

IMPACT OF FUTURES TRADING ON VOLATILITY IN SPOT AND FUTURES PRICES OF AGRICULTURAL COMMODITIES IN INDIA

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Abstract: The agricultural product's prices are highly volatile. There is considerable time lag between the time of initial spending and procuring of receipts from the final farm produce. A farmer is highly susceptible to price fluctuations of both farm produce as well as farm inputs. Traditionally, this risk is borne mainly by the producer (sometimes by the government) more than the consumer for a variety of reasons. It has made farmers look for alternatives to mitigate the risk. Futures market is one such option. The present study was carried out on NCDEX. The daily spot and futures price data of selected agricultural commodities were obtained from the website of National Commodity and Derivative Exchange (NCDEX), Mumbai. Three commodities viz. wheat, refined soy oil and chana were studied for a period of nine years from year 2004 to 2012 as per the availability of data. Auto Regressive Conditional Heteroskedasticity (ARCH) and Generalised Auto Regressive Conditional Heteroskedasticity (GARCH) model were used to achieve the objective of the study. Major findings of the study revealed that, the spot and futures price series of wheat and refined soy oil were significantly volatile. While, that of chana, spot price was found to be non-significant and hence stable, while futures price was found significant and volatile.

Keywords: ARCH, GARCH, NCDEX, Spot prices, Futures prices

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