Futures trading in Commodities has three specific economic functions viz. price discovery, hedging and reduction in volatility. Natural rubber possesses all the specifications required for futures trading. Commodity futures trading in India attained momentum after the starting of national level commodity exchanges in 2003. The success of futures trading depends upon effective price risk management, price discovery and reduced volatility which in turn depends upon the volume of trading. In the case of rubber futures market, the volume of trading depends upon the extent of participation by market players like growers, dealers, manufacturers, rubber marketing co-operative societies and Rubber Producer’s Societies (RPS). The extent of participation by market players has a direct bearing on their awareness level and their perception about futures trading.

In the light of the above facts and the review of literature available on rubber futures market, it is felt that a study on rubber futures market is necessary to fill the research gap, with specific focus on (1) the awareness and perception of rubber futures market participants viz. (i) rubber growers, (ii) dealers, (iii) rubber product manufacturers, (iv) rubber marketing co-operative societies and Rubber Producer’s Societies (RPS) about futures trading and (2) whether the rubber futures market is fulfilling the economic functions of futures market viz. hedging, reduction in volatility and price discovery or not.

The study is confined to growers, dealers, rubber goods manufacturers, rubber marketing co-operative societies and RPS in Kerala. In order to achieve the stated objectives, the study utilized secondary data for the period from 2003 to 2013 from different published sources like bulletins, newsletters, circulars from NMCE, Reserve Bank of India (RBI), Warehousing Corporation
and traders. The primary data required for this study were collected from rubber growers, rubber dealers, RPS & Rubber Marketing Co-operative Societies and rubber goods manufacturers in Kerala. Data pertaining to the awareness and perception of futures trading, participation in the futures trading, use of spot and futures prices and source of price information by dealers, farmers, manufacturers and cooperative societies also were collected. Statistical tools used for analysis include percentage, standard deviation, Chi-square test, Mann – Whitney U test, Kruskal Wallis test, Augmented Dickey – Fuller test statistic, t- statistic, Granger causality test, F- statistic, Johansen co – integration test, Trace statistic and Max –Eigen statistic.

The study found that 71.5 per cent of the total hedges are effective and 28.5 per cent are ineffective for the period under study. It implies that futures market in rubber reduced the impact of price risks by approximately 71.5 per cent. Further, it is observed that, on 54.4 per cent occasions, the futures market exercised a stabilizing effect on the spot market, and on 45.6 per cent occasions futures trading exercised a destabilizing effect on the spot market. It implies that elasticity of expectation of futures market in rubber has a predominant stabilizing effect on spot prices. The market, as a whole, exhibits a bias in favour of long hedges. Spot price volatility of rubber during futures suspension period is more than that of the pre suspension period and post suspension period. There is a bi-directional association-ship or bi-directional causality or pair-wise causality between spot price and futures price of rubber. From the results of the hedging efficiency, spot price volatility, and price discovery, it can be concluded that rubber futures market fulfills all the economic functions expected from a commodity futures market. Thus in India, the future of rubber futures is Bright…!!!