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# Managing Price Risk

## Presentation on

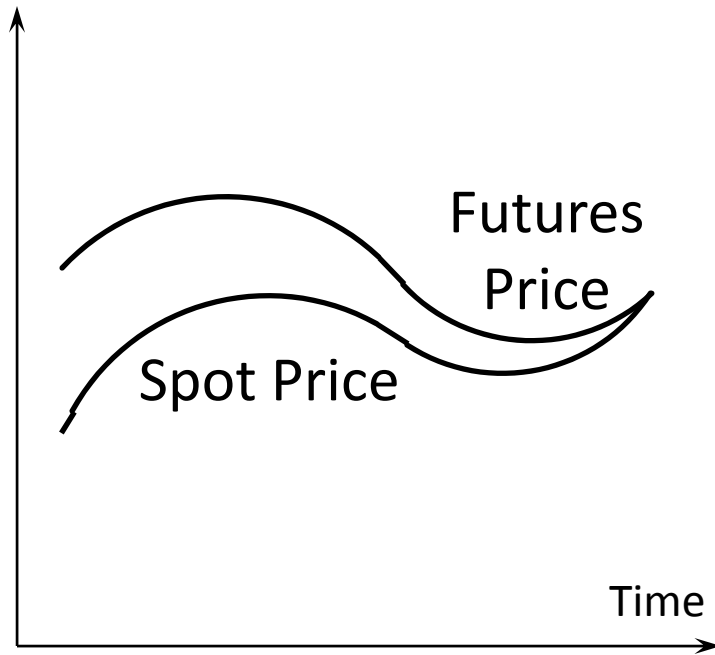
### The Future Prices Study

Dr Raosaheb Mohite

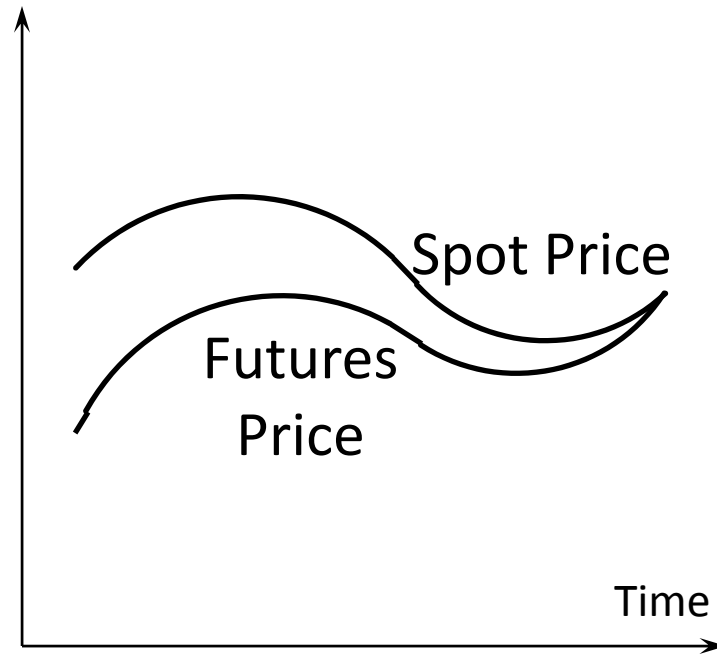
Financial Technologies Knowledge Management Company

Exchanges facilitate  
**Efficient Price Discovery**

# Convergence of Spot and Future Prices



(a)



(b)

| Price Discovery of certain Agricultural Commodities   |           |               |                               |                             |  |
|---|-----------|---------------|-------------------------------|-----------------------------|--|
| Commodity   | Contracts | Sowing period | Futures prices at sowing time | Spot prices (Harvest month) | % deviation of from harvest price at sowing time |
| Mentha (Rs Kg)  | 30-Jun-07 | Apr-07        | 537                           | 519                         | <b>3.47%</b>                                     |
| Chana (Rs qnt)  | 20-Mar-07 | Dec-06        | 2230                          | 2246                        | <b>0.71%</b>                                     |
| Ref Soy Oil (Rs 10 kg)  | 15-Nov-07 | Aug-07        | 478                           | 512                         | <b>6.64%</b>                                     |
| <b>Note:</b> <ul style="list-style-type: none"> <li>– Signs are ignored to emphasize on the strength of the relationship</li> <li>– Futures and spot prices are the monthly average prices of a particular contract on MCX of a particular month</li> </ul> |           |               |                               |                             |  |

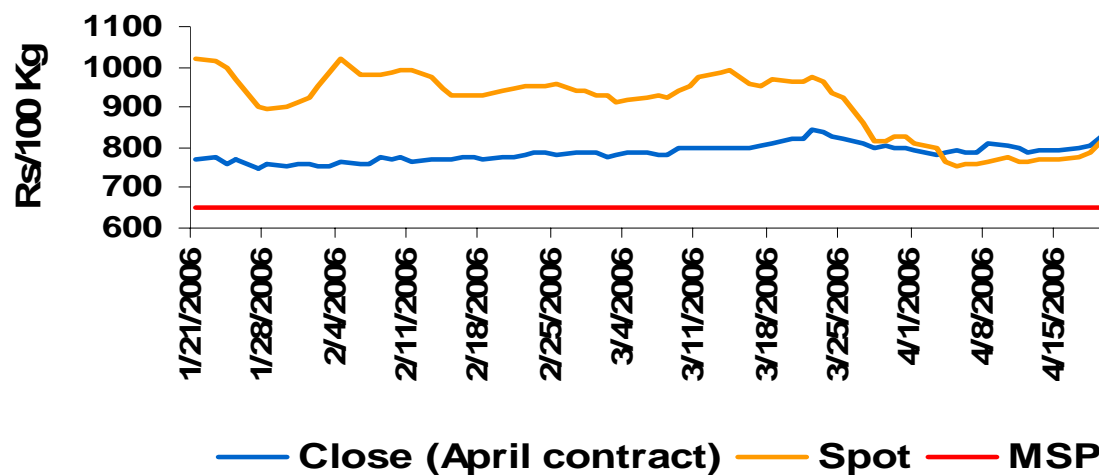
- **Futures prices can aid “price discovery”**

- Futures prices on a commodity with a “supply disruption”, can give valuable market information

# Efficiency of April Contract... Wheat

|                   | 28-Oct-06 | 20-Jan-06 | 21-Jan-06 | 20-Apr-06 | % Variation in forecasting |
|-------------------|-----------|-----------|-----------|-----------|----------------------------|
| Jan 20 Contract   | 835       | 1024      |           |           | 22.63                      |
| April 20 Contract |           |           | 769.9     | 817.9     | 6.23                       |
| Spot price        | 811.5     | 1024.2    | 1020.4    | 817.9     |                            |
| MSP               |           |           | 650       |           | 25.83                      |

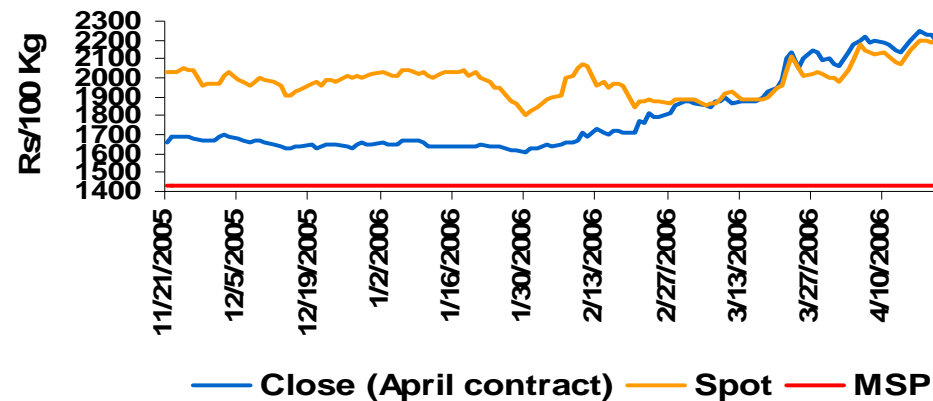
Harvest Price Discovery in Wheat



# Efficiency of April Contract... Chana

|                   | 1-Dec-05 | 20-Apr-06 | % Variation in forecasting |
|-------------------|----------|-----------|----------------------------|
| April 20 Contract | 1685     | 2193      | 30.15                      |
| Spot price        | 1968     | 2193      |                            |
| MSP               | 1435     |           | 52.82                      |

Harvest Price Discovery in Chana



# Mentha Oil Futures A Success Story

# MCX Mentha Oil Data

| Contract  | Opening Price | Spot Price Expiry | Closing Price Expiry |
|-----------|---------------|-------------------|----------------------|
| 31-Jan-06 | 458.9         | 646               | 638                  |
| 28-Feb-06 | 591.4         | 486.3             | 485.4                |
| 31-Mar-06 | 945.2         | 452.8             | 451.3                |
| 30-Apr-06 | 784.9         | 483.1             | 483.8                |
| 31-May-06 | 446.5         | 466.2             | 471.6                |
| 30-Jun-06 | 432           | 505.1             | 498.4                |
| 31-Jul-06 | 434.7         | 537.2             | 540.9                |
| 31-Aug-06 | 438.9         | 554.7             | 556.9                |
| 30-Sep-06 | 466.2         | 701.8             | 693.7                |
| 31-Oct-06 | 535.2         | 656.7             | 659.3                |
| 30-Nov-06 | 593.3         | 656.3             | 664.3                |
| 31-Dec-06 | 744.5         | 642.9             | 605.3                |

# MCX terminals in Mentha growing area go up

| States             | Mentha Oil                                    |              |
|--------------------|---|--------------|
|                    | Number of cities MCX terminals recorded trade |              |
|                    | 30 Dec. 2005                                  | 22 Feb. 2006 |
| Andhra Pradesh     | 22  | 26           |
| Bihar              | 2   | 3            |
| Chhattisgarh       | 3   | 3            |
| Gujarat            | 16  | 17           |
| Haryana            | 7   | 7            |
| Jharkhand          | 2   | 1            |
| Karnataka          | 4   | 3            |
| Kerala             | 5   | 10           |
| Madhya Pradesh     | 9   | 11           |
| Maharashtra        | 20  | 24           |
| Pondicherry        | 1   | 1            |
| Punjab             | 7   | 11           |
| Rajasthan          | 20  | 19           |
| Tamil Nadu         | 7   | 9            |
| Uttar Pradesh      | 23  | 28           |
| West Bengal        | 5   | 6            |
| <b>Grand Total</b> | <b>154</b>                                    | <b>183</b>   |

# Mentha Oil Trade –Post Futures Overview

| Sl. No.  | Particulars                       | 2003                       | 2007                       | Remarks    |
|----------|-----------------------------------|----------------------------|----------------------------|------------|
| 1        | Acreage                           | 1.50 lac Ha                | 2.4 lac Ha                 | 60%        |
| 2        | Production                        | 17000 MT                   | 32000 MT                   | 88%        |
| 3        | Price                             | Rs. 300/Kg                 | Rs. 500/Kg                 | 83%        |
| 4        | Sales Value                       | Rs. 510 Crores             | Rs.1500 Crores             | 214%       |
| 5        | Export                            | 13000 MT                   | 25000 MT                   | 92%        |
| 6        | India's share in wprld production | 75%                        | 90%                        | 25%        |
| 7        | India's share in world trade      | 70%                        | 75%                        | 5%         |
| 8        | Average export realization        | \$US10/Kg of mentha powder | \$US15/Kg of mentha powder | 50%        |
| <b>9</b> | <b>Total Export</b>               | <b>Rs. 650 crore</b>       | <b>Rs. 1100 crore</b>      | <b>69%</b> |

# Potato Futures

# Agra farmers see future in Potato - Hedge crop on Commexes

Source: Economic Times

Date: Sept. 11, 2007

# Futures and Potato

- Farmers can take a cue from futures prices on exchanges before they decide whether to store or sell.
- Now the farmer stores the potatoes in exchange accredited warehouses.
- He can take a loan and sells the commodity at a future date. This improves incomes and prevents distress selling.

# Yaduveer Singh – successful Pototo grower

- Yaduveer Singh, a farmer, has increased potato production from 3,500 quintal to 9,000 quintals and plans to increase it after making some profits at the exchange.
- "After the MCX terminal came, we looked at the futures price for the March contract. Against a spot price of Rs 550 per quintal, futures were showing Rs 775 and I sold at futures exchange. In March prices came down and I squared off with a profit," he said.

# Hedging in Potato grows

- Mr Singh is among a number of farmers who have started hedging their crop on the commodities future exchanges.

# Aggregation Pilot Project

Pilot Aggregation Project for Small Cotton farmers – 2007-08

Farmers trial trade in MCX Kapas futures (V-797 var. Cotton)

# Participants

- Sajnata Sangh
- Aga Khan Rural and Social Institute
- NABARD
- Multi Commodity Exchange
- Cardinal Edge Management
- Farmers Federation of Chotila

# Few findings

- The pilot project carried out in 5 villages in Chotila taluka was successful
- The farmers in the focus group did sell their produce on the exchange
- A number of constraints in farmer participation on Exchange were identified
- One of the constraint was financing of margin money and MTM
- The study also came out with recommendations for future

Thank You

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