SCOPE & LIMITATIONS OF THE STUDY:

The research project will cover in-dept study and analysis of spot and futures prices of selected commodities in India as quoted on commodity exchanges viz. Multi Commodity Exchange of India Ltd. (MCX), Mumbai, National Commodities Derivatives Exchange of India Ltd. (NCEDX) Mumbai, and National Multi Commodity Exchange of India (NMCE), A’BAD. Commodities to be covered are:

» Chana
» Chilli
» Gold
» Jeera and
» Wheat

The study will attempt to establish a relationship between futures prices and spot prices of selected agro commodities like sugar, wheat, chana (chickpea), Jeera, etc. **Historical data on spot and futures prices will be collected** since before the start of futures trading till this date and regression analysis done to establish the relationship between the two prices. **Linear regression analysis will also be done** to find out various other factors that could influence the spot prices of selected commodities. **Granger Causality Test** will also be used to find whether spot prices influence the futures prices or vice versa.

Regression analysis requires historical data for a number of years and analysis needs to be done on data available before and after the introduction of futures trade in the country. Since the Government had suspended futures trading in agro-commodities on a number of occasions, continuity of data on futures trade (volume and futures prices) in these commodities cannot be assured. This may impact the findings of the study to some extent. To overcome this shortcoming, it is suggested that the analysis should also be done on selected non agro-commodities to test the hypothesis. It has been therefore decided to include gold as one of the commodities.
OBJECTIVES OF THE STUDY:

1. To study the relationship between spot and futures prices of commodities in India.
2. Study the impact of futures trading on spot prices and the lead lag relationship between them for commodities in India.
3. To study and assess the growth of derivatives trade and types of contracts allowed to be traded in India vis-à-vis other countries for selected commodities.
4. To study and ascertain the desirability of involving farmers in futures (or other derivatives) trading for the purpose of risk management.
5. To study the types of derivative products that need to be especially developed and introduced in India to help marginal farmers to hedge their risks without getting involved in speculative activity themselves.
6. To explore the ways (system and method) in which farmers could be involved in derivatives trading with the objective of hedging risks arising from volatility in prices of agro-commodities.
7. To study the desirability of removing current ban on trading options on commodity futures in India to ensure wider participation by corporate hedgers.
HYPOTHESIS:

- Based on the stated objectives of the study, a set of hypothesis are developed and the study would empirically address the research work in question.
- H1: Futures trading leads to increase in spot prices of commodities under consideration.
- H2: There is no relationship between futures prices and spot prices of commodities in India.

The above hypothesis would be supplemented by other sub-hypothesis keeping in view the objectives of the study.