A Study on Performance of Energy Commodities Trading In India

Dr. S.P. Dhandayuthapani1 R.Pavithra2
1Assistant Professor 2MBA Student
1,2Department of Management Studies
1,2Anna University – BIT Campus, Trichy

Abstract—This study focuses upon the trading performances in the energy commodities within various commodities market and exchanges. The commodity trading has been regulated by commodity exchanges and forward market commission (FMC). The major objective of this study is to figure out the trading practices and level of performance with special reference to one of the major commodity exchange in India, Multi Commodity Exchange (MCX).

Key words: Forward market commission, Multi commodity exchange

I. INTRODUCTION
Forward market commission (FMC) and Multi commodity exchange (MCX) plays an important role in commodity trading within India. The forward commission market acts as a chief regulator as well as financial regulatory agency administered by the Indian Ministry of Finance. FMC permits commodity trading in 22 exchanges within India. Their major functions and responsibilities are, to observe forward market, publish necessary information regarding the commodity markets and many other functions.

Whereas Multi commodity exchange (MCX) is a liberated commodity futures exchange later on merged and regulated by Security Exchange Board of India. Multi commodity exchange deals future trading in products from various commodity groups like bullion, non-ferrous metals, energy and agricultural commodities. Within MCX and under energy group, the major commodities traded are Brent crude oil, Crude oil, Crude oil mini and Natural gas.

II. LITERATURE REVIEW
(Dr. S. Rajamohan) have studied and analysed the trading performance and activities of commodities market and their major regulators like Forward Market Commission (FMC) and Multi Commodity Exchange (MCX). This research mainly stressed upon the energy commodities that are traded through the markets and exchanges within the period of 2004 – 2015. In this the researcher has identified and stated the terminologies of trading like the price variations, order types, clearing, settlement and the procedures regarding order delivery. With the help of statistical tools like mean, standard deviation, percentage analysis and co-variance, this research has been analysed.

(Dr. Shree Bhagwat) have thoroughly studied the market conditions of the commodity market in terms of past and the present scenario also they focused upon the development measures which can be conducted through the present status. It is believed that the commodity derivatives as an instrument which has the capability in securing the players of agricultural sectors from the price risk. Through three tier regulatory system; FMC, central government, establishment of 6 national and 16 regional commodity exchanges, commodity derivatives are managed. Their major objectives are to briefly study about the commodity derivatives, present scenario in the market and also to figure out the chances of developments. They utilised secondary source of data and presented it in a descriptive manner. This study concludes by expressing that the other form of derivatives like forwards, future, options and swaps are utilised minimally. It also stated about increase in usage of Market Information Services (MIS) in order to integrate the nationwide commodity market.

(Bhaskar Goswami) Studied the risk return analysis futures of different commodities on the study period of year 2004-2012. It broadly focused on studying the comparative nature as well as the performance of futures with the manifestation of risk free assets and inflation of different group of commodities. They selected the futures based on two norms; frequency of future contract and the value of the future of commodity. It studies the volatile nature as well as the standard deviation of the commodities in order to identify the generation of higher returns associated with risk. This article suggests some commodities generated higher returns in spite of ineffectual hedge against the inflationary force.

(D. M. Nissar-A. Barua) Devajit Mahanta at el 2012, has countered the banning activities undergone by the government over certain commodities and their different level of impact over the futures and spot prices of the banned commodities but it doesn’t impose impact over the food prices, also figures that ban restriction has been untenable, unbalanced which resulted in a massive loss of exchange volume of commodities. This strategy was imposed to control the inflation with certain factors like constraints over supply, world-wide increase in price of food items, modification of land for bio fuel creation, liberal monetary policy and embracing of expansionary fiscal policy.

(Jena) has tried a new study on examining the financialisation of commodity market in India. It has been analysed through certain time series techniques. The major factors influenced within the financialisation were; the fundamental factors and speculation which is responsible for the high volatile nature in financialisation. By examining the monthly data of commodity price and stock price with reference to the period from January 2001 until June 2012, implying the time series techniques like causality test and volatile spill over test, the stock price has been more volatile than the commodity price. By comparing the RBI annual report the author finalised that some other price drivers also influence in the financialisation of commodities.

(Salim A Shamsher) have focused on studying the incorporation of options and index investing within the Indian commodity derivative market. The major exchanges like exchanges traded and over the counter derivatives have guessed that the dominant products have been set apart as
the equivalent and liquidity risk. They also detected that commodity options are widely operated at global level. The author attempted in familiarizing the options and index within the commodity derivative market, he concluded that the introduction can benefit the market players as well as it will not lead any price fluctuations in commodities. (Prashanta Athma) Piloted study on MCX comdex and its group indices along with their trading practice and performance. It also made an attempt to study the relationship between the future prices and spot prices of the commodities within the derivatives market. The author revealed the commodity market is efficient in the price formation and transmission of information between the markets. Also the author stated that the average future prices are lesser than that of the average future price as because Comdex considers both perishable and non-perishable goods. Finally he suggested the market players can verge their risk on larger canvas as because of their effectual and readiness of trading in Comdex.

III. DISCUSSION AND FINDINGS

In recent years, the prices of futures and spot of energy commodities have faced a lot of ups and downs. (Source: www.mcxindia.com)

![Fig. 1: Crude oil prices with simple moving average.](image)

<table>
<thead>
<tr>
<th>Year</th>
<th>Volume (in lakhs)</th>
<th>Traded (in crores)</th>
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<tbody>
<tr>
<td>2009-10</td>
<td>161173737</td>
<td>595665592.9</td>
</tr>
<tr>
<td>2010-11</td>
<td>197206801</td>
<td>869869595.6</td>
</tr>
<tr>
<td>2011-12</td>
<td>346192367</td>
<td>1493283652</td>
</tr>
<tr>
<td>2012-13</td>
<td>388751074</td>
<td>1489038762</td>
</tr>
<tr>
<td>2013-14</td>
<td>264627693</td>
<td>1073314717</td>
</tr>
<tr>
<td>2014-15</td>
<td>133751818</td>
<td>526148985.3</td>
</tr>
<tr>
<td>2015-16</td>
<td>216346961</td>
<td>555164373.9</td>
</tr>
</tbody>
</table>

Table 1: Commodity traded, volume and value in MCX (during 2009-2016) (Source: www.mcxindia.com)

![Fig. 2: Brent oil prices with simple moving average.](image)

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<tbody>
<tr>
<td>Brent crude oil</td>
<td>0.00</td>
<td>8207.94</td>
<td>11980.12</td>
<td>350787.4</td>
<td>2445.37</td>
<td>67.96</td>
<td></td>
</tr>
<tr>
<td>Crude oil</td>
<td>121020964.66</td>
<td>242044737.34</td>
<td>289229240.48</td>
<td>350787.4</td>
<td>2445.37</td>
<td>67.96</td>
<td></td>
</tr>
<tr>
<td>Natural gas</td>
<td>274979.35</td>
<td>27919327.69</td>
<td>32937437.77</td>
<td>54440421.0</td>
<td>6391658.70</td>
<td>3309180.62</td>
<td>28541408.98</td>
</tr>
</tbody>
</table>

Table 3: Energy commodities traded values (in crores) on multi commodity exchange. (Source: www.mcxindia.com)
IV. CONCLUSION

The Indian market commodity faced a several changes due to the unstable economic changes. As MCX is one of the well-organized and cost effective podium for price encounter and risk free management in Indian commodity market. Multi commodity exchange (MCX) provides online trading service, clearing, settlement and along with future offers across many groups of commodities. Through these systems and facilities the performance of energy commodities has been increased and the level of turnover is also in hike.

REFERENCES


