# RESTRUCTURING THE COMMODITIES FUTURES TRADING

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Present system of commodities trading have been often accused of creating inflation, artificial storage and hoarding of various commodities. It is said that the present system is prejudice in favour of badla operators speculators. Therefore, though the facts may not be such to make system more transparent, credible and market friendly, following suggestions can be looked into.

**1. Uniform Products:**

For the same products, contracts across all the exchanges should be similar so that investor can trade across these contracts. Under the present circumstances contract specifications for the same products differ from exchange to exchange. Such artificial differentiations create boundaries in Trade and results oligopoly. With more exchanges in the pipeline standardization and uniformity in contracts would be more desirable.

**2. Market surveillance and trading pattern:**

Feedback for market participants reveals that a large number of investors/ traders have lost/ are losing money in the commodity market. Similarly large number of old franchisee and sub-brokers are quitting commodity market because of heavy losses and bad debts. Thus commodity market instead of becoming an investment class, is becoming a non-performing asset and investors are now trying to avoid this market. Thus affecting the development of this segment. The reasons are:

(i) Low margin in commodities market induced traders to take heavy position vis-à-vis their financial capacity. As and when there is high volatility they cannot sustain MTM on their open position and saudas have to be squared off, resulting into losses. If margins are more, position will be taken accordingly, which can be sustained for a longer period.

(ii) In absence of any strong spot commodities market the traders are dependent upon international brokerage house to provide the electronic quote through internet. In most of the brokerages house the COD (contract of difference) is an OTC (off-market), products and therefore, quotes provided need not reflect the actual rate of exchange. On the date of expiry, where the contracts are squared off no matching price is available at spot exchange or mandies or in any international exchange for most of the items.

(iii) Present system of designing of Futures Commodities Contracts can be clarified in 2 categories:

**a.** **Agri Products:** New contracts should be available at the sowing season and expiry should be available minimum upto harvesting season or longer. Thus Agri-products contracts should be available upto 6 months.

**b.** **Non-Agri Products:** Metal and Energy Products Contracts are designed on the basis of international lineage and fresh contracts are launched into multiple months with expiry running over years.

Apparently, the contracts have been designed to suit the peculiar make of Agri-products and industrial consumers and provide an excellent mechanism for Price discovery and hedging.