IMPACT OF COMMODITY FUTURE TRADING ON VOLATILITY OF COMMODITY SPOT PRICES WITH SPECIAL REFERENCE TO SUGAR, CHANNA & TURMERIC ON NCDEX (JAN.1, 2010 - DEC. 31, 2010)

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ABSTRACT

On 7 May, 2008, the Indian Government announced the ban futures trading in four agricultural Commodities – chickpea, potato, rubber and soy oil. In the months that followed, whether or not futures trading contributed to the increase in prices was a hotly debated subject. Some claimed that futures markets benefit the farmers and don't contribute to price rises, while others argued that speculation had led to price distortion.

The purpose of this paper is to examine the rationale behind the ban and to study whether there is significant impact of commodity future trading on volatility of commodity spot prices or there is no such impact. The data for this purpose is taken from Commodity exchange i.e. NCDEX for four quarters and three commodities i.e. sugar, channa and turmeric are selected for the study. The data is collected with respect to traded volume, traded value and trade price. Various statistical tools like correlation, Regression, Granger Causality test is applied to the data collected. Garch model basically designed to study the volatility is also used in the study. Reliability analysis is done so as to ensure that the data used in the study is reliable. The results exhibited that out of three commodities we have two cases where causality runs from volume to spot prices. In the rest one commodity there is no causality from volume to spot prices. Further we do not have sufficient evidence to support that future markets leads to higher inflation.

KEYWORDS: Commodity, Spot prices, Future Prices, Volatility, Garch Model, Granger Causality Test.