

Mr. Viral Shah

Head Institutional Business, Geojit Comtrade



Mr. Shah has over 7 years of experience in the local and international derivatives segment specializing in commodities and currencies. He has previously worked with MF Global in India in the commodities division in sales and business development. He is currently heading the institutional set up for Geojit Comtrade Ltd. in Mumbai.

Mr. Shah shared his views about 'Exchange Traded Forwards' with us. Excerpts of the same are as given below:

1. India has a long history of trading in commodity forwards. Do you think Agrim sauda will add value to existing forward market business? How?

Futures trading in commodities is more complex than most of the other asset classes like equities and FX, since there is a lot of variations relating quality, product, location, etc., that exist in commodities. Due to this, futures sometimes don't provide the necessary hedge for various participants in the commodity value chain who then prefer the bilateral form of trading which involves counterparty risk. Hence, a platform like Agrim Sauda can add value to the existing forward business by bringing transparency and ease of operations, while reducing counter party risk by following the exchange parameters of margining and settlement.

2. Financial investors focus on exploiting arbitrage opportunities. According to you, will the screen-based trading offered by exchange traded forwards provide more arbitrage opportunities to financial investors? How?

Financial investors are adept at exploiting arbitrage opportunities in any market. In case of commodities, financial investors cannot deploy a lot of money due to lack of buying physical commodities (equivalent to purchasing equity shares in cash) and hence can only do calendar spreads which has its own set of challenges. A liquid forward market, will allow financial investors to lock in the forward price of commodity and sell futures, thus, locking in the spread. Thus, a liquid forward market will bring in new set of financial investors who may have lost money in calendar spreads or in other spot exchanges.

3. Do you think Agrim sauda has made it easy for financial investors to trade in physical markets? Will it be instrumental in maximizing their profits?

It will still take time for financial investors to fully embrace Agrim sauda. There are many changes in the current set up from the futures segment that has been operational in India since 2004.

4. In your opinion, does this modernized form of forward trade has potential to accelerate growth of commodity markets in India? How?

Commodity futures have only a handful of liquid contracts where the participation has not increased much in the last 10 years, especially in agriculture commodities. The OI is still a very small percentage of the overall production / consumption figures. For e.g., India produces close to 10 million tonnes of soyabean, whereas the OI on NCDEX is only about 250,000 MT. The 10 million tonnes crop does change hand many times from farmer to aggregator to processor to meal exporter or end consumer. Hence, the trade value in tonnes is very high but is not reflecting on the exchange due to many reasons – lack of deliveries or mark to market systems or quality of product. Hence, an efficient forwards market can increase participation of the physical market players who use it for setting prices, giving & taking delivery etc. – all under the exchange systems where parameters like quality, location, duration can be agreed upon like a bilateral trade.

5. How do you see commodity-based exchange-traded forwards segment evolving in the days ahead?

It is still a new concept in India and will take some time to mature. However, we are bullish on the prospects of it doing.

6. What would you suggest to improve this new segment available on the Exchange?

More education to the end processors – farmers need to be provided. Initially, some amount of market making by some of the large trade houses can also be encouraged to generate market making activity – a very critical role in the early days of any contract.

Access National Markets at a click

