Interview: MCX CEO Paranjape sees spot exchange as next growth driver (Cogencis)

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--MCX MD: Made some investments in proposed spot exchange
--MCX F&O volumes to grow 15-20% a year over 3-4 years
--SBI Capital Markets may start commodity broking this mo
--Hope volumes in gold increase in coming months
--Working on pdt on 3 indices, first pdt launch seen by Jun
--Gold open interest at five-and-half-year high of 22 tn
--Deliverable metal futures not a threat to volumes
--To launch zinc, lead futures for delivery in Chennai

By Shrikant Kuwalekar

MUMBAI – It has been over three years since the government expressed the need for a spot exchange for gold, and trade bodies and exchanges have heen gearing up to be part of such a move.

In 2016, during his stint at the Department of Economic Affairs, Reserve Bank of India Governor Shaktikanta Das had raised the need for a spot exchange for gold. The idea was seconded by Finance Minister Arun Jaitley in his Budget speech for 2018-19 (Apr-Mar).

After holding talks on the matter with various stakeholders, the Centre seems to be in the final stages of publishing a blueprint for such an exchange as early as before the Interim Budget for 2019-20 (Apr-Mar), scheduled to be presented on Feb 1, government sources say.

The Multi Commodity Exchange of India, which has a monopoly in the gold futures and options market, is working relentlessly on securing the project.

"For us, growth will come when we get the spot market (exchange)," MCX Managing Director and Chief Ececutive Officer Mrugank Paranjape said.

"We know what kind of systems, processes, product, back-end, everything...We are waiting for the regulation," Paranjape told Cogencis in an interview.

On the Centre's plan for a spot exchange for gas, Paranjape said, "We are absolutely ready to start spot exchange for bullion, spot exchange for gas...We have already made some investment in this direction."

He also spoke on MCX's plan for growth in the existing commodities business, even as challenges from new entrants such as BSE and the National Stock Exchange emerge.

For Oct-Dec, MCX posted a 32% growth in average daily turnover at 266 bln rupees. To an entent, the growth allayed fears that BSE and NSE, which had forayed into commodity derivatives in October, could pose a threat to MCX's volumes.

For Apr-Dec, MCX's average daily turnover was 252 bln rupees, up 24% on year.

Following are the edited excerpts from the interview:

Q. In a universal exchange regime, what growth does MCX expect in 2019-20?
A. The commodity derivatives market had faced two major shocks prior to 2017-18—the commodities transaction tax and demonetisation. In 2017-18, the levy was rationalised in favour of exchanges and the fading impact of demonetisation brought back volumes in commodities. So, it would be worthwhile to take 2017-18 as a base year to predict growth in the sector.

In the past, we have said that from that base, our revenue and volumes should grow 15-20% per year. In the first year, the current financial year, we are definitely going to deliver much more than that.

From next year, the 15-20% kind of growth will continue for the next three-four years, which will help us retain our 'commodity stronghouse" status despite rising competition.

Q. What are the growth drivers for the exchange and the commodities market in the coming years?
A. The commodity sector is largely linked to GDP growth. If the economy grows 7-8%, the market will grow 8-10%. For MCX to grow 15-20%, or higher than the 8-10% bracket, there are four major factors--distribution, product, institutional participants, and increased hedging that creates more liquidity. Of these, I think MCX has one--distribution. Future growth will come from distribution, which is when all bank subsidiaries start broking. That will definitely kick in in the next financial year. So far, Kotak Securities and and Axis Securities are the two bank subsidiaries that have started operations at MCX, while HDFC Securities and SBI Capital Markets are expected to log in this month.

On the product side, we are running a bit behind expectations. Options have started, but haven't picked up as expected...may be, it will take a couple of years to grow at expected levels. SEBI's consultation paper on indices, however, is a big plus point for future development, because India is a market with a pool of people with ability to trade, and I think the cash settlement product makes sense.

We think institutional participation has not come at all. But with mutual funds getting the final nod from the Securities and Exchange Board of India this quarter, it will be a reality. The contribution of hedging is a continuous process. We have seen some impact, which is more regulatory-led on gold, something that pushed the once top-traded bullion complex to the third spot on the exchange. However, there is clearly an increase in traction for gold and I hope that this year, bullion will regain its lost glory in MCX's overall volumes. Hedging by small enterprises and big corporates in bullion is rising, which was reflected in open interest in gold touching almost 22 tn last week, a level last seen five and a half years ago.

Q. What is your plan on indices and products on indices?
A. MCX has been publishing six indices, of which a broad-based index of all commodities traded on the MCX, a precious metal or bullion index, and a base metal index are relevent in today's market. Going forward, we may add an energy index, which will complete the basket. The exchange has a tie-up that ensures access to governance, methodology, production and, more importantly, the distribution of Thomson Reuters. To back-test these indices, MCX has the data for more than eight years. We hope to launch the first index in Apr-Jun.

Q. Base metal futures are getting compulsory delivery contracts. Is this a threat to volumes on the MCX?
A. I would say there is some bit of work for us to do there, and we need to create a way that the market can play it out. But the threat to volume is overplayed. We have been engaged in bullion deliveries for so many years that making contracts deliverable is no hindrance. The exchange has already launched compulsory delivery contracts in aluminium and zinc expiring from March. It has tied up with Yamada Logistics for delivery at Bhiwandi in Thane district. Another warehouse service provider will come on board soon. Lead and nickel would be the next contracts to be deliverable in Chennai.