



Commodity Trading Industry Outlook

5 August 2019

INDUSTRY OUTLOOK

During the Nineteenth Century, Indian commodities markets viewed ever-increasing regional exchanges in several parts of the country. Although official derivatives trading in commodities began in India as early as in 1875, the ban imposed by the Government/regulators after independence had retarded the growth of commodity futures market. The most prevalent contracts during that time were fabric futures (Cotton, Jute etc.) or contracts based on a gamut of Indian exotic spices (Pepper, Turmeric etc.)¹.

Since 1980s in general and economic and trade liberalisation in the early 1990s in particular, the Government of India (GoI) formed several advisory Committees namely, Committee on Forward Markets (Khusro Committee), Committee on Forward Markets (Kabra Committee) and Expert Committee on Strengthening and Developing Agricultural Marketing (Guru Committee) to revive the commodity futures market in India.

Over the course of time, the need for a regulated market offering standardized products was realised. In this background, the nationwide regulatory authority, Forward Markets Commission (FMC) was established in 1953 under the Forwards Contracts Regulations Act, 1952 (FCRA)². The merger of FMC with the Securities Exchange Board of India (SEBI) in September 2015, further increased investors' confidence in the Indian Commodities Markets. FCRA was repealed and commodities derivatives regulation was brought under the definition of securities under the Securities Contracts (Regulation) Act, 1956 (SCRA).

PRODUCT DEVELOPMENT AND DIVERSIFICATION

In India, several derivatives contracts launched are unable to generate market interest. For instance, in 2014, MCX discontinued its potato futures due to the lack of depth in the markets. Specialised futures and options allow traders to pursue better hedging strategies based on their requirements, for example, brass futures. In 2018, MCX launched brass contracts. Instead of hedging for all the constituents of brass (Copper, Zinc, Lead and Iron), it is simpler for traders to reduce exposure to all price fluctuations by investing in brass futures.

RECENT DEVELOPMENTS

After continuous recovery was seen in 2016 and 2017, the year 2018 can be marked as an unstable year for commodities. The CRB Index, in the first two-quarters of 2018 was well-built. However, after that the index witnessed major drop in the prices, especially in 4th quarter on distress selling in agro commodities amid historical corrections in metals and energy, amid fall in equity market and rise in dollar index³. The year 2018 was also characterized by the geopolitical tension between USA and North Korea and some unrest in Middle East. Further, US and China trade war made the whole world nervous and disturbed the historical trading pattern. At the same time Brexit issue will prolong to trouble the financial market. Confidence in currency is fragile right now be it EU currencies or emerging nations. Gold may get stronger further for the same reason amid some ambiguity in stock market.

Government/Regulator's initiatives

Market regulator SEBI has allowed mutual funds' entry into commodity derivatives markets. Mutual Fund Amendment Regulations 2018 and the Portfolio Management Amendment Regulations 2016 would be amended enabling portfolio and mutual fund managers to participate in agri and non-agri commodity derivatives segment (CDS)⁴. SEBI has also allowed options trading in many commodities –gold, crude, copper, guar etc. To enhance liquidity, liquidity enhancement scheme in gold options is also allowed. Such moves are expected to increase retail participation, and thus volumes in commodities, though the pace may not match the equity.

In 2019, MCX has taken step to modify optional delivery of Zinc and aluminum to compulsory delivery mechanism. In other words, MCX has amended aluminium and zinc contract specifications to make delivery 'compulsory' against the current optional delivery mechanism. The physical settlement will be executed through the Comris account. Mandatory delivery in aluminum would start from March and for Zinc from April onwards. The pricing is based on local prices that are traded on MCX along with taxes, freight, landing cost and warehousing cost.



Volatility in spot prices is one of the main reasons for hedging in commodity futures. The disposition to participate in a derivatives market will increase by easing the mechanism the investors use to arrive at a trust-based spot price. E-NAM (Electronic National Agricultural Markets) is one such initiative by the Government of India to allow farmers across different states to have virtual access to physical 'mandis' (spot markets). This electronic platform allows state level agricultural markets to integrate at a national level promoting the uniformity.

A framework for warehouse companies and other allied service providers engaged in non-agricultural goods to help in settlement and delivery mechanisms was proposed by SEBI in 2018. The proposed guidelines would be applicable for warehouses and assayers engaged in non-agricultural commodities such as precious metals, gems and stones, metals, minerals and alloys but excludes crude oil, electricity and natural gas. In order to ensure efficient delivery by the clearing corporations (CC), SEBI is considering a broad set of standards and norms for compliance by CC accredited storage agencies for storage of physically delivered non-agri goods. Under the proposal, Sebi said there should be a tripartite agreement among stock exchange, clearing corporation and warehouse service providers (WSP). Sebi observed that warehousing or storage infrastructure and its ancillary services play a critical role in the delivery mechanism of the commodity derivatives markets⁵.

MSP FOR KHARIF CROPS OF 2019-20 SEASON

The Cabinet Committee on Economic Affairs has approved the increase in the Minimum Support Prices (MSPs) for all kharif crops for 2019-20 season. For the kharif crops of 2019-20, Government has increased the MSPs of soybean by Rs 311 per quintal, sunflower by Rs 262 per quintal and sesame by Rs 236 per quintal which is a major step towards increasing the income of farmers. Government has increased the MSPs of tur by Rs.125 per quintal and urad by Rs.100 per quintal. This will help address the issues related to requirement of pulses in view of the need to meet the nutritional security and protein requirements of a large section of population. The MSP of jowar has been hiked by Rs 120 per quintal while in case of ragi it has been hiked by Rs 253 per quintal. The move comes in the backdrop of the need to promote cultivation and consumption of nutri-cereals. Besides, India celebrated 2018 as the National Year of Millets and the Food and Agriculture Organisation (FAO) Council has approved India's proposal to observe an International Year of Millets in 2023. For cotton (medium staple) and cotton (long staple), the MSP has been increased by Rs. 105 per quintal and Rs. 100 per quintal respectively⁶.



Table 1: Turnover in the Commodity Derivative market (in INR Trillion)

Year	Turnover in the Commodity Derivative market (in INR Trillion)
2012-13	170
2013-14	101
2014-15	NA
2015-16	67
2016-17	64
2017-18	60
2018-19 (Apr-Nov)	45

Source: SMC report Commodity Outlook 2019

Table 2: Federal Open Market Committee (FOMC) and European Central Bank (ECB) meeting schedule for 2019

Sl No.	Months 2019	Federal Open Market Committee (FOMC) Meeting	European Central Bank (ECB) Meeting
1	January	29 th and 30 th	9 th and 24 th
2	February	–	6 th and 20 th
3	March	19 th and 20 th	7 th and 20 th
4	April	30 th	10 th
5	May	1 st	8 th and 22 nd
6	June	18 th and 19 th	6 th and 26 th
7	July	30 th and 31 st	10 th and 25 th
8	August	–	7 th
9	September	17 th and 18 th	12 th and 25 th
10	October	29 th and 30 th	24 th
11	November	–	6 th and 20 th
12	December	10 th and 11 th	5 th and 12 th

Source: FOMC, ECB and SMC Commodity Outlook 2019

At present, many Indian companies prefer to hedge on London Metal Exchange (LME)⁷. The launch of compulsory delivery contracts will provide them with a mechanism to hedge in India only, thus enabling them to avoid additional currency risk that arises due to LME trading⁸. Making delivery compulsory in zinc and aluminum contracts would result in traders rolling over contracts before expiry. This compulsory delivery also opens up scope for improvement of warehousing sector, as compulsory delivery needs more warehouses, grading system and assaying⁹.

World Bank Commodity Market Outlook 2019

According to the World Bank's latest Commodity Markets Outlook 2019 (April 2019), most commodity prices gained momentum during the first quarter of 2019. Production cuts by OPEC and its partners have substantially reduced global supply and supported oil prices. In contrast, prices of Asian LNG imports have plunged on weaker demand and surging U.S. exports, which rose by one-third between 2018 Q3 and 2019 Q1. In 2019-20, U.S. farmers intend to substitute soybean plantings with other crops, including maize.

Crude oil prices, which averaged \$68/bbl in 2018, are expected to average \$66/bbl over 2019 and \$65/bbl in 2020, with balanced risks primarily related to policy outcomes. Non-energy prices in 2019 are expected to remain below 2018 averages, before rising moderately in 2020 as the global economy emerges from its recent soft patch. The weakness of energy, as well as metal and mineral prices in late 2018, mainly reflected concerns about global growth, especially in China amid trade tensions. Renewed fiscal stimulus and the resumption of U.S.- China trade negotiations in January, however, improved growth prospects and supported a rebound in commodity prices. This rebound was compounded by a series of commodity-specific supply factors.

Crude oil prices fell 6 percent in the first quarter of 2019 (q/q) following a 11.5 percent decline in the previous quarter. However, prices have risen steadily since the start of the year, with the price of Brent crude oil reaching \$74/bbl and West Texas Intermediate (WTI) reaching \$66/bbl in late April. These fluctuations have been driven by supply developments: in November the United States granted waivers to its sanctions against Iran to eight countries, which, together with a sharp increase in supply among OPEC countries, primarily Saudi Arabia, resulted in much higher than- expected global production in the last quarter of 2018. This contributed to oil prices plunging 41 percent between mid-October and December. However, subsequent production cuts by OPEC and its partners, together with supply disruptions elsewhere, have since boosted prices.

Table 3: World Bank Crude Oil Nominal Annual Prices Data

Year	Crude oil, average	Crude oil, Brent	Crude oil, Dubai
	(\$/bbl)	(\$/bbl)	(\$/bbl)
2005	53.39	54.43	49.29
2006	64.29	65.39	61.43
2007	71.12	72.70	68.37
2008	96.99	97.64	93.78
2009	61.76	61.86	61.75
2010	79.04	79.64	78.06
2011	104.01	110.94	106.03
2012	105.01	111.97	108.90
2013	104.08	108.86	105.43
2014	96.24	98.94	96.66
2015	50.75	52.37	51.18
2016	42.81	44.05	41.20
2017	52.81	54.39	53.12
2018	68.35	71.07	69.15

Source: World Bank

Global consumption of crude oil rose 1.1 percent in the first quarter of 2019 (y/y), a slight acceleration relative to the previous quarter. China, India, and the United States accounted for most of the increase. Oil consumption expanded 3 percent (0.4 mb/d) in China, although the pace of growth has been slowing, partly because of environmental policies. For example, demand from the transport sector has been dampened by the use of vehicle quotas in major cities which has restricted new vehicle sales. Growth in the United States has been strong in recent quarters and rose 1.4 percent (0.3 mb/d) in the first quarter of 2019 (y/y).

OIL PRODUCTION DEVELOPMENTS

Global oil production fell sharply in the first quarter of 2019, following a steep increase in the second half of 2018. OPEC and its partners substantially cut production, while output also fell sharply in Iran and Venezuela. U.S. oil production rose at the fastest pace ever recorded in any country in 2018, contributing to a sharp increase in exports.

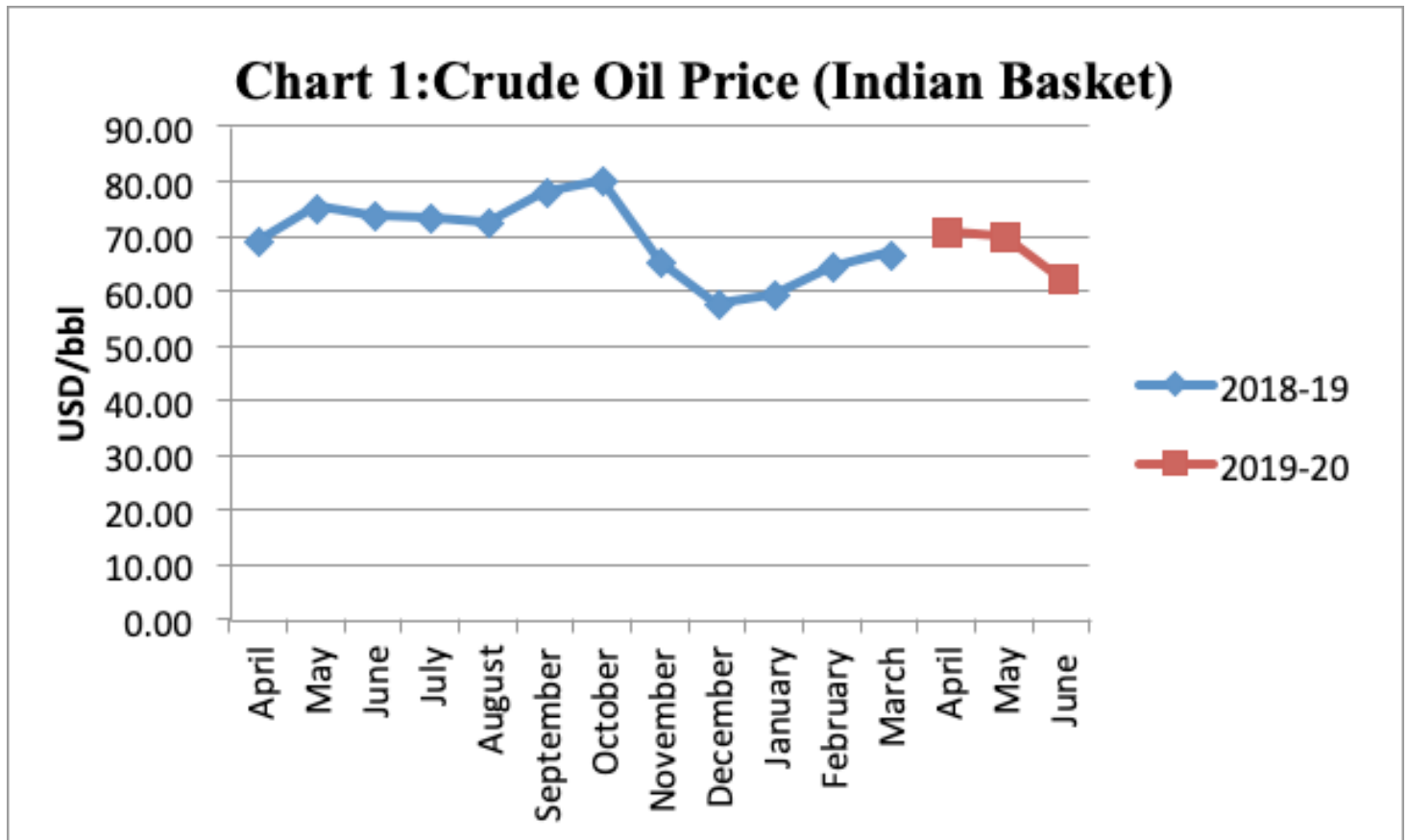
OIL MARKET PROSPECTS

Oil prices are expected to average \$66/bbl in 2019, amid weaker expectations for demand growth in 2019, rising U.S. production, and OPEC restraint. Increased levels of spare capacity in OPEC countries and adequate inventories provide a buffer against unexpected outages.

Table 4: Crude Oil Price (Indian Basket) 2018-19 (Apr-March) 2019-20 (Apr-June) [USD/bbl]

Year	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June
2018-19	69.22	75.25	73.83	73.47	72.53	77.88	80.08	65.40	57.77	59.27	64.53	66.74			
2019-20													71.00	70.02	62.39

Source: Petroleum Planning & Analysis Cell (PPAC)



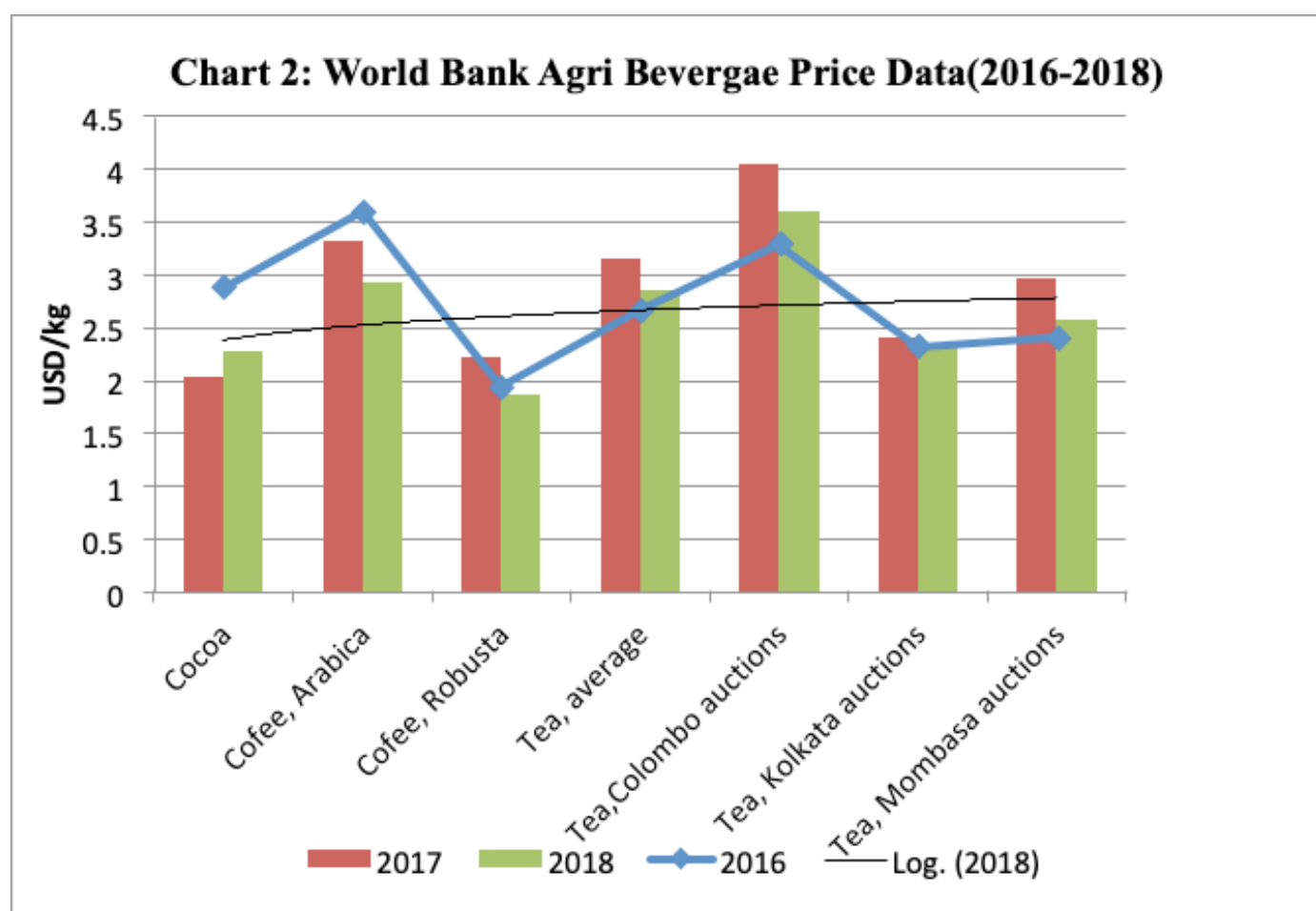
Source: Petroleum Planning & Analysis Cell (PPAC)

World Bank Energy Commodities Price Data

Commodity	Unit	Annual Averages			Quarterly Averages			Monthly Averages					
		Jan-Dec	Jan-Dec	Jan-Dec	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Apr	May	Jun	
		2016	2017	2018	2018	2018	2018	2019	2019	2019	2019	2019	
Energy													
Coal, Australia **	\$/mt	a/	66.1	88.5	107.0	104.4	117.0	103.6	95.7	80.5	86.8	82.3	72.5
Coal, South Africa **	\$/mt		63.9	85.1	97.6	99.4	102.2	95.8	84.8	68.1	72.5	68.9	62.9
Crude oil, average	\$/bbl		42.8	52.8	68.3	71.4	73.0	64.3	60.5	65.1	68.6	66.8	59.8
Crude oil, Brent	\$/bbl	a/	44.0	54.4	71.1	74.5	75.5	67.4	63.3	68.3	71.2	70.5	63.3
Crude oil, Dubai	\$/bbl	a/	41.2	53.1	69.2	71.8	74.0	66.8	63.4	67.0	70.7	69.1	61.3
Crude oil, WTI	\$/bbl	a/	43.2	50.9	64.8	67.9	69.7	58.8	54.9	59.8	63.9	60.8	54.7
Natural gas, Index	2010=100		57.0	68.9	82.1	75.9	82.7	93.7	72.5	58.2	62.5	59.3	52.9
Natural gas, Europe **	\$/mmbtu	a/	4.6	5.7	7.7	7.3	8.4	8.3	6.1	4.3	4.9	4.3	3.6
Natural gas, US	\$/mmbtu	a/	2.5	3.0	3.2	2.8	2.9	3.8	2.9	2.6	2.6	2.6	2.4
Natural gas, LNG Japan **	\$/mmbtu	a/	7.4	8.6	10.7	10.3	10.9	11.8	11.7	10.0	10.3	9.9	9.9

Source: World Bank Commodity Market Outlook 2019

World Bank Non Energy Commodities Price Data



Source: World Bank Commodity Market Outlook 2019

Chart 3: World Bank Oils and Meals Price Data(2017-18)

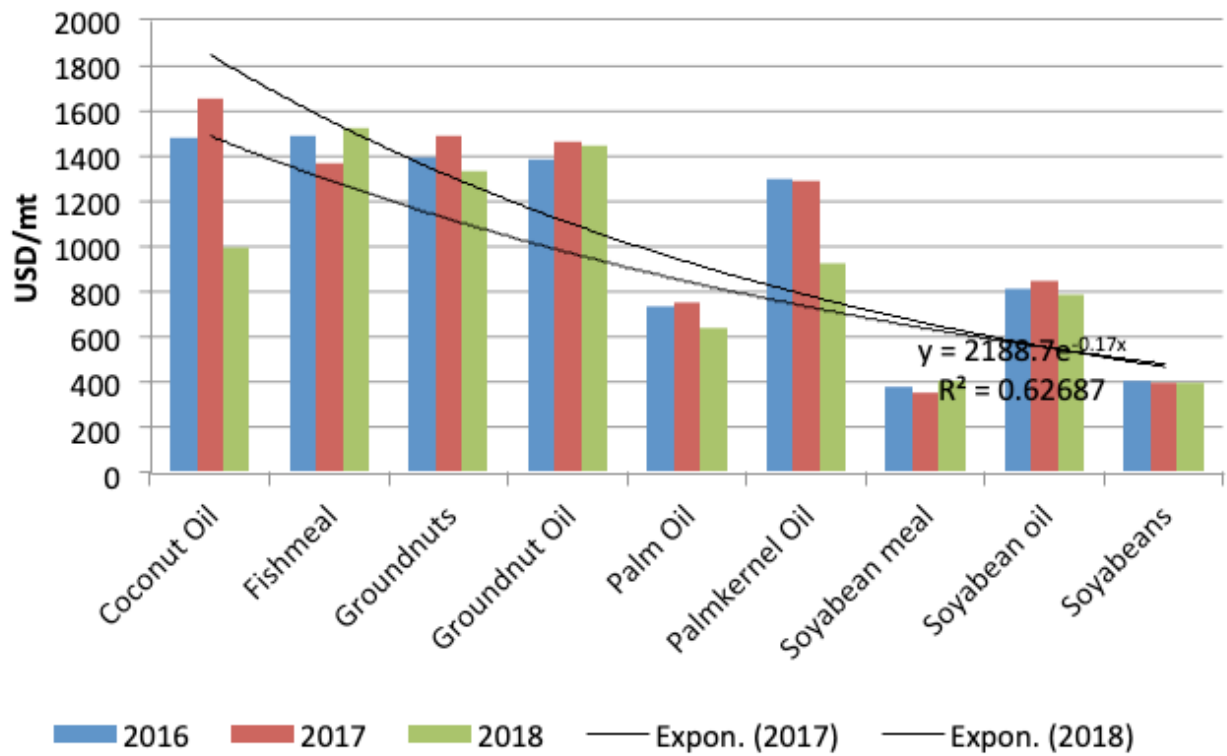
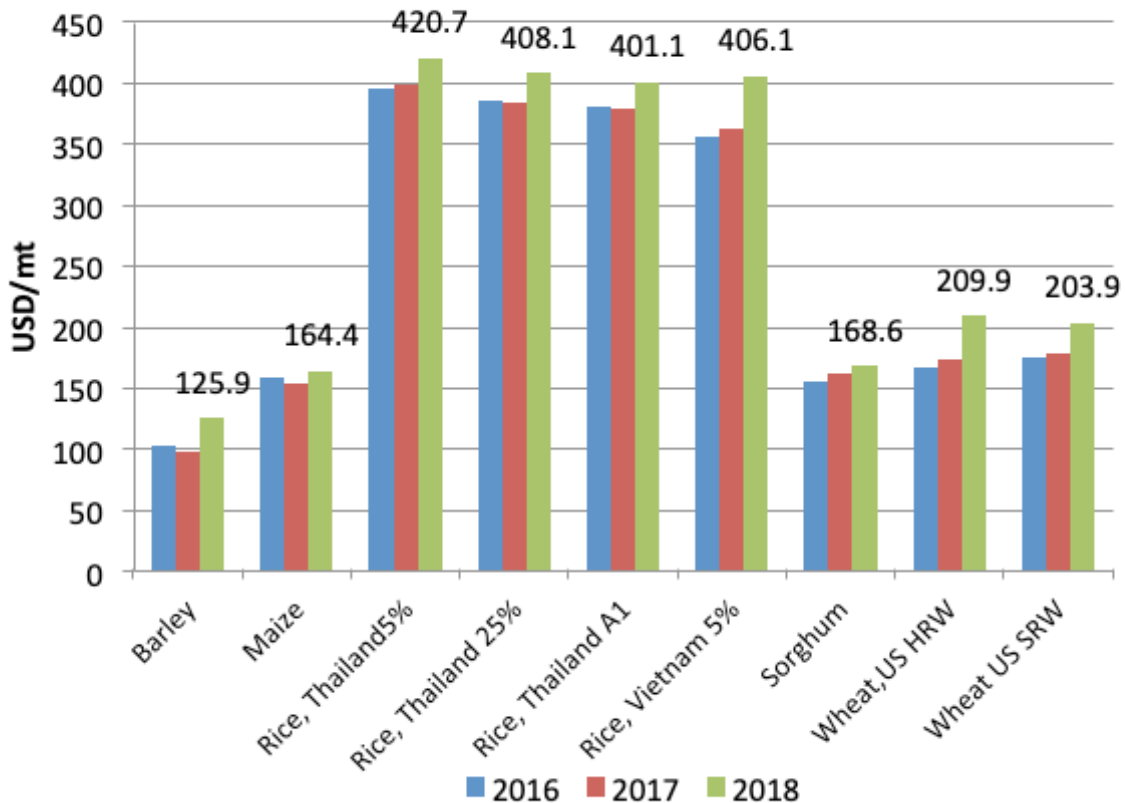


Chart 4: World Bank Price Data for Grains(2016-2018)



Other Product/Commodity wise developments are as follows:

Natural Gas

Natural gas prices have been volatile over the past 12 months, and price differentials between the three benchmarks have shrunk on increased supply. Very low levels of inventories in the United States contributed to temporary price spikes in 2018. Coal prices also fell sharply in the first quarter of 2019, on lower natural gas prices and reduced demand from China and some other countries.

Agricultural Price Developments

Agricultural commodity prices stabilized in 2019 Q1 following declines in 2018. The factors that pushed prices down last year have moderated, including easing of trade tensions, lower plantings in the U.S., and stabilization of currencies of key exporters.

Grains, Oils and Meals

The World Bank's Grain Price Index gained nearly 2 percent in the first quarter of 2019 (q/q), and is more than 1 percent higher than a year ago. Production estimates for 2018-19 have been revised upward throughout the season. According to the U.S. Department of Agriculture's (USDA) latest assessment (April 2019), global supplies of the three main grains (wheat, maize, and rice) are projected to reach 3,126 million metric tons (mmt) this season (September 2018 to August 2019), nearly 1 percent higher than last season's supplies. The World Bank's Oil and Meals Price Index remained broadly stable in the first quarter of 2019 (q/q) but stands 14 percent lower than 2018 Q1. Although there was price weakness across the board last year, it was more pronounced in coconut, palm kernel, and palm oils, whose prices plunged by 42, 38, and 17 percent, respectively, from 2018 Q1 to 2019 Q1.

The edible oil production outlook for the current season (ending September 2019) continues to look promising due to favorable growing conditions. Global output of the 17 major edible oils (including palm, soybean, and rapeseed, which together account for two-thirds of global output) is forecast to increase 2 percent in the 2018-19 season. More than two-thirds of the production gains are projected to come from palm oil. Indonesia and Malaysia are the primary producers of palm oil, and both are experiencing favorable weather conditions. Most of the remaining growth is expected from sunflower oil, due to good growing conditions in Ukraine and Russia, which together account for half of global output. Global oilseed output for 2018-19 is also projected to rise, with supplies of the 10 major oilseeds projected to reach 578 mmt, up from last season's 566 mmt. All of the growth is expected to come from soybeans, mostly from Argentina and, to a lesser extent, the United States. Global soybean prices were also depressed by upwardly revised production estimates and weaker demand for animal feed resulting from the spread of African swine flu to China in the second half of 2018. The edible oil and oilseed markets have also been affected by trade frictions. Soybeans were particularly impacted by the imposition of a 25 percent tariff in July 2018 by China on imports from the United States. Because the U.S. and China are the largest players in the global soybean market—the United States accounts for one-third of global production and China accounts for two thirds of global imports—the tariffs exerted downward pressure on soybean prices.

Agricultural raw materials market developments

Natural rubber prices staged a recovery in response to supply shortfalls of key Asian suppliers. Cotton prices remain weak on expected ample supplies due to larger plantings.

Fertilizers

The World Bank's Fertilizer Price Index fell 5.4 percent in the first quarter of 2019 (q/q) after three consecutive quarterly increases. Seasonally weak Chinese demand, limited fertilizer application in North America, and declines in input costs contributed to the recent price fall. Fertilizer demand is expected to recover and the price index is forecast to increase by 4.8 percent in 2019, led by potash. Over the medium term, prices are subject to downside risks as adoption of enhanced-efficiency specialty fertilizers (controlled and slow-release) gain pace, leading to reduced application of conventional fertilizers.

METALS AND MINERALS

Alone among base metals, aluminum prices dropped 5.1 percent in the first quarter as supply concerns receded in early 2019. A production embargo on the world's largest alumina refinery, Alunorte in Brazil (10 percent of global alumina supply excluding China), due to alleged environmental breaches was lifted although the resumption of full production is still awaiting federal court approval. Aluminum production and smelter capacity have expanded in China where environmental curbs were less stringent than expected. Aluminum prices are projected to fall by 8 percent in 2019 reflecting lower alumina prices and large aluminum overcapacity in China. Risks are tilted to the upside arising from tighter-than-expected environmental policies in China and a delayed resumption of Alunorte's full production.

Zinc prices increased 3.1 percent in the first quarter following gains in the preceding quarter, accompanied by steep drawdowns in inventories. Price increases have largely reflected robust demand from China, which accounts for half of global consumption, and smelter bottlenecks that restricted refined output. Against the backdrop of rapidly growing zinc ore production, smelter capacity constraints have driven refining fees (zinc concentrate treatment charges) to near record highs. Zinc prices are projected to fall by 1.8 percent in 2019 on moderating demand and new ore production coming onstream from Australia, Canada, and South Africa. This outlook is subject to upside risk from the possibility of tighter-than-expected environmental policy in China constraining smelter capacity.

Lead prices rose 3.6 percent in the first quarter, in a partial rebound from declines in the preceding two quarters. Prices were supported by strong import demand from China, which accounts for two-fifths of global consumption, amid production cuts in the country as a result of efforts to reduce emissions. Inventories have also fallen to the lowest level in nearly 10 years. Lead prices are projected to gradually increase over the remainder of 2019 but remain 11.6 percent lower than in 2018. More stringent environmental regulations. In China restricting the recycling of lead scrap materials, which accounts for more than two-fifths of total refined production, presents an upside risk to the forecast. Over the medium term, a shift toward electric vehicles is likely to depress demand for lead, which is heavily used in batteries for internal combustion engine vehicles but not in



electric vehicles. Tin prices saw the largest increase among base metals in the first quarter, rising 9.9 percent (q/q), largely reversing declines in the two preceding quarters. Iron ore prices increased sharply by 16.2 percent in the first quarter, primarily due to supply disruptions in Brazil and Australia.

Precious Metals

Gold prices, after reaching a recent trough in September 2018, increased 6.1 percent in the first quarter. Prices have been supported by strong demand and a fall in long-term real interest rates. The depreciation of the U.S. dollar against the renminbi led to a strengthening in Chinese jewelry demand. Emerging market central banks, particularly China, India, Russia, and Turkey, have increased gold holdings to diversify their asset base, and investors have increased net long positions in gold-backed exchange traded funds. These factors have more than offset soft industrial demand. Demand in the electronics sector has been stable but the use of gold in dental applications continues to fall due to the preference for cheaper porcelain alloys. Gold prices are forecast to be 3.2 higher in 2019 on expectations of robust demand and a prolonged pause in interest rate hikes by the U.S. Federal Reserve.

Silver prices have moved in line with gold, rising 6.9 percent in the first quarter. Silver's heavy discount to gold has led investors to diversify their portfolios, with Indian investment demand rising. Jewelry demand and silverware fabrication also rose moderately. However, industrial demand for silver, which accounts for more than half of total demand, remains weak. Tariffs on solar imports to the United States led to reduced use of silver in solar panels in 2018, and this trend is expected to persist. The use of silver in photovoltaics is expected to decline as it is one of the most expensive components. Silver prices are projected to remain broadly unchanged in 2019.

Platinum prices remained unchanged in the first quarter of 2019 after steep declines in the first three quarters of 2018. Jewelry and automotive demand, each accounting for about two-fifths of platinum demand, continue to trend lower. Platinum, used extensively in the catalytic converters on diesel engine vehicles, has fallen out of favor in Europe due to declining market share for diesel vehicles. On the other hand, the price of palladium, which is used for pollution control in gasoline-powered vehicles, has been boosted by supply disruptions in South Africa. Despite diverging platinum and palladium prices, prospects for substitution are limited at present due to technical constraints. In addition, with the switch to electric vehicles on the horizon there is less incentive to invest in platinum-based technology, which may become obsolete. Platinum prices are expected to decline by 4.5 percent in 2019.

According to the NCDEX latest report in July 2019, among Agri commodities, Cotton seed oil cake, Cardamom, and Crude palm oil remained the largest gainers on the long side whereas Coriander, Guar gum, and Mentha oil remained the best performers on the short side during the week ending on July 26, 2019. Among Non-agri commodities, Lead, Silver and Crude oil remained the largest gainers on the long side whereas Natural gas, Aluminium and Steel remained the best performers on the short side during the week ending on July 26, 2019¹⁰.

Cotton prices gained initially in the month of October on lower new crop arrivals and recovery in ICE cotton prices after a positive report from USDA. Later, prices have fallen on lower demand from textile industry and rise



in arrivals. In December, the marginal recovery owing to crop losses in Gujarat and Maharashtra did not sustain and prices have fallen amid India trade negotiations with China and lower demand from ginners due to adequate stocks. However, prices started gaining at the end of February amid rising consumption in both domestic & overseas market and weakened rupee and continued in the month for March, supported by increased demand from China and Vietnam¹¹.

Industry Risk

Commodities Transaction Tax (CTT) was introduced in the Finance Act 2013 and applicable with effect from 1st July, 2013¹². As per notification uploaded on www.incometaxindia.gov.in, CTT on the transactions executed on the Exchange shall be charged by MCX and collected by MCXCCL at the rate mentioned below¹³:

Table 5: Commodity Transaction Tax (CTT)

Sl No.	Taxable commodities transaction	Rate	Payable by	Payable on
1	Sale of a commodity derivative (except exempted agricultural commodities as mentioned below)	price at which the commodity derivative is traded	0.01 per cent	Seller
2	Sale of an option on commodity derivative	the option premium	0.05 per cent	Seller
3	Sale of an option on commodity derivative, where option is exercised	The settlement price	0.0001 per cent	Purchaser

Source: MCX; <https://www.mcxindia.com/market-operations/clearing-settlement/commodities-transaction-tax>

The government is in the process of addressing the issue of Commodity Transaction Tax (CTT) and exploring the possibility of a cut in the CTT rate. According to the Commodity Participants Association of India (CAPI), CTT was making India one of the most expensive markets to hedge commodity price risk. After the merger of FMC with SEBI, the commodities derivatives markets were also under surveillance within the Integrated Surveillance System of SEBI, which has been used for the securities market. This enhanced the vigil over the commodities markets effectively and enabled SEBI in taking appropriate actions for any misconduct and manipulation of the market.

According to World Bank report on Commodities Market Outlook in 2019, due to the weak start into the year, energy prices are expected to average 5.4 percent lower in 2019 than in 2018 (a downward revision from October) followed by a slight decline in 2020. Non-energy prices are projected to decline 2.1 percent in 2019 (a modest downward revision from October) followed by a pick up in 2020.

The outlook for commodity prices, especially oil, is vulnerable to policy-related risks. Other risks include geopolitical events such as conflict in Libya, weaker-than-expected growth in major oil consumers, especially China and the United States, and environmental policies.

Metal prices are expected to continue their recovery in 2019 and 2020 following sharp drops in the second half of 2018. Supply concerns (especially in copper and zinc), disruptions (in iron ore production due to the tailings dam disaster in Brazil), and China's fiscal stimulus are expected to provide support. Downside risks include a weaker-than expected demand boost from China's fiscal stimulus and a prolonged stall in U.S.-China trade negotiations; upside risks include tighter-than expected environmental policies and slower-than expected easing of supply bottlenecks. Agricultural prices are expected to fall 2.6 percent in 2019, on average, amid ample stocks. In 2020, prices are expected to rise 1.7 percent on expected cuts in U.S. crop plantings and higher costs of energy and fertilizers.

Risks to this outlook are to the upside. Higher-than-expected energy costs could lift prices of some crops such as grains and oilseeds. Greater-than-projected growth in biofuel production could also lead to higher prices for some food commodities. The report also highlighted several risks for agricultural products like- strengthening of the U.S. dollar and currency movements of major exporters of particular commodities, adverse weather patterns (including the ongoing weak El Nino), diversion of food commodities to biofuels.

Future Outlook

After a turbulent 2018, the year 2019 seems to be an interesting year in many aspects. Hostile trade environment, political events, tension in Europe may slowdown the upside journey but overall the moderate growth is expected. The year 2019 is expected to remain volatile due to trade war issue, OPEC and Non-OPEC production cut, many elections viz. in US (2020) and India (2019), Brexit, Italy issue, fragile currencies, expectations of El Nino etc. Metals and energy will keep investors on toes and agro commodities are likely to be more remunerative this year on account of lower production. Recently, India became the first country in the world to launch diamond futures owing to concentration of diamond polishing and cutting here. Going forward, the commodity market scenario will improve with increased participation, new financial products, accountable settlement process etc.

FOOTNOTES

1. 'Indian Commodity Markets-Outlook for 2025'; https://www.mcxindia.com/docs/default-source/about-us/commodity-insights-yearbook/2018/02-emerging-trends/1-indian-commodity-markets/indian-commodity-markets-outlook-for-2025---m-thenmozhi.pdf?sfvrsn=aaf6c890_2
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4. 'Expect commodities market to see rapid expansion after recent SEBI moves'(30 March 2019)Economic Times <https://economictimes.indiatimes.com/markets/commodities/news/expect-commodities-market-to-see-rapid-expansion-after-recent-sebi-moves/articleshow/68643413.cms?from=mdr>
5. 'SEBI proposes warehousing norms for non-agri goods'(5 December 2018) HinduBusinessLine <https://www.thehindubusinessline.com/markets/sebi-proposes-warehousing-norms-for-non-agri-goods/article25672223.ece> and 'Consultation paper on framework for Warehouse Service Providers (WSP), warehouses, assayers and other allied service providers engaged in respect of non- agricultural goods such as precious metals, gems & stones, metals, minerals and alloys but excluding crude oil, electricity and natural gas
6. NICR (NCDEX Group company) Monthly Commodities Report (June 2019) https://www.ncdex.com/Downloads/Knowledge/pdf/Monthly_Commodities_Report_June_2019.pdf

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