THE ECONOMIC TIMES

Crude oil options register average daily turnover of Rs 207 crore on MCX

BY SUTANUKA GHOSAL, ET BUREAU | NOV 27, 2018, 06.50 PM IST

Kolkata: Since its launch in May 2018, MCX crude oil options has been witnessing increased traction. MCX Crude Oil Option registered an average daily turnover and volume of Rs 207 crore and 4,73,900 barrels respectively in the month of November '18 (till November 26, 2018), in comparison to respective figures of Rs. 117 crore and 2,40,600 barrels in May '18, thereby clocking a volume growth of 97%.

During the month, the contract also witnessed record turnover and volume of Rs. 582 crore and 13,62,600 barrels respectively on November 14, 2018. The open interest hit a high of 6,26,500 barrels in the month. This signifies the increasing acceptance of crude oil options amongst market participants. The European-styled crude oil option is based on the underlying MCX crude oil futures contract (100 barrels) traded on the exchange.

The value chain participants who use the crude oil derivative products in their manufacturing process are exposed to the drastic crude oil price movements. The average daily volatility in crude oil prices for this year has been at 1.80%. This highlights the significance and need for derivatives products such as options as a price risk management instrument for the energy stakeholders in the value chain including petrochemicals, glass manufacturing, textiles, heat treatment sectors and transportation, which are highly exposed to crude oil price volatility.

Mr. Mrugank Paranjape, MD & CEO, MCX said, "The introduction of a crude oil options contract in May was a logical step to ensure our participants have greater accessibility to the energy derivative products. Paired with MCX crude futures, the options as a product has drawn a strong appeal. The contract has been offering immense value to its stakeholders by facilitating price discovery, offering protection and hedging opportunities to increasingly vulnerable industry participants."

Mr. Sanjay Rawal, President, Commodity Participants Association of India (CPAI) said, "Ongoing volatility in the crude oil market would have encouraged hedging activity in the energy derivative segment on MCX. The MCX crude oil options contract has proved to be yet another successful tool in satisfying the risk management needs of the stakeholders who were looking at hedging against the volatility in the prices of fuels such as aviation fuel, furnace oil and naphtha, as they have a very strong correlation with crude oil prices."

Mr. Karunakaran Hari, Head-Business Development, Trafigura (India) said, "It is notable that since its launch early this year, India's first crude oil options contract has been gaining momentum. India is the world's third largest consumer of crude oil and with lower to flat crude production India depends heavily on imports. For crude oil industry, the MCX crude oil options contracts serves as a risk mitigating tool which helps to better manage their price exposure in crude oil."