“Market Behavior and Price Discovery in Indian Agriculture Commodity Market”

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This study analyses the market behavior and price discovery in Indian Agriculture Commodity Markets. Commodity future trading was permitted in 2003. The commodity derivatives market in India has witnessed a phenomenal growth. The functioning of future market came under scrutiny during 2008-2009 due to price rise and the role of futures market in stabilizing spot prices was widely studied.

The study considered average monthly spot and future prices of nine agriculture commodities viz. wheat, chana, soybean oil, jute, mentha oil ,rubber, potato, crude palm oil and cardamom trading on MCX and NCDEX during 2009-2010.

Granger causality test have been used to test the price discovery i.e., the effect of future market on spot market and vice-versa. The market behavior was studied with the help of backwardation and contango.

The result of the study says that the price discovery mechanism is quite different for different commodities but it suggests that causality can be used in forecasting spot and futures prices. Most of the commodities showed bi-directional causality between spot and future prices. The contango and backwardation helps in identifying the hedging opportunities in the market.

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