MCX's gold options shine brighter after market-making boost

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MCX, the country's largest commodity exchange, breathed new life into gold options trading on Tuesday by allowing market-making through a liquidity enhancement scheme.

The trading volume in gold options during the first half of trading on Wednesday stood at ₹222 crore, up 29 per cent from the ₹172 crore logged in the same duration on Tuesday.

The overall turnover on Tuesday was ₹370 crore, against ₹50 crore recorded on Monday, a day before the market-making was introduced. While the first options session ends at 5 pm, the second half goes on till 11.30 pm.

MCX has selected East India Commodities, Raghunandan Industries and Rajesh Baheti as market-makers through a competitive bidding process. Market-makers get incentives for providing quotes on 'call' and 'put' to enhance liquidity.

MCX competitor NCDEX, which facilitates trade in guarseed options, is yet to consider market-making. The average daily volume on the exchange is about ₹3 crore.

Ajay Kumar Kedia, Director, Kedia Commodities said options trading will begin attracting more hedgers as the liquidity improves.

He added that gold prices had turned volatile in the past few days due to global developments; and prices in India had gained on rupee weakness against the dollar.

MCX launched gold options last October, but it remained a non-starter due to the lack of volatility in gold prices; trading volumes were less than ₹30 crore on most days.

SEBI-allowed market-making in commodity options trading on March 26 following representations from commodity exchanges. On April 2, MCX called for application from interested parties to place their bids with an intention to start market-making from April 17. However, it had to revise the offer for eligible candidates and push the launch date to Tuesday.

With the introduction of the liquidity enhancement scheme, the open interest in gold's 'put' option at ₹31,000 has increased to 129 lots, while that at ₹30,500 was at 111 lots.

Similarly, 'call' options open interest at a strike price of ₹31,500 jumped to 233 lots, and at ₹31,000 it was at 128 lots, though there is a bearish sentiment on gold after the recent rally.