Mr. Anuj Gupta

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Mr. Gupta, after completing his MBA in the finance stream, started his career as a Research Analyst at Religare Enterprises Limited. Since March 2007 till date Mr. Gupta is associated with Angel Commodities Broking Pvt. Ltd. As an AVP of research team for commodities and currencies, Mr. Gupta is responsible for providing advisory services based on technical analysis to retail as well as HNI and corporate clients to devise their investment strategies. He has been awarded "India's Best Commodity Research Analyst - Technical Research" by Zee Business & MCXSX in 2010 as well as by CPAI 2012. Mr. Gupta is regularly invited by business channels like Zee business and CNBC Awaaz to share his expert views on commodity and currency market trends.

Below are the excerpts from telephonic interview with Mr. Anuj Gupta:

1. How long have you been associated with commodity derivatives? Please share your views, interesting observations about evolution of commodity futures in India.

I started my career in research field with commodities. Commodity derivatives, since their reintroduction in India, have emerged as a 'game changer', especially for retail participants. A decade back, almost nobody knew commodity prices. Commodity futures have revolutionized this market by creating price awareness. Apart from hedgers, arbitrageurs are also turning towards commodities. As a portfolio diversifier, commodities have huge potential.

2. NCDEX has introduced Day Spread Limit Order Type in the futures contracts of agri commodities. How has been your experience of trading in spreads?

A lot of factors, including weather vagaries as well as techno-geological, affect commodity prices. Tracking and predicting the price movements is a challenging exercise and need in-depth understanding of fundamentals. However, spread trading simplifies this task. Spread trading involves building opposite positions simultaneously in two different contracts and hence one has to monitor only the movement of "price difference or spread" rather than price movements of two contracts. This makes trading in spreads easier and less risky than their outrights. For arbitrageurs, intra-day traders, spread engine functionality provides good trading opportunities with lesser risk.

3. Which are the crucial factors one should consider before trading in spread orders?

A number of factors should be considered before trading in spread orders apart from the fundamental ones including demand and supply. Foremost could be liquidity, which can be gauged by open interest and trading volume. Increased open interest indicates higher liquidity, which means easy entry and exit points, less spread cost, thus faster and cheaper trade.

Second factor could be volatility. It is important to understand that volatility is a double-edge sword. Spread trading facilitates converting risks emanating from volatility to one's reward. With the help of spreads, one can trade in highly volatile market confidently, as by owning both a long and short position one can hedge himself and limit the risk to some extent. Of course, it also limits one's profit potential too.

Third important factor is stock position. Increased stock position indicates easy availability of commodity in market. Hence, if one enters the spread trading by taking short position in near month contract and long position in far month, one can optimize the returns easily.

4. Which commodities would you recommend to your clients for trading in spreads? Why?

Chana, jeera, and turmeric usually offer good spread opportunities as they enjoy high liquidity. Off late, refined soya oil has also seen gaining liquidity and one may consider it for spread trading.

5. In your opinion, how will this new spread order type be attractive for hedgers, jobbers and arbitrageurs?

I think, speculators and jobbers will be benefited the most, as they have to enter just one spread order for one spread trade and this will save their time. For hedgers, this is a new functionality. Though it does not offer huge benefit to them, it is a safer mode of trading, as it eliminates the leg risk.

6. Which kind of potential do you see for trading in commodity spreads in India?

At present, spread trading, on an average, accounts for nearly 20-30% of the commodity market volume. In the coming days, with availability of more spread combinations across all commodities; spread trading is expected to grow further and contribute 50-60% of the trading volume.

Some commodities in which price movement is limited can be considered for spread trading as a part of longer term trading strategy.

7. In your opinion, how will smaller size contracts in agri. commodities be attractive to market participants?

Trading in small- size agri. commodity contracts provide a sort of "test-drive" to market participants. Reduction in margin money requirement, intention-matching settlement, a competent bid-ask spread are the major flips. I think these contracts have good potential to attract market participants.

8. How do you see commodity futures market evolving in the days ahead?

I am optimistic. I think, volumes are going to grow in commodity markets. Equities are rallying to unprecedented highs and everybody is aware that the trend can get corrected any moment. Market participants are searching for effective portfolio diversifiers and commodities, in my opinion, can offer a good bet. Inflation risks have subsided and there are signs that market is gradually overcoming the bad memories and worries of spot market debacle. I think commodity markets will recover in the days to come. Any kind of regulatory support, if announced in the forth-coming budget, would be a cherry on a pie.