

COMMODITY MARKETS THROUGHOUT THE WORLD

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Every day, commodities are traded on the more than one dozen major commodity exchanges that are situated worldwide.

Chicago houses two exchanges, the Chicago Board of Trade (CBOT) and the Chicago Mercantile Exchange (CME). The CBOT was established in 1848 to bring farmers and merchants together. Initially its main task was to standardise the quantities and qualities of the grains that were traded. Within a few years the first futures-type contract was developed. It was known as the *to-arrive contract*. Speculators soon became interested in the contract and found trading in the contract to be an attractive alternative to trading the underlying grain itself. In 1919, another exchange, the CME was established. Now futures exchanges exist all over the world. On these exchanges, a wide range of commodities and financial assets form the underlying assets in various contracts. The commodities include pork bellies, live cattle, sugar, wool, lumber, copper, aluminium, gold and tin. Between these two exchanges, a wide array of commodities are traded, bought and sold.

The CBOT has a very diverse collection of commodity types. These include agriculture such as corn, soybeans, wheat and oats but the diversity extends to include metal contracts such as 100 oz gold, 5,000 oz silver and mini contracts for both of these. Mini contracts allow for a lower initial investment as well as smaller ticks (price increments). This is because the amount that is included in the original contract is smaller than the traditional amount.

The CBOT also has several non physical commodities futures contracts. There are government bonds, including 30 year bonds, 10 year notes, 5 year swaps and others. A swap, whose primary use is for hedging, is a blend of a forward and a cash trade. They are similar to futures. Other trades on the CBOT include major indexes as the Dow AIG Index (a commodity index) and the Big Dow (a stocks index).

The CME, also in Chicago, has been trading commodities for more than one hundred years. Trades such as live as well as feeder cattle, hogs, pork bellies and others have been executed on this exchange. However, lumber, milk, butter and fertilizer are also traded there. However, the CME can also shift gears to offer an E-mini S&P 500 contracts for trading on the Standard & Poor's 500 stock index. For those who prefer the ever popular NASDAQ, there is E-mini NASDAQ 100 for trading futures contracts.

Some of the more unusual trades made on the CME include Eurodollar futures and the Weather derivative which is a futures contract that predicts weather conditions during different seasons for areas around the world.

The New York Mercantile Exchange (NYMEX) is one of the oldest in the United States. Among the wide variety of petroleum and metal commodities and futures that are traded are Brent and mini crude (CL, WS), Natural Gas (NG), Gasoline (HU), Heating Oil (HO, BH) and many others. Other offerings are Gold (GC), Silver (SI), Copper (HG) and Aluminum (AL). You may have noticed that the commodity abbreviation does not match the common chemical element abbreviation. This is because futures contracts are listed second and have their own abbreviations.

New York houses yet another major exchange, the New York Board of Trade (NYBOT). The NYBOT is New York's original futures exchange. Offerings on this exchange include cocoa, coffee, sugar, FCOJ (frozen concentrate of orange juice), cotton and many other products that are of an agricultural nature. Non physical items are also offered for trade such as currency pairs, the United States Dollar Index and the NYSE Composite. A unique and convenient feature of the NYBOT is that it also offers live price info that can even be accessed by a Blackberry or other PA.

However, the commodity and futures exchanges are not confined to the United States. In fact, one of the most active exchanges in the world is found in London. Liffe, once known as the London Fox (London Futures and Options Exchange), has merged with euronext. Trades such as cocoa, sugar, coffee, wheat, barley, potatoes and a variety of other agricultural products are conducted on Liffe.

The London Metal Exchange is not far from Liffe. This historic exchange is one of the grandfathers of precious metals trading. Naturally, trades such as copper, lead and aluminum are made here, but plastics are traded here as well.

A major exchange also resides in Japan. The Central Japan Commodity Exchange (C-COM) is based in Nagoya, Japan. It was formed in 1996 when three major exchanges merged, allowing such diverse commodities as eggs, gasoline, kerosene and ferrous scrap.

Africa's most active and important commodity exchange is the South African Futures Exchange (SAFEX). It was informally launched in 1987. SAFEX only traded financial futures and gold futures for a long time, but the creation of the Agricultural Markets Division (as of 2002, the Agricultural Derivatives Division) led to the introduction of a range of agricultural futures contracts for commodities, in which trade was liberalised, namely, white and yellow maize, bread milling wheat and sunflower seeds.

China's first commodity exchange was established in 1990 and at least forty had appeared by 1993. The main commodities traded were agricultural staples such as wheat, corn and in particular soybeans. In late 1994, more than half of China's exchanges were closed down or reverted to being wholesale markets, while only 15 restructured exchanges received formal government approval. At the beginning of 1999, the China Securities Regulatory Committee began a nationwide consolidation process which resulted in three commodity exchanges emerging; the Dalian Commodity Exchange (DCE), the Zhengzhou Commodity Exchange and the Shanghai futures Exchange, formed in 1999 after the merger of three exchanges: Shanghai Metal, Commodity, Cereals & Oils Exchanges. The Taiwan Futures Exchange was launched in 1998. Malaysia and Singapore have active commodity futures exchanges. Malaysia hosts one futures and options exchange. Singapore is home to the Singapore Exchange (SGX), which was formed in 1999 by the merger of two well-established exchanges, the Stock Exchange of Singapore (SES) and Singapore International Monetary Exchange (SIMEX).

Latin America's largest commodity exchange is the Bolsa de Mercadorias & Futures, (BM&F) in Brazil. Although this exchange was only created in 1985, it was the 8th largest exchange by 2001, with 98 million contracts traded. There are also many other commodity exchanges operating in Brazil, spread throughout the country. Argentina's futures market Mercado a Termino de Buenos Aires, founded in 1909, ranks as the world's 51st largest exchange. Mexico has only recently introduced a futures exchange to its markets. The Mercado Mexicano de Derivados (Mexder) was launched in 1998.

Bombay Cotton Trade Association Ltd., set up in 1875, was the first organised futures market. Bombay Cotton Exchange Ltd. was established in 1893 following the widespread discontent amongst leading cotton mill owners and merchants over functioning of Bombay Cotton Trade Association. The Futures trading in oilseeds started in 1900 with the establishment of the Gujarati Vyapari Mandali, which carried on futures trading in groundnut, castor seed and cotton. Futures trading in wheat was existent at several places in Punjab and Uttar Pradesh. But the most notable futures exchange for wheat was chamber of commerce at Hapur set up in 1913. Futures trading in bullion began in Mumbai in 1920. Calcutta Hessian Exchange Ltd. was established in 1919 for futures trading in rawjute and jute goods. But organised futures trading in raw jute began only in 1927 with the establishment of East Indian Jute Association Ltd. These two associations amalgamated in 1945 to form the East India Jute & Hessian Ltd. to conduct organised trading in both Raw Jute and Jute goods. Forward Contracts (Regulation) Act was enacted in 1952 and the Forwards Markets Commission (FMC) was established in 1953 under the Ministry of Consumer Affairs and Public Distribution. In due course, several other exchanges were created in the country to trade in diverse commodities.

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