

# Trends and prospects of commodity markets trading in india an analysis



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Trends and Prospects of Commodity Markets Trading in India: An Analysis

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**SYNOPSIS** Introduction: This project is to analyze the future prospects of commodity market as the Indian Commodity markets and futures trading in the commodity exchanges have great potential to develop as one of the fastest growing centers in the world. India belong an agrarian economy can definitely bolster its commodity trading volumes. Similarly India is also a large producer in various commodities and metals. If we consider consumption aspects of certain commodities, India again will figure as one of the largest consumers of such products. Being one of worlds largest agrarian economies, commodities contribution (agricultural produce and other commodities) to the Indian economy said to account for about 50% to Indias GDP. Commodity market is an important constituent of the financial markets of any country. It is the market where a wide range of products, viz.

, precious metals, base metals, crude oil, energy and soft commodities like palm oil, coffee etc. are traded. It is important to develop a vibrant, active and liquid commodity market. This would help investors hedge their commodity risk, take speculative positions in commodities and exploit arbitrage opportunities in the market.

Market is a place where buyers and sellers meet to transact a business i. e. for exchange of goods or services for a consideration, which is usually money. Markets are usually and traditionally at a place or location, where buyers and sellers could meet.

However, in modern world, buyers and sellers on telephone lines or on Internet can transact the business. Hence, in today's world markets need not exist in physical form as long as the exchange of goods or services take place for a consideration. Commodity market is therefore logically a market where commodities or commodity derivatives are bought or sold for a consideration. It is thus an important constituent of the financial system for any country. Existence of a vibrant, active and liquid commodity market is normally considered as a healthy sign of development of any economy. Commodity markets quite often have their centers in developed countries though the primary commodities in many cases are produced in developing countries.

Birth and growth of transparent commodity market is thus a sign of development of an economy. This has particular significance in case of countries like India, which produce agri-products as well as a number of other basic commodities, which are traded on commodity exchanges world over. Commodity futures in particular help price discovery and assist investors in hedging their risks by taking positions in commodities and exploiting arbitrage opportunities in the market. Objectives: 1. To understand the fundamentals of commodity market. 2. To understand the need of evaluation of commodity markets in the world. 3.

Getting knowledge of current Scenario of commodity market over the entire world. 4. Getting knowledge of functioning of commodity markets through exchanges. 5.

To find out the area of economic growth contributed by commodity markets.  
To know about the benefits of commodity futures market to entrepreneur and businessmen. 6. To study characteristics of some commodities and its position in Indian Scenario.

Scope of Commodity Market Investment in commodity markets has been very popular and rewarding for investors in U. K. and U. S.

A. For investors looking for diversification beyond stock markets, commodity markets offer another investment option. The commodity markets activity, volume and players multiplied in the recent past. In India, although the trading in commodity markets and commodity exchanges is booming, it has to cross few more hurdles like permitting Fills, banks and other financial institutions to operate in these markets. The reason why investors may look for opportunities in commodity markets may take us to the basic tenets of risk and return theory viz.

expected return and risk. Normally it is a risk – reward relationship. The higher the risk higher is the expected return and vice versa.

Research Methodology: ??? Methodology can be considered as the backbone of any project work.??? Methodology refers to the scientific methods used in the project for the purpose of investigation and research. Thus one can visualize the potential of Indian commodity exchanges to become a global hub for futures trading with the expected turnover of this segment outgrowing the stock market within a few years to come. It is a Conceptual Research fully based on abstract ideas, concepts or theory. It results in the development of new concepts or reinterpretation of existing one.

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Tools of Data Collection: 1. Primary Data: - ??? Data collected for very first time for analysis is primary data.??? Since the primary data is not required in this project it is not collected.

2. Secondary Data: -??? Data that already exists is known as secondary data.??? It provides a starting point for the project and offers the advantages of low cost and ready availability. The secondary data is collected from various books like NCFM Commodity Dealer Module- NSE India and Diploma in Commodities Trading (DITC) -By Welingkar Institute of Management Development & Research and for getting knowledge of current scenario of commodity market over the entire world and in India different sites are used like. Limitations: 1. Commodity market prices can fluctuate wildly depending on the factors, which are sometimes beyond human control (floods, storms, natural calamities like earthquakes, etc. can create temporary shortages of commodities and hence result in drastic changes in their prices in a very short time).

2. Forward or futures trading involve a passage of time between entering into a contract and its performance making thereby the contracts susceptible to risks, uncertainties, etc. Hence, it is necessary that the investors/players in the commodity markets understand the functioning of commodity markets; mechanism of commodity Exchanges properly and studies the factors that can affect the commodity prices carefully. Conclusion: Thus, the findings are based on the movements of the existing commodity spots and futures indices; indicate an important informational role of the futures market. The study find evidence of information flows between the spot and

futures markets, the degree of information flows and their direction vary significantly.

The variation is mostly based on the type of commodity studied, the market infrastructure and the operation of arbitrageurs in the futures market.

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3. <http://www.ncdex.com>

4. <http://www.commoditiescontrol.com>