MCX embraces "add-on effect" amid competition

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The Multi Commodity Exchange (MCX) is embracing the "add-on effect" of market reforms after a rule change paved the way for new rivals across the country.

India's largest commodity derivatives exchange is planning to launch products on commodity indices as it seeks to maximise the potential for growth amid the emergence of new players in the market.

"Indian commodity derivatives market has yet to reach its true potential. As Indian economy continues on its remarkable growth journey, the positive effect permeates its commodity market.

"The market only grows as a result of competition, leading to enlargement of overall market pie," Mr. Mrugank Paranjape, MCX managing director and chief executive officer, told FOW.

India's main financial regulator, the Securities and Exchange Board of India (Sebi) has scrapped restrictions that precluded commodity derivatives brokers from dealing in other securities and vice versa.

This paved the way for the National Stock Exchange of India (NSE) and the Bombay Stock Exchange (BSE) to launch their first commodity derivatives in October last year.

According to Paranjape, these type of market reforms have an "add-on effect" for MCX in terms of new products and participation.

As part of upcoming initiatives, MCX is looking to add derivatives on commodity indices as and when the regulator grants permission to do so.

This would build on its existing indices suite comprising six indices based on commodities traded on the exchange (including a broad based commodity index, a bullion index and a base metals index) – published in collaboration with Refinitiv – formerly Thomson Reuters Financial & Risk.

"We hope to launch derivative contracts on these indices. These indices would also become a ready reckoner for various fund houses. Besides, we are also seeing demand for products on weather indices," Paranjape said.

Other initiatives include exploring the feasibility of new products in the metal, energy and agri commodities space.

Meanwhile the exchange has already started converting its metal contracts' settlement to 'compulsory delivery'. The change has already been introduced to aluminium and zinc contracts, and other metal contracts (lead, nickel and copper) will be amended soon.

Nevertheless the biggest opportunities lie in the integration and introduction of new participants.

"We see the biggest opportunity in integration of market intermediaries across product segments. This move would facilitate channelising resources and resource pool to commodity derivatives segment," Paranjape said.

This comes after the Reserve Bank of India decided to allow bank-owned broking firms to offer commodity derivatives products to their customers.

"These entities are contributing significantly to enhancing the footprint of commodity markets among the excluded people and geographies in India," Paranjape explained.

Another Sebi amendment will bring institutional investors including mutual funds, and portfolio management services, to the commodity derivatives market as and when the regulator allows.

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In September last year MCX launched the launched India's first commodity derivatives clearing firm - Multi Commodity Exchange Clearing Corporation Ltd (MCXCCL).

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