Gold options will formalize trading, says finance minister

BY JAYSHREE P UPADHYAY & PTI

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Union finance minister Arun Jaitley on Tuesday launched the first options security with gold as the underlying asset for trading on Multi Commodity Exchange Ltd.

Jaitley said that launching gold options is a step towards "formalizing trade" in the yellow metal.

Options are derivatives which give a buyer the right, but not the obligation, to buy or sell an underlying asset or instrument at a specific price on or before a certain date.

"This marks a very important evolution in trading of the yellow metal itself," Jaitley said after launching the options trade on Tuesday.

Indians are great buyers of gold. This new product will be extremely successful, he added.

Jaitley also said that it will help in the government's drive to formalize gold trading in India.

"I am sure the more it formalises, the better it is for consumers, jewellers and those trading in this. That's in consonance with the business environment for future that we see for us," the finance minister said.

This is the first product for options trading that the regulator, the Securities and Exchange Board of India, or Sebi, has allowed after 14 years of commencement of commodity exchanges in the country.

While the market regulator had allowed the exchanges to launch options in September 2016, it was only on 26 April that it clarified that the options would have futures as underlying for settlement.

The gold options contract launched on Wednesday allows trading in 1kg gold.

The lot size for gold commodity options would be Rs30 lakh.

"The commodity options would be taken up initially by hedgers, professionals and high net-worth individuals," said Kishore Narne, head of commodities at Motilal Oswal Commodities Broker Pvt. Ltd.

"Retail investors will participate only if the mini gold contracts are launched as the lot size is not manageable for retail, as per the current specification. However, the first day's volumes show a healthy sign that soon it will cross the futures trading volumes," said Narne

In India's equity market, options account for 83.61% of total trading in the derivative segment.

The move to allow options trading comes on the back of several other steps that the government has taken to make gold trading more transparent.

In 2015, it launched the Gold Monetisation Scheme (GMS) with the objective of mobilizing the gold held by households and institutions in the country.

The scheme allows a bank's customers to deposit their idle gold holdings for a fixed period in return for a rate of interest in the range of 2.25% to 2.50%.

The sovereign gold bond scheme was launched in November 2015 with the objective of reducing the demand for physical gold and shift a part of the domestic savings, used for purchase of gold, into financial savings.

On 9 June 2016, trading began in Sovereign Gold Bonds, which are government securities denominated in grams of gold but not backed by physical gold.

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