

A Study on Commodity Trading With Reference To Gold and Silver at Karvy Stock Broking Limited



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ABSTRACT

The Indian commodity market requires large investments and enhanced trading activity both in the national as well as the regional commodity markets. The participation of non-professional people trading commodity markets makes the market a risky venture. Non-professional participants simply add to the volatility factor of the market. There is a dire need for professional experts who are able to provide advice on commodity trading and build commodity inclusive portfolios. Such professional awareness, expertise, and guidance in commodity trading can come from professional commodity traders called commodity trading advisors (CTAs).

The purpose of this paper is to offer arguments and insights as to why the Indian commodity market needs the participation of the CTAs.

The money brought in by CTA advised clients will add to the depth, liquidity, and trade which in turn will make commodity prices more efficient. As a regulatory measure, the Indian market too can adopt guidelines structured for CTAs by Commodity Future Trading Commission and National Futures Association. The CTAs can bring the Indian commodity market at par with developed commodity markets like Indian Board of Trade.

1.1 Introduction of the study

Commodities are raw materials used to create various products. Commodity is raw materials used to create various products. Commodities include agricultural products such as grains, oilseeds, vegetable oils, pulses and also meats and livestock; energy products such as crude oil and gasoline; metals such as gold, silver, aluminium and mild steel ingots. There are such as gold, silver, aluminium and mild steel ingots. There are many other commodities like polypropylene, sugar, cotton, cocoa and coffee, etc., that are also traded. A commodity is something for which there is demand, but which is supplied without qualitative differentiation across a given market.

"Commodity" has just come up as a new option for all those who want to diversify their portfolio, beyond shares and bonds. Based on the fundamental economic principle of demand and supply they have become a high profitable option to the market-savvy investors in themselves, as the prices here are less volatile. By throwing open the commodity market and setting up of the National Multi Commodity Exchange, the Government has taken a step forward towards the making the commodity market more transparent and reliable.

A commodity market is a market that trades in primary economic sector rather than manufactured

products. Soft commodities are agricultural products such as wheat, coffee, cocoa and sugar. Investors access about 50 major commodity markets worldwide with purely financial transactions increasingly outnumbering physical trades in which goods are delivered. Futures contracts are the oldest way of investing in commodities. Futures are secured by physical assets. Commodity markets can include physical trading and derivatives trading using spot prices, forwards, futures, and options on futures. Farmers have used a simple form of derivative trading in the commodity market for centuries for price risk management.

Characteristic of commodities

- The commodity prices are determined as a function of their market as a whole.
- Well-established physical commodities are actively traded on various spot and derivative markets.
- The commodity market has evolved significantly from the days when farmers hauled carloads of wheat, rice and other produce to the local market.
- In the 1800s, demand for standardized contracts for trading agricultural products led to the development of commodity futures exchanges.

Need of the study

- The need of the study arise due to lack knowledge about the commodity market because now a days commodity trading has important avenue and most of the investors are still unaware about its advantages and shortcomings.
- Huge amount of investment is required for trading in commodity market.
- To know the impact of other markets on commodity market, it became necessary to understand the trading of commodity market. Such an analysis will help the investor to invest in commodity market.

Objectives of the study

- To study the Indian Commodity Market.

- To study and analyse the gold and silver commodity in India.
- To study the factors that influences the prices of gold and silver.
- Toanalyse the gold and silver trend in commodity market.

Scope of the study

The scope of the study is based on “commodity trading with reference to gold and silver “in Karvy Stock Broking Limited. The analysis is based on prices on daily basis to show the trend of the bullion market. The study is conducted on gold and silver only.

Research Methodology

Tools:

- Tables
- Charts

Techniques:

- Moving average method
- 5-day moving Average Method

Secondary data

Secondary data is the published data. It is already available for used and its saves time. The study is also depended on secondary data to little extent, which is collected through internal source.

Sources of secondary Data

Secondary data is used such as websites, discussions with seniors, obtaining information from senior authorities and also make a use of same financial reference book.

Limitations

Every study has its own limitations in terms of methodology and available resources for its conduct. This study was not an exception and was carried out under the following limitation:

- Hard Enough To Fetch Information
- Limited Scope
- Results May Be Inaccurate

REVIEW OF LITERATURE

Title: Recent Trends In Commodity Markets of India

Author: NilanjanaKumari

Volume 3, Issue 12 (December, 2014)

Keywords: Commodity Market; Forward Market; Market Development

ABSTRACT

Organized commodity derivatives in India started as early as 1875, barely about a decade after they started in Chicago. However, many feared that derivatives fuelled unnecessary speculation and were detrimental to the healthy functioning of the markets for the underlying commodities. However with the profits earned in commodity market during the decade (2001-02-2011-12), has forced the policy makers to re-think their decision of banning the commodity market in India. Since, 2002 the Government of India eased the restrictions and in 2006 our commodity market earned trade value from the future trading in commodities for more than US\$ 1 trillion. Although owing to its massive size and volatility, it initiates a series of unsettling macro-economic effects. The study undertaken below has been outlined on the theme of the commodity markets functioning in India. The paper has been divided into four parts: Overview of the commodity market, sector-wise commodity market development, initiatives in the form of developmental activities undertaken by the Government of India, challenges faced by the commodity market and conclusion.

Title: Commodity Trading-Understanding the basics of this money making Alternative

Author: Craing Thomburrow

Date: June 01,2008

One of the best designs that you can make when expanding your investment portfolio is to put thought into commodity trading. Commodity trading is capable of providing asset allocation that is truly ideal, and capable of giving you a bit of an extra hedge against inflation because you are buying into something that has a great amount of global demand. Commodity trading is not one of the investment vehicles that people consider right away, so there is a decent amount of nervousness

and apprehension associated with when to invest, where to invest. While commodity trading is known for providing rather volatile price fluctuations, to high return are well worth the effort and the investment in most cases.

Commodity trading allows for an investment portfolio to be overall improved in terms of return without having a negative impact on risk. Are you wondering who will best benefit from investing in commodities? If you are looking to take advantage of movements of price or are willing to make an effort to diversify your portfolio then you can and should invest in the commodities market. It is important however that small investors and retail investors be careful when initially entering into this market, because a lack of knowledge and understanding of the volatile swings that the market experiences can result in a significant loss of wealth.

In order for an investor to be successful in the commodity market, savvy investors need to have a thight understanding of the demand cycles that the market goes through. These savvy investors must also have a decent view on the different types of factors that may have an effect.

Once of the ideal avenues for to pursue is to specific, select commodities that can be analyzed individually, instead of simply speculating about that you have no real background information on. While it can be enjoyable to speculate on products that are new and exciting to you, sometimes this can be a bad decision as you will be, making guesses without any real information about them. You should be investigation and buying into commodities as a way to expand and diversify your portfolio. Commodities are an excellent way to turn your portfolio into something more exciting, and then money should be your second concern.

Commodity trading is essentially just trading in the futures of commodities. Trading commodity derivatives would allow you to take a buy or sell position based on the performance in the future of commodities like silver,

metals gold, crude or agricultural commodities as well many exchanges deal in gains pulses oils, oilseeds, spices, Metals and crude .Commodity trading on future is actually not much different than regular future trading, so you can take long positions or short positions based on you believe the future of the commodity will change.

Title: Commodity Trading options-10 Best Buying Options For Commodities Trading

Author: Abhishek Agarwal

Date: November 06,2008

Commodities can refer to anything –food stuffs, barrels of oil, sacks of nuts, metals, and so on. But when you are referring to buying options for commodities trading, it is advisable to give priority to those associated with the future market. These can be-crude oil and its derivatives, coffee, sugar, copper, gold, wheat, etc.

The market for commodities never remains steady; it is subject to rise and , based, on changing demands and supplies. You have to indulge in a lot of speculation before you can actually think of parting with your Monet. If the decision is impulsive, it is an invitation to losses; well-thought out, lots of gains.

So how are you going to decide which are the best buying options for commodities trading?

- Buying options for commodities trading is common stageypractices even by experts in the arena, since it has proved to be a generator of huge revenue.
- Again a word of calculation here if you have invested your money in the hope of getting instant results, then it would be advisable not to go in for buying options for commodities trading. The value of these options expires over a period of time. And if have chosen the most expensive ones, you may find yourself on the losers side in case things do not go right.
- So that with less expensive options and in small way. It is easier to take risks if the amount you may lose in the face of probable losses, is. Small.With more experience and constant

practice, it will become easy to pick up winning situations and get prof

COMPANY PROFILE

Karvy Stock Broking Limited

KARVY is a premier integrated financial services provider and ranked among the top five in the country in all its business segments. It services over 16 million individual investors in various capacities and provides investor services to over 300 corporate.

It is a member of all three:-

- National Stock Exchange (NSE)
- Bombay Stock Exchange (BSE)

Karvy utilized its experience and superlative expertise to capitalize on its strengths and better its service, innovate and provide new ones. It diversified in the process and thus evolved as India's premier integrated financial service enterprise.

Karvy has been a customer centric company since its inception. It offers a single platform servicing multiple financial instruments in its bid to offer complete financial solutions to the varying needs of both corporate and retail investors, where an extensive range of services are provided with great volume-management capability.

KARVY covers the entire spectrum of financial services such as Stock broking, Depository Participants, Distribution of financial products - mutual funds,bonds, fixed deposit, equities, Insurance Broking, Commodities Broking, Personal Finance Advisory Services, Merchant Banking & Corporate Finance, placement of equity, IPOs, among others.

Karvy has a professional management team and ranks among the best in technology, operations and research of various industrial segments.

DATA ANALYSIS

5 Days moving average method of gold per 10 grams for the month of December 2015

Dates	Closing prices	Moving Average(5 days)
01/12/2015	25,091	
02/12/2015	24,931	
03/12/2015	24,950	
04/12/2015	25,365	
05/12/2015	25,720	25211.4
06/12/2015	25,720	25337.2
07/12/2015	25,640	25479
08/12/2015	25,597	25608.4
09/12/2015	25,641	25663.6
10/12/2015	25,465	25612.6
11/12/2015	25,330	25534.6
12/12/2015	25,673	25541.2
13/12/2015	25,673	25556.4
14/12/2015	25,515	25531.2
15/12/2015	25,304	25499
16/12/2015	25,404	25513.8
17/12/2015	24,882	25355.6
18/12/2015	24,977	25216.4
19/12/2015	25,091	25131.6
20/12/2015	25,091	25089
21/12/2015	25,261	25060.4
22/12/2015	25,320	25148
23/12/2015	25,160	25184.6
24/12/2015	25,152	25196.8
25/12/2015	25,224	25223.4
26/12/2015	25,224	25216
27/12/2015	25,224	25196.8
28/12/2015	25,147	25194.2
29/12/2015	25,209	25205.6
30/12/2015	25,018	25164.4
31/12/2015	24,950	25109.6

Table no 1

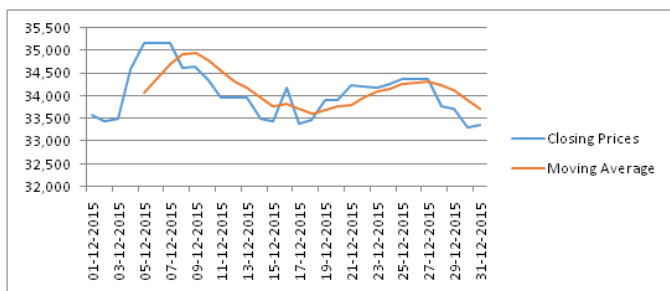


Figure no 1

From the above analysis it is observed that the moving average curve as increased in the beginning of the month and there is an decrease of price at the end of the month. On 9th December 2015 the moving average price of Rs.25663.6 and it is increased to of 25089 On 20th December 2015.

5 Days moving average method of gold per 10 grams for the month of January 2016

Dates	Closing prices	Moving Average(5 days)
01/01/2016	24,966	
02/01/2016	24,966	
03/01/2016	24,966	
04/01/2016	25,397	
05/01/2016	25,374	25133.8
06/01/2016	25,697	25280
07/01/2016	26,070	25500.8
08/01/2016	25,900	25687.6
09/01/2016	25,977	25803.6
10/01/2016	25,977	25924.2
11/01/2016	25,944	25973.6
12/01/2016	25,701	25899.8
13/01/2016	25,562	25832.2
14/01/2016	25,870	25810.8
15/01/2016	26,090	25833.4
16/01/2016	26,120	25868.6
17/01/2016	26,120	25952.4
18/01/2016	26,043	26048.6
19/01/2016	25,968	26068.2
20/01/2016	26,367	26123.6
21/01/2016	26,264	26152.4
22/01/2016	26,114	26151.2
23/01/2016	26,151	26172.8
24/01/2016	26,151	26209.4
25/01/2016	26,359	26207.8
26/01/2016	26,372	26229.4
27/01/2016	26,730	26352.6
28/01/2016	26,683	26459
29/01/2016	26,573	26543.4
30/01/2016	26,649	26601.4
31/01/2016	26,649	26656.8

Table no 2

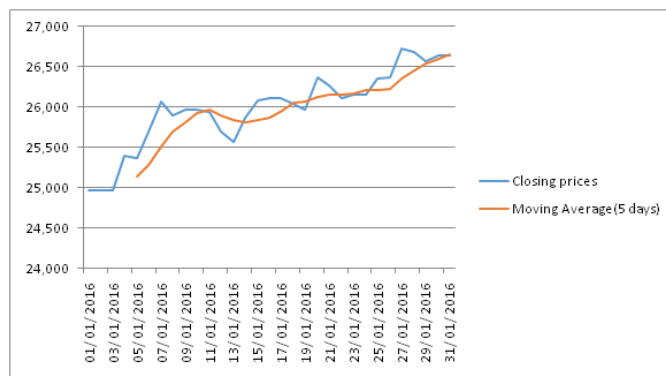


Figure no2

From the above analysis it is observed that the moving average curve as increased in the beginning of the month 01/01/2016 to end of the month 31/01/2016 the price was keeps on fluctuating.

5 Days Moving Average method of gold per 10 grams for the month of February 2016

Dates	Closing prices	Moving Average(5 days)
01/02/2016	26,691	
02/02/2016	26,844	
03/02/2016	26,911	
04/02/2016	27,335	
05/02/2016	27,293	27014.8
06/02/2016	27,538	27184.2
07/02/2016	27,538	27323
08/02/2016	28,030	27546.8
09/02/2016	28,272	27734.2
10/02/2016	28,121	27899.8
11/02/2016	29,154	28223
12/02/2016	29,544	28624.2
13/02/2016	29,402	28898.6
14/02/2016	29,402	29124.6
15/02/2016	28,761	29252.6
16/02/2016	28,980	29217.8
17/02/2016	28,828	29074.6
18/02/2016	28,837	28961.6
19/02/2016	29,445	28970.2
20/02/2016	29,500	29118
21/02/2016	29,500	29222
22/02/2016	28,932	29242.8
23/02/2016	29,278	29331
24/02/2016	29,694	29380.8
25/02/2016	29,655	29411.8
26/02/2016	29,450	29401.8
27/02/2016	29,330	29481.4
28/02/2016	29,330	29491.8
29/02/2016	29,495	29452

Table no 3

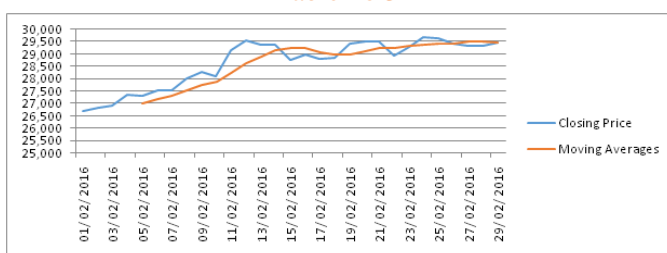


Figure no 3

Interpretation:

From the above analysis it is observed that the moving average curve as beginning of the month 5th February 2016 the price of Rs 270148. And upcoming years prices was increased. And end of the month 29th February 2016 price was decreased.

5 Days moving average method of gold per 10 grams for the month of March 2016

Dates	Closing price	Moving Average(5 days)
01/03/2016	29,535	
02/03/2016	29,202	
03/03/2016	29,298	
04/03/2016	29,682	
05/03/2016	29,749	29493.2
06/03/2016	29,749	29536
07/03/2016	29,803	29656.2
08/03/2016	30,002	29797
09/03/2016	29,535	29767.6
10/03/2016	29,250	29667.8
11/03/2016	29,734	29664.8
12/03/2016	29,486	29601.4
13/03/2016	29,486	29498.2
14/03/2016	29,499	29491
15/03/2016	29,034	29447.8
16/03/2016	29,952	29491.4
17/03/2016	29,496	29493.4
18/03/2016	29,050	29406.2
19/03/2016	29,139	29334.2
20/03/2016	29,139	29355.2
21/03/2016	28,945	29153.8
22/03/2016	29,054	29065.4
23/03/2016	28,534	28962.2
24/03/2016	28,588	28852
25/03/2016	28,591	28742.4
26/03/2016	28,599	28673.2
27/03/2016	28,599	28582.2
28/03/2016	28,453	28566
29/03/2016	28,703	28589
30/03/2016	28,589	28588.6
31/03/2016	28,554	28579.6

Table no 4

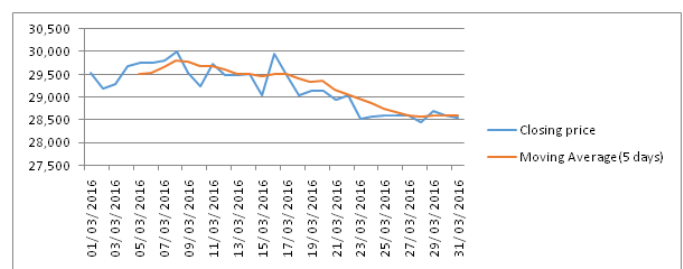


Figure no 4

Interpretation:

From the above analysis it was observed that the moving average curve as decreased in the beginning of the month 9th march 2016 the moving average price was increased Rs2976.6 and end of the month the price of Rs 28579.6 was decreased.

Calculation of Return For Silver In the Month of January 2016

Dates	Opening	Closing Price	Return
01/ 01/ 2016	33,365	33,344	-0.063
02/ 01/ 2016	33,344	33,344	0.000
03/ 01/ 2016	33,344	33,344	0.000
04/ 01/ 2016	33,344	34,129	2.354
05/ 01/ 2016	34,129	33,587	-1.588
06/ 01/ 2016	33,587	33,792	0.610
07/ 01/ 2016	33,792	34,000	0.616
08/ 01/ 2016	34,000	33,910	-0.265
09/ 01/ 2016	33,910	33,733	-0.522
10/ 01/ 2016	33,733	33,733	0.000
11/ 01/ 2016	33,733	33,735	0.006
12/ 01/ 2016	33,735	33,433	-0.895
13/ 01/ 2016	33,433	33,410	-0.069
14/ 01/ 2016	33,410	33,959	1.643
15/ 01/ 2016	33,959	34,270	0.916
16/ 01/ 2016	34,270	34,028	-0.706
17/ 01/ 2016	34,028	34,028	0.000
18/ 01/ 2016	34,028	34,008	-0.059
19/ 01/ 2016	34,008	34,293	0.838
20/ 01/ 2016	34,293	34,536	0.709
21/ 01/ 2016	34,536	34,146	-1.129
22/ 01/ 2016	34,146	34,401	0.747
23/ 01/ 2016	34,401	34,251	-0.436
24/ 01/ 2016	34,251	34,251	0.000
25/ 01/ 2016	34,251	34,453	0.590
26/ 01/ 2016	34,453	34,670	0.630
27/ 01/ 2016	34,670	35,254	1.684
28/ 01/ 2016	35,254	34,795	-1.302
29/ 01/ 2016	34,795	34,653	-0.408
30/ 01/ 2016	34,653	34,735	0.237
31/ 01/ 2016	34,735	34,735	0.000

Table no 16

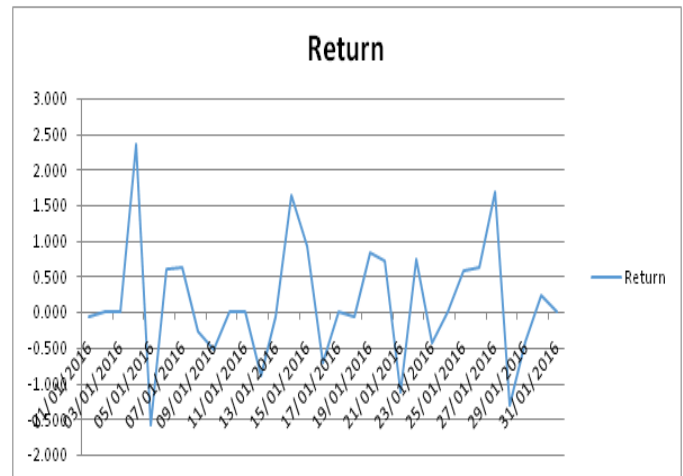


Figure no 18

Interpretation:

By observing the above graph on 5th January 2016 the Return was -0.063 it was low and after 5th January 2016 the prices keeps on fluctuating and On 31st February the Returns has been decreased.

Commodity Risk Calculation

Commodities	Gold	Silver
January	0.12478	0.15194
February	0.213	0.2388
March	0.1834	0.2287

Table no 25

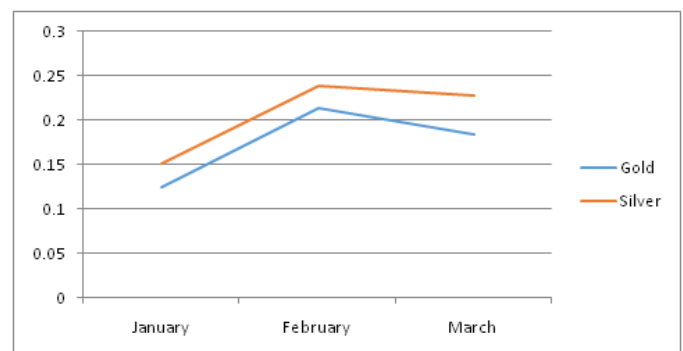


Figure no 19

Interpretation

By observing the above graph the gold and silver price was increased in the month of February to comparing the February and March months.

Findings

From the data analysis and interpretations of the three months of commodity trading with reference to gold and silver the following findings have given.

- Gold price moving average compare to all the six months in day to day prices was increased or decreased
- Silver price moving average compare to all the six months in day to day prices was increased or decreased
- Gold price return in the month of march price was drastically decreased when compare to January
- Silver price return in the month of February price was increased returns when compare to February and march
- Gold and silver risk price increased in the month of February when compare to January and march

Suggestion:

- In forward market should have to take some steps to increase the awareness of future commodity trading in India
- All the factors effecting prices should be taken into considering before trading
- Study historical and seasonal price movements of the commodity that you wish to deal future market
- Commodity is highly volatile market, it is important for investors and traders to keep track of market
- January and February the risk prices was low so i can suggested that it can improve future prices
- Overall all commodity is highly volatile market, it is important for investors and traders to keep track of market

Conclusion:

India is one of the top producers of a large number of commodities and also has a long history of trading in commodity and related derivatives. Interestingly this have happen only after the govt protection was removed

from the number of commodity and market forces were allowed to play their role. The investor should be in a position to choose the best commodity to trade with, and also dealing with the right company. While selecting such commodity, investor should also consider his objective, his risk taking ability and the period of investment. There is a scope for better and huge profits especially in commodity market for investors. If a right commodity is selected at right time it will give better returns to the investors.

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