

Heady days ahead for commodities markets

Sebi to soon permit MFs, PMS in commodity derivatives

RAJESH BHAYANI
Mumbai, 7 February

The new managing director and chief executive officer of the National Commodity and Derivatives Exchange (NCDEX), Vijay Kumar, has assumed office at a time when the commodities market is set to enter a phase of heightened activity.

Two weeks after his taking over, Finance Minister Arun Jaitley presented the Budget, in which he stressed the importance of commodity futures and options and developing an institutional mechanism for farmers to benefit from them and warehousing.

The NCDEX has developed good connections with farmer organisations and made them hedge on its platform.

The Securities and Exchange Board of India (Sebi) is taking measures to develop commodity derivatives following the Budget announcement and some are underway. Sebi has finalised norms for allowing mutual funds and portfolio management services in commodity derivatives and will soon announce them. It issued a discussion paper in the first week of December last year on this.

Sebi has cleared a universal exchange, which means the domains of equity and commodity exchanges will overlap. Before that, Sebi is keen to expand product baskets and the range of participants in the commodity derivatives market. This process will start in October.

Some indications on this were given by Jaitley in his Budget speech, in which he said: "For better price realisa-



Sebi has finalised norms for allowing mutual funds and portfolio management services in commodity derivatives

tion, farmers need to make decisions based on prices likely to be available after its harvest. (The) Government will create an institutional mechanism, with participation of all concerned Ministries, to develop appropriate policies and practices for price and demand forecast, use of futures and options market, expansion of warehouse depository system and to take decisions about specific exports and imports related measures."

This has enthused commodity exchanges' executives because while Jaitley mentioned this in connection with farm produce, the infrastructure he proposed will be equally appropriate for all non-farm contracts in which deliveries are done as in the case of gold and silver, and also for delivery-based metal contracts, which the Multi Commodity Exchange (MCX) and NCDEX have proposed to Sebi.

Commodity futures and options are important for hedging. Vijay Kumar said, "One of the reasons for the ballooning of non-performing assets of commodity companies is a lack of hedging of commodity exposures. Hence there is enormous scope for improving hedging on

the exchange platform."

An industry official said, "While the FM's stress is on farm commodities, we feel Sebi will look at allowing more futures, and approve options in more commodities."

An MCX spokesperson said, "Standardising norms in commodity derivatives and the expected permission for larger institutional participation through mutual funds and portfolio management services can be seen as a strong and positive message from the regulator. The recent announcements can also be read as an assurance to players, especially newer players such as institutions and bank broking subsidiaries, given that the number of participants is set to increase in this market. There will not be any abrupt disruptions or withdrawals in the policy approach towards the commodity derivatives market."

Sources in collateral management say the government is pushing for expanding the warehouse repository framework. There are two repositories functioning and one has started issuing electronic warehouse receipts, which are negotiable.