




# Price Risk Management through Commodity Derivatives


NCDEX  
NCDEX Investor (Clean) Protection Fund Trust

### Overview of NCDEX




**Launched in 2003**

Now India's most vibrant platform for price discovery and risk management for agricultural commodities.




**Product Offering**

Trading in 20 commodities




**Network**

460 members  
2.3 million client base  
more than 1,000 towns and cities.



**Logistics**

300 approved warehouses  
Cumulative storage capacity of 1.8 million tonnes.



## Global agri futures

### A perspective

Commodity	Exchange	OI / Crop Ratio
Maize	CBOT	21.0 %
Wheat	CBOT	28.0 %
Soybean	CBOT	41.0 %
Rapeseed	ICE	8.0 %
Cotton	Zhengzhou Commodity Exchange	20.0 %
soybean oil	CBOT	30.0 %

Source: USDA & FIA




## Indian agri futures

### An opportunity

Commodity	Exchange	Crop Production (in million MT)	Open Interest (in million MT)	OI / Crop Ratio
Maize	NCDEX	20	0.02	0.1 %
Wheat	NCDEX	99	0.07	0.1 %
Soybean	NCDEX	11	0.20	1.8 %
Rapeseed	NCDEX	8	0.20	2.5 %
Cotton	NCDEX	6	0.04	0.7 %
Refined soy oil	NCDEX	2	0.07	3.5%


Source: NCDEX





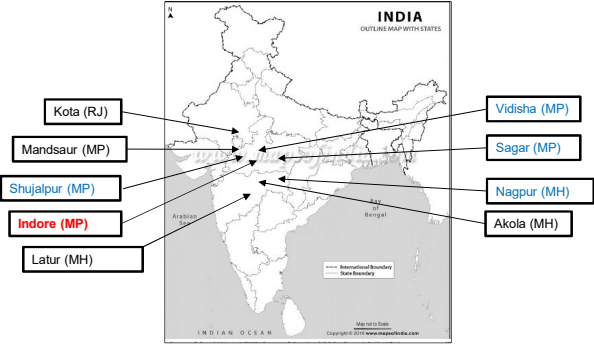
## Offering in Oil Seed Complex


- Soybean
- Refined Soy oil
- Mustard Seed
- Castor Seed

 **NCDEX**

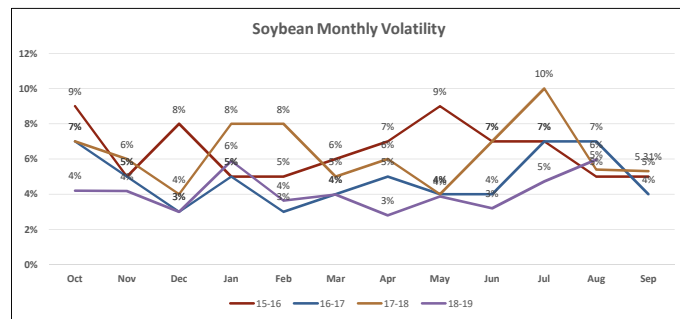
Pragati ka Solid Exchange

## Soybean Basis & Additional Delivery Centres

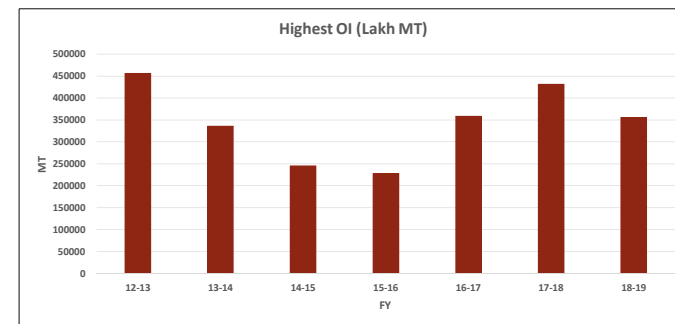


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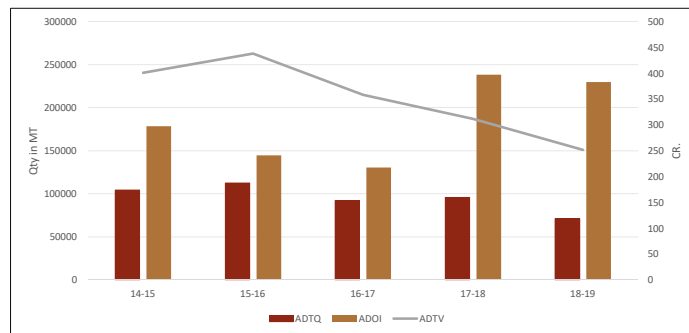
### High Volatility-Soybean



### OI in Soybean



### Contract Performance-Soybean

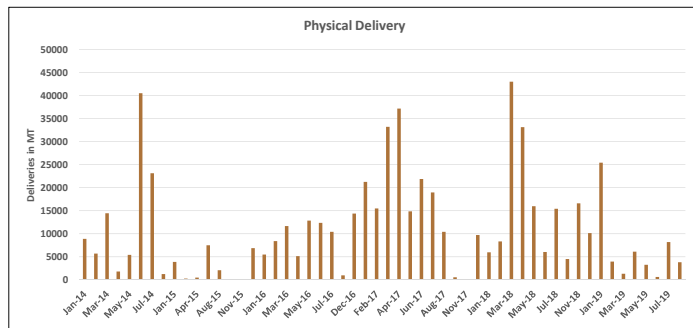


### Physical Deliveries in Soybean

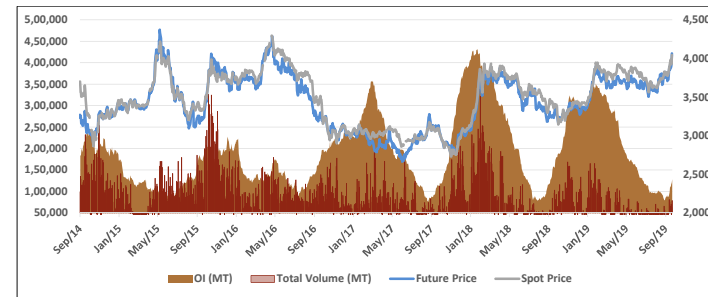
- Successfully handled physical deposits and deliveries of more than 2 Lakh MT during last 2 years
- Deliveries are smoothly handled and completed without major issues



### Soybean Deliveries at NCDEX



### SYBEANIDR – NCDEX Soybean Futures contract



I Hedge because I want to insure my Bottom line



## Refined Soy oil

- Refined Soy oil futures contract at NCDEX is considered as benchmark in India
- Currently it is offered as intention matching (Cash Settled) contract
- Exchange has halved transaction charges in Refined Soy oil



## Price Risk

- Risk taking is inevitable. Managing the unwanted risk is necessary for the sustainability of the organization
- Price risk is the uncertainty and impact of market price fluctuations on the cash flows / profitability of an organization
- Complex deals, Geopolitical linkages, increasing dynamism in the business environment and price volatility makes it imperative for the corporates and trading houses to look for effective and efficient tools and policies to reduce the uncertainty
- Price risk management is a systematic approach to understand, measure, monitor and mitigate the uncertainty of price risk and its impact on cash flows



## Price Risk Management

- Once the risk is identified and quantified, one can hedge the risk on a particular position by making use of Forwards contracts / Futures markets / Options
- Hedging mitigates the price risk but gets exposed to additional risk called basis risk
- Spread (basis) between Spot and Futures price keeps changing and if not addressed properly can ruin the hedge outcome
- To overcome the basis risk, one can alter the quantities on the futures market for a given spot exposure, so that the expected change in the value will be equal. This is given by the Hedge variance Ratio



## Farmer Engagement

### Farmer engagement programme

- NCDEX engaging with farmers through FPOs
  - No. of FPOs account opened: 243
  - No. states already covered: 13
  - No. of commodities traded: 17
  - Total trade quantity: 32,581 MT
  - Farmers represented through FPOs: 4,58,914





## Major Development

- ❑ Options introduced in Soybean and Refined Soy oil
- ❑ Converted Soybean in to compulsory delivery contract
- ❑ Introduction of trading in indices
  - NKRISHI
- ❑ Participation of FPIs, & EFEs
- ❑ Mutual Funds and PMS allowed now in commodities
- ❑ Increasing the basket of Agri commodities futures offered



**Thank you!**

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