Sometimes people trade more actively even when there is downward trend: Mrugank Paranjape, CEO, MCX (ET Online)

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In a chat with ET Now, ***Mrugank Paranjape, CEO, MCX*** *spoke about regulatory tailwinds and effects of US elections and demonetisation on MCX. Edited excerpts:*

ET Now: How the regulatory tailwinds have improved your volumes in the last month and have they undoubtedly raise the outlook for the company in terms of an earnings perspective?
Mrugank Paranjape: I think, in terms of the last couple of weeks there are few impact for our exchange one the entire US election and at the same time the demonetisation in India obviously led to some increase in volatility. Globally, base metal has rallied so because we have a fairly diverse set of products what we have seen is that the impact of one has sort of sometime offset the other but in general led to an increase in the volumes at our exchange. Both increased activity and increased volatility generally leads to higher volumes and that is the sort of tailwind that we are seeing in the last couple of weeks for us. We expect that is really what we thought would happen and it has really happened in the last four weeks.

ET Now: One is regulation the other is of course the basic interest coming back globally in commodities I mean OPEC has done no lesser favour to crude bulls as well. Is there a direct correlation if indeed prices of commodities tend to move up, the sentiment there improves, do trading volumes go up and do they go up substantially is there empirical evidence do you want to share some thoughts here?
Mrugank Paranjape: I think the empirical evidence has always suggested that trading volumes in exchanges especially on the derivative side are more linked to volatility. Of course, sentiment does improve when there is a surge or there is a uplift in the underlying price so to that extent what has happened in crude would have an impact for crude but the bigger correlation we have always found is to volatility. So even sometimes, when there is a downward trend in some of the commodities prices the volumes do tend to go up because volatility leads people to trade more actively on the derivative side.

ET Now: Over the last three or four or six odd months, there have been some regulatory changes that have happened Vijay Iyer from our team has been reporting about some potential regulatory changes that will come up in the next six months which would board well for MCX. Now we do not want to get into how likely are these changes but to your mind what are the other regulatory changes that could be in the offing?
Mrugank Paranjape: All of us have been talking about all of these regulatory changes as rightly said Vijay has been reporting these but let us look at what are the things that the market wants and really what we are looking forward to is three key events the first is increase in products, the second is increase in participation and the third is an increase in the distribution and reach of this market. On the first count we have already seen some very concrete announcements around introduction of options which soon happen, we are all hopeful that we will trade options in the next couple of months on the derivative exchanges in India but in terms of products I think what we are looking forward to as the next steps would be introduction of index. At MCX, we have an index that we have been publishing for eight plus years and that is something which we will look forward to people using as and when they start trading indices on commodities.

Last but not the least, would be some slightly complex derivatives around freight, weather etc. Then you look at the participants again we already some news on how and when institutional domestic investors whether it is mutual funds, whether it is alternative investment funds would come into the market but the real big step again from a market perspective would be the participation of banks. For multiple reasons a) banks have their own exposures to commodities either through their lending books or because they may actually have a direct exposure sometimes and this is what would have a much wider participation from the institutional segment coming to us.

But last and that is I think one of the biggest things that we are looking forward is a multi-fold increase in the reach that will happen as and when these regulatory changes happen so SEBI has

already made it mandatory for listed companies to make disclosures on their commodities hedging and that is something which in the long run we believe inculcate a much wider discipline around how companies look at hedging.

More importantly, as regulations allow more distributors and I am here talking about banks sponsored distributors like securities companies which are subsidiaries or part of banking organisations are allowed to offer commodities as a product. The increase in the number of people or the entire reach that it will give us as a business will increase multi-fold so I think it is those three big sort of expansion events that all of us are looking forward to. Like you rightly said it is not exact time lines that anyone of us is currently either wanting to debate or wanting to speculate on but all of us feel fairly confident that these will happen over the next couple of years.

ET Now: Soon or rather next year, I should say the Bombay Stock Exchange and NSE as well will be tapping your markets, the primary markets that is. What are your measures to mitigate competition because they as would have a fierce strategy I am guessing?
Mrugank Paranjape: Absolutely. I think, the one thing which any organisation and MCX obviously is no exception is that we need to be absolutely on our toes when it comes to the market place in terms of being competition ready and in terms of being absolutely close to the market. So in this business really there are three ingredients that you need to make sure are there.

First and foremost is your technology. Touch wood but we have absolutely not had a single instance of stoppage on our trading engines and we will continue to monitor that not only are they and continue to be absolutely reliable but we are in the same league when it comes to matching the performance. So from our perspective, the first thing to watch out for would be to make sure that we on a continuous basis benchmark ourselves to the other exchanges locally as well as globally. The second piece is around our products.

Finally, as we all know, it is the product that you bring to the exchange it is how close it is to the market place, how much does it reflect the requirements of the traders and how much does it reflect the requirement of the hedging community that really determines the success of your product. And to keep that going you need to have the people. So very happy to note that in the last 12 months not only have we retained all our talent that we had which successfully sort of protected the market share of this exchange in the last couple of years but we have also been able to attract a lot of new talent to this organisation. So essentially as long as we maintain our existing team, attract new talent and those people remain close to the market, I think we will be able to keep ourselves in good shape even when competition is coming in.

ET Now: I do not remember which of the regulatory bodies whether it was SEBI, whether it was somebody else who mentioned that they will have to take stock of the fact that one single exchange or entity cannot have the lion share or a disproportionate market share in individual commodities or specific market metric. Now we all know that you guys are leaders by far when it comes to industrial commodities, gold, crude, so on and so forth. Now is that a worry and can a regulatory body takes steps to ensure that MCX market share for example which may be northwards of 70-80 as the case may be in say for example crude or gold, can come down and can that cause a hit? You would have taken notice of these statements I am sure.
Mrugank Paranjape: Absolutely. So I think, it is absolutely fair thing to say that it is a regulator's ambit and it is a regulator's duty to make sure that the market place is stable, that the market place does not have any unhealthy practices and that the market place continues to foster an environment in which competition can thrive. So to that extent, that would be what we are absolutely sure every regulator in this country would be looking towards but we as an exchange as well are very-very clear that that is exactly what we want as well. We want to make sure that we are absolutely doing what is required in terms of the regulatory framework and we are in no ways either advantage or disadvantage by any of the regulations. So do we get worried by statement like that? Not really but yes we do make sure that everything that we do is absolutely within the framework and keeps us ahead in terms of the market place.

ET Now: What kind of market share are you aiming at going forward considering there is going to be intensified competition?
Mrugank Paranjape: So I think fair to say that we want to retain our market share. So we would absolutely not want to lose our market share… So to your second question, the regulatory

framework as you are aware currently does not explicitly allow exchanges to launch, so for commodity exchanges to launch equity or currencies. So it is something which as and when that framework is in place, we will evaluate those options and see where we want to go.

In terms of market share, for the products that we offer, we would definitely want to retain our market share in the metals and energy space. We have full market share today and we would like to retain that so that is really our target. When it comes to agricultural commodities, we have been cautious. We have not really launched too many new products there. We have some niche products which do very well and we will continue to play the agriculture segment the same way. So we are not really going after any aggressive market share in the agriculture space but to the extent we have good products and we see one or two opportunities coming up, we will try and launch something.