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'Indian commodity market will become inefficient'

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THE commodities markets are global asset class and trade flows to most efficient markets, which have least cost of trading. With the addition of commodities trading tax, the Indian market will become unusable for risk management.

The budget has added an incidence of 12% service charge and Rs 17 per lakh for commodities trading, which will increase the cost by more than 800%.

This taxation was introduced in the securities market with attendant benefit of long-term capital gains and allowing futures income loss to be treated as normal business income loss. The commodities markets has not received these two incentives and have exclusively been burdened with transaction cost, which will make our market inefficient compared to similar global markets. As commodity markets are more comparable to the currency market, being a global asset class, users are very sensitive to transaction cost up to the fourth decimal place. Keeping in mind the cost sensitivity of trade, without the attendant tax advantages given to stock markets along with STT, we think the Indian commodity market will become inefficient and not serve its economic purpose of enabling risk management at this cost of trading, which is far inefficient compared to the global cost of industry, and business will migrate from regulated exchanges to international markets or the unofficial local market.

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