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Comexes ready to go global

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The government decision to allow up to 49 per cent foreign investment in the commodity exchanges is likely to bring global trading practices and strategic investment policies to the Indian commodity market.

This will not only improve the efficiency of exchanges but also make trading more transparent, analysts feel.

In line with the equity markets, the government on Wednesday allowed 26 per cent FDI and 23 per cent by FIIs in commodity exchanges.

The domestic commodity market was eagerly awaiting foreign participation in both exchange management and day-to-day commodity trading, following the interest shown by the developed nations in the India growth story. The move, according to analysts, will soon see the participation of foreign traders in day-to-day trading at comexes.

"The government's decisions to first empower the commodity markets regulator, the Forward Markets Commission (FMC), and then allow FDI and FIIs, indicate that it is ready to revamp the commodities sector in India," said Joseph Massey, the deputy managing director of the country's largest commodity exchange - the Multi Commodity Exchange (MCX).



Joseph Massey, deputy MD, MCX: The government move indicates it is ready to revamp the commodity sector

All stakeholders of the country's commodity sector, especially farm commodities, are badly in need of investments. So the decision will benefit all, including exchanges, brokerages, trading and infrastructure related to the sector. Forward linkages in trading would directly benefit rural farmers and enrich the rural economy, Massey added.

P H Ravi Kumar, the managing director of the largest agri commodity exchange, the National Commodity & Derivatives Exchange (NCDEX), said, "This is a welcome decision for the commodity exchanges. This will strengthen the commodity sector as a whole."

Lauding the government's decision, Kailash Gupta, managing director, National Multi-Commodity Exchange (NMCE), said, "The potential of growth in the commodities sector can be guessed from the country's growth story. Therefore, there is an urgent need to restore futures trading in banned commodities, including wheat and rice." "We are quite optimistic that the participation of institutional investors will follow soon. This will bring into play the full potential of the sector," he added.

After the government allowed commodity futures in 2002, the daily volume of trade has surged dramatically to approximately Rs 8,000 crore.

The commodity markets require strategic investment for the entire value chain, including trading, warehousing, delivery and processing. On the domestic front, the areas still untouched by foreign investments are warehousing and processing. The poor handling of farm commodities has resulted in the country losing approximately 8-10 per cent of the total commodities produced. Foreign investments in these sectors could see a turnaround in volumes, said Jayant Manglik. For sustaining the over 9 per cent economic growth, the agricultural sector has to grow at a compounded annual rate of 2 per cent.

Huge investments, worth about Rs 15,000-20,000 crore, are required over the next five years for developing warehouses, grading facilities, market yards, and electronic trading platforms.

With the government finding it difficult to raise resources on its own, the onus for setting up such facilities across the country rests with the exchanges and electronic spot market initiatives in the private sector.