Studies reveal agri commodity prices rule firm despite suspension of futures trading

Our Bureau
Mumbai

The suspension of derivatives trading in seven key agriculture commodities over the past three years has led to a run-up in prices of these commodities due to the lack of "transparently discovered reference price".

In 2021, market regulator SEBI first suspended futures trading in seven commodities including non-basmati paddy, wheat, chana, mustard seed and its derivatives, soyabean and its derivatives, crude palm oil and moong (green gram) — for a year to combat inflation. It later extended the ban twice in last two years.

The absence of a reliable reference price in the physical market has led to higher price variance across *mandis*, said two independent studies conducted by the Birla Institute of Management Technology and Shailesh J Mehta School of Management, IIT Bombay.

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The Birla Institute studied data from January 2016 to April 2024 for mustard, soyabean, soya oil and mustard oil and found that retail consumers paid higher prices for these commodities in the post-suspension period.

The IIT Bombay study on mustard, soya oil, soyabean, chana and wheat in Maharashtra, Rajasthan and Madhya Pradesh underlined the fact that futures contracts of these agriculture commodities served as an important tool for price discovery and price risk management for farmers/farmers producer organisations and other value chain participants.

> **The absence of a reliable reference price** in the physical market has led to higher price variance across mandis, the studies found

Prabina Rajib, Director, Birla Institute of Management Technology, said periodic suspension of commodity derivative contracts has been a recurring theme in India but world-over commodity exchanges have continued to offer uninterrupted commodity derivatives contracts even in the face of supply-demand mismatch and price variations.

The belief that derivatives futures trading leads to price inflation may be misplaced as retail and wholesale prices have not only increased across categories during the post-suspension period, but also retail consumers are paying even higher prices, he said.

Sarthak Gaurav, Associate Professor, Shailesh J Mehta School of Management, said retail prices of commodities are affected by demand and supply factors more than the price movement on derivatives exchanges.

The suspension of futures commodities trading has negatively impacted price realisation due to the absence of reference pricing mechanism and disrupted price risk management of commodity value chain participants, he added.