

Agricultural Commodity Futures' Markets

Agricultural commodity futures are market-based instruments for managing risks and they help in orderly establishment of efficient agricultural markets. Future markets are used to hedge commodity price risks.

They also serve as a low cost, highly efficient and transparent mechanism for discovering prices in the future by providing a forum for exchanging information about supply and demand conditions.

The hedging and price discovery functions of future markets promote more efficient production, storage, marketing and agro-processing operations and help in improvement in overall agricultural marketing performance.

Although India has a long history of trade in commodity derivatives, this sector remained underdeveloped due to government intervention in many commodity markets to control prices. The production, supply and distribution of many agricultural commodities are still governed by the state. Free trade in many agricultural commodities items is restricted under the Essential Commodities Act (ECA), 1955 and Agriculture Produce Marketing Committees (APMC) Acts of various State Governments. The forward and futures contracts were, till April 2003, limited to only a few commodity items under the Forward Contracts (Regulation) Act (FCRA), 1952. However, in 2003, GOI removed all restrictions on commodities, which could be traded on commodity exchanges.

At present, 25 commodity exchanges are in operation in India carrying out futures trading in as many as 81 commodity items. Most of these exchanges are regional and commodity specific exchanges. During 2003, National Multi Commodity Exchange (NMCE) status has been accorded to four commodity exchanges, viz., National Multi Commodity Exchange (NMCE), Ahmedabad, National Board of Trade (NBOT), Indore, National Commodity Derivative Exchange (NCDEX), Mumbai and Multi Commodity Exchange (MCX), Mumbai.

The Forward Markets Commission (FMC), established under the Forward Contracts (Regulation) Act, 1952 is the agency which regulates commodity derivatives trading in India in the same way as SEBI does for securities markets. The FMC recommended that a National level Institutions like NABARD should play a promotional and developmental role in setting up broad based modern, transparent and vibrant commodity exchanges. In line with this thinking and the priority accorded by Govt. of India, NABARD is keen to participate actively in fostering efficient spot as well as futures agriculture markets. It is expected that participation of NABARD in the equity of commodity exchanges will facilitate integration of agriculture credit, securitisation of agricultural produce and futures markets, leading to more efficient price discovery of farm produce. To achieve this, NABARD has taken a conscious decision to enter into partnership with leading national level commodity exchanges and participated in the equity of two national level commodity exchanges – National Commodity Derivative Exchange (NCDEX), and Multi Commodity Exchange (MCX).

NABARD's strategic partnership with NCDEX and MCX will enable the two national level institutions, NABARD & national level commodity exchanges to work synergistically to achieve the objective of establishing an efficient and transparent agricultural market in India, in the larger interest of farming community for better price realization of their farm produce.