

## **A Study on Introduction of Options in Commodities - A Feasibility Study**

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### **ABSTRACT**

This project is carried out with a view “To study on introduction of options in commodities- a feasibility study” is one of the leading Financial Services companies, offering equity broking, commodity, mutual fund, wealth advisory services, portfolio services. It gives a brief description of the introduction of options in commodities. The Data collected for the study were both primary and secondary data, the primary data collected from the investors of the company and the secondary data collected through the website. A sample of 110 investors was selected from unlimited population using convenience sampling. Data are analyzed & interpreted using following statistical tools and financial tools Percentage analysis method, Weighted Average Method, Compound annual growth, Rank correlation.

### **THE MAJOR FINDINGS OF THE STUDY ARE**

Majority (48.18%) of the investors were said that MCX commodity exchange they prefer for investment

Majorities (49.09%) of the respondents mostly they prefer bullions for investment. Majorities (56.36%) of the investors don't prefer intraday for trading.

42.73% of respondents said they have more risk in commodity market.

Majority (53.64%) of the investors said they are satisfied in introduction of option in commodity market. Overall value in commodity market in 2006 and 2011 Energy product increasing 73.60%. In India, the commodities only have commodity futures, and the options in commodities should be introduced. The Forward Market Commission (FMC) should be allowing option trading in commodity market in India.

### **1. INTRODUCTION**

Commodity market is a place where trading in commodities takes place. It is similar to an equity market, but instead of buying or selling shares one buys or sells commodities. Indian Forward Contracts (Regulation) Act (FCRA), 1952 defines “goods” as “every kind of movable property other than actionable claims, money and securities”

### **2. NEED OF THE STUDY**

- Options are helpful for the investor to compensate their risk according to the market movements and to get opinion about options from the investor perspective.

- This study gives an overview about the options in commodity market which not introduced in the Indian commodity market.

### 3. OBJECTIVES OF THE STUDY

#### PRIMARY OBJECTIVE

To study about the introduction of options in commodities- a feasibility study.

#### SECONDARY OBJECTIVES

- To analyze the effectiveness of commodity market
- To study the investor preference of invest in commodity market
- To find out the major factors that influence the investor to make the invest decision.

### 4. RESEARCH METHODOLOGY

Type of research is Descriptive and Analytical Research .The Sampling Technique is Convenience Sampling.

**Statistical Tool for analysis** : i) Simple Percentage analysis  
ii) Rank correlation  
iii) Weighted average  
iv) Compound annual growth rate

#### PREFERENCE OF COMMODITIES TO INVEST

| PARTICULARS      | NO OF RESPONDENTS | VERY STRONGLY PREFERRED | STRONGLY PREFERRED | NEUTRAL | NOT STRONGLY PREFERRED | VERY NOT STRONGLY PREFERRED | TOTAL |
|------------------|-------------------|-------------------------|--------------------|---------|------------------------|-----------------------------|-------|
| Bullions         | No of respondents | 54                      | 32                 | 19      | 5                      | 0                           | 110   |
|                  | Percentage        | 49.09                   | 29.09              | 17.27   | 4.55                   | 0                           | 100   |
| Other Metals     | No of respondents | 23                      | 18                 | 17      | 33                     | 19                          | 110   |
|                  | Percentage        | 20.91                   | 16.36              | 15.46   | 30                     | 17.27                       | 100   |
| Energy/fossils   | No of respondents | 31                      | 20                 | 39      | 13                     | 7                           | 110   |
|                  | Percentage        | 28.18                   | 18.18              | 35.46   | 11.82                  | 6.36                        | 100   |
| Agro based items | No of respondents | 16                      | 29                 | 15      | 14                     | 36                          | 110   |
|                  | Percentage        | 14.54                   | 26.36              | 13.64   | 12.73                  | 32.73                       | 100   |
| Oil & oil seeds  | No of respondents | 8                       | 12                 | 21      | 28                     | 41                          | 110   |
|                  | Percentage        | 7.27                    | 10.91              | 19.09   | 25.46                  | 37.27                       | 100   |

Source: Survey data

**TABLE NO 1**

#### INTERPRETATION

Majority (49.09%) of the investors were they prefer bullions for their investments, 30% investors not preferred other metals,32.73% of the investors strongly not preferred agricultural products, very few ( 7.27% ) of the investors only preferred oil & seeds for their investments.

**FREQUENCY OF COMMODITY TRADING**

| S.NO | ATTRIBUTES   | NO. OF. RESPONDENTS | PERCENTAGE |
|------|--------------|---------------------|------------|
| 1    | Daily        | 21                  | 19.09      |
| 2    | Weekly       | 34                  | 30.91      |
| 3    | Monthly      | 12                  | 10.91      |
| 4    | Occasionally | 10                  | 9.09       |
| 5    | Rarely       | 33                  | 30         |
|      | Total        | 110                 | 100        |

Source: Survey data

**TABLE NO 2****INTERPRETATION**

Majority (30.91%) of the investors were trading in weekly, and 30% of the investors trading in rarely, 19.09% of the investors trading in daily, few (10.91%) of the investors trading in monthly, very few (9.09%) of the investors were trading in Occasionally.

**RANK FOR COMMODITY PRODUCTS TRADED CONTRACTS****BASED ON CAGR VALUE**

| COMMODITY PRODUCTS           | CAGR    | RANK |
|------------------------------|---------|------|
| Agricultural products        | -10.89% | 4    |
| Energy products              | 57.45%  | 2    |
| Non- precious metal products | 66.61%  | 1    |
| Precious metal products      | 51.81%  | 3    |

**TABLE-3****INTERPRETATION**

Rank for the overall commodity products traded contracts Non precious metal products should be I rank followed by energy products, precious metal products, and agricultural products.

**WEIGHTED AVERAGE****WEIGHTED AVERAGE FOR PREFERENCE OF COMMODITIES**

| PARTICULARS      | 5  | 4  | 3  | 2  | 1  | WEIGHTED AVERAGE | RANK |
|------------------|----|----|----|----|----|------------------|------|
| Bullions         | 54 | 32 | 19 | 5  | 0  | 31               | I    |
| Other Metals     | 23 | 18 | 17 | 33 | 19 | 21.53            | III  |
| Energy/fossils   | 31 | 20 | 39 | 12 | 7  | 25.67            | II   |
| Agro based items | 16 | 29 | 15 | 14 | 36 | 20.33            | IV   |
| Oil & oil seeds  | 8  | 12 | 21 | 28 | 41 | 16.53            | V    |

**TABLE NO 4**

**Net score = weighted for column x No of respondents/ Total weight**

$$\text{Bullions} = 54 \times 5 + 32 \times 4 + 19 \times 3 + 5 \times 2 + 0 \times 1 / 5 + 4 + 3 + 2 + 1 = 31$$

$$\text{Other Metals} = 23 \times 5 + 18 \times 4 + 17 \times 3 + 33 \times 2 + 19 \times 1 / 5 + 4 + 3 + 2 + 1 = 21.53$$

$$\text{Energy/fossils} = 31 \times 5 + 20 \times 4 + 39 \times 3 + 13 \times 2 + 7 \times 1 / 5 + 4 + 3 + 2 + 1 = 25.67$$

$$\text{Agro based items} = 16 \times 5 + 29 \times 4 + 15 \times 3 + 14 \times 2 + 36 \times 1 / 5 + 4 + 3 + 2 + 1 = 20.33$$

$$\text{Oil \& oil seeds} = 8 \times 5 + 12 \times 4 + 21 \times 3 + 28 \times 2 + 41 \times 1 / 5 + 4 + 3 + 2 + 1 = 16.53$$

## INTERPRETATION

Majority of the respondents ranked I for Bullions followed by Energy/fossils, Other Metals, and Agro based items, Oil & oil seeds.

## WEIGHTED AVERAGE

### WEIGHTED AVERAGE FOR TRADING PATTERN

| PARTICULARS    | 5  | 4  | 3  | 2  | 1  | WEIGHTED AVERAGE | RANK |
|----------------|----|----|----|----|----|------------------|------|
| Intraday       | 2  | 5  | 7  | 34 | 62 | 12.07            | III  |
| Delivery Based | 33 | 41 | 24 | 4  | 8  | 27.8             | II   |
| Future         | 54 | 32 | 9  | 11 | 4  | 29.47            | I    |

**TABLE NO 5**

**Net score = weighted for column x No of respondents/ Total weight**

$$\text{Intraday} = 2 \times 5 + 5 \times 4 + 7 \times 3 + 34 \times 2 + 62 \times 1 / 5 + 4 + 3 + 2 + 1 = 31$$

$$\text{Delivery Based} = 33 \times 5 + 41 \times 4 + 24 \times 3 + 4 \times 2 + 8 \times 1 / 5 + 4 + 3 + 2 + 1 = 21.53$$

$$\text{Future} = 54 \times 5 + 32 \times 4 + 9 \times 3 + 11 \times 2 + 4 \times 1 / 5 + 4 + 3 + 2 + 1 = 25.67$$

## INTERPRETATION

Majority of the respondents ranked I for Future market followed by Delivery Based, Intraday.

## 5. FINDINGS

- Majority (38.18%) of the respondents said period of commodity market between 3 to 4 years.
- Majority (50.91%) of the investor's investing less than 2 lakhs in commodity market

- Most (34.54%) of the investors said returns in commodity market is highly not satisfied, 42.73% of respondents said they have more risk in commodity market.
- Majority (46.36%) of the investors said current economic situation is favorable for commodity market.

## **6. SUGGESTIONS**

- In India, the commodities only have commodity futures, and the options in commodities should be introduced. The Forward Market Commission (FMC) should be allowing option trading in commodity market in India.
- The Forward Market Commission (FMC) has to take some steps to increase the awareness of future commodity trading India.
- Amount of risk involved reduced by guiding the investors properly and stock broker should make the investors to invest in right commodities.
- Investors think broker's recommendation improved to reduce the risk and it should be trust worthy to investing in recommended commodities.
- Frequent information provided by the stock brokers to know the current situation about the market.
- And investors choose the commodity products depends on liquidity and market volatility its better for their investment.

## **7. CONCLUSION**

To conclude introduction of options in commodities, the Forward Market Commission try to Introduction of options in Indian commodity market, its advantage of investors because options is helpful to investors reduce their risk according to price fluctuation. The public should not have awareness about the commodity market so Forward Market Commission (FMC) try to take necessary steps for that and it's create a commodity market should be effective.

## **8. REFERENCE**

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