

Rubber, Pepper Futures Attract More Hedger Participation

More Takers Now

OI To Volume Ratio (in lots) daily average

Date	Commodity	OI	Volume	OI: Vol Ratio
16 May - 15 Nov	RUBBER	3976	2262	1.75
10 Jun- 15 Nov	PEPPER	12086	7502	1.61
16 May- 15 Nov	GOLD	14907	48281	0.3

Source: NMCE & Bloomberg

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Rubber, pepper and cardamom have drawn more actual users than many other commodities, say brokers and exchange officials. Exchange data shows these commodities have high open interest in relation to volumes.

Open interest (OI) indicates outstanding (buy/sell) positions at a given time and volume is the quantity of a commodity that is traded. In commodities traded by a large number of retail speculators, volumes tend to be higher than OI as positions are squared off rather than being kept open till delivery. In commodities where actual participants or hedgers are predominant, OI to volume ratio is higher.

NMCE data for all rubber contracts between June and mid-November shows average OI to be 1.75 times more than the average volume. Bloomberg data shows that average OI in pepper and cardamom, products in which Kerala is a dominant producer, was 1.6 times each more than volume over more or less the same period. Against this the ratio stands at 0.3 in gold, meaning OI was 30% of volume. Gold and silver futures witness physical delivery but retail speculators are also active in these counters.

"Rubber futures contracts are among the few commodities that witness high participation by actual users. Few consumers and their dealers had control of the market in the past, which they are trying to regain by making this market illiquid and eventually killing it. This will be at the farmers' cost," said Agreed Galipelli, "The high OI is on account of the hedging interest." CJ George, managing director of Geojit BNP Paribas Financial Services.

Dealers and tyre manufacturers feel price swings in rubber futures are high and should be reduced. Their demand is to cut daily price movement limit to 2% from 4%. However, this has drawn flak from brokers and exchange market officials who feel if price limit is narrowed, these constituents will be effectively able to manipulate prices as they can freeze the market by making a large order and force farmers to sell at their dictated price.

The issue of price band cap was discussed last week at a high-level meeting in Thiruvananthapuram, which was attended by Union consumer affairs minister KV Thomas and Kerala chief minister Oomen Chandy. After this, the ministers have decided to set up an expert committee to look into the issue of narrowing the price band.

