CHAPTER-8

FIELD STUDY

This study is primarily based on secondary data. However, to understand what market participants think about the commodities futures market, a structured questionnaire was circulated among the traders in derivative markets in Ahmedabad. A total of 10 traders filled up the questionnaire. A copy of the questionnaire is attached as Annexure-3. Though the sample size is small, it does give some interesting insights useful for future policy and/or course of action.

On average traders are not sure whether the commodities derivative markets are efficient or not. Half of the respondents feel the market is efficient whereas other half feel that the markets are not efficient.

Most traders feel that these markets are not useful to farmers for hedging. Most feel that the market requires sophisticated knowledge to participate meaningfully. Farmers do not have adequate understanding of the market. Several traders suggested that the awareness is still low and there is a strong need for educating the primary producers in a language they understand.

The traders are almost equally divided on whether the market is driven and controlled by the speculators. However, even those who felt that the market is not controlled by the speculators also felt that the markets do not, as yet, perform the hedging function well. It can be deduced that the markets are not hedger dominated.

Opinion is equally divided among the respondents when asked whether the markets increase volatility of the underlying and whether large price increases of commodities are sometimes due to the futures markets.
Majority of traders feel that the markets are used only by large producers, e.g., ITC, to hedge their risks. Most also felt that large arbitrage profits could be made on the markets.

Almost universally they believe that the markets do not have depth.

Those who responded to the question on introduction of options felt that the futures market is still not large enough, not mature enough. At this juncture options should not be introduced.

Rather the need is to educate the primary producers and people at large.

To surmise from the reply to several structured answers and some open ended questions, the markets are not efficient, markets lack depth, and possibility of high arbitrage profits exists. There is a strong need to educate potential users. A large unrealized potential exists. Presently, markets are driven by speculators and only large producers/consumers of commodity use the markets for hedging. Time is not yet ripe for introduction of option derivative.

These conclusions are broadly in conformity to our findings that the markets are not efficient and do not, as yet, provide riskless or low risk hedging.