Thomson Reuters launches commodity indices with MCX today

First-of-its-kind indices to help investors in decision-making, bring transparency in prices

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Thomson Reuters, in association with India's largest commodity trading platform, the Multi Commodity Exchange of India (MCX), is launching a first-of-its-kind benchmark commodity indices on Tuesday.

To begin with, the exchange is introducing six indices in three different categories: composite, base metals, and individual commodities. TRMCXCMP, the Thomson Reuters-MCX iCOMDEX Composite, the comprehensive composite index has a composition of 11 individual commodities with crude oil with the highest weight of 35.22 per cent, followed by gold with 22.2 per cent, and silver with 11 per cent. Every commodity is weighted two-thirds by its liquidity and one-third by its physical market size in India, which is calculated on the basis of local production and import.

Normally, institutional participants take positions on any financial instrument with a long-term view. Globally, the S&P 500 Index is the benchmark for any institutional investor to take a position in a financial instrument. Similarly, the Nifty 50 provides the direction of equity markets in India. In the commodity markets, however, there was a dearth of such indices. With the regulator gradually liberalising the commodity markets by allowing participation of Category-III hedge funds, a benchmark index was needed for institutional investors to take an investment decision. "We are launching a set of commodity indices particularly for the Indian markets in partnership with MCX. These indices are meant to bring more transparency," said Stephan Flagel, global head of indices, Thomson Reuters.

Apart from a composite index, Thomson Reuters is also launching indices separately for base metals (.TRMCXBSM), bullion (TRMCXPRM), gold (.TRMCXGOLD), COPPER (.TRMCXCOPP) and crude oil (TRMCXCROL). Along with these, two sector indices are also being published — base metals (aluminium, copper, lead, nickel and zinc) and bullion (gold and silver).

These indices were conceptualised about a year ago with the involvement of both Thomson Reuters and MCX. While Thomson Reuters brought over 100 years of global experience in various businesses, MCX contributed its expertise in commodity futures trading.

OVERALL WEIGHT

Individual commodities in TR-MCX iCOMDEX (composite index)

Commodity	Weight (%)
Crude oil	35.22
Gold	22.2
Silver	11.22
Copper	6.59
Zinc	5.89
Natural gas	4.68
Lead	3.74
Nickel	3.23
Cotton	2.37
Crude palm oil	2

Source : MCX, Thomson Reuters

These indices will not be available for trading and will be just benchmarks to provide a direction for the performance of the underlying commodity on a periodic basis. Sebi is yet to allow trading in commodity indices. "With these indices, we will have broader market participation in commodities, which will translate into more liquidity, pricing and trust. We have been in this business for a while and, therefore, know how rigorous the process is to capture prices. We make sure of bringing more transparency in the data we publish. On the back of that, we construct indices which help institutional investors take investment decisions," said Pradeep Menon, managing director (global head of investing and advisory), Thomson Reuters.

In the composite index, two agriculture commodities — crude palm oil and cotton — are incorporated to reflect the trend of the commodity basket. These indices will reflect the price trends of MCX across all commodities in their composition. "Factors that influence the inclusion or exclusion of commodities in a composite and/or sector index include Indian economic significance such as production levels and import data, requisite liquidity as demonstrated by three years average of daily turnovers, and minimum one year of trading history on an exchange platform with at least ₹50 crore of daily average turnover. The rebalancing of commodities will be done on an annual basis," said V Shunmugam, head (research), MCX.