

**COMMODITY DERIVATIVE MARKET'S SUPPORT  
FOR SUSTAINABILITY OF INDIAN YOUTHS IN  
INDIA AND INDIAN FARMERS AND FARM MARKET  
ACTIVITIES- A STUDY**

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**ABSTRACT**

*Sustainability is the order of the day in any business now a day. That too in India, particularly for Indian youths every minute is the “question of survival” as the number of graduates are increasing day by day. According to the censes 2011, the people those who are living below the poverty line is 37.5% among 121.72 crores, which is 45 crores of people. This paper is an attempt to find out how commodity derivatives market and its products are extending hands to Indian farmers' community and Indian youths in terms of generating employment opportunity and ways and means to stand on their own legs and ensures their sustainability in the cut throat competitive world.*

**Keywords:** Commodity Derivative Market, Below Poverty Line (BPL), Generating Employment Opportunity.

**I. INTRODUCTION**

Commodity Derivative Markets in India are growing well in India with fine regulation done by the Forward Market Commission. The commodity derivative market has been functioning in India since the nineteenth century right from the inception of the cotton trade association in 1875. This market is facing so many ups and downs for example, various bans suspensions and regulatory problems on various contracts in India.

Steep rise in Inflation has made the present commodity derivative market condition much worse than the situation in the currency market, where people always on the lookout for a higher return on their investment.

**II OBJECTIVES OF THE STUDY**

To study and analyze the Commodity derivative market's support for sustainability of Indian youths

To study and analyze the Commodity derivative market's support for sustainability of Indian farmers and farm market activities.

### **III REVIEW OF LITERATURE**

Dr.K.Ravichandran (2008) mentioned in his paper “A study on investors' preference towards various investment avenues in capital market with special reference to derivatives”, this paper published in the journal of contemporary research in management, july-sep-2008. PP.101 to 112.

This Study Intends 1) to find out the preference level of investors on various Capital Market instruments 2) to find out the type of risk which are considered by the investors 3) to find out the ways through which the investors on various minimizes their risk 4) to find out the preferences of Investors in the derivatives market. About 100 samples were collected from Chennai city from various investors through a structured questionnaire and awareness about derivatives and the investor risk preference in an elaborate. This paper does not address anything about the entrepreneurial opportunity lies over the commodity derivative markets in India in the recent years.

2.”India's commodity Transaction Tax- Economic consequences and international lessons learned, written by Charles M.Seeger in Financial Markets International, USA, in April-2013.

This paper addresses the recently proposed Indian Commodity Transaction Tax (CTT) and the foreseeable impact of this tax on Indian Economy Prudential government regulation, particularly since 2003, has helped India to develop one of the most vibrant commodity sectors in the world.

The sector employs millions, generates revenue, and propels growth. A wide range of economic factors in India relies upon commodity exchanges for price discovery and to hedge exogenous risk. The proposed CTT fails to understand these economic objectives, and in doing so, is likely to deter commodity trading on Indian exchanges and shift transactions to lower cost exchanges overseas, or to illegal markets. As trade volume decreases, so too will any revenues generated by the CTT. The CTT is further flawed as it disproportionately harms small and medium enterprises, would cause substantial job losses, and unfairly discriminates against certain economic sectors. This paper also provides empirical evidence of the harm of similar transaction taxes in other nations, which have reduced market liquidity and have failed to generate significant long term revenue. This paper also has not addressed anything about the entrepreneurial opportunity lies over the commodity derivative markets in India in the recent years.

3.”Nurturing an Agriculture friendly commodity derivative marketing in India” written by Prof. Shamim ahmad and Doctoral research scholar Mr.Mohammed Jamshed, Department of Agriculture & Business Management, Aligarh Muslim University, Aligarh 202 002, Uttera Pradesh. MITS International Journal of Business research, Vol.1,Issue.1, Jan-June-2014. With an Issn No.2349-1701, PP 1-9.

Commodity derivatives have a crucial role in developing agriculture dominated economies. However, their types and commodities have been restricted in India. A review of the institutional and policy constraints facing this market demands more focused and pragmatic approach from government, regulators and exchanges for making it a vibrant segment for agriculture supply chain. Recent decline in the participation and volume of operations in commodity exchanges calls for an integration and development of a trustworthy interrelationship among the market participants, especially at the grass root level. Market is the barometer to identify the status of reforms and to set a standard of achievements. In a broader perspective, the commodity derivatives market

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should not be limited only to facilitate price discovery and price risk management but also play a much larger role against the socio-institutional backdrop of a liberalized economic regime. A policy intervention for smooth and transparent functioning of the commodity exchanges and integrating them with the spot markets (at regional and state level) will meet the expectations. The study proposes to reshape the future market by adopting a producer centric sustainable growth model to compete in an international supply chain dynamics. The paper recommends a new trading platform to work in autopilot mode of integrated commodity market of international repute. To lead the economy towards inclusive growth an agriculture friendly commodity derivative market with PPP and ICT adoption to win the trust of participants should be evolved through a total transformation in the process, governance, legislation and regulation system. This paper also has not addressed anything about the entrepreneurial opportunity lies over the commodity derivative markets in India in the recent years.

4."An Empirical study on the dynamics of commodity derivative market's impact on Indian investment" written by Mr. Prasad R.A, Research scholar, department of studies & research in commerce, published in the International journal of research in commerce, economics & management. Vol.No.3(2013), Issue No.7 July, with an ISSN no.2231-4245, .PP128-130.

This paper finds that concurrent with the rapid growing world financial market has witnessed a spectacular change in the field of Commodity market in the past one decade. India also could not become aloof from the world trend and mainly after the liberalization has set in motion. India introduced the different types is phased manner. A Commodity Market has gained momentum since, its introduction in India and has played a major role in Indian financial markets. Similarly, on the equity market, many retail investors who are uncomfortable about the equity market would enter if they were given the alternative of buying insurance, which controls their downside risk. This would enhance the action of the savings of the country, which are routed through the equity market. More importantly, Commodity Market is one of the important tools of hedging risk. Therefore, the study of current scenario of Commodity Market in India is very importance. This paper has not addressed anything about the entrepreneurial opportunity lies over the commodity derivative markets in India in the recent years.

5."A study on relationship between cash and derivative segment in Indian Stock market" Written by Dr.Anand Sharma,Dr.Namita Rajput and Dr. Anurag Agnihotri, published in the national journal View point Vol.2.No.1, Jan-June-2011.PP.74 to 78.

During the recent global recession Derivative instruments were largely criticized on account of their speculative nature. Since introduction of Derivatives segment in the year 2000, it has led both interactions between the Spot and Derivative segment in Indian stock market, and concern by regulators in controlling any possible harmful influences of this new trading segment. There are different opinions on impact of Derivative segment on cash segment. It is said that the Derivative segment prices can reflect additional information, over and above that already reflected in the spot price thus can serve as a leading indicator for the spot prices. This paper analyses the introduction of the Derivative segment trading in India and its impact on the cash segment. It studies the relationship of turnover in Cash and Derivative segment. This paper also has not addressed anything about the entrepreneurial opportunity lies over the commodity derivative markets in India in the recent years.

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6."Growth and Future of Derivatives in India: A Study" written by shiv singh sarangdevot and Yuvarj singh Rathore, published in the international journal of computing, communications & instrumentation engineering (IJCCIE), Vol.1, Issue No.1 (2014), Issn-2349-1469, e-issn-2349-1477.PP.12-17.

Financial market's endeavour has always been to maximize returns and minimize risk. Derivatives are among the forefront of the innovations in the financial markets and aim to increase returns and reduce risk. They provide an outlet for investors to protect themselves from the vagaries of the financial markets. In this paper portfolio of various clients of IL&FS INVESTSMART LIMITED has been analyzed, which clearly depicted that even till today there are only few investors who are not willing to invest in derivative market as it carries an element of risk and uncertainty with it. Also in this paper a study of investment pattern of general public among derivatives has been done The major objective of the study is to analyze the performance of Derivatives Trading in India since 2001 with special reference to Futures & Option. This paper also has not addressed anything about the entrepreneurial opportunity lies over the commodity derivative markets in India in the recent years.

7."A study on Technical analysis of Derivative stock futures and the role of Debt market derivatives in Debt market development in India, written by Nanavath sreenu, Research scholar,School of Management Studies, University of Hyderabad, published in the ZIBEMR Journal, Vol.2, Issue.3, March 2012,ISSN.2249-8826.PP.81-98.

This research paper attempts to collect literature from various sources in on attempt to answer three pertinent questions related to the derivatives growth and model in Indian. This paper examine the analyzes recent trends in derivate in emerging markets, institutional. Obstacles to more diversified and adequate funding sources for the derivative market, and the vulnerabilities associated with the currently available sources. The main trends in emerging markets derivative include an increase in derivative and stagnation or a decline in bank lending and equity issues. As a result, in part, of a series of policy measures, derivative have become a relevant source of funding in some Indian market, the paper also briefly reports on major changes in the financing of derivative market growth in India and considers its implications for the extant theories of law, finance and corporate governance. And analyzes the potential limits of organizational growth in derivative market and explores the implications of integration and diversification for antitrust policy. This paper also has not addressed anything about the entrepreneurial opportunity lies over the commodity derivative markets in India in the recent years.

As on date, there is no such study which reveals about the entrepreneurial opportunities in Indian commodity derivatives exchanges, that way this study is a unique one.

## **IV. RESEARCH METHODOLOGY**

Qualitative secondary data were used to find out various opportunities lying in for Indian farmers and Indian youths in commodity derivatives markets in India. Nationalized commodity derivative exchanges have been studied to evolve this concept as this is a conceptual study.

## **V. INDIAN COMMODITY DERIVATIVE MARKET AT PRESENT**

There are 25 commodity derivative exchanges in India as of now and derivative contracts on nearly 113 commodities are available for trade. The overall turnover is expected to touch Rs40 lakh crore by the end of 2014-2015. When compared to the year 2013 to 2014 it stood at 79 lakh crore showing a symptom of a down trend in commodity and derivatives exchange not only in India but also in the international level as well. It is only in the last decade that commodity derivatives exchanges have been actively encouraged. But, the markets have suffered from poor liquidity and have not grown to any significant level, hitherto. However, in the year 2013, four national commodity exchanges became operational; national multi-commodity exchange of India (NMCE), national board of trade (NBOT), national commodity and derivatives exchange (NCDEX) and multi commodity exchange (MCX).

The introduction and progress of these exchanges and the introduction of futures contracts on new commodities by the forwards market commission have triggered significant levels of trade. Now the commodities futures trading in India is all set to match the volumes on the capital markets slowly.

## **VI. OPPORTUNITIES FOR YOUNG INDIAN YOUTHS AND INDIAN FARMERS IN INDIAN COMMODITY DERIVATIVE-EXCHANGES**

### **1. Building software for commodity market**

Constructing software for commodity derivative market application is a major challenge and requires lots of hard work. For example, EKa software, the software solutions provider for the commodity trade and risk management activities. This particular activity will be the boost for India to concentrate upon to tap the great potential to venture into and conquer the entire market for developing the software for CDMs.

With regard to the usage of the software primarily it will help the financial market play an important role in the mobilization of funds it mobilize the fund globally, which is to generate funds from different suitable sources that assures cost effectiveness and time efficiency. To mobilize is to arrange or gather the funds together this can be done in the financial market by using financial instruments such as equity, debt, foreign exchange and derivative, it is the role of the financial market to ensure that these funds are effectively mobilized.

Secondarily, it has a role in effective allocation of funds; it looks for funds and transfer funds from those who have more to those who need funds. And also to ensure funds are used in the way promised by the borrower. Financial market should be able to allocate funds in most profitable sectors that will offer the highest possible returns. Therefore it helps in worldwide investment.

The Financial system should be able to move risky long term, illiquid claims on borrowers into safer, short term that savers prefer. When savings are allocated more efficiently the national income in the country is increased and therefore makes the economy productive.

Efficient and reliable financial markets will more willingly attract domestic and foreign investments which, in turn, will contribute to the government's broader policy objectives of increased employment and sustainable economic growth.

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Financial markets facilitate cross border transactions, for example one can invest and own securities in another economy. This helps in international diversification and thus reducing country specific risk. Foreign investment accelerates the productivity of host countries and promotes economic development. Higher levels of investment lead to positive spillovers growing the returns to and incentives for higher levels of investment.

Also, financial markets fosters entrepreneurial activity because it helps households to be self financing and to allocate the funds to financial market and look at (1) how much you earn (2) how much to consume (3) how much to save and allocate to fund thus, the individual aspiring to be entrepreneur can borrow from the market and because of the ability to borrow and lend it help the individual to be productive and this hereby helps in production and smooth consumption levels.

Financial and commodity market allows capital flows between countries, and this enhances the overall investment of a country. Financial market encourages people to save; lack of financial market makes it difficult for people to save, and this therefore will result in low savings rate which reduces the overall levels of investment and this will slow the economy down. Low savings make it difficult for entrepreneurs in the economy to borrow and thus will not be productive.

## **2. Farmers will gain from the futures market**

They will get the benefit of protection in case prices fall below the cost of production the stage is being set for farmers to get the benefits of the commodity futures market. This will be possible with the enactment of the forward contract (regulations) amendment bill, which is expected to be tabled in parliament in its winter session. While the commodity futures market has grown by 40 per cent annually in the past few years, most of the growth has taken place in non-agricultural commodities, and farmers have for various reasons virtually kept away from the futures market for hedging their produce. The direct hedging facility on the futures market helps them improve their realization, which they generally lose to middlemen.

The proposed changes seek to empower the commodity derivatives market regulator, the forward markets commission (FMC), with statutory autonomous status, introduction of options, power to penalize wrongdoers, power to grant exchanges permission to introduce futures trading in intangible contracts (including weather derivatives, indices and freight rates), and help farmers to lock in their cost of production. Introduction of "options" would allow farmers to fix selling prices by selling their products in the futures market.

## **3. Bankers can also do something for the betterment of Indian farmers and youths in the Commodity Futures Market**

It is really a great surprise to note that, no banker is allowed to carry out future market related activities in India, according to the Indian banking regulation act 1949 but if they are allowed to do some operations with regard to commodity derivatives and futures market activities in India, they can do it in a better way and gain good momentum as well.

## **4. Shop and earn would be the new concept for the Indian speculators**

Buying anything will be possible online nowadays, which means while trading commodities, there is a possibility for the traders to make some profit while trading the commodities in the commodity derivatives in India.

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## **5. Brokerage organizations**

lready brokerage concerns are there in India and they are properly controlled and regularized by forward market commission (FMC), awareness about the commodity derivative markets and its operational benefits may bring in new brokers, which may encourage new entrepreneurship among Indian entrepreneurs who can invest their money in metal and non metal commodities.

## **6. Warehousing would be a new avenue for the Indian youths and farmers**

To do the commodity trading efficiently and effectively, warehousing would be an important business opportunity to enter into, which may create demand employment opportunities for young Indian entrepreneurs.

## **7. Mass unemployment can be reduced through commodity derivative markets**

By creating more employment opportunities in the commodity derivative market, country like India must identify the potential employment opportunities in the commodity derivatives market and capitalize the opportunities. This will create employment opportunities for both male and female entrepreneurs in India.

## **8. Commodity Derivative Market's help Indian farmers and Indian youths to stand up on their own legs**

Commodity derivative markets will help the Indian country's exchequer to concentrate more on building more business models for young Indian entrepreneurs which will flourish Indian business ventures in India.

## **VII. IMPLICATIONS FOR FUTURE STUDIES**

This study may take a new shape in the near future because it has a tremendous amount of potential to learn in this new area of learning, especially with regard to Indian commodity derivative market's entrepreneurial opportunities which are lying in, and it may open a new door for the young researchers and scholars to carry out various studies which may cater the need of employment opportunity in India which is a labor intensive one.

## **VIII. FINDING AND CONCLUSION**

There are more number of opportunities lying in the Commodity Derivative Markets for young Indian youths and Indian farmers,especially in software creating and usage, warehousing, brokerage, Trading, warehousing, banking, intermediating, etc.

## **IX. CONCLUSION**

It is understandable from the above conceptual analysis that there are plenty of opportunities available for Indian farmers and youths in the Indian commodity derivative market. But taking the leverage on this market is not fully done. At least in the years to come people should understand the ground reality and utilize the untapped opportunity available in the Indian commodity derivative market.

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