

Commodity Exchange Impact

The market yards of Gujarat are witnessing decreased arrivals in castor seed, in comparison to the previous year. Market experts attribute this to a rising trend seen among the farmers: to keep aside a part of their produce to sell when prices will go up. Up until last year, such instances were very uncommon as farmers used to sell all their crop in the season itself. So what has brought about this changed behavior? What has turned peasants into suave businessmen this year is largely information; information about prices; about stocks in warehouses; all thanks to Castor futures traded on national commodity exchanges.

"Taking a cue from the trend seen last year, farmers are still holding around 25% of their produce as they expect a rise in the price of castor seed", said Ramesh Jain, a trader from Deesa. Last year, castor seed prices skyrocketed to around Rs. 5,200 per quintal in December before cooling off. Suave farmers have decided to wait for a repeat of the

same, this year too.

An important area, where one can see the impact of commodity futures, is the increase in quality consciousness. Commodities traded on the national exchanges are in line with the demanding quality parameters laid down by the FSSAI. This has resulted in enhanced standards for agricultural produce, benefiting consumers, processors and farmers. Farmers enjoy better realizations from higher quality produce. This has inspired increased private investments in cleaning, grading and assaying.

"Earlier farmers used to sell their produce to traders, without cleaning or sorting it, but now a farmer knows what is Grade A or Grade B castor seed and recognizes the increased value segregating the produce provides him, said Jaswant Chauhan, a farmer and official of FPO Krishi Dhan Producer Limited based at Ahmedabad. Last year the FPO had collated 10 tonnes of castor seed in each of 10 villages to sell and had trained around 100 farmers on sorting castor seed based on quality. Now these farmers are training other farmers, who earlier would lose out on a

higher price, since the castor would not be cleaned and the trader would give him a reduced price by taking into account the weight of foreign matter that would be present in the castor. With cleaned and sorted castor seed, the farmers can negotiate better prices with the trader.

Commodity exchanges have seen phenomenal increase in deposits in the recent past; approximately 30-40% of the crop is now deposited in exchange approved warehouses and this has raised the bar of quality in the physical market. The high quality standards set by commodity exchanges have brought about a shift in the quality kind of prices the commodity fetches as well. "Earlier the base price of castor seed in secondary market was around Rs. 600-650 per bag (20 kg.), so farmers used to sell their produce if they could get anything around Rs. 500-550 per bag. But now the price base has shifted to around Rs. 750 per bag. So the farmer doesn't sell his produce till he gets prices accordingly", said Chirag Patel, a trader from Unjha.

What's more, the stock in exchange approved warehouses is transparently displayed on

websites in real time and this information is now used by market participants, farmers, traders and hedgers to make more informed business decisions.

"Earlier it was almost impossible to know how much stock of castor seed is lying where or how much of the total production is yet to come into markets. But now the stock position in exchange approved warehouses give a fair idea of supply situation. This has instilled some confidence in farmers also. They are now holding stocks and waiting for better price. This year farmers are waiting to see the prices at Rs. 800-825 level (for 20 kg bag). Once that comes, they will offload whatever stock they still possess, that is around 20-25% of their total production this year", opined Piyush Thakkar, a trader from Deesa.

The reverberations of a futures contract of a national platform are increasingly being felt in the physical marketplace; reducing information asymmetry, providing transparency in prices, improving quality standards and most importantly bringing about inclusive growth for all participants of the value chain.

Castor futures make savvy farmers

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