GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:845
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CLOSURE OF COMMODITY FUTURE MARKET
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Will the Minister of FINANCE be pleased to state:

(a) whether the Forward Market Commission, National Commodities Exchange and Derivaities Futures Trading is primarily responsible for inflation and soaring price rise;

(b) if so, whether the Government is contemplating to close/regulate these commodity future market instruments; and

(c) if so, the details thereof and if not, the reasons therefor?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI JAYANT SINHA)

(a): No, Madam. Futures trading is a mechanism for price discovery and price risk management. The futures market discovers prices that are likely to prevail in future based on the information of expected demand and supply. There are six recognized National commodity exchanges which offer electronic platforms for futures trading in commodities.

Several findings, as stated below, have led to the conclusion that futures trading is not responsible for inflation:

(i) The report (April 2008) submitted by a Committee set up by the Government under the chairmanship of Prof. Abhijit Sen concluded that there is no causal relationship between futures trading and inflation;

(ii) The Reserve Bank of India concluded in its Annual Report for the year 2009-2010 that forward trading was not the reason for inflation in the prices of commodities in India. The report stated that commodity prices in India seem to be influenced more by other drivers of price changes, particularly demand-supply gap in specific commodities, degree of dependence on imports and international price movements in these commodities;

(iii) An independent study in 2012 by Dr. Ashok Gulati reported that for the period from 1995-96 to December 2012, three factors explain the price rise (inflation) in the Food Articles Index (FAI) in India namely, fiscal deficit, global food inflation and domestic farm wages;

(iv) The Committee of State Ministers in-charge of Agriculture Marketing to promote Agricultural Marketing Reforms in its report (2013) observed that the problem of intermittent surges in food prices is due to the high costs of intermediation, which have a cascading effect on prices;

(v) A recent study conducted on the Analytics of food inflation by Sonna, Joshi etc., of the Reserve Bank of India, dated October, 13, 2014 has concluded that increasing real rural wages have played the most dominant role in the determination of overall food inflation in India in the long-run. In the short-run, the impact on food inflation stems from the same factors that are important in the long-run viz., increases in rural real wages, Minimum Support Price (MSP) and input price pressures.

(b) and (c): Futures markets through the exchanges are already under the regulatory mechanism of the Forward Markets Commission(FMC) which is the regulator for commodity futures market in India, set up under the provisions of the Forward Contracts (Regulation) Act, 1952.

The FMC has taken a number of regulatory measures as under:

i) Market-wide open position limits: Restrictions on open positions have been imposed in such a manner that no single individual/entity or group of individuals /entities, acting in concert, would be able to corner the market or influence the price discovery process.

ii) Daily price fluctuation limit bands or circuit limits − These limits are linked to historical spot market movements and discourage unbridled movement of prices in variance with the market fundamentals.

iii) Additional and Special margins − Additional and Special margins are imposed by the exchange or the FMC in case of undue price volatility.

iv) Most of the agricultural contracts have a compulsory delivery logic with a staggered delivery period of 10 (Ten) days to bring about better convergence with the physical markets.

In addition, the FMC calls for daily reports from the exchanges and takes other pro-active steps to ensure that there is no misuse of the futures market and that the futures prices discovered on the platform of the exchanges reflect broadly the demand and supply fundamentals.

In view of the position explained at (a) above and the foregoing, there is no proposal to close futures trading in commodities.