Why Indian Prices Matter
From Benchmark Adoption to Benchmark Creation



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> *India is transitioning from relying on international benchmarks to creating domestic commodity price benchmarks to better reflect its status as a major global consumer and producer, thereby reducing reliance on external pricing. This shift aims to lower basis risk, reduce currency exposure, and enable more effective risk management for domestic businesses.*

INTRODUCTION

Every day, benchmark prices for commodities are discovered in financial centres and exchanges across the world. These prices influence what Indian refiners and manufacturers pay for raw materials. They shape inventory decisions at manufacturing plants across Gujarat, Maharashtra and Tamil Nadu, and affect the working capital calculations of exporters, processors and traders who may never have heard of the exchanges where those benchmark prices originate.

That number is not discovered in India, even when the commodity is ultimately consumed in India. This reality extends beyond metals. From crude oil, edible oils and precious metals to several internationally traded agricultural commodities, India remains largely a consumer of prices discovered elsewhere. Global benchmarks are adjusted for freight, duties, taxes, logistics costs and exchange rates before finding their way into domestic supply chains, but the underlying reference price is often formed outside the country.

Historically, this arrangement was understandable. India represented a relatively smaller share of global commodity demand and had neither the market depth nor institutional ecosystem necessary to influence international price formation. Today, however, the situation is changing. India is now among the world's largest consumers of crude oil, gold, silver and industrial commodities. It is a leading producer of rice, sugar, cotton and spices. It is one of the fastest-growing major economies and is expected to contribute significantly to incremental global commodity demand over the coming decades.

Yet despite its growing economic weight, many of the benchmark prices that shape economic decisions in India continue to originate outside the country. This distinction matters because pricing is not merely an outcome of economic activity. It is an essential component of economic infrastructure. Just as roads facilitate transportation and ports facilitate trade, pricing systems facilitate the allocation of capital, the transmission of information and the management of risk.

The relationship between pricing and economic development is therefore not simply correlational. It is causal. Economies that possess robust mechanisms for discovering prices allocate resources more efficiently, manage volatility more effectively and create stronger foundations for long-term growth.

As India's economic footprint expands, an important question emerges: can prices discovered within India evolve into trusted reference points for commercial decision-making, alongside established global benchmarks?

PRICING AS ECONOMIC INFRASTRUCTURE

Pricing systems rarely receive the attention given to highways, power plants, ports or digital networks. Yet they perform an equally important economic function.

Every day, millions of decisions are made based on prices. Farmers decide what to plant. Manufacturers determine production schedules. Traders allocate inventory. Investors decide where capital should flow. Banks assess credit risk. Policymakers evaluate inflationary pressures.

Prices coordinate these decisions without requiring central direction. Economists often describe prices as information systems. They aggregate dispersed information about supply, demand, inventories, transportation costs, weather conditions, policy changes and market expectations into a single observable signal.

When prices function efficiently, resources move toward their most productive uses. When pricing systems are weak, distorted or disconnected from local realities, resources are allocated less efficiently. Capital may flow into sectors that appear profitable because of distorted signals while genuinely productive opportunities remain underfunded.

This is why benchmark development should be viewed as economic infrastructure rather than merely

financial market development. The world's major economic centres invested not only in physical infrastructure but also in pricing infrastructure. Benchmark contracts for crude oil, natural gas, metals, grains and interest rates evolved into institutions that reduced uncertainty, lowered transaction costs and improved resource allocation.

India's physical infrastructure has improved dramatically over the past two decades. The next stage of development requires a parallel strengthening of pricing infrastructure.

WHAT PRICE DISCOVERY ACTUALLY DOES

Price discovery performs three essential economic functions.

First, it **allocates resources**. A rise in cotton prices encourages farmers to increase acreage. Higher aluminium prices incentivise investment in production capacity. Lower prices discourage inefficient production and encourage consumption.

Second, prices **transfer information**. A futures curve reflects collective expectations regarding future supply and demand. A processor, exporter or importer can use these signals to make informed decisions months before actual physical transactions occur.

Third, prices **transfer risk**. Commodity producers and consumers operate in environments characterised by uncertainty. Futures and options markets allow this uncertainty to be transferred to participants willing to assume it. The farmer selling futures before harvest, the refinery hedging crude purchases, and the jewellery manufacturer locking in bullion prices are all using markets to reduce uncertainty.

When price discovery occurs outside the domestic market, these functions become less effective. The resulting inefficiencies may not always be visible, but they influence investment decisions, financing costs, inventory management and ultimately economic growth.

THE ANATOMY OF INDIA'S IMPORTED PRICING SYSTEM

India's commodity pricing framework has historically followed an import-parity model.

For commodities such as crude oil, edible oils and several metals, domestic prices are largely derived from international benchmarks adjusted for freight, insurance, duties, taxes and exchange-rate movements. The approach is logical and often unavoidable for a large importing nation. However, it creates several structural challenges.

The first is **basis risk**. The price paid by an Indian participant frequently differs from the international benchmark used for hedging. Domestic logistics costs, regional demand conditions, quality differentials, taxation and seasonal factors create divergences between global and local prices. As a result, international hedges often provide only partial protection.

The second challenge is **currency exposure**. Most global commodity benchmarks are denominated in US dollars. Consequently, Indian businesses face two layers of uncertainty: commodity price risk and currency risk. An aluminium producer must forecast both aluminium prices and the rupee-dollar exchange rate. A gold importer faces the same challenge. This dual exposure increases hedging costs and operational uncertainty.

The third challenge is **policy responsiveness**. When prices are primarily determined outside the country, domestic policymakers often find themselves responding to developments they neither initiated nor can directly influence. Energy markets provide a powerful illustration. Periods of heightened tension around the Persian Gulf often trigger increases in crude oil prices, freight rates and insurance costs, even before physical supplies are disrupted. An industrial unit in Coimbatore or a logistics company in Nagpur may have no connection to the underlying conflict, yet their operating costs can rise within days as global markets reprice risk. Price discovery transmits global events into domestic economies regardless of whether those economies were involved in the event. For policymakers, the challenge is often responding to price signals generated thousands of kilometres beyond India's borders.

A stronger domestic benchmark ecosystem would not eliminate global influences, but it would improve visibility into local supply-demand conditions and support more targeted policy responses.

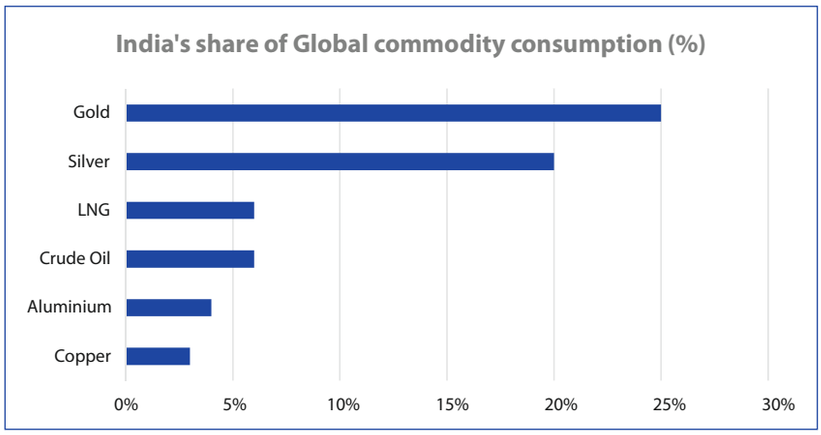
WHY INDIAN PRICES DESERVE ATTENTION

Global benchmarks perform an essential function in commodity markets. Brent provides a common reference point for crude oil, the London Metal Exchange anchors much of the world's industrial metals trade, and bullion markets in London and New York continue to influence precious metal pricing globally. These benchmarks facilitate trade across jurisdictions and provide a common language for market participants.

Yet the prices that ultimately matter to Indian businesses are rarely identical to these global benchmarks.

An Indian refiner purchasing crude oil, a jeweller importing bullion, or a manufacturer sourcing copper does not transact at the benchmark price itself. The final price incorporates freight costs, insurance, exchange-rate movements, import duties, taxes, financing costs, logistics expenses and local supply-demand conditions. By the time a global benchmark reaches an Indian buyer, it has evolved into something distinctly Indian.

This distinction is important because the additional layers are not merely adjustments; they are economically meaningful signals. They reflect information about domestic inventories, consumption patterns, infrastructure constraints, policy decisions and market sentiment. In



Source: EIA, WGC, SI, WBMS

many cases, these factors influence business decisions more directly than the underlying global benchmark.

The question, therefore, is not whether global benchmarks will remain relevant. They undoubtedly will. The more important question is whether prices discovered within India can evolve into trusted reference points that better reflect Indian market realities and support domestic decision-making.

As India's role in global commodity markets expands, the value of this local information is likely to increase. The development of credible Indian reference prices is not about replacing international benchmarks; it is about complementing them with signals that are more closely aligned with domestic economic conditions.

FROM TRADING PLATFORMS TO REFERENCE PRICES

India's commodity market ecosystem has evolved significantly over the past two decades. Electronic trading platforms, improved regulatory oversight, physically delivered contracts and expanding warehouse infrastructure have strengthened domestic price discovery and risk-management capabilities across several commodities.

Yet building efficient markets is not the same as building reference prices.

Copper illustrates how domestic price discovery can coexist with international benchmarks. While Indian copper prices remain anchored to the LME benchmark, the growth of physically delivered contracts and exchange-accredited warehousing has improved transparency around domestic inventories and availability. As physically delivered contracts have gained greater acceptance, market participants have benefited from improved visibility into local supply-demand conditions, resulting in more meaningful domestic premiums and discounts over global benchmarks. For fabricators, importers and consumers,

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these local signals are often as important as the benchmark itself. The result is not the replacement of international pricing, but the emergence of a richer pricing ecosystem that better reflects Indian market realities.

Bullion markets offer a different but equally interesting perspective. India remains one of the world's largest consumers of gold and silver, yet benchmark bullion prices continue to be discovered internationally. At first glance, this appears to reinforce India's status as a price taker. However, large consuming markets influence commodity pricing in ways that are not always visible through benchmark ownership alone. The silver market in 2025 provides an instructive example. During the year, substantial quantities of silver were drawn out of LBMA vaults and transferred to COMEX warehouses, pushing COMEX inventories to a record 16,485 tonnes in Q4 2025. At the same time, LBMA stocks declined as metal was redirected to the United States and increasing volumes were allocated to physically backed ETFs amid sustained investor inflows. As available inventories tightened, concerns around physical availability intensified.

India's role in this process was significant. Ahead of the festive season, silver imports reached 1,012 tonnes in September 2025 and 1,785 tonnes in October 2025, helping push annual imports beyond 7,000 tonnes. Indian demand was a big driver of market tightness and arrived at a time when the global silver market was already experiencing inventory constraints. The resulting pressure was reflected in record high lease rates, with 1-month rates touching annualised 39% at the peak. It also led to episodes of backwardation and a rare premium of nearly $2 per ounce for London silver over New York prices causing silver prices to remain elevated for several months. The episode illustrates an

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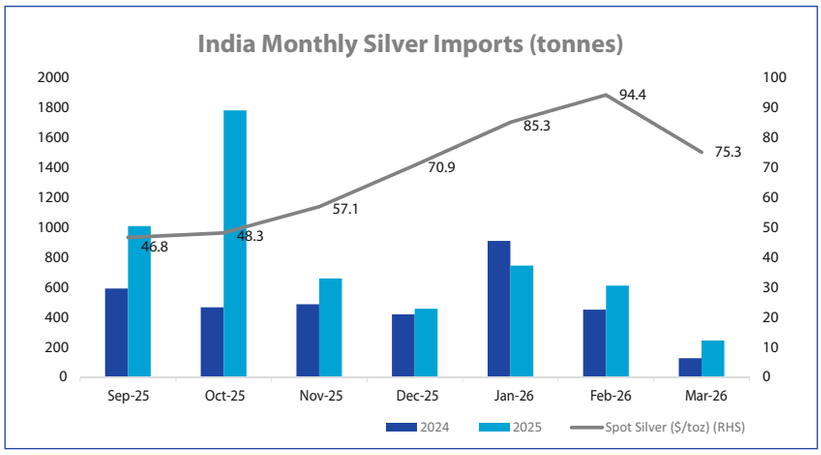

Source: Dept of Commerce

important point: ownership of a benchmark and influence over market dynamics are not necessarily the same thing. Large consuming nations like India can materially influence physical flows, inventory distribution and liquidity conditions even when benchmark prices continue to be discovered elsewhere.

Another noteworthy development is the establishment of the India International Bullion Exchange (IIBX). The initiative reflected an important shift in policy thinking. Rather than participating exclusively through overseas trading centres, India sought

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to develop a domestic ecosystem for bullion imports and trading. The broader objective was not simply operational efficiency but the gradual development of a transparent and credible domestic spot market. The longer-term aspiration was to create an ecosystem that could support the evolution of Indian bullion reference prices. While still evolving, the initiative signals recognition that large consuming nations benefit from developing pricing infrastructure that reflects their own market realities.

For IIBX to evolve from a trading venue into a meaningful reference pricing centre, participation, liquidity and adoption must continue to deepen. Successful benchmarks emerge when market participants consistently reference a price for contracts, inventory valuation, financing and risk management. The long-term significance of IIBX will therefore depend less on its existence as an exchange and more on the extent to which its prices become embedded in day-to-day commercial decision-making.

These examples point toward a broader lesson. The objective of benchmark development is not merely to create liquid trading venues. It is to create prices that market participants

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trust, reference and adopt for commercial decision-making. Reference prices emerge when users believe they accurately reflect underlying market conditions. Liquidity attracts participation, participation builds confidence, and confidence gradually transforms prices into benchmarks.

FROM BENCHMARK ADOPTION TO BENCHMARK CREATION

Benchmark creation is ultimately a process of adoption. Prices become benchmarks when producers, consumers, financiers and policymakers repeatedly choose them as reference points for contracts, inventory valuation and risk management. Liquidity attracts participation, participation builds confidence and confidence strengthens benchmark relevance.

India's challenge is therefore not simply to create markets, but to create prices that market participants trust. In many commodities, global benchmarks will continue to dominate. In others, Indian reference prices may gradually emerge alongside them, reflecting domestic realities that global benchmarks cannot fully capture.

THREE REFORMS THAT COULD ACCELERATE BENCHMARK DEVELOPMENT

The broader adoption of Indian reference prices will require continued

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institutional development across markets, infrastructure and regulation.

First, broader participation by financial institutions could deepen market liquidity and strengthen risk-transfer mechanisms. Banks already play an important role in commodity ecosystems through inventory financing, working-capital lending and trade finance. As a result, they are indirectly exposed to commodity price risk through their lending portfolios. A carefully calibrated framework that enables greater participation by banks in commodity risk management could enhance market depth, improve liquidity and support more efficient hedging across the value chain.

Second, warehouse receipt financing has the potential to become a far more important pillar of India's commodity market architecture. Continued digitisation, stronger legal recognition and closer integration with financial markets could significantly improve the utility of warehouse receipts as collateral. For farmers, traders and processors, this would expand access to credit while reducing the need for distress sales. For markets, it would strengthen the link between physical inventories and price discovery.

Third, regulatory consistency remains critical for long-term benchmark development. Credible benchmarks are built over years through sustained participation and confidence in market institutions. Market participants must have assurance that contracts, once established, will remain reliable tools for price discovery and risk management, particularly during periods of heightened volatility when hedging needs are greatest. This does not preclude appropriate regulatory intervention where necessary, but predictable and stable market frameworks are essential for fostering participation and building trust.

Ultimately, benchmark development is a cumulative process. Stable rules encourage participation which in turn creates liquidity and strengthens price discovery. Over time, these reinforcing effects can help create deeper, more resilient and more representative commodity markets.

THE GLOBAL OPPORTUNITY

The rise of Chinese benchmarks demonstrates that pricing influence is rarely created by policy alone. It emerges when economic scale, liquidity, physical market relevance and institutional confidence reinforce one another over time.

India's opportunity exists within a rapidly changing global commodity landscape.

Over the past three decades, China has systematically expanded its influence in commodity pricing. Chinese exchanges now account for a significant share of global commodity derivatives activity and increasingly influence regional trade flows.

India's path might not replicate China's experience. However, the broader lesson remains relevant. Pricing influence follows economic relevance only when supported by market infrastructure, institutional credibility and policy consistency.

India possesses the underlying economic scale. The next step is ensuring that domestic pricing mechanisms evolve alongside the country's growing role in global commodity markets.

CONCLUSION: PRICING AND ECONOMIC SOVEREIGNTY

The objective is not to replace global benchmarks, but to ensure that prices formed within India increasingly reflect, communicate and transmit information about Indian market realities. As India's role in global commodity markets grows, the value of that information is likely to grow as well. The future of pricing in India may therefore depend not only on how effectively the country responds to global benchmarks, but on how confidently it develops reference prices of its own.

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