'Lack of trust among traders leading to higher futures delivery'

It's higher compared with global commodity bourses, says MCX chief

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Lack of trust among traders has led to higher deliveries of futures contracts on the Indian commodity exchanges compared with global bourses, according to Mr Lamon Rutten, Managing Director and CEO of Mumbai-based Multi Commodity Exchange (MCX).

"Futures contracts result in two per cent of deliveries on MCX. Gold is the largest contract to be delivered totalling $500 billion. This is higher compared with commodity exchanges globally," Mr Rutten told *Business Line* in an interview.

Deliveries are higher because traders trust commodity exchanges more than their fellow-traders.

"A lot of volume passed through our warehouses," said the MCX chief.

Gold is the most traded commodity on the exchange, while copper, crude oil and silver, are other commodities that see large volume. "Silver is the most traded commodity now," Mr Rutten said.

Asked about corporate participation, he said quite a number of metal companies were using the MCX platform and the wholesale jewellery sector is 'plugged into MCX.'"

"In the small and medium enterprise sector, we have pretty large presence. Many companies with 10-50 workers can be wiped out by fluctuation in metal prices such as copper. Such companies use our exchange, while some of the big agricultural firms are also on MCX," he said.

PRICE INFORMATION

On the ban being imposed on futures trading in agricultural commodities, Mr Rutten said it led to loss of price information. "The Government should use futures as price information. They will help in taking decisions on supply," he said.

High prices hurt the poor and if exchanges were closed due to surging inflation, things would only worsen. "Futures help stabilise seasonal commodities prices. The other problem is demand



Mr Lamon Rutten, Managing Director and CEO, MCX – Bijoy Ghosh

is higher, while supply has stagnated," the MCX chief said.

Agricultural commodities made up only two per cent of MCX's overall turnover. Globally, agricultural commodities are the largest single group traded. India is completely exceptional but the fastest growing segment in the last five years is agricultural futures. It is also the biggest and bigger than even base metals and bullion combined, Mr Rutten said.

Financial Technologies, MCX's parent, will reduce its stake on the bourse through the initial public offering, for which, the draft prospects were filed with the SEBI last week. "If not, it will find a direct buyer. It needs to be remembered that FT managed to reduce its stake from 100 per cent to 31 per cent without an IPO and it will be not difficult to from 31 per cent to 26 without an IPO," he said.

MCX was keen on listing because it would strengthen the exchange as a company. "There is an extra layer of scrutiny on the management ensuring that we stay on our toes," Mr Rutten said.

Pointing out to the merger talks between Singapore Exchange and Australian Securities Exchange, he said when the market opens up, "you need to eat or be eaten," then MCX is in a position to act aggressively rather than be a sitting duck for any international player.

Mr Rutten said the amendment to the Forward Contracts (Regulation) Act, pending before the Parliament, will make life interesting. "We will have to start talks with banks, pension funds, insurance funds and others about how they can put part of their money in the exchange," he said. It will require new skills; new products such as weather futures, freight futures, real estate index futures and many others to sell and for this, domain expertise would be required.

CLIENT COMPOSITION

On client composition, he said, at present, it was 100 per cent retail for MCX. Globally, commodity markets have five per cent participation from retailers, while institutions make up the rest.

The moment institutions enter commodity exchanges, the turnover could increased 30 times, he said.

Mr Rutten also stressed the need for improvement in infrastructure for agriculture. "It is difficult to have successful agricultural trading in India until the infrastructure improves," he said.