

# Opportunities perceived by participants at commodity exchange in the state of Rajasthan

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## ABSTRACT

In this investigation an attempt has been made to study the opportunities perceived by farmers, traders and non-traders at bikaner commodity exchange limited, Bikaner Rajasthan. For this purpose primary data were collected for the year 2007- 2008. The required information was collected through personally interviewing the authorized brokers, trading members and farmers associated to the exchange. These data were then analyzed by simple percentage method to obtained objective oriented results. The major opportunities perceived by the traders at Bikaner Commodity Exchange Limited were the futures market are less risky as compared to spot market (92.31), helps traders concentrate on core activity, arbitrage opportunity, price discovery and price risk management, and a good investment option. Taking benefits of prices discovered on platform of commodity exchange (76.32), integrating trade and market support infrastructure, getting benefits indirectly from the use of active futures, using low cost MIS based on various media such as Cell-phone networks, T.V., Radios, Newspapers, and regularly using the market for hedging cash market position at the grass root level were the major opportunities perceived by the farmers at BCEL, Bikaner. Provide long term price signals (89.47), provide facilities for payment and settlement at delivery contract, transparency in prices were the major opportunities perceived by the non-members clients at that exchange.

**Keywords:** Opportunities, traders, commodity exchange, authorized brokers.

Indian markets, spot as well as futures, have great avenues for retail investors and traders to participate in marketing of agricultural commodities. In cash (spot) markets pricing and commodity delivery usually occur simultaneously whereas in futures markets these two events take place separately. There has been a long and well established tradition of regulating and operating commodity futures markets in India since 1920s. The Indian commodity futures markets operate under three institutions. The Central Government, Forward Markets Commission and Commodity Exchange, i.e. a recognised or registered association under Forward Contracts (regulation) Act,1952. A Commodity exchange being traded is not the commodity itself but rather a contract to buy or sell it for a certain price by a stated date in the future. At present, about 103 commodities

of agricultural (including plantation), mineral and fossil origin are allowed for futures trading.

Establishment of Bombay Cotton Trade Association Ltd in 1875 was the first step towards setting up of organized futures market in India. In 1890, following widespread discontent amongst leading cotton mill owners and merchants over the functioning of the Bombay Cotton Trade Association, a separate association by the name "Bombay Cotton Exchange Ltd" was constituted.

The Exchange's technology framework is designed to provide high availability for all critical components, which guarantees continuous availability of trading facilities. The Exchange allows people to shift risks in the most economic manner possible. Moreover, our company empowers people to price their

commodities not just with little or no delay but also with a choice of forward periods. In the markets where we offer contracts, price transparency is greater, and prices are better integrated over time and across space.

Bikaner Commodity Exchange Limited (BCEL) is the first and the only recognised agricultural commodity exchange in Rajasthan. It is a company incorporated on January 31, 2002, having its registered office at Bikaner ([www.bcel.org](http://www.bcel.org)) and recognized under Forward Contracts Act, 1952 for futures trading, regulated by Forward Market Commission, Government of India. At present it is conducting futures trading in mustard seed, guar seed and gram seed.

The present study has, therefore, been taken up with a view to studying the opportunities perceived by farmers, traders and non-traders at Bikaner Commodity Exchange Limited.

### Materials and Methods

Bikaner Commodity Exchange Limited (BCEL), Bikaner, as the futures market, was purposely selected for investigation as it was the only agricultural commodity exchange in the state of Rajasthan where commodity forward contracts were bought and sold for a future date. The study consisted of 38 authorized brokers, 13 trading members and 76 farmers were associated to the exchange. The primary data were collected for the year 2007- 2008 by personally interviewing the targeted group with the help of a set of pretested schedules. These data were then subjected to simple percentage method and the results so obtained were discussed.

### Results and Discussion

The Opportunities available to the farmers, traders and non-traders at commodity exchange were of varying nature. Therefore, they were divided into three categories according to its participation. The results of the findings are presented in Table 1 to 3 and discussed as under:

#### Opportunities for the farmers

For studying the opportunities available and constraints facing to the farmers, 76 farmers were interrogated. The findings of the study revealed that 76.32% of the selected farmers were reaping

the benefits of the price discovered on platform of commodity exchange (Table 1). Futures trading and price discovery helped the farmers decide as to what crops to grow. Similarly 69.74% of the farmers reported to have integrated trade and market support facilities such as modern weighing, grading, standardization and storage facilities at the mandis, chain of road/rail, modern warehouses, affordable and reliable grading, standardization and quality certification facilities, and e-linked rural knowledge centres. Such facilities help increase the linkages between the physical and futures market, efficient price discovery and increased involvement of the farmers. About 58% of the farmers disclosed that they were benefitted indirectly from the use of active futures. Likewise 46% of the respondent farmers reported that they were using low cost market information system (MIS) based on cell phone net-works. 38.16% farmers were regularly using the market for hedging cash market position. 27.63% farmers reported that they were assimilating information for their benefits.

1 A market information system (MIS) is a service that involves the collection on a regular basis of information on prices and in some cases, qualities of widely traded agricultural products for rural assembly markets, wholesale and retail markets, as appropriate, and dissemination of this information on a timely and regular basis through various media

**Table 1. Opportunities for the farmers for trading commodities in Commodity Exchange**

S. No.	Opportunities	Percentage
1.	Taking benefits of prices discovered on platform of commodity exchange	76.32
2.	Integrating trade and market support infrastructure	69.74
3.	Getting benefits indirectly from the use of active futures	57.89
4.	Using low cost MIS based on various media such as Cell-phone networks, T.V., Radios, Newspapers etc	46.05
5.	Regularly using the market for hedging cash market position	38.16
6.	Assimilation of information	27.63
7.	Better negotiation power	19.74
8.	Ensuring remunerative prices	9.21

Note: Figures in parenthesis indicate percentage (N=76)

to farmers, hedgers, government-officials, policy makers and others including consumers.

The results of the study also revealed that the farmers were having poor negotiation power with the traders. Only 19.74% farmers reported to have better negotiation power. Only 9.21% farmers conveyed that they were getting remunerative prices for their produce.

### Opportunities for the traders

A majority of the traders (92.31%) reported that futures market was less risky as compared to spot market (Table 2). About 85% of the traders reported that futures trading helped traders concentrate on core activity. Futures trading provide arbitrage opportunity to the traders. Arbitrage is the practice of taking advantage of a price difference between two or more exchanges or between two futures contracts with different expiry dates or between the cash and derivatives market. About 77% of the respondents expressed to have utilized the opportunities of arbitrage. Futures market performs two important functions of price discovery and price risk management with reference to the given commodity. 61.54% respondents reported that they could get an idea of the price likely to prevail at a future point of time and also enabled them to hedge their risk by operating in the futures market. About 54% of the traders opined that futures market provided them with a good investment option. About 38% of the hedgers expressed that futures market helped them provide long term price signals. Only 15.38% of the traders reported that they were benefitted from transparency in prices at the Exchange. Price transparency meant access to the same information at the same time by everyone. 30.77% of the traders reported that they were utilizing well developed, organized and integrated market for spot trading of the commodities and 15.38% reported that they were using support infrastructure at the mandis.

### Opportunities for non-traders

38 non-traders also referred to as non-member clients were interrogated for identifying the opportunities available and constraints facing to them at the exchange. 89.47% of the non-member clients or non-traders revealed that trading at the exchange provided them an opportunity of receiving

**Table 2. Opportunities for traders in trading commodities at Commodity Exchange**

S. No.	Opportunities	Percentage
1.	Futures market are less risky as compared to spot market	92.31
2.	Helps traders concentrate on core activity	84.62
3.	Arbitrage opportunity	76.92
4.	Price discovery and price risk management	61.54
5.	A good investment option	53.85
6.	Helps provide long term price signals	38.46
7.	Transparency in prices	15.38
8.	Using well developed, organized and integrated market for spot trading of commodities	30.77
9.	Using support infrastructure at the mandis	15.38

Note: Figures in parenthesis indicate percentage (N=13)

long term price signals. 76.32% of the respondents disclosed that the exchange provided them facilities for payment and settlement at delivery contract. About 58% of the non-member clients disclosed that there was transparency in the prices discovered at the exchange. 34.21% of the non-traders reported that there were employment opportunities available for them at the exchange. 21.05% of the non-traders reported that they were using support infrastructure facilities at warehouse level.

**Table 3. Opportunities for the non-member clients at commodity exchange**

S.No.	Opportunities	Percentage
1.	Provide long term price signals	89.47
2.	Provide facilities for payment and settlement at delivery contract	76.32
3.	Transparency in prices	57.89
4.	Employment opportunity	34.21
5.	Using support infrastructure facilities at warehouse level	21.05

Note: Figures in parenthesis indicate percentage (N=38)

### Conclusion

The major opportunities perceived by the traders at Bikaner Commodity Exchange Limited were the

futures market are less risky as compared to spot market, helps traders concentrate on core activity, arbitrage opportunity, price discovery and price risk management, and a good investment option. Taking benefits of prices discovered on platform of commodity exchange, integrating trade and market support infrastructure, getting benefits indirectly from the use of active futures, using low cost MIS based on various media such as Cell-phone networks, T.V., Radios, Newspapers, and regularly using the market for hedging cash market position at the grass root level were the major opportunities perceived by the farmers at BCEL, Bikaner. Provide long term price signals, provide facilities for payment and settlement at delivery contract, transparency in prices were the major opportunities perceived by the non-members clients at that exchange.

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