

Futures trading in commodities not leading to price rise, says study

Report comes amid demand for allowing trading in some commodities

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There is no conclusive evidence to show that derivatives trading leads to higher prices or that the suspension/ban had any effect on bringing down the price volatility, according to a research study by a group of academicians. The report has come amid demand for allowing futures trading in some commodities where a ban has been imposed.

The study, sponsored by NCDEX Investors Protection Fund Trust, also said the country has lost the opportunity to become a price setter amid changing dynamics in the agri-commodities market, after the Covid pandemic. The suspension of futures trade makes the country dependent on international markets such as Chicago Board



Ashok Dalwai, Chairman, National Rainfed Area Authority

of Trade (CBOT) or Inter Continental Exchange (ICE) for reference prices, it said.

Case in point

Citing the case of mustard oil, where the government had asked exchanges not to launch new contracts from December 2021, the retail prices of the commodity increased by 10.99 per cent a month before the ban date and surged a further 12.61 per cent a month after the suspension.

"In fact, the price movements in commodities with no futures is uncontrolled and likely to be

more volatile than commodities that have a footprint in the derivatives segment as they are bound by position limits, margin requirements and daily price limits," the study co-authored by Nidhi Aggarwal of IIM-Udaipur, Tirtha Chatterjee of Jindal School of Government and Public Policy and Karan Sehgal, a research scholar.

Releasing the research study, Ashok Dalwai, chairman of the National Rainfed Area Authority, said the derivatives market plays an important role in price discovery, price dissemination and negotiating the risk. "Today, price volatility is the biggest risk faced by the farmers and policy reforms are needed to address the price risk faced by value chain participants," he said.

Not a single such instance has been recorded in the other parts of the world, the study said. Countries such as Nepal and Myanmar have been contemplating launching commodity futures market by setting up exchanges.