A STUDY ON INVESTORS AWARENESS TOWARDS COMMODITY MARKET IN NAMAKKAL DISTRICT

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Abstract

The origin of derivatives can be traced back to the need of farmers to protect themselves against Fluctuations in the price of their crop. From the time it was sown to the time it was ready for harvest, farmers would face price uncertainty. Through the use of simple derivative products, it was possible for the farmer to partially or fully transfer price risks by locking-in asset prices. These were simple contracts developed to meet the needs of farmers and were basically a means of reducing risk. In this study investors awareness determined with the help of simple percentage analysis and respondents views. While analyzing data's, Investors awareness is average in commodity market in this study area.

Key Words: Investor, Price, Risk, Return, Liquidity, etc.

I. INTRODUCTION

Commodity market is an important constituent of the financial markets of any country. It is the market where a wide range of products, viz., precious metals, base metals, crude oil, energy and soft commodities like palm oil, coffee etc. are traded. It is important to develop a vibrant, active and liquid commodity market. This would help investors hedge their commodity risk, take speculative positions in commodities and exploit arbitrage opportunities in the market.

Derivatives as a tool for managing risk first originated in the Commodities markets. They were then found useful as a hedging tool in financial markets as well. The basic concept of a derivative contract remains the same whether the underlying happens to be a commodity or a financial asset. In the case of physical settlement, financial assets are not bulky and do not need special facility for storage. Due to the bulky nature of the underlying assets, physical settlement in commodity derivatives creates the need for warehousing. Similarly, the concept of varying quality of asset does not really exist as far as financial underlyings are concerned. However in the case of commodities, the quality of the asset underlying a contract can vary largely. This becomes an important issue to be managed.

A 'commodity market' is a market that trades in primary rather than manufactured products. Soft commodities are agricultural products such as wheat, coffee, cocoa and sugar. Hard commodities are mined, such as gold, rubber and oil.

A commodity may be defined as an article, a product or material that is bought and sold. It can be classified as every kind of movable property, except Actionable Claims, Money & Securities. Commodities actually offer immense potential to become a separate asset class for market-savvy investors, arbitrageurs and speculators. Retail investors, who claim to understand the equity markets, may find commodities an unfathomable market. But commodities are easy to understand as far as fundamentals of demand and supply are concerned. Retail investors should understand the risks and advantages of trading in commodities futures before taking a leap.

A. Commodity Market Participants:

The commodity market needs many participants with different investment objectives and risk profiles. This allows the market to function effectively. The participants play different roles in the market by using the commodity futures contract.

A.1. Hedgers:

Hedgers are commercial producers or consumers of a traded commodity. Examples are copper smelters, oil companies, farmers, and jewelers. Hedgers are exposed to commodity price volatility in the spot market. They use the futures market to offset (hedge) this risk. Suppose gold prices are unstable. A jeweler would want to offset a possible risk of loss on his monthly gold purchases due to this volatility. If he expects the price to rise next month, he could go long on (buy) a gold futures contract with a one-month expiry period.

A.2. Speculators:

Speculators may not have any exposure to the spot market. To them, commodity futures are an investment avenue, like the stock market. They try to make money by speculating on commodity prices, just as they would by speculating on stock prices. As such, speculators never receive delivery of the physical commodity.

A.3. Arbitrageurs:

Arbitrageurs try to profit from the difference in the prices of the same commodity in two different markets. They take a long position (buy) in the market where the price is lower and a short position (sell) in the market where it is higher.

B. Different types of commodities traded

World-over one will find that a market exits for almost all the commodities known to us. These commodities can be broadly classified into the following:

- **Precious Metals-** Gold, Silver, Platinum, etc.,
- **Other Metals**- Nickel, Aluminum, Copper, etc.,
- **Agro Based**- Wheat, Corn, Cotton, Oils, and Oilseeds.
- **Soft Commodities-** Coffee, Cocoa, Sugar, etc.,
- **Live-Stock-** Live Cattle, Pork Bellies, etc.,
- **Energy**- Crude Oil, Natural Gas, Gasoline, etc.,

The commodities market exits in two distinct forms namely the Over the Counter (OTC) market and the Exchange based market. Also, as in equities, there exists the spot and the derivatives segment. The spot markets are essentially over the counter markets and the participation is restricted to people who are involved with that commodity say the farmer, processor, wholesaler etc.

The government has now allowed national commodity exchanges, similar to the BSE & NSE, to come up and let them deal in commodity derivatives in an electronic trading environment. These exchanges are expected to offer a nation-wide anonymous, order driven, screen based trading system for trading. The Forward Markets Commission (FMC) will regulate these exchanges.

Consequently four commodity exchanges have been approved to commence business in this regard. They are:

1. Multi Commodity Exchange (MCX) located at Mumbai.
2. National Commodity and Derivatives Exchange Ltd (NCDEX) located at Mumbai.
3. National Board of Trade (NBOT) located at Indore.
4. National Multi Commodity Exchange (NMCE) located at Ahmedabad.

C. Objectives of the study:

- To know the perceptions of investors towards commodity market,
- To find the awareness level of commodity market in Namakkal District,
- To understand the commodity market and its working mechanism,

- To know which commodity investors prefer to invest,

D. Scope of the study:

- This study is limited to only Namakkal District,
- The study is carried out to know the awareness level of derivative investors towards Commodity market,
- This study also helps to know about trading mechanism of Commodity Market & the future trading level.

E. Limitation of the study

- Since the study is based on the convenient sampling it may not depict the accurate outcome.
- The findings are based solely on the information provided by the respondents and there is a possibility of biased results.
- The study is limited to only Namakkal District.

II. RESEARCH METHODOLOGY:

A. Sample Size:

50 Samples was taken to identify the awareness level of the derivative investors towards Commodity Future Market.

B. Tools used for analysis:

Percentage Analysis.

C. Data collection approach:

- Primary data has been used to carry out the research successfully.
- The secondary data has been collected from NDEX and MCX.
- For the purpose of gathering primary data a structure and questionnaire was designed to collect data from the derivative investors.

D. Consolidated tabulation:

GENDER WISE			**EDUCATIONAL QUALIFICATION**		
GENDER	**RESPONDENTS**	**PERCENTAGE**	**QUALIFICATION**	**RESPONDENT**	**PERCENTAGE**
Male	35	70%	Illiterate	06	12%
Female	15	30%	Higher studies	13	26%
Total	**50**	**100%**	Diploma	11	22%
AGE WISE			Graduate	13	26%
AGE	**RESPONDENTS**	**PERCENTAGE**	Post graduate	07	14%
Below 35	07	14%	**Total**	**50**	**100%**

36-50	18	36%
51-65	16	32%
Above 65	09	18%
Total	**50**	**100%**

MARITAL STATUS		
STATUS	**RESPONDENTS**	**PERCENTAGE**
Married	40	80%
Unmarried	10	20%
Total	**50**	**100%**

RESPONDENTS INCOME		
INCOME	**RESPONDENTS**	**PERCENTAGE**
Below 50000	5	5%
50001-100000	37	37%
100001-200000	38	38%
200001-300000	14	14%
Above 300001	6	6%
Total	**100**	**100%**

LEVEL OF AWARENESS		
AWARENESS	**RESPONDENTS**	**PERCENTAGE**
Yes	25	50%
No	25	50%
Total	**50**	**100**

OCCUPATION		
OCCUPATION	**RESPONDENTS**	**PERCENTAGE**
Business man	12	24%
Govt. employee	18	36%
Professional	13	26%
Private service	05	10%
Others	02	4%
Total	**50**	**100%**

FACTORS DETERMINED		
FACTORS	**RESPONDENTS**	**PERCENTAGE**
Price	05	10%
Risk	05	10%
Return	09	18%
Liquidity	12	24%
Expectation	06	12%
Investment	13	26%
Total	**50**	**100%**

INVESTORS STATUS		
INVESTORS	**RESPONDENTS**	**PERCENTAGE**
New Investor	34	68%
Existing	16	32%
Total	**50**	**100**

III. FINDINGS

- More than 50% of the investors in are aware about the commodity future Market.
- Returns and the Risk of the commodity are the most critical factors, which Traders will consider while investing in any commodity.
- Most of the investors are ready to invest in commodity future market if proper information is provided.
- As commodity future market is new and emerging, many investors and farmers are not fully aware of this market.
- Most of the respondents are from government service & Professionals.

IV. SUGGESTIONS

- There is need to create awareness about commodity Future Market. so it can be done through by giving advertisements in local channels, Newspapers, by sending E-mail to present customers etc.,
- From survey it is found that most of the potential customers are concerned about the Brokerage charges. If it can charge moderate brokerage it will help to attract more and more customers.
- More agents and marketing executives should be appointed to educate the customers.
- Special campaigns / investors meets should be conducted for these people since they are aware of rate fluctuation, market trends etc.

IV. CONCLUSSION

In this study area most of investors are interested to invest in commodity future market but they don't know how to invest and risk associated factors. Proper investor awareness programme only can help them to knowing commodity market and Commodity futures markets are new and emerging market. The awareness of the market is very less among the investors who can use this trade to sell their products without the middlemen or agents it also help the actual buyers too. Here trader also can transfer his risk to some other who can handle it or can appetite the risk through hedging techniques.

Compared to capital market, commodity market is less risky in volatility context here the prices do not change within a fraction of second.

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