

**GOVERNMENT OF INDIA
CONSUMER AFFAIRS, FOOD AND PUBLIC DISTRIBUTION
LOK SABHA**

UNSTARRED QUESTION NO:858

ANSWERED ON:14.08.2012

SPECULATION IN FUTURES TRADING

Joshi Dr. Murli Manohar;Singh Shri Bhupendra ;Singh Shri Rajiv Ranjan (Lalan)

Will the Minister of CONSUMER AFFAIRS, FOOD AND PUBLIC DISTRIBUTION be pleased to state:

- (a) whether the Forward Markets Commission (FMC) had undertaken an analysis of the impact of futures trading on the price trends of various commodities;
- (b) if so, the details thereof during the last three years and the current year;
- (c) the details of the action taken by the Government/FMC to prevent excessive variations in the prices of commodities during the said period;
- (d) whether the Government proposes to impose any restrictions in the futures market to curb excessive speculation; and
- (e) if so, the details thereof and if not, the reasons therefor?

Answer

THE MINISTER OF STATE (INDEPENDENT CHARGE) FOR CONSUMER AFFAIRS, FOOD AND PUBLIC DISTRIBUTION (PROF. K. V. THOMAS)

(a) & (b): No, Madam. The Forward Markets Commission (FMC), the Regulator for commodity futures markets under the provisions of the Forward Contracts (Regulation) Act, 1952 has not done any independent analysis of impact of futures trading on the price trends of various commodities. The price of any commodity is determined by the actual demand and supply position in the market. The prices of the commodities in the physical market fluctuate depending on the additional information/data available or expectations of market participants relating to demand and supply factors. The futures market does not alter the basic factors of demand and supply, but merely discovers likely future prices based on actual and expected demand and supply factors. According to available information there is no clear evidence that rise in commodity prices in India has been due to forward trading. An Expert Committee chaired by Shri Abhijit Sen, Member of the Planning Commission that analyzed annual trend growth rate in prices of sensitive commodities (food grains and sugar) in pre-futures and post futures period, concluded that although inflation clearly increased post-futures in some sensitive commodities that have higher weight in consumer price indices, it is not possible to make any general claim that inflation accelerated more in commodities with futures trading.

Other factors, particularly demand supply mismatches, degree of dependence on imports and international prices in these commodities etc. also tend to affect commodity prices.

(c) : FMC has put in place several regulatory measures such as limits on open position, daily price limits, initial margins, special and additional margins to regulate excessive variation in the prices of the commodities traded on the futures exchanges. The FMC has also implemented a staggered delivery system for several agricultural commodities which has reduced the price volatility in these commodities in the near month. Further, the FMC monitors the trade details from the Exchanges on a daily basis.

(d) & (e): The futures trading on Commodity Exchange platforms is closely monitored by FMC. The recent regulatory measures initiated by FMC to curb excessive speculation in commodity futures market include inter-alia:

1. Reduced the open position limits on Chana, Soya bean, Refined Soy oil and Rape/Mustard Seed in April 2012.
2. Decided in May 2012 not to permit lean season contracts for agricultural commodities.
3. Raised the initial margins on seven essential commodities namely Chana, Soya bean, Potato, Refined Soy oil, RM Seed in April 2012 and in wheat and sugar in July 2012 to reduce the leverage in these commodities.
4. Revised its directives in January 2012 for clubbing of open positions in order to curb excessive concentration of positions and curb speculation.
5. Undertook a scrutiny of volume to open interest ratios in all commodities with a view to bringing about a balance between hedging and speculation.
6. Initiated a review of futures contracts for better alignment with the physical markets.

7. Taken steps for promoting hedging and has inter-alia initiated more awareness programmes in this regard.