



INVESTOR'S BEHAVIOUR TOWARDS COMMODITY FUTURE MARKET: WITH SPECIAL REFERENCE TO TAMIL NADU

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Abstract

Commodity Future market is observed as an avenue for investment. The study has aimed to evaluate the investor behaviour towards the factors influencing while selecting commodity trading, goals of investors, investor's contribution to commodity trading and risk factors. A sample of 100 respondent are taken for this study. In general, the study concludes that market risk is the prime threat. Hence investors shall diversify their investment options in the commodity market. It will help to reduce the market risk.

Keywords: *Commodity, Futures, Risk, Diversification.*

Introduction

The market where the commodities are bought and sold by entering into a contract to settle the transaction at some future date and at a specific price is called futures market. The unique feature of futures market is that we do not have to actually hold the commodities in physical form or for that matter take the delivery in physical form. The prime objective of futures market is to hedge or mitigate the price risk in commodities. As we are aware the prices in the spot market are volatile and are always fluctuating and as a trader or investor would want to eliminate or at least minimize our exposure to such price risk we can use futures market to settle our contract.

Review of Literature

Boundless studies are available about investor's behaviour in Indian commodity futures and capital market. In spite of a considerable empirical literature, there is no common consensus about the efficiency of commodity futures market.

Naik, Gopal and Jain Sudhir Kumar (2002), emphasised that agricultural commodity futures market has not fully developed as competent mechanism of price discovery and risk management. The study found some aspects to blame for deficient market such as poor management, infrastructure and logistics. Dominance of spectators also dejects hedgers to participate in the market.

Desgupta, Basab (2004), described the monopolistically competitive nature of the Indian Commodity Derivate market which stabilizes the spot price. Result showed the co- movement among future prices, production decision and inventory decisions.

Ahuja, Narender L. (2006), concluded that Indian commodity market has made enormous progress since 2003 with increased number of modern commodity exchanges, transparency and trading activity. The volume and value of commodity trade has shown unpredicted mark. This had happened due to the role played by market forces and the active encouragement of Government by changing the policy concerning commodity derivative. He suggested the promotion of barrier free trading in the future market and freedom of market forces to determine the price.

Roy, Ashutosh (2006), suggested the participation of banks in the commodity futures market for effective commodity price risk management as financing by banks could provide efficient hedge against price risk.



Bhattacharya , Himdari (2007), pointed out that significant risk returns features and diversification potential has made commodities popular as an asset class. Indian futures markets have improved pretty well in recent years and would result in fundamental changes in the existing isolated local markets particularly in case of agricultural commodities.

Nath, Golka C. and Lingareddy, Tulsi (2008), emphasised that trading in commodity futures contributed to an increase in inflation as result showed that during the time period of future trading the spot price of selected commodities and their volatilities had posted remarkable increase.

Kaur , Gurbandini and Rao, D.N. (2010), The commodity spot and future prices had closely tracked each other in selected agri commodities and no significant volatility has been found in the prices of future and spot contracts of those agricultural commodities.

Brajesh, Kumar and Pandey, Ajay (2009) Observed that commodity futures market in India provide higher hedging effectiveness in agricultural commodities as compared to non agricultural commodities and price risk management role of Indian commodity futures market has also increased with increased activity in market.

Senthil D (2012) investigated the investor's behaviour in terms of goals, preferences, factors influencing while selecting the schemes, service expectations etc.,. The study found that the investor's main goal is wealth appreciation and suggests that the mutual fund companies should control the charges to be paid by the retail investors and bring the expense to a reasonable level.

Kumar, Brajesh and Pandey, Ajay (2013), investigated the short run and long run market efficiency of Indian commodity futures market. They had tested four agricultural and even non- agricultural commodities for market efficiency and unbiasedness. The result confirmed the long run efficiency of commodity futures prices and inefficiency of futures prices in short run prices. He found many factors like lack of participation of trading members, low market depth and thin volume with Government's interference in Commodity markets etc., as major evils for inefficient price risk management.

Research Methodology

Sample and Procedure

The data used in this study was obtained from 100 investors who had more than one year experience in this field. Questionnaire was constructed based on the following aspects of trading.

- (1) Personnel demographic data:
 - (a) Total Monthly income
 - (b) Age
- (2) Contributing variable:
 - (a) Factor influencing while selecting commodity trading.
 - (b) Goals of investor.
 - (c) Investor's contribution to commodity trading.
 - (d) Risk

Objectives

1. To study the relationship between personal demographic data and contributing variable like Investment on commodity future, goals of investors, contributing amount, risk.
2. To study various factors influencing investors behaviour in commodity future market
3. This study will give suitable suggestion based on the outcome of the result. It will help the investor for further improvement.



Hypothesis

1. H₀ = There is no association between income and Factor influencing while selecting commodity trading.
2. H₀ = There is no association between income and Goals of investor.
3. H₀ = There is no association between income and Investor's contribution to commodity trading.
4. H₀ = There is no association between income between income and Risk
5. H₀ = There is no association between Age and Factor influencing while selecting commodity trading.
6. H₀ = There is no association between Age and Goals of investor.
7. H₀ = There is no association between Age and Investor's contribution to commodity trading.
8. H₀ = There is no association between Age between income and Risk.

Limitation of the Study

- The behaviour of the individual investor will vary depending on market conditions. So the investment preference in the market scenario need not be the same in the future.
- The study is limited to only 100 respondents. Hence, it is cannot be generalised for the entire commodity Market. Further, the results may vary as and when the sample size is high.
- The study was done during a span of less than a month.

Analysis and Discussion

Table 1 clearly shows that friends and relatives play a vital role in choosing commodity trading option. 40% of the respondents prefer friends and relatives say in selecting commodity future market. 28% of the investor select advertisement as the influencing factor. Brokerage plays a small role in inducing the investors to enter into the market.

Table 2 clearly shows that 45% of the investor's goal is to attain a steady growth of investment. 29% of the investor's goal is to generate income through this investment. 26% of the investor's goal is to increase their wealth through this avenue.

Table 3 states that 35% of the investors divert between 5 to 10% of their total income to investment. 30% of the investors contribute between 11 and 15% of their income and 21% of the investors invest below 5% of their income and 14% of the investors invest 16% of their income.

Table 4 states that 43% of the investors feel that market risk plays an important role in deviating the price of the product. 30% of the participants feel that economic risk is the most powerful one. Credit risk takes a small role and political risk has not much role in market movement.

Table 5 clearly states that friends and relative is the most influencing factors among all other factors for investors to enter into the market. Brokerage has no good role in inducing the investors to enter into the market initially.

Table 6 clearly shows that 45% of respondent's goal is steady growth of their investment. It indicates that they expect minimum return within a short term. Only 26% of respondent have selected that their goal is to increase their wealth.

Table 7 shows that most of the investors are ready to invest only below 10%. Investors prefer other avenues of investments like realty, gold, bonds and capital market to commodity market.

Table 8 states that market risk is the most powerful threat to invest in the commodity market. So it indicates that investors are not much aware about market risk.

Findings

1. 40% of the investors enter into the market initially based on the advice of the friends and relative.
2. 28% of the investors entered into the commodity future trading based on advertisements.
3. Awareness programme plays a small role for inducing the investor to trade.
4. Local broker intermediary has no important role for the investor to enter into the commodity future market.
5. 45% of the respondent wish a steady growth of their investment through commodity future.
6. 29% of the investors select their goals is to generate income through commodity future market.



7. 35% of investor readily contribute between 5to 10% of their total income.
8. 30% of investor contribution of investment in the commodity future market is between 10-29% of their Income.
9. 21% of the respondents' contribution of their investment is below 5%.
10. Only 14% of the investor is ready to invest 20% of their total income or above in the commodity future market.
11. 43% of the investor select market risk is the most important risk compared to all other risks.

Suggestions

1. The Government and stock exchange shall conduct awareness program regarding commodity trading in the Urban and Semi urban areas.
2. Proper guidelines and policy shall be formulated by the Government to protect the interest of the investors.
3. To reduce the transaction cost and taxes. It will help in increasing the number of investors participating and increasing their contribution to commodity market.
4. Most of the investors state that market risk is the prime threat. Hence investors shall diversify their investment options in the commodity market. It will help to reduce the market risk.
5. Government and regulatory authority shall monitor the recommendation and advice given by media and brokers.
6. The Government and regulatory authority shall create awareness margin money, to avoid the investors losing their money.

Scope for Future Research

As more number of investors choose to invest in commodity future market instead of other options, there emanates an artificial demand in terms of either increase or decrease in value of commodity price in the future market. This is a dimension and could be a potential area for future researchers.

Conclusion

India is one of the top producers of large number of commodities and also has a long history of trading in commodities and related derivatives. The market has made enormous progress in terms of Technology, transparency and trading activity. Interestingly, this has happened only after the Government protection was removed from a number of Commodities, and market force was allowed to play their role. This should act as a major lesson for policy makers in developing countries, that pricing and price risk management should be left to the market forces rather than trying to achieve these through administered price mechanisms. The management of price risk is going to assume even greater importance in future with the promotion of free trade and removal of trade barriers in the world.

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Table1- Income Vs Factor influencing while selecting commodity trading							
	Below 40000	40000-60000	60001-80000	Above 80000	Total	Chi_Square Test	
Total	4	6	3	1	14	Value 10.124	df 9
Friends And Relatives	8	15	7	10	40		
Advertising	9	7	8	4	28		
Awareness program	4	2	6	6	18		
Total	25	30	24	21	100		

The Probability is 0.3406. This proves that there is no association between the variables income group and factor influencing while selecting commodity trading

Table2-Income Vs Goal of investors							
	Below 40000	40000-60000	60001-80000	Above 80000	Total	Chi square	
Total	9	3	10	4	26	Value 9.846	df 6
To increase wealth	9	16	8	12	45		
Steady growth	7	11	6	5	29		
Monthly income	25	30	24	21	100		
Total	25	30	24	21	100		

The Probability is 0.1314. This proves that there is no association between the variables Income group and Goal of investors

Table-3 Income group Vs Investors contribution to commodity trading							
	< 40000	40000-60000	60001-80000	Above 80000	Total	Chi- square test	
Below 5%	6	4	6	5	21	value 7.043	df 9
5%-10%	8	15	7	5	35		
11%-20%	6	8	9	7	30		
Above20%	5	3	2	4	14		
Total	25	30	24	21	100		

The Probability is 0.6326. This proves that there is no association between the variables Income group and Investors contribution to commodity trading



	< 40000	40000-60000	60001-80000	Above 80000	Total	Chi- square test	
Credit risk	3	3	4	8	18	value 0.895	df 9
Political risk	2	3	3	1	9		
Market risk	12	15	10	6	43		
Economic risk	8	9	7	6	30		
Total	25	30	24	21	100		

The Probability is 0.4678 .This proves that there is no association between the variables Income group and Risk

	20-30	31-40	41-50	Above 51	Total	Chi- square	
Brokerage	4	2	3	5	14	Value 3.635	df 9
Friends and Relatives	8	12	10	10	40		
Advertising	8	7	6	7	28		
Awareness program	5	4	6	3	18		
Total	25	25	25	25	100		

The Probability is 0.9343 .This proves that there is no association between the variables Age group and Factor influencing while selecting commodity trading

	20-30	31-40	41-50	Above 50	Total	Chi- square	
To increase wealth	8	6	5	7	26	value 2.460	df 6
Steady growth	9	12	14	10	45		
Amount for monthly income	8	7	6	8	29		
Total	25	25	25	25	100		

The Probability is 0.8730 .This proves that there is no association between the variables Age group and Goal of investors

	20-30	31-40	41-50	Above 50	Total	Chi- square	
Below 5%	5	4	5	7	21	value 5.143	df 9
5%-10%	11	7	8	9	35		
11%-20%	6	8	9	7	30		
Above20%	3	6	3	2	14		
Total	25	25	25	25	100		

The Probability is 0.8217 .This proves that there is no association between the variables Age group and Investors contribution to commodity trading

	20-30	31-40	41-50	Above50	Total	Chi- square	
Credit risk	5	7	3	3	18	Value 6.361	df 9
Political risk	2	3	2	2	9		
Market risk	8	9	12	14	43		
Economic risk	10	6	8	6	30		
Total	25	25	25	25	100		

The Probability is 0.7033 .This proves that there is no association between the variables Age group and risk