2016 to be a year of turnaround for commodity futures market

A stressful 2015 ends with marginal growth in turnover and hopes for improvement

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After a stressful 2015, the coming year is likely to be one of turnaround for commodity exchanges, through introduction of new instruments and new classes of traders.

The biggest event the comexes witnessed in 2015 was merger of its relatively less powerful regulator, the Forward Markets Commission, into the much stronger equity markets regulator, the Securities and Exchange Board of India (Sebi), effective September 28.

Right after, Sebi chairman U K Sinha said introduction of instruments like options and indices would be prioritised, to enhance depth in commodity derivatives market. Perhaps possible in the near future, he said. New classes of traders, including banks and financial institutions, would be introduced. This would deepen the commodity futures markets and related systems.

“So, we are expecting 2016 to be a turnaround year for commodity futures. Even if only some of these instruments and traders are introduced by the first half of calendar 2016, we can see a doubling of exchanges’ turnover by December,” said Jayant Manglik, president (retail distribution), Religare Securities.

After annual turnover of Rs 174.7 lakh crore in calendar 2011, comexes business started declining, 2014 ending with Rs 64.8 lakh crore. With a couple of trading days more in 2015, overall turnover is slightly more, at Rs 65.5 lakh crore. In short, annual turnover moved up albeit marginally in 2015, with partial phasing out of the commodity transaction tax (CTT), levied from July 2014.

Lower trading interest

“Due to the import policy and duties structure, there has been lower trading interest in bullion contracts on the Multi Commodity Exchange (MCX). Additionally, subsequent to imposition of CTT, major jewellery exporters and bullion importers have started hedging their requirements in international exchanges like the COMEX (CME Group). Further, the speculative interest has migrated to the Dubai Gold and Commodity Exchange, as they have launched gold and silver contracts linked to Indian prices and there is no CTT,” said P K Singhal, joint managing director at MCX. One national comex, Ace Derivatives & Commodity Exchange, went out of business due to lack of volume.

The daily average turnover of all comexes was a record Rs 58,848 crore in 2012. Since then, frequent regulatory interventions like introduction of up to 100 per cent margins in some commodities, along with rumours of more tightening of the futures market, had shaken trading on most. The most important aspect of the ongoing fall in exchange turnover was the shaky futures outlook.

“2016 looks promising, with Sebi at the helm of affairs. It is an encouraging sign for farmers,

processors, commodity stakeholders and all other market participants, since empowered regulations will positively impact the markets," said Samir Shah, managing director, National Commodity and Derivatives Exchange (NCDEX).

The markets are also hopeful on strengthened regulations for market intermediaries, including warehouses. Aligning of the commodity markets with securities markets is expected to provide a superiorr experience for investors.

NCDEX says it will be offering some advanced technological innovations to make processes easier for participants.