

TERM STRUCTURE OF COMMODITY FUTURES - HOW WELL THE RECENTLY REINTRODUCED RUBBER FUTURES ON MCX IS PERFORMING?

Y.C. Mohammad Anees and J. Ravi Kumar

University College of Commerce and Business Management (UCC&BM),
Osmania University, Hyderabad-500 007, India

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Producers expecting their products to be sold at reasonable price are often threatened by the risk of price volatility. The unexpected fall in price of products may affect their profitability. Futures market offers them opportunity to hedge any such unanticipated losses. However, a perfect hedge requires taking of careful and informed positions. Such hedging options for the rubber producers and traders are unstable, particularly in Indian context, as there is possibility of introduction, withdrawal and banning of trading of rubber futures on exchanges at any time. Recently MCX has reintroduced their rubber futures and this study attempts to find the term structure of the future market price movements and the correlation between spot price and futures price during contango and backwardation. The study revealed that, most of the time, the market is in contango and the correlation between the spot price and futures price was the highest during contango.

Keywords: Backwardation, Contango, Futures price, Spot price, Price correlation

Price volatility of commodities always put a dilemma in the mind of almost all the players in the supply chain beginning from the producers to the ultimate consumers. Over years when trade expanded cutting geographical boundaries and interconnecting the wide scattered parts of the world with quick and easy flow of large quantity of goods, opportunities are splendid but along with plenty of risks. Rubber has got wide application in daily life of mankind and strong market in every part of the world. During the year 2020, the global production and consumption of natural rubber was 13.01

million tonnes and 12.71 million tonnes respectively (The Rubber Board Annual Report 2020-21). Both the production and consumption generally show increasing trend from year to year. However the fall in production and consumption of rubber during 2019 and 2020 can be largely attributed to the covid-19 constraints and can be expected to regain positive growth in the coming years. Indian consumption of natural rubber during 2019-20 as well 2020-21 stood close to 1.1 million tonnes. This was preceded by a steady growth in consumption during all the previous years except 2005-2006 to