Chapter 60
Marketing of Agricultural Commodities in India

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ABSTRACT

Commodity market is a fast paced dynamic market with liquidity and Commodity Exchange providing a platform for trading in various agri and non agri commodities at nationalized exchanges for discovering the price of agricultural goods in India since 2003. This also provides an opportunity to farmers, manufacturers or individuals for hedging and arbitrage to minimizes the losses due to fluctuations in the futures as well as spot prices. Though the Government has taken many steps time to time to control the prices of listed commodities by imposing restrictions like imposing daily margin limits and banning futures trading in speculative commodity/commodities if required but it is still being questioned. This chapter emphasizes on the working of the National Level Commodity Exchanges in India in general, the share of major agricultural commodities traded across National Level Commodity Exchanges in India, the marketing mix for agricultural commodities in India and the benefits and challenges of commodity futures derivatives for investors in India.

OBJECTIVES OF THE CHAPTER

1. Agricultural commodities are listed and traded at various commodity exchanges in India and globally as well. Readers would understand the working of the National Level Commodity Exchanges in India.
2. Readers would come to know about the share of major agricultural commodities traded across National Level Commodity Exchanges in India.
3. Readers would understand the marketing mix for agricultural commodities in India that how commodities are bought and sold at warehouses of commodity exchanges in India.
4. The commodity exchanges provide benefits and challenges of commodity futures derivatives for investors in India.

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CASE LET

Commodity market is a place where listed agricultural and non-agricultural commodities are bought and sold. There are nationalized and regional commodity exchanges in India. Indian commodity sector has also been experiencing tremendous surge since its inception. This has given a new option to investors to hedge their positions against fluctuations in the prices of commodities in near future. People are also using this platform for gaining from ups and downs in the prices without having commodities in physical but it is more specifically beneficial for farmers, jewelers and manufacturers who require raw materials and want to take delivery of traded commodities but they face warehousing issues. There are other different kinds of issues faced by participants in commodity markets such as legal, regulatory, infrastructural and others. Earlier the commodity market was regulated by the Forward Markets Commission (FMC), which has recently been merged with Securities Exchange Board of India (SEBI) on 28th Sep., 2015 after the scam of National Spot Exchange Ltd.(NSEL). This risk was faced by all the investors in this market and their confidence was also shaken which resultant in the low business of commodity exchanges but now SEBI is regulating this market and building up the confidence of the investors while implementing the more strict rules and regulations for commodity market in India.

INTRODUCTION

Indian markets have provided a new opportunity for retail investors and traders, who want to diversify their portfolios beyond shares, bonds and real estate, to participate on commodity exchanges. The spectacular growth of commodity markets has also attracted many investors around the world to expand their investment to emerging markets like India, as more and more investors are realizing the potential opportunities of these markets. Like any other market, the commodity market also plays a vital role in risk management of derivatives.

It is well-known that commodities are the foundation of the economies of most developing countries by way of providing food, creating income generating opportunities and export earnings to the people directly involved in agricultural activities. In most of the agriculture driven economy, it has been commonly observed that the agricultural policy made by the Government tends to protect and promote the agriculture sector through different procurement and administered price mechanism. Historically, the Government intervention is found at every stage of the marketing of major agricultural products. These includes, setting Minimum Support Prices for selected commodities, regulation of every activity of marketing such as transportation, storage, credit supply and international trading of these commodities, etc. But Government intervention has significantly declined after the initiation of liberalization and economic reforms since 1991. The impact of agricultural commodity is of great importance in the stabilization of Indian economy, as reflected through the share of primary goods, especially the food items in derivation of the price indices like inflation based on Wholesale Price Index and Consumer Price Index in India. This clearly indicates the necessity of significant growth and stability of agricultural sector to foster the overall growth of Indian economy. For managing the risk of pricing of agricultural goods because of commodities futures trading, regular attempts are made worldwide. It has been clearly observed that prices of agricultural commodities are determined increasingly by market forces of demand and supply. Hence fluctuation in demand and supply of agricultural commodities is expected to result in high price risk for agri-business. Application of several market-based instruments to deal with the commodity price

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