

Issues and Challenges of the Commodity Market in India

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Abstract

The commodity market plays a crucial role in India's economic development by facilitating price discovery, risk management, and the efficient allocation of resources. Commodities such as agricultural products, metals, and energy resources are traded in organised exchanges, enabling producers, traders, and investors to hedge against price volatility. Despite its importance, the Indian commodity market faces multiple structural, regulatory, operational, and awareness-related challenges that limit its growth potential.

This research paper examines the major issues and challenges affecting the commodity market in India. It analyses the factors such as price volatility, regulatory constraints, lack of awareness among farmers, excessive speculation, infrastructural deficiencies, and technological barriers. The study also highlights the evolution of commodity exchanges in India and the reforms introduced to strengthen market transparency and stability.

Using descriptive and analytical research methodology, the study relies on secondary data from research articles, government reports, and regulatory publications before 2023. The findings suggest that while India has made significant progress in developing organized commodity exchanges, structural inefficiencies and participation gaps continue to hinder optimal performance.

The paper concludes that strengthening regulatory mechanisms, improving market awareness, expanding infrastructure, and encouraging institutional participation are essential for sustainable growth of the commodity market in India.

Introduction

The commodity market in India serves as a platform for trading primary goods such as agricultural produce, metals, and energy resources. These markets enable buyers and sellers to trade commodities in spot or futures markets. Commodity futures markets are particularly important as they allow participants to hedge against price fluctuations and manage risk effectively.

India has a long history of commodity trading, particularly in agricultural products. However, organised commodity exchanges gained prominence after economic liberalisation and regulatory reforms in the early 2000s. Major exchanges such as the **Multi-Commodity Exchange of India (MCX)**** and the **National Commodity and Derivatives Exchange (NCDEX)**** play a dominant role in facilitating commodity futures trading in India.

The regulatory framework of the commodity market was significantly strengthened after the merger of the Forward Markets Commission with the **Securities and Exchange Board of**

India (SEBI)** in 2015. This move aimed to enhance transparency, investor protection, and market efficiency.

Despite these advancements, the Indian commodity market continues to face various operational, structural, and policy-related challenges. Limited farmer participation, inadequate warehousing facilities, excessive speculation, and price manipulation are persistent concerns. This study explores these issues in detail to understand the constraints limiting the full potential of India's commodity market.

How Does a Commodity Market Work?

Suppose you bought a gold futures contract on MCX at ₹72,000 for every 100 gm. Gold's margin is 3.5% on MCX. You will be paying ₹2,520 for the gold. Suppose that the following day, the cost of gold increases to ₹73,000 per 100 gm. ₹1,000 will be credited to the bank account you have linked to the commodity market. Assume that the day after, it drops to ₹72,500. Accordingly, ₹500 will be debited from your bank account.

Various Types of Commodity Market:

Commodities that are traded are typically sorted into four broad market categories. Bullion: Gold, Silver Metals: Aluminum, Brass, Copper, Lead, Nickel, Zinc. Energy: Crude oil, Natural Gas. Agricultural commodities: Black pepper, Cardamom, Castor seed, Cotton, Crude palm oil, Mentha oil, Palmolein, Rubber. Live Stock: Live Cattle, Pork, and Feeder Cattle.

Importance of the Study

The commodity market significantly influences India's economic stability and growth. Agriculture remains a major contributor to employment, and fluctuations in commodity prices directly impact farmers' incomes and consumer prices.

This study is important because it highlights systemic challenges that affect price stability and market efficiency. Understanding these issues helps policymakers design better regulatory mechanisms. It also assists investors and traders in recognising structural risks associated with commodity trading.

Furthermore, commodity markets contribute to inflation management and supply chain efficiency. Therefore, identifying weaknesses within the system is essential for ensuring economic sustainability.

Objectives of the Study

The study is conducted with the following objectives:

1. To examine the structure and functioning of the commodity market in India.
2. To identify major issues affecting commodity trading.
3. To analyse regulatory and infrastructural challenges.
4. To assess the role of speculation and price volatility.

5. To suggest measures for improving market efficiency and transparency.

Research Methodology

The study adopts a descriptive research design. It is based primarily on secondary data collected from academic journals, SEBI reports, government publications, and financial research articles published before 2022. The data were analyzed qualitatively to understand patterns and recurring issues within the commodity trading system.

Benefits of the Commodity Market

The commodity market offers several economic advantages.

- It facilitates price discovery through transparent trading mechanisms. Futures contracts help determine expected future prices based on demand and supply conditions.
- It provides risk management tools. Farmers, producers, and exporters can hedge against adverse price movements.
- It enhances market efficiency by connecting buyers and sellers across regions.
- Commodity exchanges promote standardisation and quality control through grading systems.
- Organised commodity markets attract foreign investment and contribute to financial market development.

Challenges of the Commodity Market in India

Despite its benefits, the commodity market in India faces significant challenges.

One major issue is price volatility. Commodity prices are highly sensitive to global economic conditions, weather changes, geopolitical tensions, and supply disruptions. This volatility discourages small investors and farmers from participating.

Another challenge is limited awareness among farmers. Many small-scale farmers lack knowledge about futures trading and hedging mechanisms. As a result, they depend on intermediaries and fail to benefit directly from organized exchanges.

Infrastructure deficiencies also hinder growth. Inadequate warehousing facilities, poor storage conditions, and transportation inefficiencies affect commodity quality and pricing.

Excessive speculation is another concern. While speculation provides liquidity, excessive speculative activity can distort prices and create artificial volatility.

Regulatory uncertainties and frequent policy changes also create instability in the market. Sudden bans on futures trading in certain commodities reduce investor confidence. Limited institutional participation restricts market depth and liquidity.

Future Scope

The future of the commodity market in India depends on structural reforms and technological advancement. Expanding digital trading platforms can increase accessibility and transparency. Farmer education programs can enhance participation and awareness of hedging benefits.

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Strengthening warehousing infrastructure through public-private partnerships can improve supply chain efficiency. Encouraging participation from banks, mutual funds, and institutional investors can increase liquidity. Integration with global commodity markets can further strengthen India's position as a major trading hub.

Scope of the Study

This study focuses on the Indian commodity market system. It covers agricultural and non-agricultural commodities traded on recognised exchanges. The research does not include detailed statistical modelling but emphasises qualitative analysis of structural and regulatory challenges.

Data Analysis and Interpretation

Analysis of historical reports indicates fluctuating trading volumes in commodity exchanges due to regulatory interventions and global price shocks.

The merger of FMC with SEBI improved regulatory oversight, yet participation by small farmers remains low. Price volatility trends reveal that commodities such as crude oil and agricultural products show higher fluctuation patterns compared to metals.

Interpretation suggests that although regulatory reforms have enhanced transparency, structural weaknesses such as poor infrastructure and low awareness continue to restrict growth.

Findings

The study reveals that the Indian commodity market has strong institutional foundations but suffers from participation gaps and infrastructural weaknesses. Price volatility remains a significant deterrent for small traders. Regulatory improvements have increased transparency, yet policy uncertainty still affects investor confidence. Farmer participation in futures markets remains limited due to a lack of financial literacy and awareness. Speculation, though necessary for liquidity, sometimes leads to artificial price distortions. Overall, the market shows potential for expansion if structural and awareness-related challenges are addressed.

Conclusion

The commodity market in India is a vital component of the financial and agricultural ecosystem. It plays a key role in price discovery, risk management, and economic stability. However, various issues such as price volatility, limited farmer participation, infrastructural deficiencies, excessive speculation, and regulatory uncertainties hinder its full development.

To strengthen the commodity market, coordinated efforts are required from regulators, policymakers, and market participants. Enhancing awareness, improving infrastructure, ensuring stable policies, and promoting institutional participation will contribute to long-term sustainability. With appropriate reforms and modernisation, India's commodity market can become more resilient, inclusive, and globally competitive.

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