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A STUDY ON COMMODITIES MARKET IN INDIA

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Abstract

The commodities market plays a fundamental role in global trade and economic activity by enabling the exchange of essential raw materials that drive industries and fulfill consumer needs. This abstract provides an in-depth exploration of the complexities and dynamics that shape the commodities market, focusing on the key factors influencing price fluctuations. These factors include supply and demand variations, geopolitical developments, climatic conditions, and advancements in technology, all of which contribute to the volatility of commodity prices. Additionally, the abstract highlights the significance of financial instruments, such as futures contracts and options, in managing market risks and enabling investors to speculate on price movements. These instruments serve as crucial tools for businesses and traders seeking to hedge against potential losses and capitalize on market trends. Furthermore, the discussion extends to emerging trends that are reshaping the commodities market, including the increasing emphasis on sustainable and ethical sourcing practices, the integration of digital technologies in trading and market analysis, and the growing impact of environmental regulations on commodity production and distribution. As global markets evolve, understanding these influential factors becomes imperative for investors, policymakers, and businesses aiming to navigate the complexities of the commodities market effectively. A comprehensive grasp of these dynamics allows market participants to identify lucrative opportunities while implementing strategies to mitigate the inherent risks associated with commodity trading.

Keywords: Commodities market, Price fluctuations, financial instruments, Market dynamics, Investors,

Policymakers.

Introduction to the Commodities Market

A decade ago, investing in securities and trading instruments such as stocks, bonds, and commodities was considered a gamble by many in India. However, this perception has significantly evolved over the years. Today, investors are diversifying their portfolios across multiple asset classes, including mutual funds, equities, and commodities.

A well-balanced portfolio, consisting of a mix of commodities and equities, can provide attractive returns while minimizing risk. Investors can explore commodity trading through exchanges like the **National Commodity and Derivatives Exchange (NCDEX)** and the **Multi Commodity Exchange (MCX)** to understand the various commodities available for trading, their contract sizes, and other key specifications. Seeking guidance from a commodities broker can help investors navigate the complexities of commodity trading.

Key Aspects of Commodity Trading

- **Commodity Options Trading**:
  In commodity trading, options contracts grant the right to buy (**call option**) or sell (**put option**) an underlying commodity futures contract at a predetermined price upon contract expiry. Unlike equity options, where contracts involve rights to buy or sell company shares, commodity options function differently within the trading framework.
- **Types of Commodities in the Market**:
  - A commodity market involves the buying, selling, and trading of raw materials such as oil, gold, and agricultural produce.
  - Commodities are broadly classified into two categories:
    - **Hard Commodities**: Natural resources that require extraction or mining, such as gold, crude oil, and rubber.
    - **Soft Commodities**: Agricultural products and livestock, including wheat, coffee, sugar, soybeans, and pork.
- **Spot vs. Derivatives Market**:
  - The **spot commodity market** facilitates immediate delivery of goods.
  - The **derivatives commodity market** involves contracts for future delivery at a predetermined price.
- **Investment Strategies in Commodities**:
  Investors can gain exposure to commodities in multiple ways:
  - Investing in companies that are directly involved in commodity production. o Trading futures contracts, which allow speculation on price movements.

The Role of Commodity Markets:

A commodity market serves as a marketplace for buying, selling, and trading raw materials or essential goods. These markets provide investors and businesses with an opportunity to hedge risks, speculate on price movements, and ensure price stability for essential commodities.

Understanding the commodities market is crucial for investors looking to diversify their portfolios and manage financial risks effectively. As the market continues to evolve, it presents opportunities for both institutional and retail investors to participate in global trade and investment activities.

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Meaning of the Commodities Market

The commodities market is a financial marketplace where traders engage in buying and selling contracts for the delivery of physical goods or raw materials. These commodities include agricultural products, metals, energy resources, and other essential raw materials. The market serves as a crucial platform for producers, consumers, and investors to manage price volatility, hedge risks, and speculate on future price movements.

The commodities market is structured around four main components:

1. **Commodities**

o These are the actual physical goods being traded. They are broadly classified into:

- **Agricultural Products** – Wheat, corn, coffee, soybeans, etc.
- **Energy Resources** – Crude oil, natural gas, coal, etc.
- **Metals** – Gold, silver, copper, aluminum, etc.
- **Other Raw Materials** – Rubber, cotton, lumber, etc.

2. **Producers/Suppliers** o These are the entities responsible for the production and supply of commodities. o Examples include farmers, mining corporations, oil drilling companies, and natural resource extraction firms.

3. **Consumers/End Users**

o These are businesses and industries that utilize commodities in their operations or for direct consumption. o Examples include food processing industries, manufacturers, power generation companies, and construction firms.

4. **Market Participants**

o Various stakeholders participate in the commodities market, each playing a distinct role:

- **Traders & Speculators** – Engage in buying and selling to profit from price fluctuations.
- **Investors** – Invest in commodities through instruments like futures, options, and exchange-traded funds (ETFs).
- **Hedgers** – Businesses and producers use commodity contracts to protect themselves against adverse price movements.
- **Exchanges & Brokers** – Facilitate transactions and ensure market efficiency.

Review of Literature

1. Vivek Rajvanshi (2015) in his paper "Item Fates Market in India", made sense of the working of prospects market and difficulties of the prospects market. The paper itemized the beginning of wares and their development to turn into an elective class of speculation and heading towards financialization. Challenges alongside the development were focussed in the review. The review presumes that the Fates market rules the spot market and the outcomes recommend that shortcomings in market prompted expansion in Premise Chance which can be diminished by supporting the ware prospects. The paper likewise recommends that item fates give straightforward value disclosure to the exchanged products. Likewise, the market members are worried about the liquidity and higher exchange costs.

2. Bhaskar Goswami, Isita Mukherjee (2015) in the paper "How alluring is the Product Prospects in India?" contrasted the profit from item fates and normal stocks, long haul government securities, depository bills , pace of expansion and definite that significant yields are for the most part connected with high gamble in accordance with the overall hypothesis of hazard return. The standard deviation on genuine paces of return of ware fates are same as the standard deviation on ostensible paces of return. Results propose that thought normal stocks gave better yield yet gave unfortunate supporting during expansion.

3. S. Selvanathan, Dr. V. Manohar (2013) in the paper "Web based Exchanging - An Understanding to Products Exchange with Extraordinary Reference to India" made sense of the web-based exchanging process and the connected patterns India. It is presumed that web based exchanging India has not taken off regardless of the advantages which incorporate low exchange costs, accommodation, speed, limit traversing, further developed correspondence, and hazard the executives. One of the explanation cited for the equivalent was the monetary states of brokers and the concentrate likewise expects that web based exchanging wares will improve with better financial circumstances.

4. Shunmugam and Debojyoti Dey (2011) in the paper "Considering Product Subsidiaries and their Effect on the Indian Economy" endeavored to give a complete perspective on all the exploration concentrates on ware subordinates market. The paper zeroed in essentially on the effect of spot markets and the eco framework on the product subsidiaries market. It talked about that wares have performed well in the business sectors and the advantages are procured by different partners. It is proposed that the subsequent stage would be institutional help to be

given so wares can grow further. This could be through permitting new items like choices, records and different intangibles which would draw in the gamble unwilling financial backers.

5. Sunanda Sen, Mahua Paul (2010) in the paper "Exchanging India's Product Future Business sectors" endeavored to concentrate on the advancement of item fates market and the authority approaches on future exchanging. It is seen that future exchanging rural items neither brought about cost revelation nor in less unpredictability in food costs. Additionally made sense of that future business sectors in wares appear to give new roads of hypothesis to dealers. The connection between product prospects and exchanging business sectors had been made sense of.

Need for the Study:

As commodities have an inverse relationship with equities and bonds' prices, investing in commodities can safeguard an investor's capital if the equities and bonds market fall. Leverage: Trading in commodities futures involves the use of leverage through margin, which is maintained with the broker.

Objectives for the Study:

- To study the concept of commodities market.
- To study about major exchange trading in indian commodities market.
- To study the various trends in commodity trading.
- To understand the commodity price movements.
- To analysis various factors influencing the performance of the commodities market.

Research methodology: -

The data gather from methods both raw data and addition data collection methods.

Primary Data: The method includes the data collected from the personal interaction with Authorized members of B.N. Rsecuritieslimited.

Secondary Data:

The addition data collection method includes.

- Data collected from the NSE
- The data is also collected from money control app.
- The study over all influence of online trading security market.

RESEARCH DESIGN: -

ANALYTICAL STUDY: -

An analytical study is a type of research that examines the relationship between variables to make predictions and test hypotheses.

IMPORTANCE FOR THE STUDY

1. Economic Impact

- Commodities like crude oil, natural gas, metals, and agricultural products are fundamental to economic growth.
- Price fluctuations in commodities can influence inflation, trade balances, and GDPgrowth.

2. Investment Opportunities

- Commodity markets provide alternative investment avenues through futures, options, ETFs, and mutual funds.
- They act as a hedge against inflation, as commodity prices often rise when the purchasing power of money falls.

3. Risk Management and Hedging

- Businesses and producers hedge against price volatility using commodity derivatives.
- For example, airlines hedge fuel costs to avoid financial losses due to oil price fluctuations.

4. Supply Chain and Production Planning

- Industries dependent on raw materials (e.g., cement, steel, agriculture) monitor commodity prices to plan procurement and production efficiently.
- Predicting price trends helps in budgeting and cost control.

5. Inflation and Monetary Policies

- Central banks and governments track commodity price movements to adjust interest rates and monetary policies.
- Rising crude oil or food prices can lead to inflationary pressures, impacting consumer purchasing power.

6. Global Trade and Geopolitics

- Commodities play a key role in international trade, affecting the economies of exporting and importing nations.
- Geopolitical tensions (e.g., OPEC's oil production decisions) impact global commodity prices.

7. Sustainability and Environmental Concerns

- Understanding commodity markets helps in transitioning towards sustainable alternatives, such as renewable energy replacing fossil fuels.
- Carbon credit markets and sustainable commodities (like green steel) are emerging trends.

8. Role in the Cement Industry

- Key commodities in cement production include **limestone, coal, gypsum, and fly ash**. • Price fluctuations in these raw materials affect cement production costs and profitability.

- Studying market trends helps cement manufacturers manage procurement strategies and remain competitive.

Overview of Commodity Market in India:

India has 12 recognized commodity exchanges, including 6 national commodity exchanges and 6 regional exchanges specializing in specific commodities. The table below provides an overview of the various commodity exchanges in India.

TABLE 1

Srno	***Name of the Exchanges***
A.	**National Multi Commodity Exchanges**
1	Multi Commodity Exchange of India Ltd., Mumbai (MCX)
2	National Commodity & Derivatives Exchange Ltd., Mumbai (NCDEX)
3	ACED derivatives and Commodity Exchange, Mumbai. (ACE)
4	National Multi Commodity Exchange of India Ltd., Ahmedabad (NMCE)
5	Indian Commodity Exchange Ltd., Mumbai (ICEX)
6	Universal Commodity Exchange Ltd, Navi Mumbai (UCX)
B.	**Commodity Specific Regional Exchanges**
7	The Chamber of Commerce, Harpur

8	Rajkot Commodity Exchange Ltd., Rajkot
9	India Pepper & Spice Trade Association, Kochi
10	Bombay Commodity Exchange Ltd, Mumbai
11	Spices & Oilseeds Exchange Ltd, Sangli
12	Cotton Association of India, Mumbai

Source: AnnualReports,2022-25FMC

The regulatory body is Forward Markets Commission (FMC) which was set up in 1953. As of September 2015, FMC is merged with Securities Exchange Board of India (SEBI), the regulator of capital market. As a unified regulator for commodities and capital market, SEBI will bibelot control and monitor commodity future trading and to check wild speculations. With a strong regulatory backup, commodity market can facilitate huge volumes of trade, in a manner that every participant is confident of trading. Given below are the major commodities that are traded in various commodity exchanges in India.

Table-2

Bullion	**Gold and Silver**
Oil & Oilseeds	Castor Seeds, Soy Seeds, Castor Oil, RefinedSoyOil, Soymeal, CrudePalmOil, Groundnut Oil, MustardSeed, Mustard Seed Oil, Cottonseed Oilcake, Cottonseed.
Spices	Pepper, RedChilli, Jeera, Turmeric, Cardamom
Metals	Steel Long, Steel Flat, Copper, Nickel, Tin, Steel, Aluminum Zink ingots
Fiber	Kapas, Long Staple Cotton, Medium Staple Cotton
Pulses	Chana ,Urad,YellowPeas,Tur,Yellow Peas
Grains	Rice, Basmati Rice, Wheat, Maize, SarbatiRice, Jeera
Energy	Crude Oil, Natural Gas, Brent Crude
Others	Rubber,GuarSeed,Guargum,Cashew,CashewKernel,Sugar,Gur,Coffee,Silk,Sugar.

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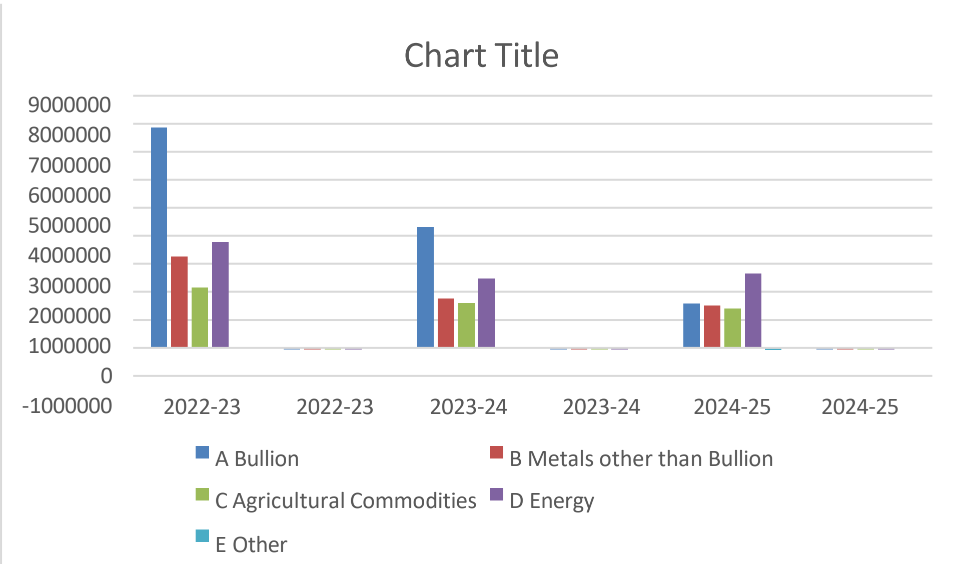
Source:www.motilaloswal.com

The following table shows value of various commodities traded in India. The market share of Various commodities in terms of value shows that Bullion was maximum traded in all the three periods, whereas agricultural commodities were least traded during these periods.

Table -3

Sl. No	Name of Commodity	2022-23 Value	2022-23 Share %	2023-24 Value	2023-24 Share %	2024-25 Value	2024-25 Share %
A	Bullion	7862679	46.12	4308938	42.47	1578172	22.15
B	Metals other than Bullion	3260051	19.12	1761360	17.36	1504016	21.11
C	Agricultural Commodities	2155700	12.65	1602402	15.8	1391003	19.52
D	Energy	3768409	22.11	2472095	24.37	2651417	37.21
E	Other	1.35	0	0	0	-3.85	0
Grand Total	Total	17046840.35	100	10144795	100	7124604.15	100



Bullion's sharp decline continues, from ₹7,862,679 Cr in 2022-23 to a projected ₹1,578,172 Cr in 2024-25. Metals other than bullion show a continuous drop but at a slower rate, suggesting some stabilization. Agricultural commodities are steadily decreasing, indicating possible lower trading activity. Energy is stabilizing, unlike other sectors, with a slight projected increase in 2024-25. The 'Other' category remains insignificant, with near-zero values.

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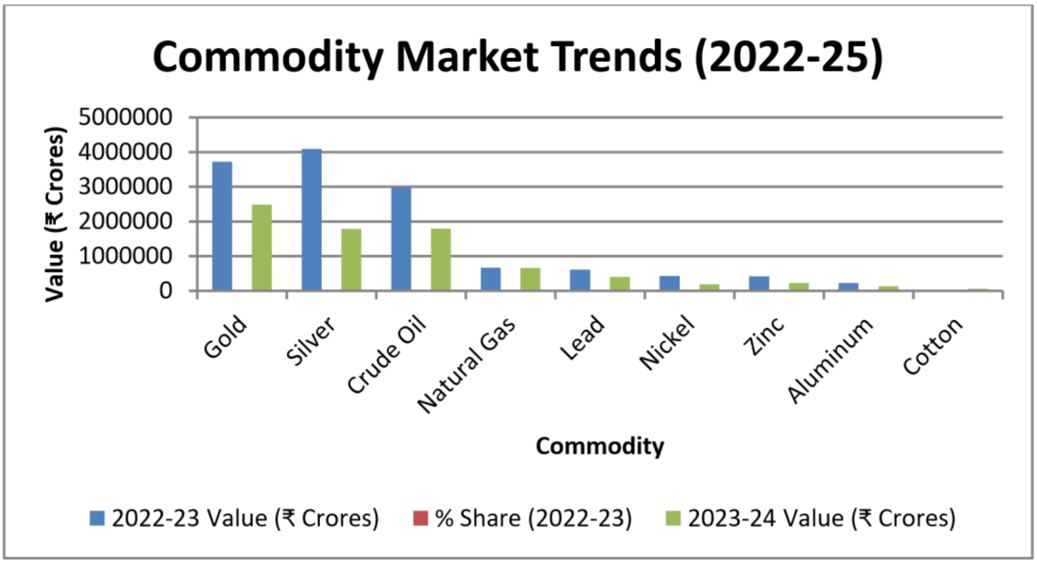
Table4

Sl. No	Commodity	2022-23 Value (₹ Crores)	% Share (2022-23)	2023-24 Value (₹ Crores)	% Share (2023-24)	2024-25 (Est.) Value (₹ Crores)	% Share (2024-25 Est.)
1	Gold	3720129	25	2482438	28.83	2600000	30
2	Silver	4086933	27.46	1780757	20.68	1550000	18
3	Crude Oil	2981892	20.04	1794312	20.84	1900000	22
4	Natural Gas	672892.9	4.52	655322	7.61	750000	8.5
5	Lead	616192.2	4.14	398402	4.63	430000	5
6	Nickel	432047.2	2.9	187173	2.17	220000	2.5
7	Zinc	416834.4	2.8	228654	2.66	260000	3
8	Aluminium	229582	1.54	134965	1.57	150000	1.8
9	Cotton	0	0	62439.1	0.73	90000	1
Grand Total	Total	13156503	100	7724462	100	7950000	100



INTERPRETATION:

The commodity market has experienced significant fluctuations from 2022-23 to 2024-25. Gold saw a decline in 2023-24 but is expected to recover in 202425 due to economic uncertainties, while silver continues to decline, reflecting reduced industrial demand. Crude oil prices dropped but are projected to rebound, whereas natural gas remains stable with a slight increase due to the growing shift toward cleaner energy. Industrial metals like lead, zinc, nickel, and aluminium faced declines but are expected to recover as manufacturing demand picks up. Cotton, on the other hand, has shown steady growth, driven by increased demand in the textile industry. The overall trend suggests a diversification in the market, with a shift toward energy commodities and select metals. Precious metals remain a safe investment choice, while industrial metals and energy resources show mixed trends. Silver and some industrial metals remain volatile, indicating uncertain investor confidence. Moving forward, the market is expected to stabilize, with energy and metals playing a more significant role in 2024-25.

Future Growth Opportunities and Challenges to Commodity Market

The **Union Budget for 2025-26** announced the **merger of the Forward Markets Commission (FMC)**, the commodities market regulator, with the **Securities and Exchange Board of India (SEBI)**, the capital market regulator. The merger, scheduled to take place between **September 2015 and early 2016**, is expected to create significant **growth opportunities** for the commodity market.

With SEBI's authority to **raid, investigate, impose fines, and take action against irregularities**, market integrity will improve. Additionally, the introduction of **new financial products** such as **options, exchange-traded funds (ETFs), weather derivatives, and freight derivatives** will further drive market expansion. The merger is also expected to attract **new participants**, including **banks, foreign portfolio investors (FPIs), and mutual funds**, fostering deeper market penetration among **exchanges and intermediaries**. However, the merger also presents **several challenges**. SEBI must ensure the **availability of additional manpower and resources** to effectively monitor the commodity market. Another key challenge is aligning **securities and commodities brokers** under a **uniform regulatory framework**. Furthermore, SEBI must address **differences in physical settlement processes** between commodity and stock exchanges, as their **delivery and settlement mechanisms** vary significantly.

CONCLUSION:

The **commodity market** holds significant potential to emerge as a **distinct asset class** for **market-savvy investors, arbitrageurs, and speculators**. Unlike the equity market, **commodities are easier to understand**, making them an attractive investment avenue. However, **retail investors** must be aware of both the **risks and benefits** before entering the commodity market.

Recent trends indicate that **commodity futures exhibit lower price volatility** compared to equities and bonds, offering a **stable investment alternative**. Historical data suggests that commodities can serve as an **effective tool for portfolio diversification**, helping investors mitigate risk while optimizing returns. As awareness and participation grow, commodities are increasingly being recognized as a **strategic investment option** in the financial market.

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