Research Paper
Impact Factor: 4. 695
Peer Reviewed & Indexed Journal

IJMSRR
E- ISSN - 2349-6746
ISSN -2349-6738

A DETAILED STUDY ON TRADING OF GOLD, SILVER AND COPPER

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Abstract
Commodities and commodity markets are important part of any economy. Its impact on welfare of large sections of the society -both producers and consumers-is universal. Commodity is a generic term and includes a wide variety of groups of products, ranging from agricultural products to metals, precious metals, gas and crude oil, power. Commodities are those goods which are (largely) homogeneous products, are produces in large quantity and traded in natural state of production without value addition. They are purchased for direct consumption without processing (electricity) or after processing (agricultural products) or for further processing to manufacture value added products. Production of the commodities requires large specific inputs. Agricultural products are not technologically intensive but require land which is a scarce factor. Since agricultural products are essential goods, technology is sought to replace the land as a factor. Metals and precious metals, as commodities, are mined wherever they naturally occur. Vast lands are necessary and major producers are African countries, North and South America, Russia and Eastern Asia. Smaller landed countries, e.g., countries like Japan, European countries, Taiwan, import these commodities and many producers are dependent on a single metal commodity as a major contributor to national income. Oil and gas are indispensable but are exhaustible. Their production requires not only natural occurrence but also very large capital investment. Hence the production is controlled, world over, by few countries and few companies. Managing oil and gas imports/ exports is a major challenge to most economies. Electricity generation and distribution is dependent on availability of inputs and require large investment. Requirement of large investment result into natural monopoly. The demand for the product is continuous but varies with time during a day. Since intraday fluctuation could be high, managing production and distribution poses a challenge. Large capacities could result into idle capacity at some time during the day and small capacities could result in inadequate supply during other part of the day. Managing the production-consumption balance require developing sophisticated market mechanisms.

Key Words: Commodity Markets, Capital Investment, Production-Consumption.

Introduction
Each group of these products has a unique contribution to the society and Market for each of these products has different characteristics. Agricultural products are essential products, have moderate price elasticity (since inter-product substitution is high) and high income elasticity, highly dependent on uncontrollable external factors and consequently large price variability, competitive markets and hence more-risky for producers. Energy products, mainly gas and crude oil, have oligopolistic markets, very high linkages to the other sectors of the economy and hence low price elasticity, is geographically limited to few regions on the earth resulting in large imports/exports and having direct and large effect on trade, income and welfare.

Review of Literature
Nirmal Kumar, R.T and **Balaji, K** in "An Empirical Investigation on the Investors‟ Perception Towards Commodities Futures Trading in India with Special Reference to Puducherry, India" argue that since 2004, the growth of the commodity derivative market in the country has been impressive. With institutional players prevented from participating in the commodity futures market, the retail investors, as a group, have emerged as major players in the said market.

Narender L Ahuja in his research paper "Commodity Derivatives Market in India: Development, Regulation and Future Prospects" recalls that commodity derivatives arrived in India as early as 1875, barely about a decade after they arrived in Chicago. Since 2002, the commodities futures market in India has experienced an unprecedented boom in terms of the number of modern exchanges, the number of commodities allowed for derivatives trading as well as the value of futures trading in commodities. However, there are several impediments to be overcome and issues to be settled for a sustained development of the market. The Researcher examines how India pulled it off in such a short time (since 2002). He also examines if this pace can be sustained and tries to identify the obstacles that need to be overcome if the market is to realize its full potential. He reveals what other emerging market economies could learn from the Indian experience.

Research Methodology
Objectives of the Research
1. To empathize trading and settlement mechanism for commodities (Gold, Copper and Silver) in Indian stock exchange.
2. To know how exactly the commodities are traded through the trading Desks and what happens in the market.
3. To identify the working procedure of the commodity trading practices in India.

IJMSRR
E- ISSN - 2349-6746
ISSN -2349-6738

4. To identify the perception of investors in commodities market.

Sampling Unit & Sample Size

One of the important steps in planning the design is to identify the target population and select the sample. Here, the researcher determines who and how many people to survey, what and how many events to observe, or what and how many records to inspect.

A **sample** is a part of the target population, carefully selected to represent that population. Sampling studies are undertaken in order to establish one or more population values and/or testing one or more statistical hypotheses.

The next sampling issue concerns the size of the sample. How big should the sample be? The most enveloping myths about what size of sample is needed are, it must be large and it should bear some proportional relationship to the size of the population from which it is drawn.

Hypothesis: H0: The successive prices are dependent and passed prices have predictive content to forecast commodity price with respect to Gold, Copper and Silver.

Hypothesis Testing

1. To analyse the impact of past prices of Gold on the future prices of Gold a regression equation was framed where linear regression test is applied taking future price of gold as dependent factor and past prices of gold as independent variables. The R square value obtained is 0.305 and adjusted R square value is 0.5693 and this enlighten us that the model account for 56.93% of variance in the predicting future gold prices. This is the clear indication that this model is a moderate model. Also the F value obtained is 0.018 and the significance is .0089. As the significance is less than 0.05. It clearly reveals the fact that the model which is taken for study is statistically significant.
2. Similar process is applied to analyse the impact of past prices of Silver on the future prices of Silver, a regression equation was framed where linear regression test is applied taking future price of silver as dependent factor and past prices of silver as independent variables. The R square value obtained is 0.504 and adjusted R square value is 0.495 and this enlighten us that the model account for 49.56% of variance in the predicting future gold prices. This is the clear indication that this model is a moderate model. Also the F value obtained is 58.98 and the significance is .011. As the significance is less than 0.05. It clearly reveals the fact that the model which is taken for study is statistically significant.
3. To analyse the impact of past prices of Copper on the future prices of Copper a regression equation was framed where linear regression test is applied taking future price of copper as dependent factor and past prices of copper as independent variables. The R square value obtained is 0.556 and adjusted R square value is 0.5457 and this enlighten us that the model account for 54.57% of variance in the predicting future gold prices. This is the clear indication that this model is a moderate model. Also the F value obtained is 32.17 and the significance is .03989. As the significance is less than 0.05. It clearly reveals the fact that the model which is taken for study is statistically significant.
4. Thus from the analysis of Gold, Silver and Copper, it is concluded that Future price of commodity are influenced by past prices hence the hypothesis "The successive prices are dependent and past prices have predictive content to forecast commodity price with respect to Gold, Copper and Silver" is accepted.

Findings and Conclusions

1. It was found during the research that most of the investors belong to age group of 18-30 years and 82% of the total respondents were Male, majority of them were salaried and professionals. Also majority of the respondents belong to the annual income of less than Rs. 5 lakhs being salaried and professionals.
2. 48% of the respondents said they invest less than 5% of their income, 26% said they invest 5 to 10% of their income, 12% said they invest 10 to 15% of their income, 8% said they invest more than 15% of their income and remaining 6% do not invest. Out of the above investors 34% of the respondents prefer to invest in Equities/Derivatives as well as Mutual funds, and remaining prefer to invest in Commodity Futures and Insurance (including ULIP). Also majority of the respondents like to invest in secondary market like stock exchanges and remaining in mutual funds, Futures and options and very few like to invest in primary market.
3. The objective behind the investment decision of the respondents was studied and it was found that majority of the respondents invest with an objective to earn high income generation as well as to earn long term growth, the other objectives found during the research were protection of capital and moderate investment growth. Further majority of the respondents said they achieved their objective of investment as per their set target, others said they were not able to achieve their objective or they have somewhat achieved their objective of investment since the duration of investment is not yet over.

Out of those who achieved their objective majority gave credit to their current income and capital appreciation, others said it's because of good returns. Out of those who were not able to achieve their objective said its because their investment amount decreased as well as they were not able to make desired returns and they lost their money due to high volatility.

4. 50% of the respondents have invested in Equity only 28% of the respondents have invested in commodity only and remaining 22% have invested in both form of investment. Out of those who prefer to invest in Equity only because they lack awareness of commodity trading as well as they feel that there is no benefit of capital appreciation in commodity market. Remaining said they have long term view specific to industry, exposure to specific sector as well as management of the company also the companies are following good dividend policy this attracts them to invest in equity only.
5. Out of those who said they invest in Commodity only, the reason for not investing in Equity market were asked and it was found that majority of the respondents feel that commodity market provides better price discovery and hedging, others feel that commodity market has longer bull and bear cycle, and very few said they invest in commodity only because it give exposure to specific sector only, they have Long term view in general is bullish as directly correlated with economic growth, also downside is limited in equity. Some of the respondents invest in commodity only because it always command some price and increased volatility in equity leads to less attraction of investors towards equity.
6. Out of those investors who invest in both the investment alternatives, majority said they invest in both because they get the benefit of asset allocation, as well as they get benefit of hedging against inflation and others feel that prices are determined globally in commodities. Few respondents said they invest in both because of the good dividend policy by the companies.
7. It is observed from the study that majority of the resondents agree that commodity market is an attractive investment option, whereas majority of investors want to invest in commodity market for short term and only very few investors for long term it is because commodity market has high liquidity and more risk. Due to this investors prefere to invest for short term only. In commodity market, Gold is highly preferred investment option for majority of the investors followed by Silver, Copper and Crude Oil respectively.
8. It was observed during the research that Gold is the highly preferred commodity for hedging followed by silver and copper. Preference of Copper is less because of lack of awareness among investors. However, 52% of the investors are satisfied with the returns earned from gold, 60% are for silver and 56% in case of copper
9. 44% of the respondents are satisfied with level of risk associated with investment in gold. This number is same in case of silver and 24% in case of copper. Apart from risk the level of satisfaction from diversification in case of copper is least i.e. 16% only which is 24% in case of silver.

Recommendations

1. Quarterly Commodity Market and their Forecasts Newsletter page should be made through various links and send through Digital media like what's App, Face book, Email etc.
2. Current updates on Economic and Socio - Economic development and related occurrences includes months, times and years.
3. Develop some App related to Commodity market wherein our "Each Development" is properly explained and informed so well related to Fundamental and Technical part.
4. Experts Lecture Video should be viral through what's App or make some group for the same. Tie ups with Local company officials and arrange fortnightly some workshops free of cost for spreading awareness amongst the individuals.
5. Educate people through tie ups with NGOs.
6. Introduction of more Commodity Trading Exchanges.

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