



# A journey from mandi to markets



**“The quality of life of an individual,  
as also of a community is to be  
assessed by the degrees of freedom  
it enjoys.” ....late Sharad Joshi**

# State of current spot markets

- **9 lakh crores annual production**
- **7000 markets**
- **APMC Act**
- **multiple grades for every commodity, no standardisation**
- **Rice – 50 price points ranging from Rs. 1200 – Rs. 6000 per quintal**

# Current spot market attributes

- 7000 disconnected markets
- Farmer buys retail and sells wholesale, ratio of 3/4 buyers for every farmer lot
- very geography centric
- roles of buyers, creditors, regulators all mixed up
- no scientific quality based sale

# State of current futures markets

- about 25 commodities trade in futures
- benchmark prices across the country, creating the ‘barometer’
- Trading 10 lakh crores annually, daily open interest 5000 crores

# Current futures market attributes

- single national market and national price established for 50% of food grains, pulses and spices
- specific quality based price discovery around which the rest of the grades trade
- transparent electronic market
- price discovery based on physical delivery thus ensuring strong convergence with spot
- Evolution of scientific warehousing, financing & electronic warehouse stock

# Is it all perfect?

- globally OI to production ratios are 25 - 40%, Indian ratios for most commodities <1%
- limited participation of few hedgers and few speculators
- price discovery affected by things like ECA, FSSAI, public perception, tight regulations

# Spot Futures integration

- old days few traders/ stockists would buy spot, store and sell forward
- Exchanges through warehousing, demat have made it possible for small financiers to arbitrage out spot futures differences minutely
- cascading effect on quality from futures to spot
- close correlation of spot and futures prices generally



# Game changers

- State Agri Markets (SAM), the Karnataka Model, Warehouse based sales (WBS)
- National Agri Market (eNAM)
- GST
- Commodities Repository
- SEBI
- FPOs and FPCs

# The big ideas

- Warehouses as an integration point between spot and futures
- Interoperability between SAM, eNAM and Futures
- Demat all warehouse receipts
- Options as an alternative to MSP
- Location specific and grade specific futures, linked through spreads

# The result

“give farmers the ‘freedom’ to sell across three degrees of freedom - location, grade and time”

# The prize

- doubling farmer income by 2022?
- food security?
- price stabilisation?
- Open Interest @ 10% production could be 50,000 crores
- opportunity to benefit Indian trade by becoming price setters

# Problems remaining to be solved...

- grade standardisation
- common clearing across spot and derivatives
- ECA, FSSAI
- perception & over-regulation
- common KYC across different markets
- **Information asymmetry**

SOPA	GoI	USDA	Market
73 lakh MT	106 lakh MT	73.8 lakh MT	65 lakh MT

# The ask



# Thank you!

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