MCX is ready for options: PK Singhal, MCX

By ET Now | Mar 01, 2016, 02.40 PM IST

In a chat with ET Now, PK Singhal, Joint MD, MCX, says although India is a price taker not a price setter, the volumes should be on the higher side in the time to come

ET Now: Now that the FDI norms have been relaxed for exchanges, should this mean a big positive for you at MCX?

PK Singhal: No. As you know, as far as MCX is concerned, we are already a listed company and we do not require any money. So basically whatever impact will come, it will come in the secondary market because as far as company is concerned we are not raising any money. Of course, it is a positive because it means that the foreign entities, foreign exchanges, foreign banks can take shares of MCX but one more clarity is required. More than the investment in the stock exchanges, there is a need to have similar types of treatment in clearing corporations. As per the Sebi requirement, by September 2018, the commodity exchanges should have their own clearing corporation. So we are also in the process of setting up a clearing corporation. So in the clearing corporation basically this type of expertise of the foreign entities, foreign exchanges will be required. As you know commodities are different from the stock exchanges, here the clearing happens in the physical stocks just like gold, base metals, just like in US and other developed countries, there is London Metal Exchange, in US there is a Chicago Mercantile Exchange. So basically for that, there is a need to have expertise and probably no international exchange will be interested to basically enter into a joint venture or collaborate if the limit is 5 per cent. So, in the fine print, the clarity may come. Of course it is a positive development. No doubt about it.

ET Now: It is never a case about whether MCX needs money. Yes, you do not but in the past, foreign entities have shown an interest in picking up stake in MCX. If that were to happen at a really good valuation, this paves the way for that and would you be open to such a move?

PK Singhal: As I have rightly said, exchanges have no role to play because it has to be acquired from the secondary market. So whatever effect takes place, will come at secondary market share price. But as far as the exchange is concerned, this opening of the finance minister's statement that Sebi will allow options, is a very big positive as far as exchange is concerned because we all are waiting for options.

ET Now: Tell us something about the new derivatives products that you are planning to launch?

PK Singhal: Actually, as far as MCX is concerned, we are ready for options. We have also done mock trading and are ready for all types of options like weather derivatives, indexes etc. If you see our website, you will find we have an index for metals and agri as well as bullion. We can just start within a short period of two to three months or even one month. As far as preparation is concerned, it is ready.

ET Now: What are the products exactly? Is it only options because the finance minister just highlighted that it is going to be derivative products. If you could give us individual names of the products, then are you looking to launch for MCX

specifically for commodities?

PK Singhal: Because of competitive reasons, I do not think it will be proper for me to disclose but I have already told you weather derivatives are there. Similarly, rainfall index is there. So there can be hundreds of such products but I personally think that initially Sebi will open all these things in phases. Initially, they will allow options in a few commodities where there is more liquidity. Like for example, gold, silver, copper and then subsequently looking into the response and risk management, all other products will also be optioned.

ET Now: Given what has happened to the commodity prices? MCX total trading volumes have come down. What is your understanding of the trading pattern?

PK Singhal: Last year, the commodity prices were at a all time low. There was more than 40 per cent fall in the base metal prices and more than 100 per cent fall in the energy prices. Though gold prices fell internationally, in India the fall was not so much. All these things together with the fine budget will give a lot of encouragement for infrastructure and all those things. So naturally we feel that the demand for base metals will increase and naturally if the demand increases, there will be some effect on the prices. Although India is a price taker not a price setter, the volumes should be on the higher side in the time to come. As you might have observed during February, our volumes have increased by about 10 per cent in comparison to what the figures were in January and basically all these things is because of some improvement in the prices.