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Government of India
Ministry of Agriculture
Department of Agriculture & Cooperation
(Crops Division)

Krishi Bhawan, New Delhi
Dated the 1st May, 2013

**Subject: Minutes of Seventeenth Monthly briefing of NCAER Project on
“Agricultural Outlook and situation analysis Report for food
Security-reg “:**

The undersigned is directed to enclose herewith a copy of the minutes of Seventeenth Monthly briefing under NCAER Project on “ Agricultural Outlook and situation analysis Report for Food Security “ was held under the Chairmanship of Secretary(A&C) on 3rd April, 2013 at Krishi Bhawan, New Delhi for information and necessary action.

Encl.: As above


(Narender Kumar)
11/5/2013
Joint Director (NFSM)

Distribution:

(As per list enclosed)

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1. PPS to Secretary(A&C), DAC, Krishi Bhawan, New Delhi
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4. PS to Additional Secretary & FA(, DAC, Krishi Bhawan, New Delhi
5. PS to Principal Advisor , DAC, Krishi Bhawan, New Delhi
6. PS to Agriculture Commissioner, DAC, Krishi Bhawan, New Delhi
7. PS to JS(Crops), DAC, Krishi Bhawan, New Delhi
8. PS to Director(Crops) DAC, Krishi Bhawan, New Delhi

Agreed
11/5/13

**Summary Record of the Seventeenth Monthly Briefing meeting under
NCAER Project on Agricultural Outlook held on 3rd April, 2013 at
Krishi Bhawan , Delhi**

The 17th monthly briefing under NCAER Project on “Outlook and Situation Analysis for Food Security” was held under the Chairmanship of Secretary (A&C) at 4.00P.M.m on 3rd April, 2013, in Acharya Jagdish Chandra Bose Hall (Committee Room No. 142), Krishi Bhawan, New Delhi. The list of participants is attached.

Dr. S. Bhide, Sr. Research Counsellor, welcomed the participants and introduced the speakers and the topics saying that market prices in future markets, both, globally and in the Indian exchange, served as good indicators of prices in the short term future and in this context the two presentations would be interesting for the Agricultural Outlook Project.

Dr. Tanushree Mazumdar, Senior Economist and Vice President- Knowledge Management, NCDEX Ltd. Mumbai made a presentation on “Role and Impact of Futures Market for Agriculture”. She noted that in line with the ongoing global and domestic reforms in agriculture and allied sectors, India was reducing direct government intervention in markets and was encouraging private participation to utilise market mechanism to determine price formulation. Consequently, there was now an increased exposure of agricultural produce to price and other market risks. Futures markets, in this context, were important for price discovery and price risk management. She opined that the Commodities Futures contract was a commitment to give or take delivery of a given commodity at a specific location and time in the future. All terms of contract were standardised. Prices are discovered through open and competitive bidding on the Exchange platform and contracts were settled either through closing out transaction or physical delivery.

Following were the key points from her presentation:

- 1) Futures market performed two important functions of price discovery and price risk management. It was useful to the producer because he could get an idea of the price likely to prevail at a future point of time. It enabled the consumer to get an idea of the price at which the commodity would be available at a future point of time. Price discovery was the process of determining the price of a commodity, based on supply and demand factors. Futures markets played an important role in providing an early indication of emerging supply demand imbalances.
- 2) The main difference between spots and futures was the actual delivery of produce. In futures, the price was settled when the contract was signed but the settlement and any exchange of physical commodity occurred at a future date. In spot, the price was determined at the point of trade, and the physical exchange of the commodity also took place at that moment or within a short period of time thereafter.
- 3) Data showed high correlation between NCDEX futures prices and corresponding international futures prices for all commodities except wheat. World wheat prices have limited impact on domestic wheat prices, because wheat imports and exports were highly regulated.

shocks was stronger on futures prices as compared to spot prices in first few months.

- 5) Pass-through of shocks was stronger and faster from futures prices to spot prices than in the opposite direction. Introduction of futures market was found to have strengthened the relationship between rainfall and prices and futures market appears to absorb the weather shocks efficiently.

The points raised and discussed after the two presentations are:

- I. Ms. Bhavani, Principal Adviser, sought clarification on how NCDEX ensured wide participation in the futures markets? To this, Mr. Vijay Kumar, Chief Business Officer, NCDEX Ltd., said that on the NCDEX, on an average 6 to 7 thousand people trade at a time. Share of trade in agricultural commodities now stood at around 13% of the total trade. He also mentioned that NCDEX conducted a variety of activities to inform various stake holders on the role and working of futures markets.
- II. Dr. Bhandari wanted to know the delivery percentage of the futures trade in general. Mr. Vijay Kumar said this was around 2%. He added that we should be unduly alarmed at this low delivery, since this was even less at 1% at the international markets. Most of the trade was squared on the same day. Traders used NCDEX platform to hedge for international exposure in soya bean, mustard and sugar. It helped discover price as traders in the market analysed information available from different sources.
- III. On the convergence of spot domestic prices and one month futures prices Mr. Ramesh Chand said that the two deviated between 8% to 10%. To this Dr. Nilabja said dynamics at work in India were different. It was also observed that Dr. Abhijit Sen Committee in their study (2008) on the role of future trading in agricultural commodities said that they did not have sufficient information to conclude on the transmission of futures prices to spot prices.
- IV. Secretary (A&C) said the price discovery through futures was weak as market participants were not just producers and consumers. Last few years impact of weather shocks on price discovery was blurred. Uncertainties and inefficient markets caused high price volatility.
- V. Prof. Bhanumurthy said we were often looking at the impact of weather shocks on inflation. Administrative prices played a major role in the discovery of prices for food crops. There were other Government interventions also which played a role in food inflation.
- VI. On the question of investment in infrastructure and storage Mr. Vijay Kumar said that they were encouraging investment in infrastructure and storage through a subsidiary company.
- VII. Dr. Bhandari raised the issue of coefficient of variation in the spot and future market

List of participants of the 17th monthly briefing under NCAER Project held on 3rd April, 2013, at 4.00 pm in Krishi Bhawan, New Delhi.

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| 1. | Sh. Ashish Bahuguna, Secretary (A&C) | Chair |
| 2. | Ms. S. Bhavani, Pr. Adviser(A&C) | |
| 3. | Sh. Siraj Hussain, Special Secretary (A&C) | |
| 4. | Sh. Raghav Chandra, Additional Secretary & FA(A&C) | |
| 5. | Sh. A. K. Srivastava, Additional Secretary | |
| 6. | Sh. Mukesh Khullar, Joint Secretary (Crops), DAC | |
| 7. | Sh. A. Purkayastha, Joint Secretary, DAC | |
| 8. | Sh. R. B. Sinha, Joint Secretary, DAC | |
| 9. | Sh. Narendra Bhoosan, Joint Secretary, DAC | |
| 10. | Sh. J. S. Sandhu, Agriculture Commissioner, DAC | |
| 11. | Dr. B. Gangaiah, Adviser, DES | |
| 12. | Dr. B. S. Bhandari, Adviser, DES | |
| 13. | Sh. Amar Singh, Adviser, DES | |
| 14. | Dr. S. Chandra Sekar, Adviser, DES | |
| 15. | Dr. Ramesh Chand, Director, NCAP | |
| 16. | Ms. Padamja Singh, Director, DAC | |
| 17. | Sh. Sanjay Sharan, Director, DAC | |
| 18. | Dr. D. P. Malik, Additional Commissioner (crops), DAC | |
| 19. | Dr. Y. R. Meena, Additional Commissioner (Ext.), DAC | |
| 20. | Sh. B. L. Meena, Addl. Economic Adviser, DES | |
| 21. | Sh. Narender Kumar, Joint Director, DAC | |
| 22. | Sh. Saket Kumar Sharma, Asstt. Adviser, RBI | |
| 23. | Dr. Nilabja Ghosh, IEG, University of Delhi, North Campus, Delhi-110007. | |
| 24. | Dr. Tanushree Mazumdar, NCDEX Ltd., Mumbai. | |
| 25. | Sh. Vijay Kumar, Chief Business Officer, NCDEX Ltd., Mumbai. | |
| 26. | Sh. Aleen Mukerjee, NCDEX Ltd., Mumbai. | |
| 27. | Sh. N. R. Bhanumurthy, NIPFP, New Delhi | |
| 28. | Sh. Lokendra kumawat, Ramjas College, University of Delhi | |
| 29. | Dr. S. Bhide, Sr. Research Counsellor, NCAER | |
| 30. | Ms. Luxmi Joshi, NCAER. | |
| 31. | Sh. V. P. Ahuja, NCAER | |