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THE EVOLUTION OF COMMODITY MARKETS: HISTORICAL PERSPECTIVES AND MODERN DEVELOPMENTS WITH REFERENCE TO RELIGARE

[1] S. Swapna, [2] Mohammad Sufianuddin
[1]Associate Professor, [2]MBA Student
DEPARTMENT OF MBA
Sree Chaitanya College of Engineering, Karimnagar

ABSTRACT

The commodity market plays a vital role in the global and national economy by facilitating the trade of raw materials and primary products such as metals, energy, and agricultural goods. This study explores the structure, functioning, and significance of commodity markets, with a focus on spot and derivatives trading in commodities like gold, silver, crude oil, and agricultural produce. It examines how commodity exchanges such as MCX (Multi Commodity Exchange) and NCDEX (National Commodity and Derivatives Exchange) provide platforms for transparent price discovery and risk management.

The research highlights the key instruments used in commodity trading, including futures and options contracts, and explains their use for hedging, speculation, and portfolio diversification. It also analyzes the role of regulatory bodies like SEBI in ensuring market integrity, and the impact of global events, supply-demand dynamics, and geopolitical risks on commodity prices.

The findings suggest that the commodity market offers significant investment opportunities, especially in volatile times, but requires a thorough understanding of market forces and risk management strategies. The study concludes that commodity markets are essential for economic stability, price transparency, and safeguarding the interests of producers, traders, and investors.

I. INTTRODUCTION

COMMODITIES MARKET

INTRODUCTION:

Commodities Futures' trading…! in India have a long history. The first commodity futures market appeared in 1875. But the new standardized form of trading in the Indian capital market is an attractive package for all the people who earn money through speculation by trading into FUTURES. It is a well-known fact and should be remembered that the trading in commodities through futures' exchanges is merely, "Old wine in a new bottle".

The trading in commodities was started with the first transaction that took place between two individuals. We can relate this to the ancient method of trading i.e., BARTER SYSTEM. This method faced the initial hiccups due to the problems like: store of value, medium of exchange, deferred payment, measure of wealth etc.. This led to the invention of MONEY. As the market started to expand, the problem of scarcity piled up.

The farmers/traders then felt the need to protect themselves against the fluctuations in the price for their produce. In the ancient times, the commodities traded were – the Agricultural Produce, which was exposed to higher risk i.e., the natural calamities and had to face the price uncertainty. It was certain that during the scarcity, the farmer realized higher prices and during the oversupply he had to loose his profitability. On the other hand, the trader had to pay higher price during the scarcity and vice versa. It was at this time that both joined hands and entered into a contract for the trade i.e., delivery of the produce after the harvest, for a price decided earlier. By this both had reduced the future uncertainty.

One stone still remained unturned- 'surety of honoring the contract on part from either of the parties'. This problem was settled in the year 1848, when a group of traders in CHICAGO came forward to standardize the trading. They initiated the concept of "to-arrive" contract and permitted the farmers to lock in the price upfront and deliver the grain at a contracted date later. This trading was carried on a platform called CHICAGO BOARD OF TRADE, one of the most popular commodities trading exchanges' today. It was this time that the trading in commodity futures' picked up and never looked back.

Although in the 19th century only agricultural produce was traded as a futures contract, but now, the commodities of global or at least domestic importance are being traded over the commodity futures' exchanges. This form of trading has proved useful as a device for HEDGING and SPECULATION. The commodities that are traded today are:

NEED AND IMPORTENCE OF STUDY

One of the single best things you can do to further your education in trading commodities is to keep thorough records of your trades. Maintaining good records requires discipline, just like good trading. Unfortunately, many commodity traders don't take the time to track their trading history, which can offer a wealth of information to improve their odds of success Most professional traders, and those who consistently make money from trading commodities, keep diligent records of their trading activity. The same cannot be said for the masses that consistently lose at trading commodities.

Losing commodity traders are either too lazy to keep records or they can't stomach to look at their miserable results. You have to be able to face your problems and start working on some solutions if you want to be a successful commodities trader. If you can't look at your mistakes and put in the work necessary to learn from them, you probably shouldn't be trading commodities.

OBJECTIVES OF THE STUDY

- To study about major exchanges trading in Indian commodity market.
- To study about participants in Indian derivative market.
- To understand the basics of commodity market and to discover the
- Emerging prospects (Natural gas, cotton And Nickel) In the Indian commodity market.
- To empathize trading and settlement mechanism for commodities
- (Natural gas, cotton And Nickel) In Indian stock exchange.
- To know how exactly the commodities are traded through the trading
- Desks and what happens in the market.
- To identify the working procedure of the commodity trading practices in India.
- To identify the perception of investors in commodities market.

SCOPE OF THE STUDY

The study mainly focuses on Indian commodity market, its history and latest developments in the country in commodities market (Natural gas, cotton And Nickel). The study also keeps a birds-eye view on global commodity market and its development. The study vastly covered the aspects of commodity trading (Natural gas, cotton And Nickel), clearing and Settlement mechanisms in Indian commodity exchanges. The scope of the study is limited to Indian commodity market

A network of 1500 business locations spread over 350 cities across India facilitates the smooth acquisition and servicing of a large customer base. Most of our offices are connected with the corporate office in Mumbai with cutting edge networking technology. The group helps service more than a million customers, over a variety of mediums viz. online, we cannot study all the data in the organization.

RESEARCH METHODOLOGY

The present study is conducted to provide information to the company regarding the investor perception towards commodity market.

SOURCES OF DATA

Primary data

Data was collected in systematic manner by meeting the existing investors in commodity market & other individuals.

Primary and secondary data were utilized for the purpose of the study by the researcher.

The research is aimed to obtain the data mainly through primary sources. Survey method has been used to obtain information.

Secondary data

Secondary data was collected from companies and from commodities (Natural gas, cotton And Nickel) trading websites.

TYPE OF RESEARCH

Based on the objectives of the study, the descriptive research method is used . Descriptive study is taken up when the researcher is interested in knowing the investor perception in commodities market. The conclusions are arrived at from the collected data. Statistical tools were used to analyze the data collected from the survey.

SURVEY METHOD

A survey was conducted amongst the investors in Hyderabad and Secunderabad. The researcher personally met the investors, interviewed them and got their questionnaires filled.

INSTRUMENT DESIGN

In order to obtain information the researcher prepared a structured questionnaire. The researcher prepared a single questionnaire according to the need of the data from the respondent.

PRE-TESTING OF QUESTIONNAIRE

The researcher to remove questions that are of vague and ambiguity in the nature conducted the pre-testing. The samples of 10 respondents were selected and the questionnaire was pre-tested and the researcher made necessary modifications.

CODING AND TABULATION

After the survey was conducted, the data had to be converted in to statistical or numerical form so that inference could be drawn about the sample collected. For this, every option of every question was coded into alphabets (i.e; they would be represented in alphabets). The alphabets were used to denote the option and no ranking order was used. The coded data was entered into the data sheet. Frequencies were found out for each option and thus giving us the percentage of the option usage, etc.

LIMITATIONS OF THE STUDY

- The survey was confirmed to the surroundings of twin cities Hyderabad & Secundrabad.
- The investor's response could have been biased.
- Time of 6 weeks was constraint for the study.

- ❖ Brokers can only transact futures trades if they are registered with the CFTC and the NFA.
- ❖ Only certain types of commodities (Natural gas, cotton And Nickel) can be the basis for futures trading.

II. LITERATURE REVIEW

INTRODUCTION

Until 1990, the Gold Control Act forbade the private holding of gold bars in India. There was physical investment in smuggled ten tola bars, but it was limited and often amounted to keeping a few bars ready to be made into jewellery for a family wedding. Gold investment essentially was in 22 carat jewellery.

Reserve Bank of India

Since 1990, investment in small bars, both imported ten tolas and locally-made small bars, which have proliferated from local refineries, has increased substantially. GFMS estimate that investment has exceeded 100 tonnes (3.2 million oz) in some years, although it is hard to segregate true investment from stocks held by the 16,000 or more gold dealers spread across India. Certainly gold has been used to conceal wealth, especially during the mid-1990s, when the local rupee price increased steadily.

It was also augmented in 1998 when over 40 tonnes (1.3 million oz) of gold from bonds originally issued by the Reserve Bank of India were restituted to the public.

In the cities, however, gold is having to compete with the stock market, investment in internet industries, and a wide range of consumer goods. In the rural areas 22 carat jewellery remains the basic investment.

The Gold Deposit Scheme

The government announced a new initiative in its 1999/2000 budget to tap the hoard of private gold in India by permitting commercial banks to take gold deposits of bars, coins or jewellery against payment of interest. Interest levels can be set by each bank, and deposits must be for three to seven years. Interest and any capital gains on the gold will be exempt from tax. The banks can lend the gold to local fabricators or sell it in the Indian market or to local banks. However, the depositor has to declare the origin of the gold, so that metal bought illegally to hide wealth cannot be deposited. The State Bank of India was the first to accept deposits. To date, the amount of gold collected under this scheme (less than 10 tonnes or 0.32 million oz) has fallen well short of the 100 tonnes (3.2 million oz) that was mentioned when it was launched.

FINANCIAL DERIVATIVES

The term derivatives refer to a large number of financial instruments whose value is derived from the underlying assets. Derivative instruments like the options and futures facilitate the trading in financial contracts. The most important underlying instruments in the market are in the form of Equity, treasury bills, and foreign exchange. The trading in the financial derivatives has attracted the prominent players of the equity markets.

The primary purpose of a derivative contract is to transfer risk from one party to another i.e. risk is transferred from a party that wants to get rid of it to another party i.e. willing to take it. The major players seen in the derivatives segment are the SPECULATORS whose sole objective is to buy and sell for a profit alone. The HEDGERS are the other breeds of players, who aim merely to have a hedge positions. They are risk free investors whose intention is to have a safety mechanism and wish to protect their portfolio. Nevertheless, they are pursued as a cheap and efficient way of moving risk within the economic system. But the world of derivatives is riddled with jargons making it more awesome.

The trading in equity through the derivatives in India was introduced in the year 2000 by the Securities and Exchange Board of India [SEBI] and this was described as the "India's derivative explosion". Although this took a definite form in 2000 but the idea was initiated in the year 1995. it was then in the year 2000 that SEBI permitted the trading the in the options on the platforms of India's premier exchange platforms i.e., the National Stock Exchange Of India limited [NSE] and The Bombay Stock Exchange [BSE] in the individual securities. But the futures contracts took 17 long months to get launched on November 09' 2001.

The trading in options and futures in the individual stocks were permitted to trade on the stable stocks only. The small and highly volatile stocks were an exemption from the trade in derivatives. Futures and options are important tools that help the investors to derive profit. The futures facilitate the investor to enter into a contract to deliver the underlying security at a future date whereas, the options allow it to his discretion as to whether he wants to buy (call) or sell (put) the contract.

COMMODITY DERIVATIVES

Commodity market is an important constituent of the financial markets of any country. It is the market where a wide range of products, viz., precious metals, base metals, crude oil, energy and soft commodities like palm oil, coffee etc. are traded. It is important to develop a vibrant, active and liquid commodity market. This would help investors hedge their commodity risk, take speculative positions in commodities and exploit arbitrage opportunities in the market.

The need for a futures market in the commodities, especially, in the primary commodities was emphasized because such a market not only provides ample opportunities for effective management of price risk, but also, assists inefficient discovery of prices which can serve as a reference for the trade in the physical commodities in both the external as well as in the internal market.

TRADING INSTRUMENTS

Derivatives in the recent times have become very popular because of their wide application. Before getting into the hard talks about the commodities trade, let us know about the trading instruments in the derivatives, as they are similarly applicable to the commodities derivatives.

There are 4 types of Derivatives instrument:

- *Forward contract*
- *Future contract*
- *Options contract*
- *Swap*

Futures and Options are actively used in many exchanges whereas; Forwards and Swaps are mostly trade Over the Counter (OTC).

FINDINGS:

- Due to the increasing of inflation in the country the Natural gas, cotton And Nickel got very much importance and it was increased and the commodities market.
- It shown that the more of the given share is known as commodities i.e. 49% and other got very less as compared to commodities.
- The value of the commodity market increased because of increasing in the values of the commodities and also the availability is also not easy because it is a prestigious metal.
- Due to the increase in the purchase of products got very much importance for commodity and it was increased

- Majority of the Investor's trade in the Commodities Market but few Done & Left due to Losses & Settlement Problems.
- Investors purchased commodities from **Religare Enterprises Ltd** because of the company's policies and information availability.
- Due to the increase in the population in the country the commodity products got very much importance and it was increased and also increased interest in the purchase of oil and oil seeds..
- Most of the investors feel that commodity trading id very good and remaining says good for investing
- Trading in Commodities Futures is More Beneficial & More Leveraging got more percentage.
- Due to the increase in the services in the country the Services they prefer from a Financial Advisory Institution is telephone.
- Due to the increase in the population in the country the general market got very much importance and it was increased and also increased interest in the purchase of Jewelers.
- Most of the investors preferring **Religare Enterprises Ltd** for investing in the commodity market.

CONCLUSION

In spite of widespread misconceptions, India has always had a commodities market. The government's recent push to legalise national-level exchanges for many commodities, however, has given it a boost. Any form of product might be considered a commodity. "Every sort of moveable property other than actionable claims, money and securities" is what the FCRA means when it says "goods". Trading in futures is structured around commodities and items that are approved by the federal government. First, the investor doesn't have to worry as much about price manipulation since commodity prices are more stable and predictable, depending only on supply and demand.

Market price risk is mitigated to that degree. Secondly, any major news gets processed since the markets are practically open all day (the NCDEX is open from 10:00 AM to 4:00 PM and the following session is from 7:00 PM to 11:00 PM). Imagine if this protection did not exist for other markets; for example, the stock markets opened much lower the day after the events of September 11th, leaving investors in the dark. Importers, exporters, dealers, and large-scale consumers may greatly benefit from the future contracts that are available for a variety of commodities, including Gold, Silver, Cotton, Steel, Soya oil, Soya beans, Wheat, Sugar, Channa, and many more. An additional undertaking of the esteemed Religare Enterprises Ltd. is Religare Enterprises Ltd. From stock broking to registration services, we're well-established in the current financial services industry's many elements.

SUGGESTIONS

- ❖ Commodity market presently deals with FUTURES contract and most probably OPTIONS are provided, it would be convenient to the investors.
- ❖ As the fund managers take decisions with mutual fund investment, it would be another option for him to invest through mutual funds in commodity market.
- ❖ If Government takes this commodity market into awareness for the farmers, it would be better for them to take their own decisions for commodity which they want to trade.
- ❖ As there is an option for the trader to take the physical delivery, it would be better if the Government cuts the tax rate for the physical delivery of goods.
- ❖ Avoid buying shares of the company which are not traded on your stock exchange.

- Investor must show interest in steady and fast growth shares only.
- Avoid buying Turn rounds (making loss continuously), Cyclical (cycles of good and bad performance), Dog shares (very inactive or passive).
- Avoid companies with low PIE ratio relative to the market as always.
- If the investor is confident of EPS moving up and expects PIE to increase as well stick to the shares and be patients.

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