FINANCIALISATION OF COMMODITIES IN INDIA

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ABSTRACT
India is a home to six National Commodity Exchanges and four National Financial Exchanges. The Multi Commodity Exchange of India Limited (MCX) leads the Commodity Exchanges and The National Stock Exchange of India Limited (NSE) leads the Stock Exchanges in terms of the volumes and value traded. The investors include Commodities along with the Financial Assets as a part of building a diversified portfolio and this leads to active participation of the investors from the Financial Markets into the Commodity Markets influencing the price formation of the Commodity. An attempt is made to study the impact of Financialisation on the price of the Commodities by analyzing the data of the six Commodities, two each from the Agricultural Sector, Metal Sector and Energy Sector. Various tools like Moving Averages, Ratios, Correlation, Augmented Dickey-Fuller Test Statistic, Multiple Regression, GARCH Model and Granger Causality Test are used to analyze the data. The analysis of the data reveals that the price returns of the Commodities cause the speculative trades in the case of Gold and Mentha Oil. The Natural Gas revealed bidirectional causation of speculative trades and price return and in the case of Silver, Refined Soy Oil and Crude Oil, there is no causation either way. The price volatility of the Commodities in the case of Silver, Refined Soy oil and Crude Oil is influenced by the volatility in CNX Nifty. It is evidenced that in the case of all the Commodities except mentha oil, the price volatility was influenced by the unexpected volumes strengthening the assumption that the speculation has an impact on the price of the Commodities.

KEY WORDS: Commodity Price Bubble, Contango, Financialisation of Commodity, Granger Causality, Open Interest.