

## TALK ON “COMMODITY DERIVATIVES AND TRADING AT MULTI-COMMODITY EXCHANGE”

Rapporteur: Ms. Soorvi Shah (16BLS182) and Dr. Nausheen Nizami

**12 Sept. 2019:** The Economics Faculty of Department of Social Sciences, School of Liberal Studies, organized a talk on 'Commodity derivatives and trading at Multi-commodity exchange' on 12th September 2019. The speaker was Mr. Shrikant Koundinya who is the vice president of Multi-Commodity Exchange (MCX) and has a profound and deep experience in capital markets since a long time. Ms. Saheli Das (Economics Major, VII semester) and Dr. Nausheen Nizami (Faculty) welcomed the guest for the expert session. Dr. Prashanta Panda, The Head-Department of Social Sciences, SLS, delivered the inaugural address to sensitise students about the importance of learning about derivatives and derivative exchanges in India. Prof Nigam Dave, the Dean and Director, SLS, also encouraged the audience with his presence during the session.

Multi-Commodity Exchange (MCX) is India's largest commodity exchange. It is India's first listed, state-of-the-art, commodity derivatives exchange that facilitates online trading of commodity derivatives transactions, thereby providing a platform for price discovery and risk management.

The session began with a demonstration of the MCX live market which had 4 commodities: Gold, crude oil, cotton and Zinc. The live market demonstrated the buyer and seller price along with the date and time. The market works on the principal of perfect competition which offers homogeneous product and standardised quality. This market has free entry and free exit. The market opens at 9:00 am and closes at 11:55 pm and in this span, the commodities can be bought and sold.



MCX Mumbai conducted an Awareness Programme on Commodity Derivatives for students of PDPU

Expert engagement with the audience on 'Why are commodity markets important?' Every single thing that we use, right from a spoon, made of steel and iron, to the car we use to commute, which uses copper, plastic and lead batteries- all the base metals are commodities which are raw materials. Thus it makes the prices of the commodities very crucial for trade. Mr. Koundinya highlighted that 85 % of the commodities worldwide are traded in dollars. The reason for it dates back to 1972, when the US made an agreement with Saudi Arabia, stating that all the crude oil trade should take place in dollars. This was the contract that gave the dollar the significant role of the medium of exchange.

The interest rates in the US influence the price of commodities sold all over the world. If the interest rates rise in US, the dollar get stronger and thus the prices and the purchase power increases. The same would apply in the reverse scenario. Commodity contracts are traded in the commodity exchange, thus making it very useful for the traders to get a fair price. Apart from this, the Multi-Commodity exchange also facilitates trade of Derivative Investments like: Cash financial investment, Futures (Perceived value in the future) and Options. To be eligible for classification as future contract, all commodities need to qualify the following criteria:

- Ø It is for the future price speculation
- Ø Margin money which is a minimum of 5 % of the total amount
- Ø Expiry date and time which is settled by delivery.

The expert session also discussed on how a trader can overcome factors affecting commodity prices- one of the methods include hedging wherein you neither lose nor gain money and the price remains stable. It is a risk mitigation method. Students interacted with the expert on common queries related to the understanding of futures and options. Overall, the management as well as liberal arts students found the session very useful and practical.



In picture: (Top) Group photograph of participants with the expert Mr. Shrikant Koundinya-Vice President, MCX and faculties (Bottom) Mr. Koundinya explaining the students about volume of derivative trading and types of derivatives in India