



**A STUDY ON INVESTORS PERCEPTION TOWARDS COMMODITY
FUTURES WITH SPECIAL REFERENCE TO UNIQUE TRADING
SOLUTIONS LTD, COIMBATORE**

Chandrasekar M¹ and Swaminathan . B²

^{1&2}*Assistant Professors, PG & Research Department of Commerce,
Srimad Andavan Arts & Science College(Autonomous), Tiruchirappalli.*

***Email: msekar@andavancollege.ac.in**

Abstract

A commodity derivative derives its value from an underlying asset, which is necessarily a commodity. Commodities, in simple words are any goods that are common and unbranded. Gold, silver, rubber, pepper, jute, wheat, sugar, cotton etc., are some of the common commodities. For e.g. apple juice can be a commodity whereas the 'Real' apple juice cannot be called a commodity. One may be surprised to know that in the US commodities markets there are futures available even on cattle. Commodity includes all kinds of goods. FCRA defines "goods" as "every kind of movable property other than actionable claims, money and securities". Futures' trading is organized in such goods or commodities as are permitted by the Central Government. At present, all goods and products of agricultural (including plantation), mineral and fossil origin are allowed for futures trading under the auspices of the commodity exchanges recognized under the FCRA. The national commodity exchanges have been recognized by the Central Government for organizing trading in all permissible commodities which include precious (gold & silver) and nonferrous metals; cereals and pulses; ginned and unpinned cotton; oilseeds, oils and oilcakes; raw jute and jute goods; sugar and Gur; potatoes and onions; coffee and tea; rubber and spices, etc.

Introduction

The trading of financial derivatives has received extensive attention, while at the same time it has led to a debate over its impact on the underlying stock market from various facets by the academicians. The researchers all over the world have done research on derivative trading and were able to find out various facts about derivative and its trading. In this literature review efforts have

been made to bring into the picture the research done about various issues throughout the world by the researchers. The literature survey and review is presented in four sections: first, the review of studies fundamental to capital market of India; second, the review of studies relating to the testing of capital market efficiency; third, the review of studies concerning the volatility study; last, the review of studies analyzing the causal relation between spot and index futures market.

Scope of the study

- The study mainly focuses on Indian commodity market its history and latest development in the country in commodity market.
- The study also keeps a birds-eye view on global commodity market and its development.
- The study vastly covered the aspects of commodity trading, clearing and settlement mechanisms in India commodity exchanges.
- The scope of the study is limited to Indian commodity market.

Statement of the Problem

Commodity futures form a small portion of trading and are very for agricultural producers and consumers, gold merchants. Earlier, in India, trading in commodity market was banned for several decades. However, with changing times trading in commodity has assumed significant proportions. At present, after reintroduction of commodity market in India, major changes have taken place in history. Awareness among users of commodity market and factors, which are influencing them while investing are very important to take decisions, which will help for the growth of commodity market.

Objectives of the Study

Primary objective

To study on investors perception towards commodity futures with special reference to unique trading solutions ltd.

Secondary objective

1. To study the level of awareness of Commodity Market.
2. To analyze the perception of investors towards Commodity Market.
3. To study the factors considered by the investors and those, which ultimately influence him while investing.
4. To offer suggestions for improve the investors perception on commodity futures.

Period of the Study

The period of study was limited to 30 days (Nov 2016 to Dec 2016).

Research Methodology

The Design of the Study

Descriptive research design.

Data Collection Method

Primary data is data that is tailored to a company's needs, by customizing true approach focus groups, survey, field-tests, interviews or observation. Primary data delivers more specific results than secondary research, which is an especially important consideration when one launching a new product or service. In addition, primary research is usually based on statistical methodologies. The tiny sample can give an accurate representation of a particular market. Secondary data is based on information gleaned from studies previously performed by government agencies, chambers of commerce, trade associations and other organizations. This includes census bureau information. Much kind of this information can be found in libraries or on the web, but looks on business publications, as well as magazines and newspapers.

Questionnaire Design

Questionnaire is the heart of the survey operation. This is structured questionnaire, which has been framed for conducting the survey. The questions were presented with exactly the same wording and in the same order to all of the respondents.

Sample Size

Due to constraints the sample size of the research has been restricted to 120 respondents.

Statistical Tool

The collected data were classified tabulated, and analyzed with some of the statistical tools like. Percentage method and Chi- square method

Percentage Method

Percentage method is an analysis which is derived from the statistical technique for finding the average of collected data/ information. This techniques is used to draw the bar diagram, histogram, pie- chart etc.

$$\text{Percentage} = \frac{\text{Number of respondents}}{\text{Total number of respondents}}$$

CHI- SQUARE TEST

Chi-square test is a non-parametric test used most frequently by researchers to test hypothesis. This test is employed for testing hypothesis when distributed of population is not known and when nominal data is to be analyzed. The following formula for calculating the value of chi-square.

$$\frac{\sum(O_{ij}-E_{ij})^2}{E_{ij}}$$

O_{ij} = Observed Frequency

E_{ij} = Expected Frequency

SPSS

The Statistical Package for the Social Sciences is a widely used program for statistical analysis in present study.

Review of Literature - Capital Market of India

Since mid 1980s in India, there has been a wide range of studies concerning financial sector reforms in general, and capital market reforms in particular. Several studies such as Sahni (1985)¹, Kothari (1986)², Mookerjee (1988)³, Lal (1990)⁴, Chandra (1990)⁵, Francis (1991)⁶, Ramesh Gupta (1991,1992)^{7,8}, Raghunathan (1991)⁹, Varma (1991)¹⁰, Gupta (1992)¹¹, and Sinha (2005)¹² expressed their views upon the Indian capital market in general and trading systems in the stock exchanges in particular and suggested that the systems therein are rather old and ineffective, and has more weakness and malpractices. According to most of the studies, significant reforms are required if the stock exchanges are to be geared up to the envisaged growth in the Indian capital market.

The survey and review of literature about the financial sector reforms in India reveals that the reforms have been pursued vigorously and the results of the reforms have brought about improved efficiency and transparency in the financial sector. There forms also brought into inter-linkage of financial markets across the globe leading to new product development and sophisticated risk management tools. Derivatives in general perform as an instrument to hedge the risk arising from movement in prices not only in commodity markets but also in securities market. Abdullah¹³ used a multiple regression model is used as the methodology to test for the lead and lag relationship between the stock index futures returns and KLSE CI returns. The study finds that there is a strong contemporaneous relationship and there exists a lead effect from the futures market to the spot market by one day in sub-periods 1 and 3. Sub-period 2 shows a mix lead-lag relationship between the two markets. For the whole period under review, the relationship has been found to be ambiguous and inconclusive.

Asche and Guttormsen¹⁴ examined the relationship between spot and future prices. Findings indicate that futures prices leads spot prices, and that futures contracts with longer time to expiration leads contracts with shorter time to expiration. Frino and West examined the lead-lag relationship in returns on stock index futures and the underlying stock index for the Australian

market between 1992 and 1997. They found that futures returns lead index returns by twenty to twenty-five minutes and there was some evidence of feedback from the equities market to the futures market. Diba and Mishra¹⁵ examined the lead-lag relationships between the NSE Nifty stock market index and its related futures and options contracts, and also the interrelation between the derivatives markets. The study finds that both the index futures and index options contracts lead the cash index.

Debasish¹⁶ investigated the effect of futures trading on the volatility and operating efficiency of the underlying Indian stock market by taking a sample of selected individual stocks. The results of this study suggest that there is a trade-off between gains and costs associated with the introduction of derivatives trading at least on a short-term perspective. The study offers a unique contribution in examining the impact of introduction of index futures trading in NSE Nifty index and the index futures covering a period since introduction of index futures in Indian Capital Market. The results suggest that the market would have to pay a certain price, such as a loss of market efficiency for the sake of market stabilization. Athanasios examined the dynamic relationship between the FTSE/ASE. The lead-lag effect between spot index market and index future market has lured many investigations into its profitability implication in real market transactions. This type of investigations is interesting in the sense that if traders can take advantage of these effects and make profits, these opportunities should disappear quickly since many others will quickly do it too, which implies that the efficient market hypothesis is invalid in the context. For example, Leitch and Tanner (1991)¹⁷ found that the accuracy of statistical forecast may not necessarily positively link with trading profitability.

Participants in Derivatives Market

There are three major participants in the derivatives market. They are:

Hedgers

Speculators

Arbitrages

Hedgers

A hedger is a person who enters the derivatives market to lock-in their prices to avoid exposure to adverse movements in the price of an asset. While such locking may not be extremely profitable the extent of loss is known and can be minimized. They are in the position where they face risk associated with the price of an asset. They use derivatives to reduce or eliminate risk.

Speculators

A speculator is a one who accepts the risk that hedgers wish to transfer. A speculator takes positions on expectations of futures price movements and in order to make a profit. In general a speculator buy futures contracts when he expect futures prices to rise and sell futures contract when he expects futures prices to fall, but has no desire to actually own the physical commodity.

Arbitragers : “Simultaneous purchase of securities in one market where the price thereof is low and sale thereof in another market, where the price thereof is comparatively higher. These are done when the same securities are been quoted at different prices in the two markets, with a view to make a profit and carried on with the conceived intention to derive advantage from difference in prices of securities prevailing in the two markets”.

Interpretation

From the above table no 1 it is clear that, 30.0% of the respondents have 20000& below income, 29.2% of the respondents have 20001 to 30000, 22.5% of the respondents have 30001 to 40000, 18.3% of the respondents have 40001 & above .

	Frequency	Percent
2000 & below	36	30.0
20001 to 30000	35	29.2
30001 to 40000	27	22.5
40001 & above	22	18.3
Total	120	100.0

Table : 1 Classification of the Respondents by Income

Source: Questionnaire (Output generated using SPSS 14)

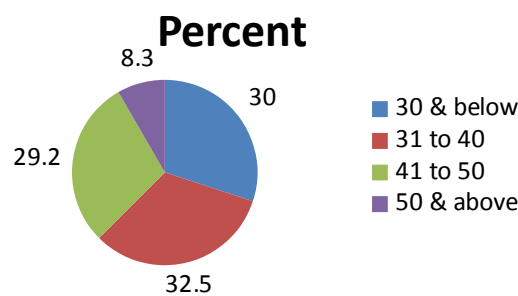


Chart : 1 Classification of the Respondents by Income

Source: Table 1

Interpretation

From the above table no 2 it is clear that, 22.5% of the respondents qualified with up to

schooling, 25.8% of the respondents qualified with under graduate, 26.7% of the respondents qualified with postal graduate, 25.0% of the respondents qualified with above postal graduate

	Frequency	Percent
Upto Schooling	27	22.5
UG	31	25.8
PG	32	26.7
Above PG	30	25.0
Total	120	100.0

Table : 2 Classification of the Respondents by Education
Source: Questionnaire (Output generated using SPSS 14)

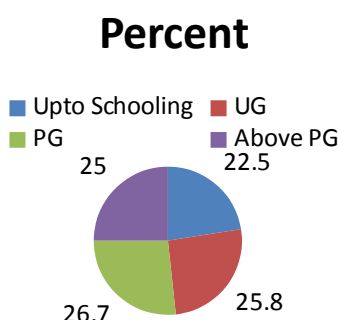


Chart : 2 Classification of the Respondents by Education

Source: Table No: 2

	Commodity Market Awareness Level		Interest Created by Market Conditions		Commodity Risk (Gold)	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
Very Low	4	3.3	10	8.3	65	54.2
Low	41	34.2	63	52.5	8	6.7
Moderate	26	21.7	20	16.7	-	-
High	23	19.2	27	22.5	47	39.2
Very High	26	21.7	-	-	-	-
Total	120	100.0	120	100.0	120	100.0

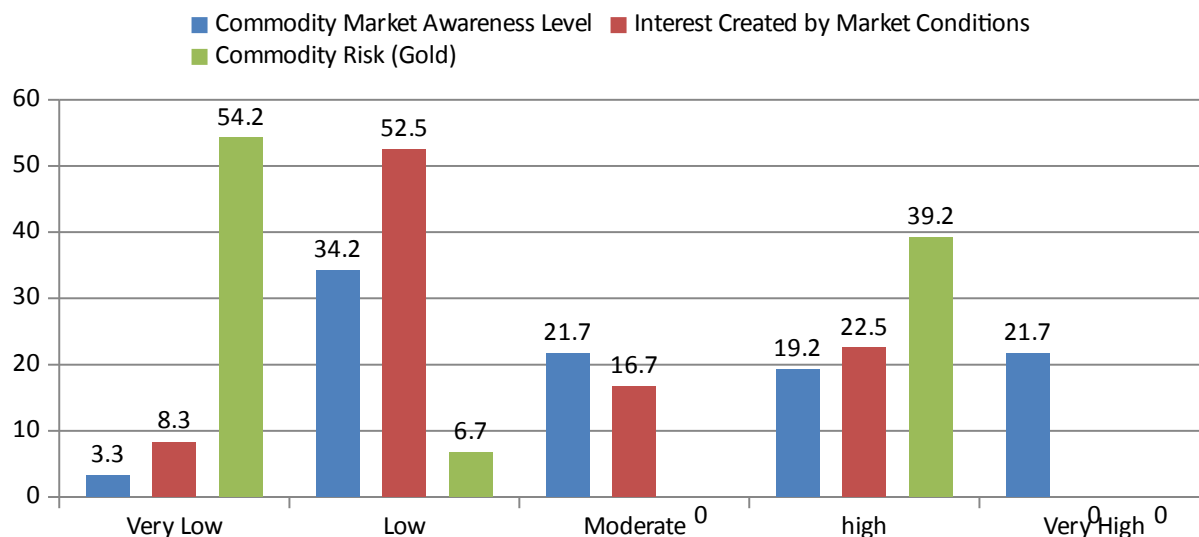
Tableo: 3 Classification of the Respondents by their Opinion

Source: Questionnaire (Output generated using SPSS 14)

Interpretation

From the above table it was clear that, 34.2% of the respondents opinion are low on commodity market awareness level, 52.5% of the respondents opinion are low on interest created by market condition and 54.2% of the respondents opinion are very low on Commodity risk on Gold

Chart No: 1 Classification of the Respondents by their Opinion



Source: Table No: 3

Chi-Square Test 1

Null hypothesis: H₀

There is no significant relationship between income and commodity risk (gold).

Alternative hypothesis: H_a

There is significant relationship between income and commodity risk (gold).

Chi-Square Table

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	6.213(a)	6	.400
Likelihood Ratio	5.757	6	.451
Linear-by-Linear Association	.143	1	.705
N of Valid Cases	120		

Source: Questionnaire (Output generated using SPSS 14)

Result: The calculated value of chi square test is 6.213 at the degree of freedom 6. The calculated significance value 40% is greater than tabulated significant 5%. So, the null hypothesis is accepted. Hence, there is no significant relationship between income and commodity risk (gold).

Chi-Square Test 2

Null hypothesis: H₀

There is no significant relationship between income and opinion on interest created by market conditions.

Alternative hypothesis: H_a

There is significant relationship between income and opinion on interest created by market conditions.

Chi-Square Table

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	7.930(a)	9	.541
Likelihood Ratio	9.827	9	.365
Linear-by-Linear Association	2.171	1	.141
N of Valid Cases	120		

Source: Questionnaire (Output generated using SPSS 14)

Result : The calculated value of chi square test 7.930 @ the degree of freedom 9. The calculated significance value 54.1% is greater than tabulated significant 5%. So, the null hypothesis is accepted. Hence, there is no significant relationship between income and opinion on interest created by market conditions.

Chi-Square Test 3

Null hypothesis: H_0

There is no significant relationship between education and commodity market awareness level.

Alternative hypothesis: H_a

There is significant relationship between education and commodity market awareness level.

Chi-Square Table

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	19.588(a)	12	.075
Likelihood Ratio	21.117	12	.049
Linear-by-Linear Association	.004	1	.950
N of Valid Cases	120		

Source: Questionnaire (Output generated using SPSS 14)

Result : The calculated value of chi square test 19.588 @ the degree of freedom 12. The calculated significance value 7.5% is greater than tabulated significant 5%. So, the null hypothesis is accepted. Hence, there is no significant relationship between education and commodity market awareness level.

Findings

- Majority 30.0% of the respondents have 20000 & below income
- Majority 26.7% of the respondents qualified with postal graduate.

- Majority 34.2% of the respondents opinion are low on commodity market awareness level and 54.2% are very low on interest created on through gold.
- Majority 52.5% of the respondents opinion are low on interest created on through Market Conditions.

Suggestions

- The company as to write-down the module for the investor special for create awareness about commodity market to teach them in detail which will help to diversify the investor risk.
- The knowledge of the investor as to share with the family and friends to get positive motivation from the close one.
- The media and self-interest make investor to select the commodity market instead expert opinion and expert analysis reports.
- The investor majority selection for the investment in commodity market was gold and silver. The investment analysis as to teach the investor about the entire products like precious metal, agriculture and nature minerals etc.
- In commodity market the investment risk and return can balance used by speculators and arbitrages.

Conclusion

From the results of the study, it can be concluded that investment have shown that they are following good investment policies and they are satisfied with their investment practices. To increase their investments and they also recommend to their friends to enhance their investment attitude and behaviour. A similar kind of investor group perception will enhance investment effectiveness. The habit and attitude could be developed by providing more knowledge and awareness on new and innovative investment avenues such as investment in commodity market, futures and options and other financial innovative products.

References

- [1] Sahni S K (1985), "Stock Exchanges in India: Practices, Problems, Prospects", North Publishing Corporation, New Delhi, pp. 344.
- [2] Kothari, R. (1986), "Profile of Recent Developments in Indian Capital Market", Prashanika, Vo.12, pp. M11-21
- [3] Mookerjee, R. (1988), "The Stock Market and The Economy: The Indian Experience", Indian Economic Journal, Vol. 36 No. 2 (Oct-Dec), pp. 30-43.
- [4] Lal, T. (1990), "Primary Capital Market: Some Reflections", Yojana, Vol.34, June 16-30, pp.9-12.

- [5] Chandra (1990), "Indian Capital Market: Pathways of Development", *ASCI Journal of Management*, Vol. 20, No. 2-3 (Sept-Dec), pp. 129-137.
- [6] Francis (1991), "SEBI - The Need of the Hour", *SEDME*, Vol. 18(3), p. 37-41.
- [7] Ramesh (1991), "Revamping Stock Exchange Operations - Some Suggestions", Working Paper No. 922, (Jan-Mar), Indian Institute of Management, Ahmedabad
- [8] Gupta (1992), "Foreign Stock Listing: Benefits and Costs", *Chartered Secretary*, Vol. 22(5), pp. 410-11.
- [9] Raghunathan V (1991), "Stock Exchanges and Investments: Straight Answers to 100 Nagging Questions", Tata McGraw Hill, New Delhi, pp. 176.
- [10] Varma (1991), "Is the BSE Sensitive Index Better than the National Index?" Indian Institute of Management, Ahmedabad, Working Paper No. 988, (Oct-Dec)
- [11] Gupta L C (1992), "Stock Exchange Trading in India: Agenda for Reform", Society for Capital Market Research and Development, Delhi, pp. 123.
- [12] Sinha, B. and Sharma, S. (2005), "Lead - Lag Relationship in Indian Stock Market: Empirical Evidence, Indian Institute of Capital Markets" 9th Capital Markets Conference Paper, Vashi, Navi Mumbai, 19-20 December 2005, India.
- [13] Abdullah (2002), "Dealership Market: Market Making with Inventory", *Journal of Financial Economics*, Vol.8, pp. 31-53
- [14] Asche and Guttormsen (2002) "On Testing the Random Walk Hypothesis: A Model-Comparison Approach", *The Financial Review*, Vol.35, No.3, pp. 105-124.
- [15] Debasish, S. and Mishra, B. (2008), "Econometric Analysis of Lead-Lag relationship between NSE Nifty and its Derivative Contracts", *Indian Management Studies Journal*, Vol.12, pp.81-100
- [16] Debasish. (2011), "Analysis of Long-Term Relationship between Spot and Futures prices Using Johansen's test of Cointegration", *Information Management and Business Review*, Vol.2, No.2, pp.65-80
- [17] Tanner (1991), "The causal relationship between stock index and cash index prices in Hong Kong", *Applied Financial Economics*, Vol. 2, pp. 187 – 190