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A Study on Commodity Market with Reference to Gold at IIFL

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***Abstract*: Commodity markets are markets where raw or primary products are exchanged. These raw commodities are traded on regulated commodities exchanges, in which they are bought and sold in standardized contracts. The commodities market consists of the trading of forward contracts or future contracts. Forward contracts are contractual agreements to buy/sell any commodity bet there in two entities while futures contracts are market agreements to buy/sell very specific commodities bet there in two entities over a recognized commodities exchange. It is a physical virtual market place for buying and selling of raw or primary products. For investors' purposes there are currently about 50 major commodity markets worldwide that facilitate investment trade in nearly 100 primary commodities. Commodities are split into two types: hard and soft commodities. Hard commodities are typically natural resistless that must be mined or extracted (gold, rubber, oil, etc.), whereas soft commodities are agricultural products or livestock (corn, wheat, coffee, sugar, soybeans, pork, etc.)**

***Keywords*: Commodity Market**

1. Introduction

Commodity markets are markets where raw or primary products are exchanged. These raw commodities are traded on regulated commodities exchanges, in which they are bought and sold in standardized contracts. Commodity market is an important constituent of the financial markets of any country. It is the market where a wide range of products, viz., precious metals, base metals, crude oil, energy and soft commodities like palm oil, coffee etc. are traded.

Commodities can be divided in to three types:

- Base metal: Gold, Silver.
- Energy: WTI Crude oil, Brent Crude oil, Furnace oil.
- Agricultural commodity: kappa's, menthol, soy oil, maser, castor seed, chilli, china, guar gum, guar seed, guar, jeer, juice raw, maize, pepper, RM seed, Sugar, Soya been, Tar, Ural, Turmeric, Wheat.

A. Need for the Study

Commodity market is a market where raw or primary products are exchanged. Commodity market is of two types i.e., Hard (Non-Agricultural) and Soft (Agricultural) commodities. Here hard commodities are typically Non-agricultural or natural resources (Gold, Silver, Copper, and Natural Gas) and Soft Commodities are the agricultural commodities (Coffee, Corn, Wheat, Sugar). The need of the study is to predict the price movement of the commodity and to take the right decision when to enter and exit the market to make a maximum profit, to identify the correlation between gold and dollar exchange rate and to analyze the trend in commodity market. Thus, there is a need to study the present scenario of the performance of the non-agricultural commodities in Indian stock market.

B. Objectives of the Study

- To study the factors influencing the gold prices in commodity market.
- To identify the correlation between gold price and dollar exchange rate.
- To study and analyse the gold trend in commodity market.

C. Scope of the Study

- The study focus on only gold and gold prices from duration 2015 to 2019.
- The study was conducted only for 45 days.
- All the determinants of gold prices could not be extensively studied. Only six determinants were studied.
- Analysis of the relationship of gold with the exchange rates.

D. Research Methodology

For this study mainly secondary data is used. Data are collected from sources such as internet websites of selected company. Analysis of data is done with help of fundamental tools for selected 5 years data.

E. Data Collection and Analysis

The research is purely based on secondary data

- Secondary data was collected through websites of money control, screener.in to obtain the historical prices.
- Also the other relevant data required for the purpose of the study was gathered from the various websites, publications, magazines and money control.

Tools used for Selecting of Alternatives

- Simple moving average
- Correlation

F. Limitations of the study

- Study is confined only to the commodity market in Indian context.
- The study of this analysis was mainly based on historical

data.

- The study is covers a period of five years (2015-2019).

2. Review of literature

Vivek Rajvanshi (2017) in his paper "Commodity Futures Market in India" explained the functioning of futures market and challenges of the futures market. The paper detailed the inception of commodities and their growth to become an alternative class of investment and heading towards financialization. Challenges along with the growth were focused in the study. The study concludes that the Futures market dominates the spot market and the results suggest that inefficiencies in market led to increase in Basis Risk which can be reduced by hedging the commodity futures. The paper also suggests that commodity futures provide transparent price discovery for the traded commodities. Also, the market participants are concerned about the liquidity and higher transaction costs.

BhaskarGoswami, 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 is same as the standard deviation on nominal rates of return. Results suggest that thought common stocks gave higher return but provided poor hedging during inflation.

Shree Bhagwat, AngadSingh Maravi (2015) in the paper "The Role of Forward Markets Commission in Indian Commodity Markets" examined the role of Forward Markets Commission. The study included functions, powers and limitations of Forward Markets Commission and the different types of commodities regulated by FMC and the exchanges present are in India are detailed. Results showed important developments of Forward Markets Commission and the need for further improvement is explained. The future plans to be taken by government for improvement in FMC are also mentioned.

M. Venkateswari, G. Ravindran (2014) in the paper "Commodity Derivatives Exchanges in India: A Study of Select Exchanges" analyzed the trend and progress of the commodity national exchanges MCX and NCDEX. The performance of these exchanges is evaluated. The criteria for performance is number of contracts, volume traded and value of the commodities traded and awareness programs conducted. The CAGR of both the exchanges is high and the number of awareness programs conducted for farmers is more than the programs conducted for non-farmers.

BhaskarGoswami, Isita Mukherjee (2015) in the paper "Risk-Return Analysis of Different Commodity Futures in Indian Derivative Market" made a comparative analysis of risk-return on different groups of commodity future and groups of commodity futures. The groups of commodities are agricultural commodity futures, metals, energy and oil and oil related commodity futures. They attempted to study the performance of these futures in the presence of risk-free assets and inflation. Study confirmed the general theory of risk-return. The result suggested that oil & oil related products gave the highest return among all commodity futures but proves to be an ineffective hedge against the inflationary pressure.

E. Kalaivani, Dr. A. Lakshmi (2015) in the paper, "An Overview of the Commodity Risk Management to the Business Process" studied the impact of commodity risk on business process. It discussed the Commodity Risk Management (CRM), categories of the commodity, and types of commodity risk, commodity and foreign exchange risk. The business‘s financial performance or position will be adversely affected by fluctuations in the prices of commodities. Consumers of commodities such as airlines, transport companies, clothing manufacturers and food manufacturers are primarily exposed to rising prices, which will increase the cost of the commodities they purchase.

NidhiAggarwal, SargamJain and Susan Thomas (2014) in the paper "Do futures markets help in price discovery and risk management for commodities in India?" examined the price discovery and hedging effectiveness of commodity futures. They concluded that while the commodity future markets were reformed so that futures markets could be substituted for commodity price risk management through price controls by the government, government interventions are the most significant barrier to futures providing good hedging effectiveness against commodity price risk.

S. Selvanathan, Dr. V. Manohar (2013) in the paper "Online Trading- An Insight to Commodities Trade with Special Reference to India" explained the online trading process and the related trends in India. It is concluded that online trading in India has not taken off in spite of the benefits which include low transaction costs, convenience, speed, boundary spanning, improved communication, and risk management. One of the reason quoted for the same was the economic conditions of traders and the study also expects that online trading in commodities will improve with better economic conditions.

3. Company profile

India Info line Limited (IIFL), incorporated in 18th October of the year 1995 as Probity Research & Services Private Limited at Mumbai. The India Info line is a one-stop shop for information, advice as well as transaction execution of financial services. IIL along-with its subsidiaries caters to entire gamut of financial services including equities and commodities broking, portfolio management, distribution of mutual funds, life insurance products, home loans, personal loans, etc. Broking services are offered under the 5paisa brand (offers broking services in the Cash and Derivatives segments of the NSE as well as the Cash segment of the BSE). The company has proven research capabilities and was rated by the Forbes as the best of web and must read for investors. A network of 758 business locations spread over 346 cities across India, facilitates the smooth acquisition and servicing of a large customer base. India Info lines research is available not just over the Internet but also on international wire services like Bloomberg (Code: IILL), Thomson First Call and Internet Securities where it is amongst the most read Indian brokers.

A. Vision

- To be the most respected financial services company in India.
- Not necessarily the largest are most profitable.

B. Mission

- From an entrepreneurial start up in 1995, we have steadily grown to emerge as one of India's leading financial service group.
- Our growth trajectory has only served to reinforce our focus on our domain of financial services.

Objective-1: To study the factors influence gold prices

Factors influencing gold prices

Seven most common factors that influence physical gold prices;

- Monetary Policy
- Economic Data
- Supply and Demand
- Inflation
- Currency Movement
- Electronic Traded Funds (ETFs)
- Uncertainty

C. Monetary policy

One of the major influence on gold prices is monetary policy, which is controlled by the Federal Reserve Interest rates have a big influence on gold prices because of a factor known as "opportunity cost." Opportunity cost is the idea of giving up a near-guaranteed gain in one investment for the potential of a greater gain in another. With interest rates holding near their historic lows, bonds and CDs are, in some cases, yielding nominal returns that are less than the national inflation rate. This leads to nominal gains but real money losses. In this instance, gold becomes an attractive investment opportunity despite its 0% yield because the opportunity cost of forgoing interest-based assets is low. The same can be said of rising interest rates, which boost interest-bearing asset yields and push opportunity costs higher. Federal Reserve commentary can also move the gold markets. The Federal Open Market Committee, which holds meetings about once every six weeks, discusses the state of the U.S. economy and the future of monetary policy. However, if the FOMC insinuates that rates are planning to hold steady, gold prices tend to rise since the opportunity cost of forgoing interest-based assets instead for gold remains low.

D. Economic data

Another driver of gold prices is U.S economic data. Economic data, such as the jobs reports, wage data, manufacturing data, and broader-based data such as GDP growth, influence the Federal Reserve's monetary policy decisions, which can in turn affect gold prices.

E. Supply and demand

It may be an oft-overlooked point, but simple supply and-demand economics can influence physical gold prices as well. As with any good or service, increased demand with constrained or low supply has a tendency to pull prices of that good or service higher. Conversely, an oversupply of a good or service with stagnant or weak demand can push prices lower.

F. Inflation

A fourth factor that can impact gold prices is inflation, or the rising price of goods and services. While far from a guarantee, rising or higher levels of inflation tends to push gold prices higher, whereas lower levels of inflation or deflation weigh on gold. In recent quarters inflation has been relatively tame (just above 1%). A lack of inflation has been one factor that's coerced the Fed not to raise lending rates, but it's also held down gold prices which typically perform better in a rising inflation environment. This push-pull between interest rates and inflation can play a constant tug-of-war on gold prices.

G. Currency movements

The movement of currencies – very specifically the U.S. dollar, since the price of gold is dollar-denominated – is another strong influencer. A falling U.S. dollar has a tendency to push gold prices higher because other currencies and commodities around the world increase in value when the dollar falls. On the contrary, a strengthening U.S. dollar often comes about because of a growing U.S. economy. It also pushes down gold prices since gold and the U.S. dollar have an inverse relationship. A weaker U.S. dollar in 2016 has been pivotal in pushing gold prices higher.

Table 1
Correlation between gold and dollars exchange rate

Gold and dollar exchange rate of 2018-2019 (1 Year)		
Month	Gold price	Dollar Exchange rate
July	28510	64.36
August	28510	71
Sep	29130	72.54
Oct	30070	73.95
Nov	30990	69.62
Dec	30850	69.58
Jan	32060	70.94
Feb	32570	70.83
March	31950	69.16
April	31700	69.8
May	32430	69.8
June	34300	68.89

Correlation Value= -0.97482

Interpretation: As the correlation value is -0.97482 it indicates that the inverse relationship exists between the gold price and dollar exchange rate in India. That shows there is inverse effect among variables where if the dollar price increases then the gold price will decrease and if dollar price decreases then the gold price will increase.

To study and analyze the buying and selling options in commodity market:

Table 2
Simple Moving Average in 2015

Month	Gold Price	3 Months Moving Average
January	25,235	
February	26,282	
March	27,190	
April	27,460	26,236
May	27,980	26,977
June	26,780	27,543
July	27,400	27,407
August	27,080	27,387
September	27,080	27,087
October	27,350	27,187
November	26,860	27,170
December	26,040	27,097

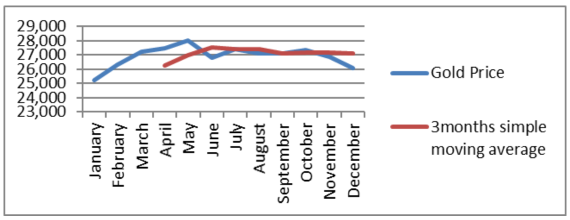

Fig. 1. Simple moving average of 2015

Interpretation: From the above analysis it is observed that the moving average curve as increased in the beginning of the month and there is a decrease of price at the end of the month. In April 2015 the moving average price of Rs.26, 236 and it is increased to of 27,097 in July 2015 and again decreased in august and again deceasing and increasing by the end of the year. So it is not a buying or selling signal to the investors.

Table 3
Simple Moving Average in 2016

Month	Gold Price	3 Months Moving Average
January	27,240	
February	29,750	
March	29,930	
April	30,640	28,973.3
May	30,700	30,106.6
June	31,780	30,423.3
July	32,140	31,040
August	32,290	31,540
September	31,970	32,070
October	30,270	32,133.3
November	32,660	31,510
December	29,700	31,633.3

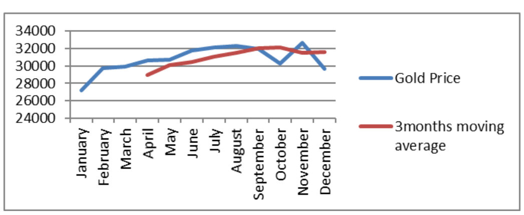

Fig. 2. Simple moving average in 2016

Interpretation: From the above graph it is observed that the simple moving average curve is increasing from beginning of the month January to October and suddenly deceased in November to 31510 and again increased in December to 31633.So it is a buying signal to the investors.

Table 4
Simple moving average in 2017

Month	Gold Price	3 Months Moving Average
January	30210	
February	30480	
March	30290	
April	30280	30326.6
May	29810	30350
June	30070	30126.6
July	29480	30053.3
August	29520	29786.6
September	30900	29690
October	30480	29966.6
November	30240	30300
December	30080	30540

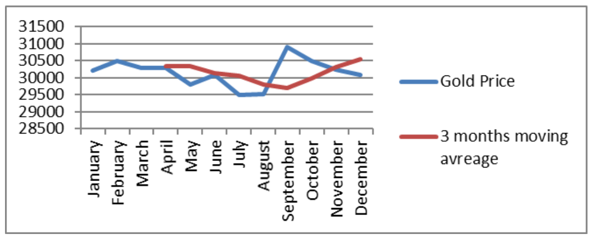

Fig. 3. Simple moving average in 2017

Interpretation: From the above graph we can observe that simple moving average curve is decreasing from 2017 January to 2017October from Rs30.326.6-Rs29, 966. And again started increasing by the end of the year 2017 December Rs30540. So it is a selling signal to the investors.

Table 5
Simple moving average in 2018

Month	Gold Price	3 Months Moving Average
January	31140	
February	31370	
March	31450	
April	31920	31320
May	31960	31580
June	31580	31776.6
July	30130	31820
August	29730	31223.3
September	30260	30480
October	32450	30040
November	32270	30813.3
December	32100	31660

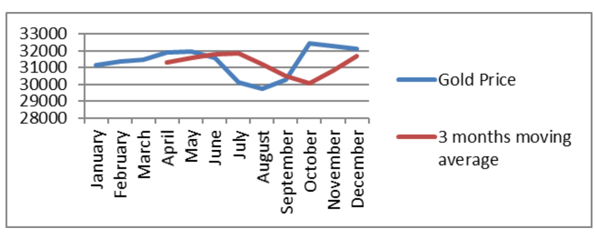

Fig. 4. Simple moving average in 2018

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Interpretation: From the above analysis it is observed that the simple moving average curve is increased from 2017 January to July Rs31320-Rs31820 and again decreased from August to October Rs31223-Rs30040 and again simple moving average curve is fluctuating. So it is not a buying or selling signal to the investors.

Table 6
Simple moving average in 2019

	Gold Price	3 Months Moving Average
January	33,650	
February	34,060	
March	34,660	
April	32,310	34,123.3
May	32,480	33,676.6
June	34,660	33,150
July	35,400	33,150
August	37,100	34,180

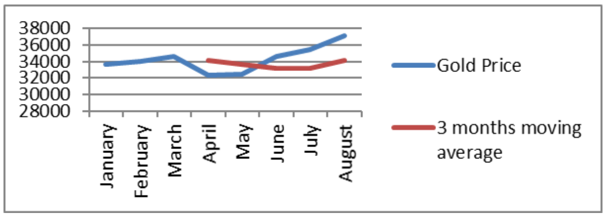

Fig. 5. Simple moving average in 2019

Interpretation: From the above graph we can observe that simple moving average curve is decreasing from 2019 April to 2019 June Rs34123-Rs33150 and constant in next month July and again started increasing in August 2019 RS 34180. So it is not buying signal for the investors but investors can sell the product as the prices are increasing.

4. Findings

- Analyzed and identified the factors that influencing the prices of gold in commodity market.
- Simple moving average shows the price fluctuations in the market. The gold price is too sensitive in the market.
- As we can observe from figure 5 in august 2019 the gold price is increased to Rs. 37100.
- The gold and dollar exchange rates share the inverse relationship, where if dollar increases the price of gold decreases and if the dollar price decreases, then gold price increases in the market.

5. Suggestions

- Before investing, an investor should have clear and adequate knowledge of the stock market so that they can earn maximum returns.
- Investing for short term gains in current scenario will not be helpful so investor can go for long term investment to maximize the returns.
- The traders should not enter into the market in bullish period, they need to wait till the bearish market ends and then they need to invest when market gives positive signal to buy the commodity.
- Investors should not buy in bulk volume because of high price fluctuations. If the investors invest in one shot, then they cannot buy when the prices go down. So it is advisable to buy in small quantities.

6. Guidelines

An analysis on commodity market with special reference to gold 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 if investors could watch the market situations closely and also by knowing the what all factors influence gold prices. this study also shows that there is inverse relationship exist between gold and dollar exchange rate. therefore, it can be suggested that the investors can invest in the gold market without any hesitation.

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