Q&A WITH MEMBER

NCDEX

Mr. Ajay Kumar Kedia

Director, Kedia Stocks and Commodities Pvt. Ltd.

Mr. Ajay Kedia, Director, Kedia Stocks and Commodities Pvt. Ltd., has more than 10 years of experience in the financial market. Mr. Kedia also heads the research cell at the firm and specializes in commodity derivatives. Kedia Commodity is a retail broking arm of Kedia Stocks and Commodities. Pvt. Ltd. is on the Opinion Board of 'Zee Business' for commodity markets.

Excerpts from telephonic Interview with Mr. Ajay Kumar Kedia:

1. Since when have you been trading in commodities derivatives?

Eight years.

2. You have been trading in commodity spreads since long. What are your favorite commodities to trade in? Why?

We have been actively trading in calendar spreads and follow many commodities on the Exchange. Chana, jeera, soyabean, and refined soya oil usually present unique spread opportunities. You can also consider adding turmeric to you spread portfolio. I feel, price movement and their pattern in these commodities are quite evident and consistent over the historical period. This helps assessing the probability of success of a trading strategy and hence the risk as well as rewards.

3. NCDEX has introduced Day Spread Limit Order Type in the futures contracts of agri commodities. In your opinion, how will this new spread order type be attractive for hedgers?

There are ample of opportunities available if one wishes to trade in commodity spreads. Hedgers, with their years-long experience, develop their expertise to understand seasonal nature of demand and supply of commodities and hence are well positioned to take advantage of the price movements arising due to this seasonality looking at the historical trend. For instance, for any agri commodity, in a normal crop year, prices tend to fall during the harvest period and peak during the lean season. So, by trading in spread, a hedger can go long in the contract representing a new crop and short the one related to old crop simultaneously. He can hedge his price risk and also save on his margin money.

4. Which benefits does spread trading offer to jobbers and speculators?

Jobbers, with their intra-day perspective as their focus, generally tend to avoid trading in agri. commodities. Primary agri commodities have high 'beta' values. Higher the volatility, higher the risks. However, spread trading can help jobbers turn these risks to their benefit, as once they enter the spread trade, risk gets confined to movement of the price differential or spread rather than underlying commodity.

Spread trading is a very helpful since it helps them rollover their positions onto next month with help of click of a single command.

5. Which are the crucial factors one should consider before trading in Spread orders?

Combination of months based on which the spread order is entered, i.e., leg 1 and leg 2, is very critical. Especially which month has to be bought and which month has to be sold has to be clearly reviewed before entering the order. Strong analytical ability, through study of the historical price trend, seasonality pattern and up-to-date knowledge of spot market fundamentals would also help build the desired spread strategies.

6. Compared to international market, which kind of potential do you see for trading in commodity spreads in India?

International markets have a robust database (series of data sets covering fundamental as well as financial data points) available for the traders as well as a number of trading softwares baked by advanced technology. This makes it easy to analyze the price pattern, enter spread orders and monitor their movements. In the contrast, commodity derivatives market in India is still evolving and the financial products, instruments available are limited in number. Many are even not aware of products like 'Spread engine' existing in Indian markets. So, though, huge potential exists for trading in spread, it will gather pace only when these initial gaps are plugged in.

7. What would you suggest to enhance efficiency while trading in commodity spread?

Creating awareness among the stakeholders about spread engine and educating them about its functionality assumes top priority. Exchange can consider publishing reports, technical charts on daily basis showcasing spread opportunities which can act as ready-reckoner for traders and help in quick-decision making. Exchange may consider conducting a series of workshops for market participants, particularly for dealers informing them about spread-trading strategies and mock-trading sessions.