



ANALYTICAL STUDY ON INVESTOR PERCEPTION AND DECISION MAKING TOWARDS COMMODITY MARKET IN KARNATAKA STATE WITH SPECIAL REFERENCE TO SHIVAMOGGA DISTRICT

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ABSTRACT

Organized commodity derivatives in India started as early as 1875, barely about a decade after they started in Chicago. and, many feared that financial derivatives fuelled unnecessary speculation and were detrimental to the healthy functioning of the markets for the underlying commodities. The study undertaken below has been outlined on the theme of the commodity markets functioning in India. The paper has been indicates, Overview of the commodity market, commodity market development, challenges faced by the commodity market and commodity market participants

KEYWORDS: *Commodity Market; Forward Market; Market Development, Hedgers, Speculators, Arbitrageurs.*

INTRODUCTION

The existence of the commodity market in India dates back to ancient times. These markets influence the dynamics of production and resource allocation in the primary sector, along with pricing system of this market. The turnover of the commodity market in our country has grown potentially in a short span of time. This market established a link between the present and future production and consumption cycles thereby facilitating the inter-temporal smoothing of prices. At present the Indian commodity market adopts a two-tier structure for the mechanism of the system, currently there are 19 exchanges market working at country level in our country, out of which six markets are the prime regulators. They are Multi Commodity Exchange (MCX) Mumbai, National Commodity and Derivatives Exchange (NCDES) Mumbai, National Multi-Commodity Exchange (NMCX) Ahmadabad, Indian Commodity Exchange, the ACE Derivatives Exchange and the Universal Commodity Exchange. The commodity markets in India are regulated by the Forward Markets Commission of India established in 1953.

LITERATURE REVIEW

Golaka C Nathand Thulasamma Lingareddy (2008) in the paper "Commodity Derivative Market and its Impact on Spot Market" studied the impact of futures trading in three commodities which were banned by government to understand if seasonal/cyclical fluctuations in these commodities prices have been affected by the introduction of futures in those commodities. Results show that the future trading has not helped in reducing the seasonal/cyclical fluctuations in prices.

Sunanda Sen, Mahua Paul (2010) in the paper "Trading in India's Commodity Future Markets" attempted to study the development of commodity futures market and the official policies on future trading. It is observed that future trading in agricultural products neither resulted in price discovery nor in less volatility in food prices. Also explained that future markets in commodities seem to provide new avenues of speculation to traders. The link between commodity futures and trading in financial markets had been explained.

Shunmugam and Debojyoti Dey (2011) in the paper "Taking Stock of Commodity Derivatives and their Impact on the Indian Economy" attempted to give a comprehensive view of all the research studies on commodity derivatives market. The paper focussed mainly on the impact of spot markets and the eco system on the commodity derivatives market. It discussed that commodities have performed well in the markets and the benefits are reaped by various stakeholders. It is suggested that the next step would be institutional support to be given so that commodities can develop further. This could be in the form of allowing new products like options, indices and other intangibles which would attract the risk adverse investors.

K.G. Sahadevan (2012) in the paper "Commodity Futures and Regulation- A Vibrant Market Looking for Powerful Regulator" elucidated that the present legal and institutional framework is inadequate for the effective regulation of fast growing commodity markets in India. Results explain that an active regulator is indispensable in the formative stage of markets, particularly to ensure they have the best practices

and procedures for trading, margining, clearing, market monitoring and surveillance, risk control, settlement and delivery. It is stated that regulator can act as the line of defense against manipulation.

Bhaskar Goswami, Isita Mukherjee (2015) in the paper “How attractive is the Commodity Futures in India?” compared the return on commodity futures with common stocks, long term government bonds, treasury bills, rate of inflation and detailed that high returns are generally associated with high risk in line with the general theory of risk-return. The standard deviation on real rates of return of commodity futures are same as the standard deviation on nominal rates of return. Results suggest that though common stocks gave higher return but provided poor hedging during inflation.

COMMODITY MARKET

The **commodity market** is a market where traders buy and sell commodities. Commodities are raw materials or primary agricultural products. In other words, things that farmers, mining companies, and oil and gas companies produce or extract. The commodity market is similar to the equity market. However, in the equity market, people buy and sell shares.

Usually think of a “commodity” as something homogeneous, standardized easily defined. In reality, this isn't the case commodities are often very heterogeneous, hard to standardize, hard to define.

A commodity market facilitates trading in various commodities, it may be a spot or a derivatives market. In spot market, commodities are bought and sold for immediate delivery, whereas in derivatives market, various financial instruments based on commodities are traded.

METHODOLOGY OF THE STUDY

Primary Data

Information was collected through the discussion, interviews with the Commodity Market intermediaries such as Trading Members, Employees of Stock Exchanges and other categories of Investors.

Secondary Data

The secondary data was collected from various libraries where the records are stored, visits to various government organizations, the exchanges and intermediaries, from international and national websites, from published data sources such as various reports, periodicals, journals, books, magazines, research articles, newspapers, annual reports, published research papers etc. For the sake of evaluation of performance of Commodity Derivative in India, the data available in the SEBI's Annual Reports, RBI Bulletins, Stock Exchange Annual Reports, Stock Exchange, SEBI and World Federation of Exchange's Websites etc was used extensively.

OBJECTIVE OF THE STUDY

The present study aims to understand the current status of commodity markets in India with special focus on commodity market. The study is done with major objectives as stated below:

- To analyze the socio economic value of the investors in commodity market.
- To study the growth of commodity market in Karnataka state.
- To study the commodity risk management.
- To study the commodity market participants and investment benefits.

HYPOTHESES

1. There is significant association between age of the respondents and their preferences to various investment avenues.
2. There is significant association between age of the respondents and their knowing about commodity market.
3. There is significant association between age of the respondents and their awareness of trading in commodity markets.

SAMPLING

In statistics and survey methodology, sampling is concerned with the selection of a subset of individuals from within a population to estimate characteristics of the whole population. Researcher rarely surveys the entire population because the cost of a census is too high. The three main advantages of sampling are that the cost is lower, data collection is faster, and since the data set is smaller it is possible to ensure homogeneity and to improve the accuracy and quality of the data. In survey sampling, weights can be applied to the data to adjust for the sample design, particularly stratified sampling (blocking). Results from probability theory and statistical theory are employed to guide practice. In business and medical research, sampling is widely used for gathering information about a population.

NEED FOR THE STUDY

Commodity market trading has been long looked upon as a very risky venture, and investors, especially retail small-time investors never looked at them as viable option. For long, equity shares have been the most preferable investment option. One of the most deterring aspects of investment in Commodity market is the lack of proper knowledge and also the perceived risk associated with. This along with the high amounts of margin required to trade-in deters the investors.

SCOPE OF THE STUDY

The study will be related to buying and selling of Commodity of Commodity and its impact towards the perception of investor who are willing to trade in Shivamogga District. Within the limited time an effort has been put to study the problems and prospects of Commodity market. In fact, Commodity market itself is a wide concept to cover every aspects of it in a single study. Hence, this study is covering only the aspects such as investors' awareness about Commodity market, their attitude towards usage of Commodity, and their risk perception and so on.

STATEMENT OF THE PROBLEM

Commodity Futures, which forms an essential component of Commodity Exchange, can be broadly classified into precious metals, agriculture, energy and other metals. Current futures volumes are miniscule compared to underlying spot market volumes and thus have a tremendous potential in the near future. Futures trading in commodities results in transparent and fair price discovery on account of large-scale participations of entities associated with different value chains. It reflects views and expectations of a wider section of people related to a particular commodity. It also provides effective platform for price risk management for all segments of players ranging from producers, traders and processors to exporters/importers and end-users of a commodity. Commodity players use it as a hedge mechanism as well as a means of making money. For e.g. in the bullion markets, players hedge their

risks by using futures Euro-Dollar fluctuations and the international prices affecting it. For an agricultural country like India.

LIMITATIONS OF THE STUDY

1. This study covers very limited commodity markets in Karnataka .
2. The research combines both qualitative and quantitative data for identifying the perception over commodity market. Hence some of the findings may not validate any further research based on quantitative data.
3. The perception, based on the experience of the investors may vary in future. So the present study cannot claim permanency of results.
4. The study is analysis was India’s Major Commodity Exchanges.

INDIA’S MAJOR COMMODITY EXCHANGES

- **MCX (Multi Commodity Exchange)** : Is the world’s No.3 commodity exchange and ranks the 1st in gold and silver futures in the world . it ranks 2nd in copper and natural gas futures and is placed at the world’s top 3rd position in crude oil futures.
- **NCDEX**: No.1 Agri Exchange in India, the NCDEX offer EFP (Exchange for Physicals) facility in 18 contracts traded on the exchange platform, which help market participants in addressing their counterparty and business risks inherent in the bilateral transactions in the physical market.
- **NMCE**: Rank No.3 in India after MCX and NCDEX. it is India’s top listed of coffee and rubber contracts and seeks to broaden in the currency derivatives and spot markets.
- **ACE**: Offers multi commodity futures trading.

Commodity trading in India is done on the MCX (Multi Commodity Exchange of India) with trading allowed only in commodity, futures. Different commodities have different cycles & many commodities are independent of equity market sentiments. Unlike equity markets commodity markets are not prone to manipulation.

OBJECTIVES OF COMMODITY MARKET

The core objective of a commodity market is to create a fair, orderly and efficient system of matching supply and demand in order to enable what is called “Price Discovery” or the true market price based on the alignment of supply and demand.

BENEFITS OF COMMODITY FUTURES MARKETS

The authentic price discovery and efficient price risk management are the Foremost objectives of the futures exchange. The benefits of the commodity futures Markets are as follows:

- Price Discovery
- Price Risk Management
- Import and Export competitiveness
- Predictable Pricing
- Control over unfavorable price fluctuations for farmers/Agriculturalists
- Credit accessibility
- Improved product quality

FUNCTIONS OF A COMMODITY MARKET

The broad classification of functions of a commodity market are:

- [1] Product conceptualization and design
- [2] Price discovery and dissemination
- [3] Robust trading and settlement systems
- [4] Management of counter party credit risk.
- [5] Self regulation to ensure:
 - [A] Overview of trading and surveillance
 - [B] Audit and review of members
 - [C] Enforcement of exchange rules

ANALYSIS AND INTERPRETATION OF DATA

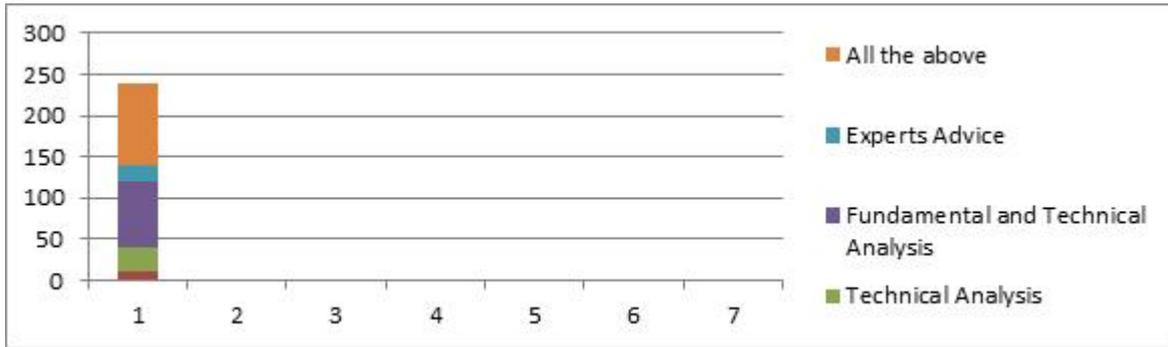
Table - 01
Distribution of the respondent of age

S. No.	Age Group of investor	Respondents of Futures	Respondents of Options	Total
01	30-40	64 (53.34)	72 (60.00)	136(56.68)
02	41-50	28 (23.33)	25 (20.83)	53 (22.09)
03	Above 50	28 (23.33)	23 (19.17)	51 (21.23)
	Total	120 (100%)	120 (100%)	240 (100)

Interpretation-It is understood from the above table that, the majority of the respondents of both Futures & Options belonged to the middle age group of 30-40 years with 56.68 per cent, in which it is 53.34 for Futures and 60 per cent for the Options respondents. It is followed by the respondents of age group 41-50 with 22.09 per cent and the respondents of above 50 years were only with 21.23 per

cent. So, it is clear that, the middle aged group of respondents were the majority to invest in Futures &Options commodities in shivamogga. As the calculated chi-square vale is less than the tabulated value, the stated hypothesis is accepted and hence, it is concluded that, there is no association between the age and the experience of the investors in investing on the commodities in shivamogga.

Distribution of the respondent of age



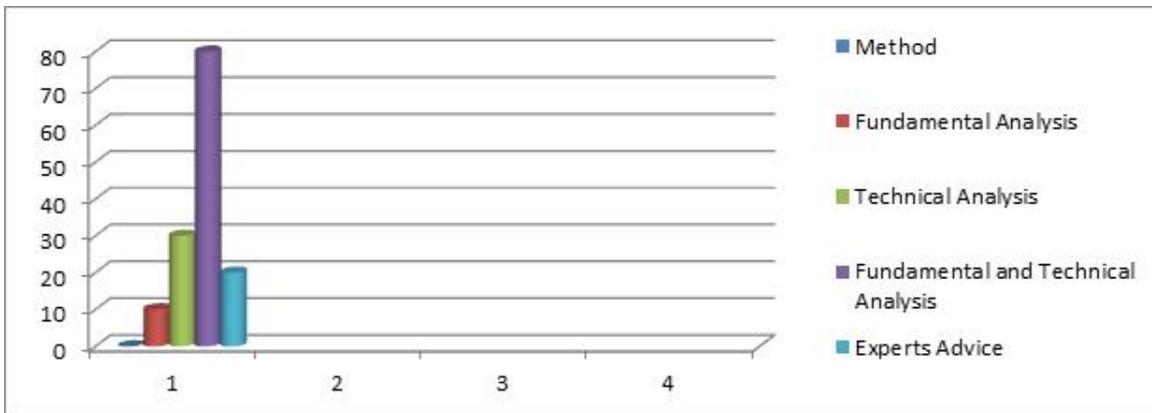
**Table -02
Distribution of the commodity market based on gender - wise investors**

S. No.	Sex	Respondents of Futures	Respondents of Options	Total
01	Male	85 (70.83)	78 (65.00)	163 (67.92)
02	Female	35 (29.17)	42 (35.00)	77 (32.08)
Total		120 (100%)	120 (100%)	240 (100)

Interpretation- Gender – wise classification is considered as an important factor influencing the creation of employment. The Gender – wise composition of the investors in commodity market in the contribution of male investors is higher than the female investors. interred that, out of 240 investors in commodity market, male members were 163 investors and only 77 investors were women. It is evident that, women investors in the commodity market are very

lesser with just 32.08 per cent in the selected district. It is also important to note that, the women investors were much interested in Options than when compared to Futures. Hence, the majority (67.92) of the investors were only male with the total account of 67.92 per cent, in which Futures male investors account to 70.83 per cent and Futures male investor’s account to 65 per cent. It is very obvious that, the male investors would be more interested on agricultural commodities than the other commodities.

Distribution of the commodity market based on gender - wise investors



**Table - 03
Distribution of the commodity market based on the educational background**

S. No.	Particulars	Respondents of Futures	Respondents of Options	Total
01	High School Level	12	08	20
02	Higher Secondary Level	19	14	33
03	Graduation (UG)	54	45	99
04	Post-Graduation	25	28	53
05	Professional	10	25	35
Total		120	120	240

Educational Background of the Respondents

Interpretation- Education is an important determinant in economic and social development that, higher rate of literacy will have an effect at high level of developments. Literate investors can easily understand the problematic situations of

the commodity market and they have taken timely decision and direction in their commodity market with the help of modern and also applied the new styles of commodity market. As far as the above table is concerned, 8.34 per cent of the respondents had high school level of educational qualification, 13.75 per cent of them had higher secondary level, 41.25 per

cent of them were under graduates, out of which, 45 per cent of them were Futures investors and 37.50 per cent of them have invested on Options, 22.08 per cent of them were post graduates and 14.58 per cent of them were professionals. So,

it is clear from the table 4.3 that, the majority of the respondents were under graduates and these respondents had a very idea about the commodity market in shivamogga.

Educational Background of the Respondents

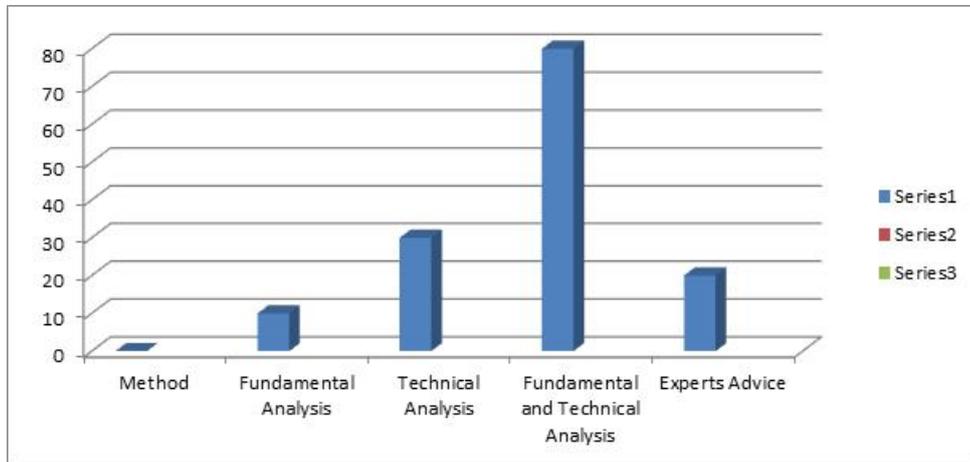


Table - 04

Distribution of the investors based on family members of respondents

S. No.	Particulars	Respondents of Futures	Respondents of Options	Total
01	0-3	62 (51.67)	68 (56.67)	130 (54.17)
02	3-5	34(28.33)	33 (27.50)	67 (27.91)
03	Above 5 members	24 (20.00)	19 (15.83)	43 (17.92)
Total		120 (100%)	120 (100%)	240 (100%)

Interpretation- shows the family size of the investors in the commodity market. The range of maximum family members is 5 and above, and minimum range of up to 3 persons. According to the above table, the majority of the respondents had only below 3 family members, which accounts to 54.17

per cent, in which 51.67 per cent of them were Futures investors and 56.67 per cent were the Options investors, who were the majority again. 27.91 per cent of the respondents had 3-5 family members and 17.92 per cent of them had above 5 family members.

Distribution of the investors based on family members of respondents

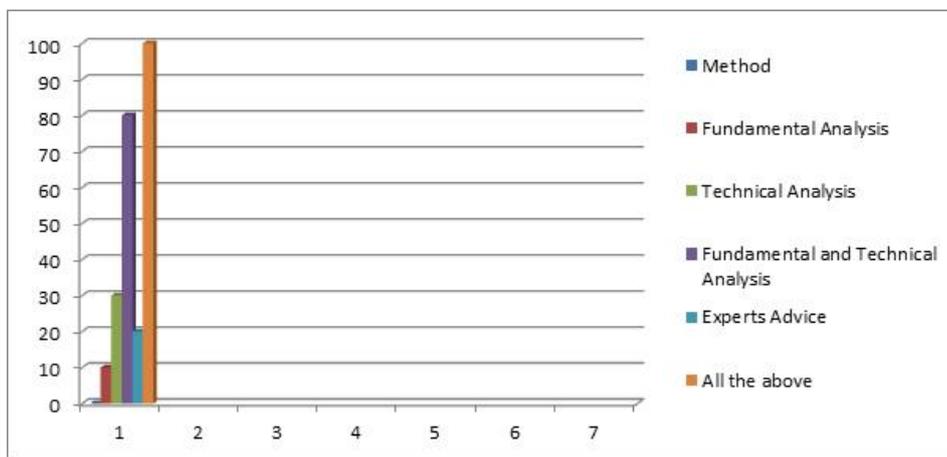


Table -05

Distribution of the commodity market based on marital status

S. No.	Particulars	Respondents of Futures	Respondents of Options	Total
01	Married	85 (70.83)	78 (65.00)	163 (67.92)
02	Unmarried	35 (29.17)	42 (35.00)	77 (32.08)
Total		120 (100%)	120 (100%)	240 (100)

Interpretation- gives the information relating to marital status background of the respondents. Out of 240 respondents, 67.92 percent of them were married, in which 70.83 per cent of them were Futures investors and 65 of them were Options

investors and 32.08 percent of them were unmarried. The majority of the respondents were married investors only. These respondents were successful investors with the help of their family.

Distribution of the commodity market based on marital status

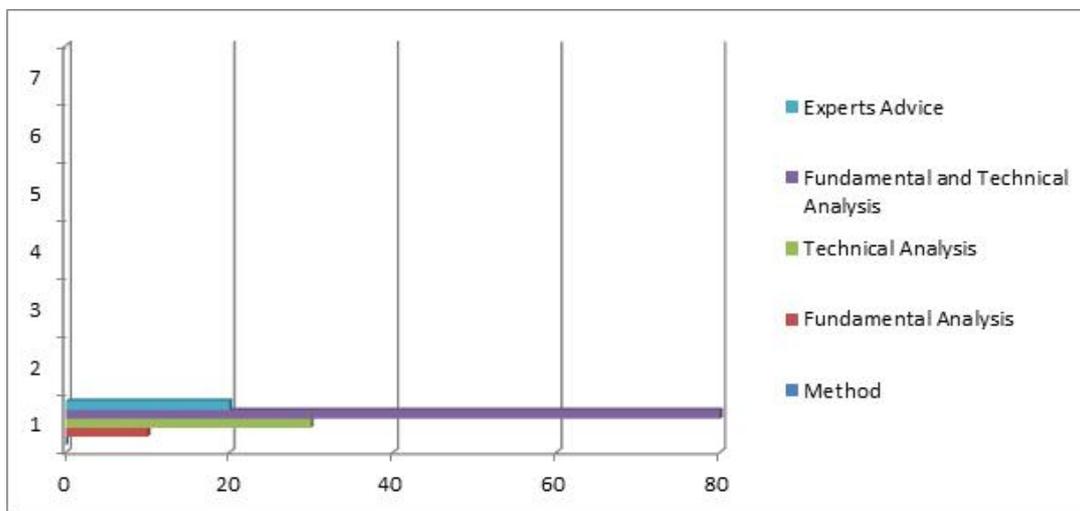


Table -06

From the below factors, rank the ones that attract you to invest in commodity market.

	Factor	Total
1	Low Risk	40
2	Low Investment	10
3	High Return	120
4	High Liquidity	60
5	Speculation	10

Interpretation- gives the information relating to invest in commodity market.background of the respondents. Out of 240 respondents, 120 respondent high return and high

liquidity is 60, and 40 respondent responses to low risk. and very less respondents is mention the less investment and speculation.

From the below factors, rank the ones that attract you to invest in commodity market.

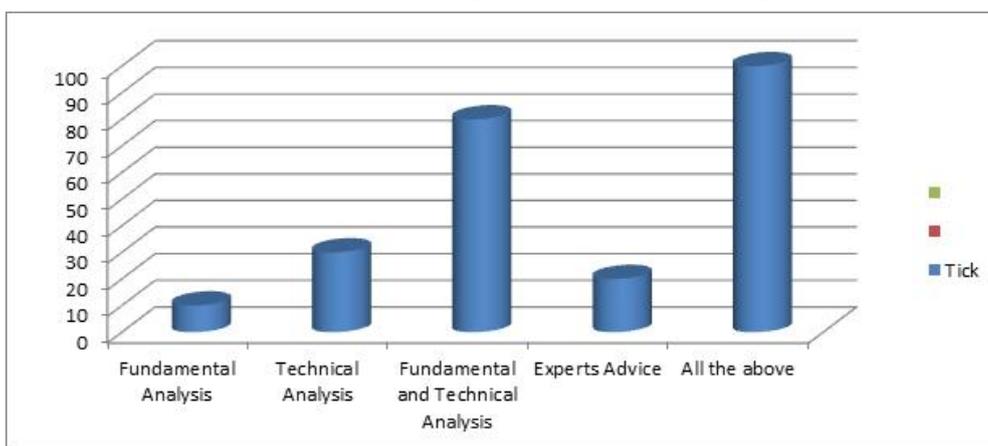


Table -07

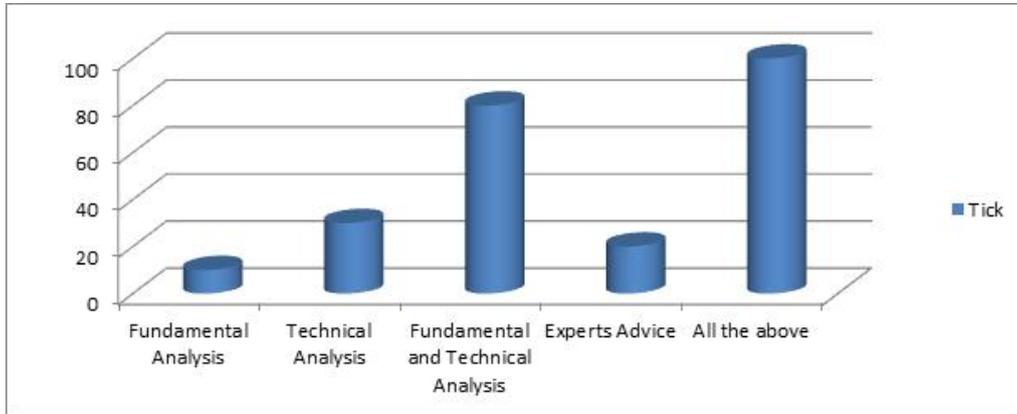
What Method of Analysis you undertaken for Investments in commodity market

	Method	Tick
1	Fundamental Analysis	10
2	Technical Analysis	30
3	Fundamental and Technical Analysis	80
4	Experts Advice	20
5	All the above	100

Interpretation- The table gives the information relating to invest in commodity market and Method of Analysis you undertaken for Investments in commodity market background of the respondents. Out of 240 respondents, 100 respondent

All the above and Fundamental and Technical Analysis is 80, and 20 respondent responses to Technical Analysis. and very less respondents is mention the less investment and speculation.

What Method of Analysis you undertaken for Investments in commodity market



FINDINGS

[1] Majority of the respondent investors of the commodity market were at the age category of 30-40 age group. Since the concept ‘commodity market’ was a latest origin, the elder traders are not suddenly migrating from the old spot market type into commodity markets. They were not fully aware of commodity markets. Hence the middle aged group dominates in the commodity markets.

[2] According to the data, majority of the respondents were graduates. One who involves in the commodity market needs some literacy. Hence, most of the investors were graduates.

[3] The study indicated that majority of the respondents were married. Because majority of the investors were at the age category of 30 years to 40years. In India, So the majority of the respondents were married.

[4] Seeking higher profit, always involve higher level of risks. In this study majority percent of the respondents were taking medium level of risk, this results in medium level of income for their investments.

[5] There are so many avenues available for investors to invest. Here the study is mainly dealing with commodity markets and the respondents are dealing with commodity markets. It was found that majority invested in commodity markets.

[6] In a market many commodities are sold. In the commodity market, government has cleared only some commodities that can be sold in commodity markets. So it is important to know that the investors know about the list of commodities that can be traded in the commodity markets.

[7] Commodity markets involve ups and downs. Hence, it is a question whether a commodity market trader will encourage others also to invest in commodity markets.

SUGGESTIONS

[1] A review of nature of institutional and policy level constraints facing this segment is felt as a immediate requirements. The policy of the government towards commodity market operations should be brought to public discussion and necessary modification should be incorporated in the existing policy.

[2] An awareness campaign towards the functions of commodity market may be undertaken by the governmental agencies such as District Industry Centres, Entrepreneurial Development Programme Institutions etc.

[3] Financial instruments such as bills of exchange, treasury bills, commercial papers etc., are very important as the medium of exchange among the sellers, buyers, intermediaries, investors etc., For this, the government may take steps to bring new types of trade bills for the purpose of facilitating the commodity market operations.

[4] A comprehensive strategy that incorporates efforts from all the parties concerned with the commodity market viz., The government, financial institutions, intermediaries, regulatory bodies, investors etc., is an immediate requirement for the successful functioning of commodity market operations in the country.

CONCLUSION

The analysis emphasized on the commodity market which gave a real time experience in this field and thereby the study could reflect positively from the investors’ perspective. The empirical study results clearly indicate how socio economic factors of the sample commodity market traders affect their perception. The non-parametric test results rejected almost all the research hypothesis proving that demographic variable had no significance association with the sample respondents perception, attitude or pattern of investment.

The last five years’ price movements of Commodity market show that the investors are satisfied by the reasonable returns from the commodity market. Investors can make substantial returns only if investments are made in a disciplined manner. An investor should always analyze the market by using the analytical tools for investments purpose. And also investment is the risk and return game. When the investor reedy to accepted the risk in that circumstances investors earn the profit Investors can succeed in their investment only when they are able to select the right commodity at right time. The investors should closely watch the situation like market price, economy, returns and risk associated with the commodity before taking the decision to invest. Thus, utilizing the investment opportunities available in the commodity market will help in maximizing the returns. Finally, as per the present trend and the analysis it can be concluded that, in commodity market there is the high possibility of getting good returns, therefore it can be suggested that the investors can invest in the commodity market.

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