion in exports including $40 billion worth agri-exports took the country into a different orbit. Apart from staples, record exports of spices, maize and sugar are also on anvil in the current marketing year that ends in September. In non-food sectors too, Castor Oil and Guargum are creating a niche for India in the international markets.

In the commodity derivatives ecosystem, the enhancements in products and the participation from institutional players have elevated the prominence of this asset class in the economy. At the heart of developments in the commodity ecosystem is the regulatory mandate that notifies that all lending against agri commodities stored in warehouses accredited by Warehouse Development and Regulatory Authority have to be made against eNWRs. This was a land mark step towards enhancing transparency within the commodities ecosystem. Such a transparent and efficient system as eNWR will bring in new set of investors, especially financial players and retail investors to commodity segment.

The sector is witnessing a major transition in the agricultural marketing sector moving from a fragmented mandi-system to a Pan-India electronic spot. A market infrastructure network of clearing & settlement entities, e-Spot or auction platforms, modern warehousing, e-negotiable warehouse receipt systems (e-NWR), providing a solid base to deepen and broaden the modern agri-marketing channels.

As the government role in the country's physical agricultural markets has seen a gradual increase in terms of procurements, frequent amendments in import and export policies to control the domestic demand-supply dynamics coupled with impact of geopolitical tensions, weather inconsistencies, post pandemic aftermath and record inflation levels, clearly emphasize the need for extensive use of market driven tools that will assist in safeguarding our commodity ecosystem. This is where commodity derivatives market has a greater role to play. As a leading agri-bourse, National Commodity and Derivatives Exchange (NCDEX) offers derivatives instruments that can not only help physical markets but government procurement and marketing departments as well. Thus while re-inventing of the physical commodity sector, needs to be supported with a robust risk management mechanism as it is crucial in maximizing the potential of the sector on a sustainable basis.

They say a stronger banking system is a solid base for a transparent financial system. But safer banking is possible only if a substantial part of the loans running into billions of dollars are hedged, either by lenders or debtors. If the government, through the regulatory system, mandates debtors to hedge their commodity exposure, it will have multiple positive effects on economy in addition to development of commodity derivatives market.

Any financial system thrives if it connects with the ecosystem on a socio economic level which has been one of the key initiatives driven by NCDEX has been connecting and enabling the value chain with tools to manage their price risk in an unstable global environment. Additionally, the exchange has never diluted its focus on farmers of this country ever since inception. In over 18-years of journey, NCDEX has been able to achieve many milestones in the socio-economic upbringing of the farming community. The latest being the market linkage of 1.2 million plus farmers represented by over 410 Farmer Producer Organizations, thereby supporting government efforts of accelerating farm growth through the FPO movement. FPOs operate as aggregators enabling information dissemination and informed decision making by farmers not only to hedge their risk but also assess warehousing requirements. We are confident that such a drive will arrest transmission and distribution losses and add value to the eco-system. NCDEX has also introduced a variety of new products, Options-in-Goods is the latest, to suit the appetite of small farmers in managing their price risks. The product is expected to revolutionize not only the hedging of farm-gate sale price, but also has a potential to manage government procurement & price risk management in a transparent manner.

Considering, India's rapid strides in global agricultural markets, there are enough reasons to believe that India's agricultural derivatives markets are ready to take-on challenges posed by the ever-volatile global market environment and get global participation to hedge their exposures to this market.

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