GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:2132
ANSWERED ON:05.12.2014
TRADING IN COMMODITY EXCHANGES
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Will the Minister of FINANCE be pleased to state:

(a) whether food commodities are being traded in the commodity exchanges;

(b) if so, the details thereof and the food commodities that are traded in the food commodities exchanges;

(c) whether the Government has put a ban on future trading on food items, to check rising prices of food articles, and

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

Answer

MINISTER OF FINANCE (SHRI ARUN JAITLEY)

(a) & (b): Yes, Madam. Futures trading is conducted in the commodity exchanges recognised under the provisions of the Forward Contracts (Regulation) Act, 1952. The list of food commodities traded at the commodity exchanges is placed at Annexure.

(c) & (d): No, Madam. The commodity futures market is a mechanism for price discovery and price risk management. The futures market discovers the prices that are likely to prevail in future. Several studies have observed that futures' trading does not lead to price rise. The report submitted (April 2008) by the 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. The Reserve Bank of India, in its Annual Report for the year 2009-2010 concluded 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, the degree of dependence on imports and international price movements in these commodities. 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 i.e. fiscal deficit, global food inflation and domestic farm wages.

Further, the Forward Markets Commission has put in place a number of measures to address undue price volatility. These are 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 Commission 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 Forward Markets Commission 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.