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# Futures for physical deals get under way

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THE first exchange of futures for physical (EFP) transaction in the country was carried out between two spot market traders in Hyderabad last week where 30 kilos of silver changed hands. An EFP transaction integrates the spot and commodity futures markets by allowing buyers and sellers to transfer futures market positions to the physical market at the time and location of their choice.

In a normal delivery-based futures contract, a participant can lock in the price of a commodity six months before the contract expires and thus protect himself against price volatility. In such a case, though, he can take delivery only from a specified location when the contract matures, i.e., six months from the date he has purchased it. However, under EFP the same client can, after informing the exchange, transfer the futures position to the physical market and take delivery of a specific grade of a commodity anytime and at any location within the six months from the counterparty, if needed.

As in a normal futures transaction, the exchange stands guarantee for counterparty default risk and quality of goods supplied even though the delivery between buyer and seller takes place outside the bourse. The counterparties exchange the goods in their respective warehouses once the transaction is completed and the seller's account gets debited a day later.

Amit Agarwal, a retailer and trader of jewellery, took a buy position of one lot (30 kilos) in the MCX March silver contract at around Rs 27,000 a kilo on January 25. Under EFP, he squared off the futures position on January 28 at Rs 26,135, a loss of Rs 865 a kilo. He then purchased silver from trader Chanda Venkatesh at the day's prevailing spot price of Rs 26,800 and later on sold it for a profit. In the bargain, he offset his futures market loss by making a gain on the spot market. To undertake an EFP, a futures position has to be initiated by participants.

Spot market traders emphasised that EFP was ideal for those who were deterred from participating on a futures market platform for the reason that most transactions were cash settled. In contracts which deliveries take place, as in gold or silver, these traders may not have wanted to keep their positions open till maturity since they needed to give or take delivery prior to the contract expiry date and at locations away from futures market delivery centres.

Forward Markets Commission gave its approval to the bourse for EFP in October last year. A futures is a standardised contract that facilitates the purchase or sale of an underlier (commodity, equity or currency) at a predetermined price for delivery at a future date. Currently, four national level commodity futures exchanges operate in the country and post daily turnover of Rs 24,000 -25,000 crore.

**TRADE SECRET**

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