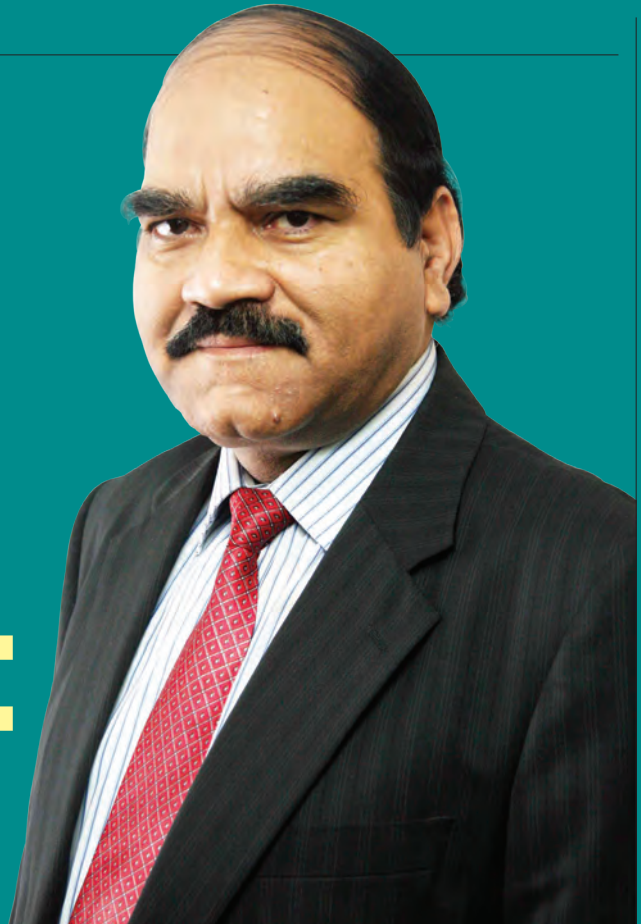


# Futures curbs price volatility:

## Anil Mishra



Like prices of other commodities such as precious and base metals, rubber prices have also been moving northward due to the widening demand-supply gap in the international market which has lured traders to futures trading in rubber. This gave tremendous boost to volumes of trading in FY 2010-11 for Ahmedabad-based National Multi Commodity Exchange (NMCE). In an exclusive interview with Sharad Matade, our Mumbai Correspondent, Anil Mishra, MD & CEO, NMCE, speaks about trends in rubber prices and explains why futures trading in rubber is essential to control volatility. **Excerpts** from the interview:

**Of late, prices of rubber are showing some softening in the spot market. How do you see rubber prices moving in the near future?**

More than 90% of rubber is produced in the single climatic zone of Asia, which is subjected to both drought and flood. The weather could thus play havoc with the price volatility of rubber. In India, there is currently a shortage of rubber and we have to depend on import to meet the shortfall. So our buyers have to compete with other global players and would be exposed to severe competition. In addition to the rubber price, they would be subjected to duty and ocean freight which are unpredictable. They would also be exposed to currency risk. If weather continues to be good and since the peak season is approaching, the price may remain soft for short term, but

crude price volatility and weather need to be carefully monitored.

**What will be the impact of hardening interest rates and rising inflation on rubber demand and prices in India and China?**

There would be additional burden on rubber user industry due to rising interest rates which would cut into their thin margin. They could reduce this burden by buying in the futures market. They would have to just pay 5% margin money to buy in the futures market, thus they could leverage their funds 20 times. Additionally, if the rubber price goes up after their buying in the futures market, they would get 'mark-to-market' credit in their account every day. Thus their fund requirement would get further reduced. We are, therefore, seeing more participation from the user industry.

There is complete transparency in futures trading of rubber. Month-wise position and price in NMCE are known online all the time. All the clients who participate have proper KYC and PAN numbers. There is large-scale participation of clients. The regulator FMC continuously monitors the price movement and functioning of the exchange. Godown-wise stock position is displayed on our website

Rising interest rates and inflation might reduce the demand for automobiles.

**What steps should be taken by the Government and the rubber industry over the next five years to increase the production of synthetic and natural rubber?**

Farmers need to be incentivised to increase the production and productivity and replace old rubber trees with new rubber trees of high-yielding varieties. Increase in natural rubber production is good for millions of farmers and also for the environment. The present high price of natural rubber has been an incentive for increasing the production. North East is being tapped and would be more vigorously taken up.

Synthetic rubber is dependent on crude price which is in very high demand from so many users and crude price is extremely volatile. OPEC is very powerful and hedge funds and speculators in NYMEX could corner this and price could skyrocket. The energy sector badly needs crude and the whole world needs it. Farmers and the industry are dependent on each other and are not in conflict. They have to work together and help each other. Depending on our own production is better than imports; hence all-out efforts should be made to increase domestic production.

**Do you think banning futures trading on rubber will control volatility in rubber prices in domestic spot market?**

Banning futures market would not control volatility in rubber prices in the domestic market, but deprive the producers to hedge their price. Futures market widens the participation and hence curbs the volatility long term. It is transparent because in every second the best buyer and the best seller's price is shown on the screen automatically without any human interference. In futures 6 months forward contracts are traded, the contracts could be in contango (future price is higher than spot price or near month price) or in backwardation (future price is lower than spot or near month price) depending on short term and long term supply demand situation. In peak season, futures market goes in contango and in lean season, it goes in backwardation. The accompanying Rubber price and Volume chart clearly shows that spot price and near month future price are in tandem.

**Do you think more regulations are**

**required to improve transparency in futures trading on rubber?**

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**What are your plans to increase the participation in rubber future, trading?**

There has been continuous rise in the participation in rubber futures by all the stakeholders (*see chart*). We have been meeting and organising awareness and training programmes for all the stakeholders. We shall continue this effort at all levels. In 2008, rubber futures was banned and farmers could not hedge their price though globally price was going up. More the participation, more the liquidity and more price stability would come. Once FCRA is amended and institutions like Banks and Mutual Funds start participating, there would be significant growth in the volume.

**Could you please explain about the early delivery system that is gaining popularity in NMCE?**

We were having delivery of rubber contract during the 12th to the 15th of every month. Thus there were only 4 days for delivery. When big players started participating, they had two requests. One was to increase their position limit in near month and the second was to increase the period of delivery. We approached our regulator FMC for the same. The commission agreed to reduce the time period for consideration of near month position limit and also agreed for early delivery. This has been very helpful to big tyre companies. Now they can take early delivery from the 1st of every month as early delivery and the 12th to the 15th is normal delivery. Thus delivery period has increased to 15 days. Now there is no undue pressure on giving and taking delivery. Near month position limit restriction is now only considered for 7 days. Both these steps have been very much welcomed by big industry players. ■