BEST: International Journal of Humanities, Arts, Medicine and Sciences (BEST: IJHAMS)
ISSN (P): 2348-0521, ISSN (E): 2454-4728
Vol. 4, Issue 5, May 2016, 11-16

SIGNIFICANCE OF EXCHANGE REFORMS TO PROPEL THE GROWTH OF MARKETS ESPECIALLY FOR RURAL ECONOMIC DEVELOPMENT

RAGHAVENDRA D. V & SHILPA V

Ph. D. Scholar, Department of Agril, Economics, UAS Raichur, Karnataka, India

ABSTRACT

To attain price discovery and better price risk managing trading in commodity derivatives on exchange platform is a vital device; in add up allocation to economy with improved resource allocation and create income levels. In 1875, India's first organized futures market, Bombay cotton trade association Ltd,. The trade quantity has fully fledged exponentially since the commencement in 2003 of national online trading on Multi-commodity exchange platforms. The present study aims to study the relative impact of financial crisis and exchange markets, to assess the exchanges' operational efficiency and also to examine the role of exchanges to infuse market inclusive for economic growth. Secondary data were collected from the official web sites of Forward Market Commission (FMC) and National Level Commodity Exchanges related information for the period 2005 to 2015 and also from recognized journals and publications to make possible effective information. The results reveals that, despite the fact that, India is having major stake holding in major agriculture commodities and we still remain the "price takers" in the market rather than graduating into "Price setters" as would logically be demanded by our position in the cash markets. Hence better policies are to be reframed in the day to come. The study also reveals that, exchanges by improving their operations, contract design, stricter surveillance etc., shall be able to contribute towards an increase in their service delivery efficiency. This would finally contribute not only towards improving their operational procedures and efficiency but would also push themselves towards benchmarks in the Indian economy. Further, the study also outlooks that, through innovative ICT models and improved policy measures are needed to reach out those sitting on the edge of the markets which will help in the growth of commodity futures. With growth in commodity markets, the design of the contracts changes dynamically to attract the physical market participants to improve dynamic passage of physical market information into future contracts to help improve its price discovery process to attain financial stability.

KEYWORDS: India's first Organized Futures Market, Bombay cotton trade Association Ltd, Forward Market Commission (FMC) and National Level Commodity Exchanges Related Information, "Price Takers"

INTRODUCTION

A commodity exchange is defined as a market in which many buyers and sellers trade commodity -linked contracts on the basis of policy and procedures laid down by the trade. Commodity exchanges offer spot trade for instant delivery and forward contracts which result in future market. Since the commodity exchanges provide a platform for trading commodity-linked contracts, they reduce the transaction cost associated with finding a buyer or seller. Further, most significantly, the Price risk and price innovation are the two important functions of future markets to promote more efficient locking of investment, production and buy plans for producer and consumer, storage space, promotion and growth in employment opportunities. From the beginning of economic reforms in India in year 1991, huge efforts were made to open up futures trading in commodity markets which led to withdrawal of its prohibition in 2003. However, Indian Commodity Markets have varied developments during the year 2011-12. Forward Markets Commission has initiated authoritarian measures to deal with these developments.

Forward Markets Commission took a variety of proposals in 2011-12 to ensure that, market integrity, prevent market exploitation and improve agreements. Investor protection has been a high main concern of the Commission and accordingly depositor Protection Fund was operationalised in 2011-12 with the co-operation of National Commodity Exchanges. The Price volatility is division and packet of Commodity Markets and Commission resorted to regulatory actions like striking different types of margins, amendment of open position limits and in extreme cases even closing out of contract. Efforts are also being made to bring in more transparency and self-control in Indian Commodity Futures Markets. A number of actions were taken in this way. Commission stayed devoted to its pains at Market Development. Much number of competence building programmes, awareness programmes and other stakeholders' meetings were carry out in partnership with national level Exchanges and many other reputed institutes. Execution of Price Dissemination Project sustained and led to setting up of Price Ticker Boards transversely in the country. At present, FMC was also part of the campaign know as "Jago Grahak Jago" with the Ministry of Consumer Affairs, Food and Public Distribution and advertisements were also published in 125 newspapers in 9 languages for creating awareness among the players of market community about these events. At hand, there are 21 recognized exchanges in India, Multi Commodity Exchange (MCX), Mumbai, National Commodity and Derivatives Exchange (NCDEX), Mumbai, National Multi Exchange, (NMCE), Ahmadabad, Indian Commodity Exchange Ltd. (ICEX). Mumbai, ACE Derivatives and Commodity Exchange, National Board of Trade (NBOT), Indore, contributed 99.88% of the total value of the Commodities traded during the year 2012 Figure 1.

OBJECTIVES OF THE STUDY

This research review paper is focused on the following objectives:

- To study relative impact of financial crisis and the commodity markets.
- To assess the exchanges' operational efficiency.
- To study the role of exchanges to infuse market inclusive for economic growth in achieve financial stability.

RESULTS AND DISCUSSIONS

Relative Impact of Financial Crisis and the Commodity Markets

The financial crisis started spreading beginning July 2008, with fall of Lehman brothers, the markets for various asset classes fell like a pack of blocks arranged in a domino. It left widespread implications right from economies and central banks of various nations to individuals and corporate. Commodity markets too were not insulated from the happenings in the financial sector. On the other hand, the regulators sat back and though about how best the damages that happened in the organized markets could have been avoided type of situation emerging in the global economy. Not to mention that, economists are also searching answers to what went wrong with rational behaviour of the market participants and the market's self-correcting ability.

The governments across the world have started dialogue with stakeholders on how to bring the OTC trades in to cleared markets and make transparent the transactions to monitor building up of the price bubbles and manage them efficiently across asset classes to achieve the financial stability. Like global markets, the Indian commodity markets also took the plunge during the financial crisis as tracked by MCX Comdex, which had fallen by 51% from its peak of 3357.18. Largely consisting of liquid trading in global commodities, its agricultural index which has a fair share of domestic commodities as well, has witnessed a change of 30% on the contrary. Despite the fact that we have a major stake holding in these commodities and we still remain the “price takers” in the market rather than graduating into “Price setters” as would logically be demanded by our position in the cash markets.

However, it is the development of the commodity markets and supporting exchanges environment which help our markets gradually transform into being “Price Setters” in future. The major challenge is can it become the price setter for the world and what this means for stake holders and its environment? What is the road to sustainable development of commodity markets? Will the markets deliver what they are supposed to? What changes this would bring about the way live and protect ourselves from market fluctuations? How would it help economy allocate its resources efficiently in the economy?

Commodity Exchanges’ Operational Efficiency in India

Commodity Exchange trading and cash settlement of commodity futures had been banned since 1952 and until 2002 commodity derivatives market was virtually non-existent, except some negligible activity on an OTC basis in economy which is increased in commodity derivatives, risk management and proper resources allocation through The India Commodity market has undergone sea changes due to the global economic crisis scenario, thus fling up many opportunities in the process. Both in the domestic and international market Demand for commodities are key growth device in the future. The first Commodity Exchange in India was “Bombay Cotton Trade Association”, it was formally organized futures trading in 1875 for cotton crop. Functioning of this exchange, over the period of time with leading cotton mill owner and merchants were not perfect and happy with those functions. Due to this again one more exchange called “Bombay Cotton Exchange Limited” came into existence in the year 1893. Later, a huge number of exchanges everywhere set up in different parts of the country with various commodities. In year 1900, The “Gujrati Vyapari Mandali” came into subsistence, which has functioning for futures trading in oilseeds in the country for the first time. In 1945, a large number of commodity exchanges trading Futures contracts in several commodities like raw jute, Groundnut, Cotton, Castor seed, Jute goods, wheat, sugar, rice, precious metals like Silver & Gold were prosperous throughout the country.. At present more than 90 commodities which are scheduled in section 15 of Forward Contract (Regulation Act 1952) are traded in different commodity exchanges in the country.

Commodity exchanges’ operational efficiency relays on Value of money for the commodity. Value for money on commodity exchanges transactions is a composite function of a number of factors that could begin from the design of the contract, healthiness of participation, availability of information, effective management of trading, risks, impact cost. Of these, while some are within the control of exchanges governing their own rules and regulations besides the exchanges practices and trading procedures, the others are beyond the ambit of the exchanges. Hence, it is clear that the exchanges by improving their operations, contract design, stricter surveillance etc., shall be able to contribute towards an increase in their service delivery efficiency. This would finally contribute not only towards improving their operational procedures and efficiency but would also push themselves towards benchmarks. These benchmarks could be domestic or global depending on whether the markets for exchange traded are close or open both the ways.

The Role of Exchanges to Infuse Market Inclusive For Economic Growth in Achieve Financial Stability

The past few years remained a watershed with an accelerated growth rate for the economy when we compare the average growth rate of about 6.0 per cent during last two decades. Throughout this curve, agricultural sector remained a drag on the Indian economy. It had kept majority of the farmers out of the benefits of the booming economy making them mere spectators in the exchange process. Agriculture continues to be the major occupation for a large part of rural population in India and therefore that remained sidelined from the rebounding economy. While the lack of diversification of economic activities in the rural areas, it is responsible for this phenomenon, the other reasons would include lack of value addition to commodities at the rural areas, lack of price transparency, lack of scientific warehousing at the producer level etc. In a nutshell, this act of urban oriented market growth had left behind those engaged in the farming to remain "passive receivers" and not the active receivers. With movement of these market based activities, the associated investment remained urban centric providing most benefits of value addition (storage, transportation, processing, price risk taking, transfer of title etc) to urban based traders much to peril of the producers. Thus the study suggest that, the need for market reforms to bring in inclusive marketing for obtaining economic benefits of commodities that are produced and marketed in the rural areas back to where they belong to .i.e rural economy.

As the markets developed for many of the agricultural commodities, it took away the opportunities for value addition especially in terms of standardization and grading, processing and storage to the urban areas that have emerged as the major trading centres for commodities mainly on the account of their improvement in infrastructure, access to markets and market information, in the process denying the benefit of market development such as investment and employment to the rural areas from where most of agricultural products originates. Hence, inclusive development of the markets, where in farmers are provided fair prices for their produce through efficient information about the present or future prices and equipping them with capacity to hold providing value addition opportunities at places where agricultural produce originate, generating necessary investment in markets and market related infrastructure and additional employment in the rural areas.

Growing commodity futures markets would help will help in development of appropriate commodity feasible environment. Slew awareness, cost effective reach to remotest places of the country through innovative ICT models and policy measures to reach out those sitting on the edge of the markets will help in the growth of commodity futures. With growth in commodity markets, the design of the contracts changes dynamically to attract the physical market participants to improve dynamic passage of physical market information into future contracts to help improve its price discovery and its efficiency. Finally this would not only boost productivity and growth in agricultural sector which is backbone for majority of rural population in India, it will also bring about the growth with equity in the long run which is a main goal of our planning process in the country.

CONCLUSIONS

The study concluded that, commodity exchanges and markets should frame a proper legal frame work with appropriate policy and institutional changes that would help to penetrate the network in the economy. Besides, this there is also a need for dynamic inter-linkages with physical markets to make transactions in the physical markets in better efficient way. The system should be well developed providing equal opportunities to the farmer's irrespective of their size, boosting private investment in technology. Overall, it will provide clear and transparent directions to the policy makers to help them to avoid knee-jerk reactions and concentrate on policy improvements for the long term improvement of the economy and policy makers.

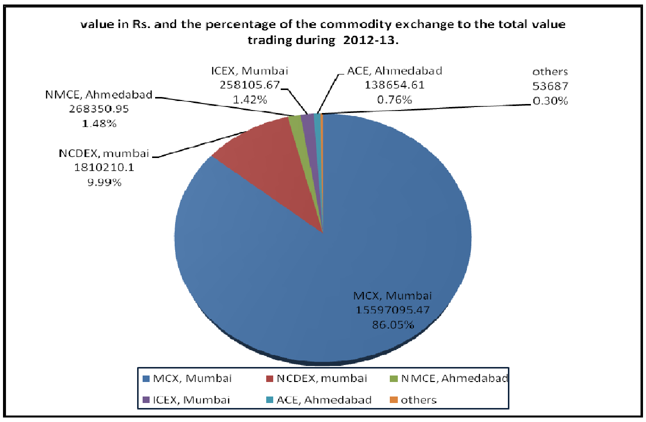

Figure 1: The Total Value of the Commodities Traded at the Exchange and the Total Value of the Commodities Traded during 2012-13 is Graphically Presented Below

REFERENCES

1. Aggarwal Ashish (2003): Bigger Than Stocks? Business world, Sept 15, 2003.
2. Ahuja N. L. (2005): Managing Foreign Exchange Risk with Derivatives, paper presented at the International Conference of Asia-pacific Association of Derivatives (APAD) held at IIM Bangalore, 27-30 July 2005.
3. Economic Survey 2009-10
4. Government of India (2003): Report of the Task Force on Convergence of securities and Commodity Derivatives Markets (Chairman, Wajahat Habibullah).
5. Gangadhar. V. and Naresh Reddy. G.: "Problems and Prospects of Commodity Futures Market in India," The Management Accountant, Volume 43 No. 9 September 2008, New Delhi.
6. Purcell W. D. (1991) Agricultural Futures and Options: Principles and Strategies, Macmillan Publications, New Delhi
7. Pratiyogita Darpan Extra issue on Indian Economy.
8. Thomas Susan (2003) Agricultural Commodity Markets in India; Policy Issues for Growth, Indira Gandhi Institute for Development Research, Mumbai
9. United Nations Conference on Trade and Development (UNCTAD). (2008). *Tackling the Global Food Crisis* (Policy Brief 2). Available online: http://www.unctad.org/ en/docs/presspb20081_en.pdf.