

FSO310 Commodity Markets [4 Credits]

Learning Objective: This course is designed to help the students in understanding of commodities market, products, financial derivatives, pricing mechanism etc. They will be able to understand the trading, clearing and settlement operations using NCDEX platform. Students will also learn regulatory framework and taxation aspects.

UNIT 1: Introduction to Commodity Markets (12 Hours)

Introduction to Commodity markets: Meaning of Commodity, markets, marketing of agricultural commodities, physical market operations- Understanding risk, managing risk, evaluation of commodity derivatives in India. Introduction to derivatives, products, participants and functions, derivatives markets, difference between commodity and financial derivatives.

UNIT 2: Introduction to Commodity Exchanges (12 Hours)

What is commodity exchange? Commodity exchange around the world and in India, electronic spot exchanges, regulation of commodity markets. Evolution of commodity exchanges, latest developments. The NCDEX platform – Structure, exchange membership, risk management, clearing and settlement system and commodities traded on the NCDEX platform

UNIT 3: Application of Commodity Futures (12 Hours)

Instruments available for trading - Forward contracts, Introduction to futures and options, Payoff for F&O, using futures versus options; Pricing commodity futures – Investment assets versus consumption assets, Cost of carry model, Futures basis; Using commodity futures for hedging, Speculation and arbitrage.

UNIT 4: Trading, Clearing and Settlement (12 Hours)

Trading on commodity exchanges-The exchange platforms, membership, brokerage, trading systems, participants, market positions, order types, access to commodity exchange, volume and open interest - Clearing and settlement on commodity Exchanges, the commodity clearing house, margining, risk containment measures, settlement process, warehousing and warehouse receipts, the delivery process, distinctive features

UNIT 5: Regulatory Framework of Commodity Derivatives (12 Hours)

Rules governing Commodity Derivatives Exchanges, Participants, Investor grievances and Arbitration; Implications of Sales Tax; Electronic Spot Exchange - NCDEX Spot Exchange Ltd. (NSPOT).

Suggested Readings:

1. Kleinman, George, (2001), Commodity Futures & Options, 2nd (revised, illustrated edition), Prentice Hall.
2. Stephens, John. (2001), Managing Commodity Risk, John Wiley & Sons.
3. Hirschey, (2010), Investments: Analysis and Behaviour, 1st edition, Tata McGraw Hill.
4. Indian Institute of Banking & Finance, (2007), Commodity Derivatives, Macmillan India Ltd.
5. NitiNandiningchatnani, Commodity Markets, McGraw Hill Pvt. Ltd, 2010
6. John C. Hull and Sankarshan Basu, Options, Futures and other Derivatives, Pearson 7th edition
7. R. Parameshwaran, Futures and options, McGraw Hill Pvt. Ltd. 1st Edition
8. J. R. Varma, Derivatives and Risk Management, McGraw Hill Pvt. Ltd, 1st edition
9. NCFM Commodity Derivatives Module work book.
10. Nick Battley, Introduction to commodity Futures, Irwin
11. J. D. Hamon, Advanced Commodity trading Techniques, Windsor books.
12. Commodities Market Module, Workbook from NSE
13. Chatnani, (2010), Commodity Markets, 1st edition, Tata McGraw Hill.
14. www.fmc.gov.in
15. www.mcxindia.com
16. www.ncdex.com