Futures Trading in Pulses

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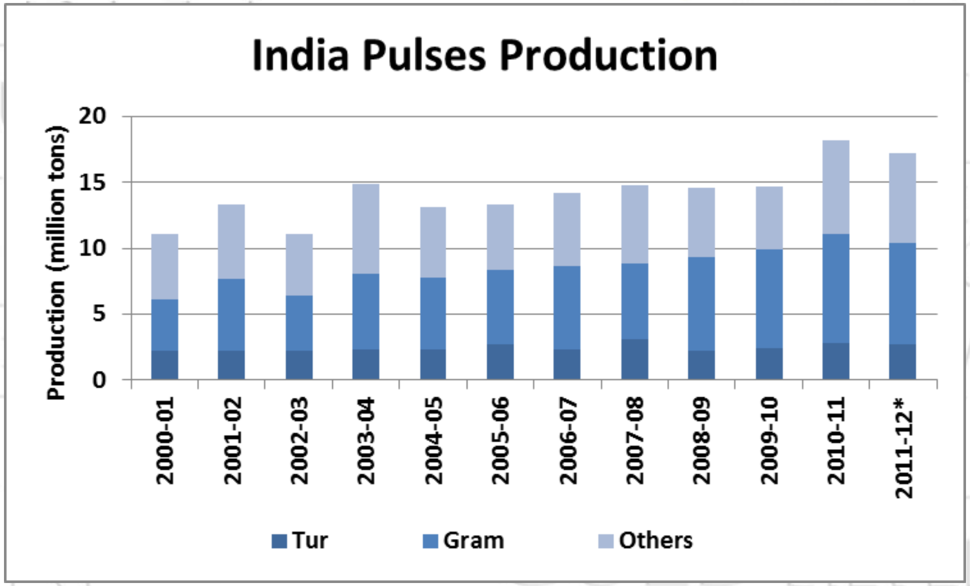
Indian Pulses Scenario

- **India - largest pulses producer, consumer.** Pulses are major source of protein for India's vegetarians
- Annual production : 14-18 million tons. Major pulses grown are Chickpeas/Gram (*Chana*), Pigeon Peas (*Tur*), Lentils, Moong, Urad. **BUT PRODUCTION IS STAGNATING.**



- **As a result, imports are steadily growing, but not fast enough.** So: growing supply gap, rising prices. Annual imports now: 3-4 million tons
- Govt. focus, higher market prices and hike in Minimum Support price have resulted in improvement in production in 2010-11 and 2011-12

India’s Trade Flows

- Global trade in pulses: 11-12 million tons.
- India’s annual pulses imports: 3-4 million tons, and growing. Small exports (100,000-200,000 tons) of chickpeas to the Middle East.
- Peas, Pigeon Peas (Tur), Black Matpe (Urad), Green Gram (Mung), Lentils (Masur), are main imports
- India’s major trade partners for imports
  - Peas : Canada, USA, Australia, Russia, Ukraine
  - Pigeon Peas (Tur) : Myanmar, Tanzania, Mozambique
  - Black Matpe (Urad), Green Gram (Mung) : Myanmar, Australia, Tanzania
  - Lentils : Canada, USA, Australia
  - Chickpeas : Australia, Tanzania, USA, Canada

  But in all these countries, farmers can shift to competing crops, e.g., oilseeds, maize, wheat

  HOW TO MAKE PULSES AN ATTRACTIVE CROP?
- **Usual transit time for imports from major partners**
  - **Canada : 1 month**
  - **Australia : 25 days**
  - **Myanmar : 15 days**

CONSIDERABLE PRICE RISK WHILE IN TRANSIT

Commodity futures trading in pulses can:

- Make pulses a more attractive crop

  With futures, farmers have a better idea of likely future market conditions, and they can lock in/hedge future prices. Exporters can entice farmers to grow pulses under fixed-price forward contracts, with the exporters hedging their price risk on futures contracts.

- Reduce the risks in international trade

  Hedging can strongly reduce the risks of international trade. So decisions to trade will be made more smoothly, and consumers as a result will benefit from better prices.

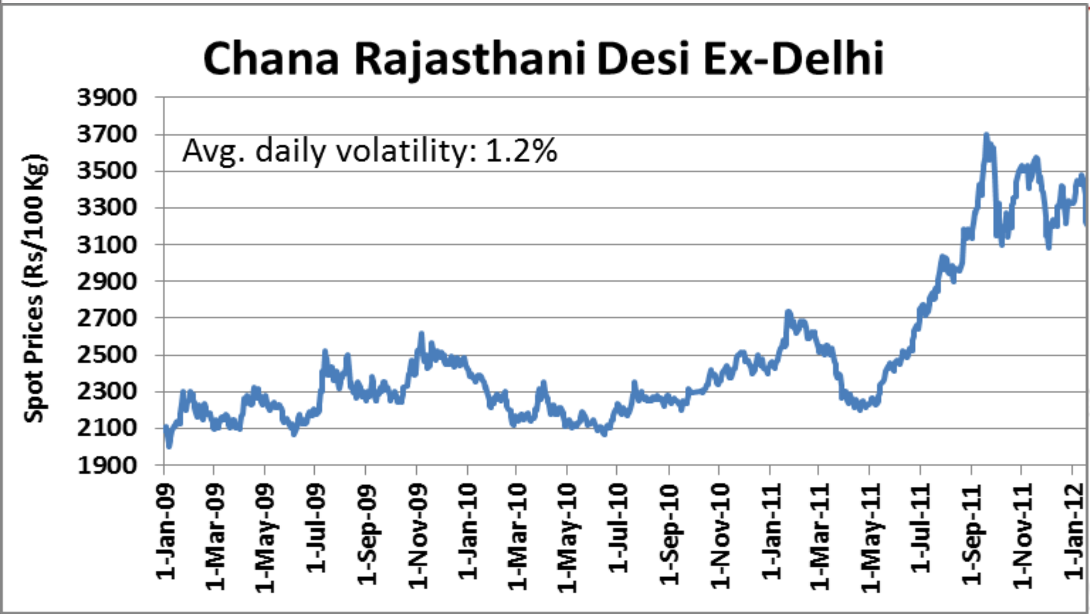
Futures markets work well for soybeans – in many countries. Why wouldn't vibrant markets be possible for pulses?

Pulses & Soybean: both large markets

Parameters	Pulses	Soyabean
Annual global production	68 million tons	262 million tons
Major global producers	India, Canada, China, Myanmar, Brazil, USA, Nigeria, Australia, Tanzania	USA, Brazil, Argentina, China, India
Annual global trade	12 million tons	80 – 81 million tons
Major exporters	Canada, USA, China, Australia, Myanmar, Tanzania	USA, Brazil, Argentina
Major importers	India, Bangladesh, Pakistan, UAE, China	China, Japan, Germany, Italy, Spain, Mexico
Derivatives trade	Present	Present
Derivatives present in countries	Only in India (*Chana*)	USA, China, India, Brazil, Argentina, South Africa, Japan, Russia
Products available	Futures	Futures, Options, Mini contracts, Spread contracts

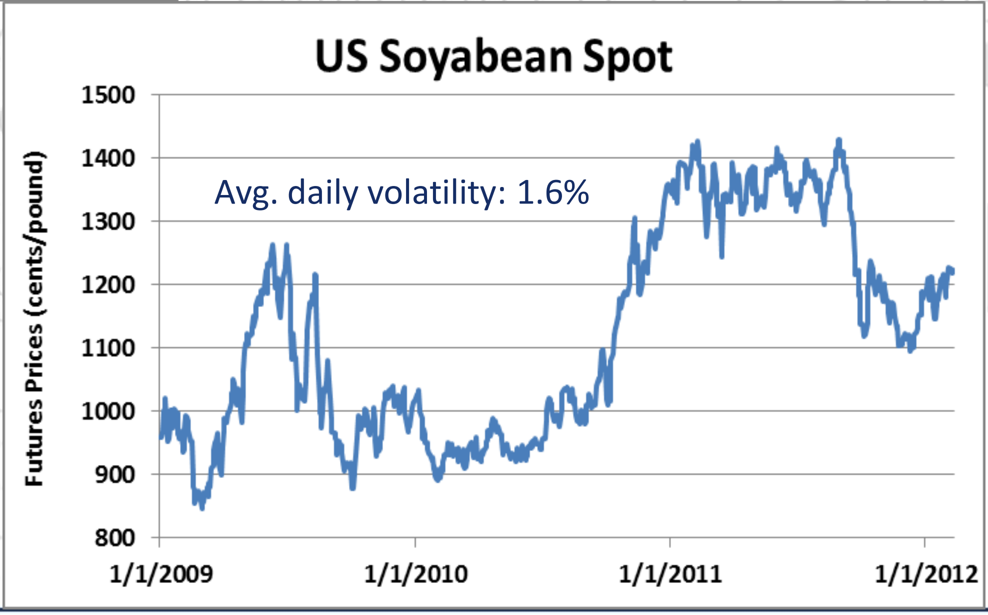
Production, trade data sourced from FAO, 2010

Volatility in Chickpeas & Soyabean



Chickpeas volatility just slightly lower than that of soybeans (1.2 vs 1.6%).

Like soybeans, chickpeas show occasional extreme price movements alongside common month-to-month 10-20% fluctuations; enough to wipe out trading margins.



So,

- In volume, the pulses market is only a quarter of that of soybeans, but still very significant. In retail value, pulses are estimated to represent a 100 billion US$ market.
- In price volatility, the difference isn't large
- Like soybeans, pulses are traded over large distances.
- But the main difference: the pulses market is diverse, with a wide range of pulses produced/traded, and (unlike soybeans), no concentration of global production in 3-4 countries.

Is a vibrant futures contract still possible? Yes, India has shown so for chickpeas (chana). But there still is much room for growth, and there is a need for global contracts.

Potential of Pulses Futures – A Comparison with Soybeans

Parameter	India - Chana	US - Soybeans
Annual physical market size (2011)	8.22 million tons	83.17 million tons
Annual futures market (2011)	86.13 million tons	6153.78 million tons
Futures to Physical Multiplier	10.47	73.99
Potential annual size of Indian Chana Futures	608.57 million tons	
Potential avg. daily turnover	Rs. 8156.72 crores (1700 USD million)	

So, even just in terms of the underlying local physical market in India, the current chana futures contract is tiny. Huge scope for growth/new contracts – in particular, if these contracts are permitted to play a global role.

Futures markets help create a strong commodity market ecosystem

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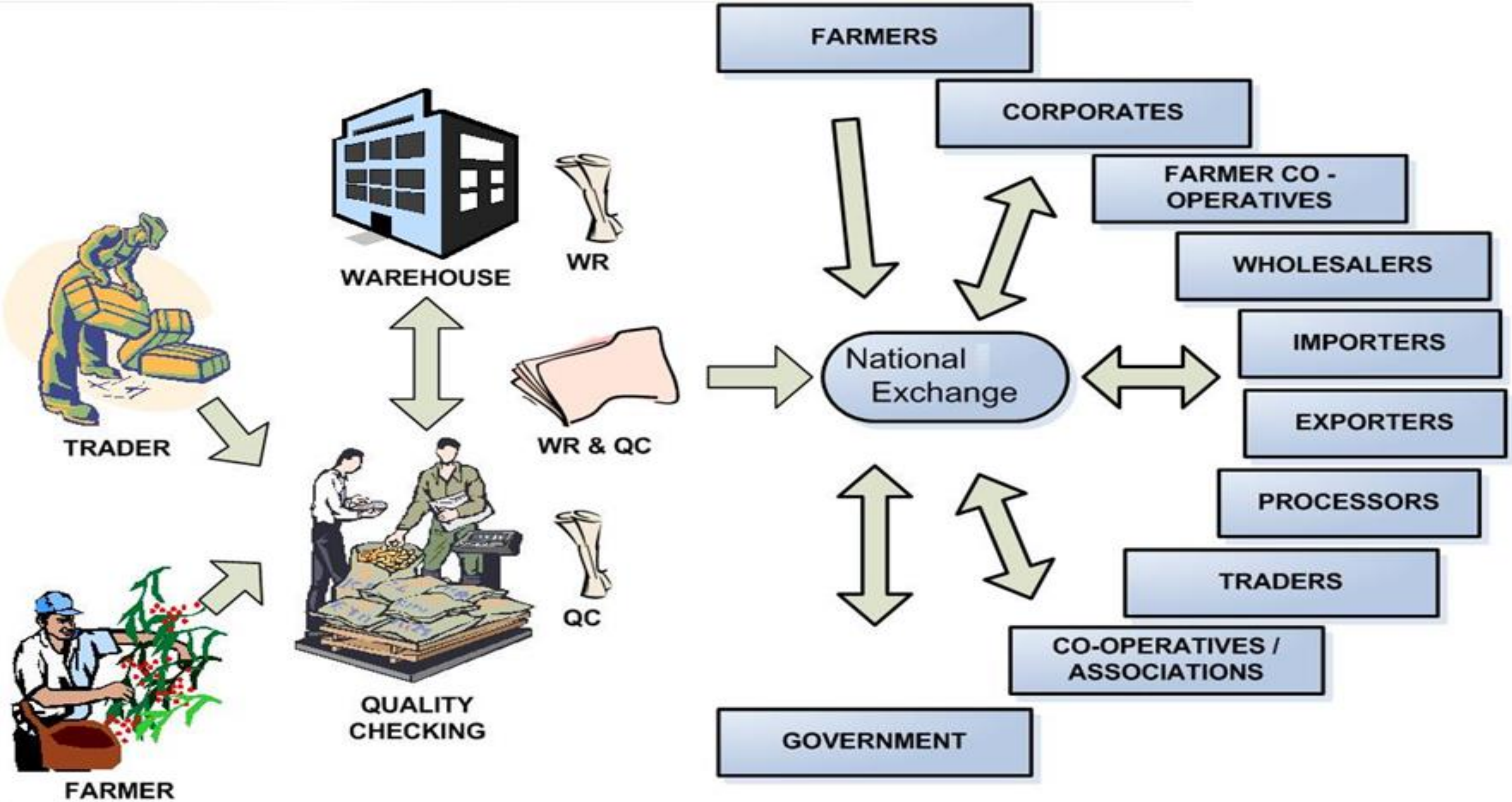

Futures markets unlock new opportunities and permit to manage risk

- Futures markets permit information to flow: price discovery.
- They permit **hedging**, to teduces or **limit risks** associated with unpredictable changes in price
- Hedging works by **offsetting a loss in one market with a gain in another**
- Hedging ensures:
    - Better decision-making, with reduction in both risk and cost;
    - Better cash management;
    - Enables a mechanism to identify, measure, manage and monitor risk;
    - Protects business margins;
    - Enhances efficiency and competitiveness.
- High transit time during imports makes hedging essential for pulses importers
- Many other benefits, e.g., better credit mobilization, more incentives to improve trade-related infrastructure, better awareness of quality standards.

One example of the benefits of hedging

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Material Input → Finished Product (Price fixed)

Time Gap

For Processing

Chana, Oils

Dal, Besan, Namkeen

Input prices – dependent on market and external factors

Budgeted Profit estimates not intact

Hedging permits:

- To manage the risk of prices changing during the processing (or transit) process

- To lock in input prices

- To lock in profit margins.

We hope for the industry's support in:

- *Creating greater awareness among policy makers of the benefits of futures trade in pulses for producers and consumers;*
- *Strengthening India's pulses futures contracts and widening its coverage;*
- *Supporting India's efforts – as the leading pulses producer and importer – to create pulses contracts that act as global price discovery and risk management systems.*

We at MCX, India's No. 1 commodity futures exchange, are keen to work with you.

MCX – among the world's leading exchanges

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- Commenced operations on November 10, 2003
- A demutualised and electronic platform, which facilitates online trading, clearing and settlement operations in commodity futures
- Recognised by the Forward Markets Commission (FMC), Union Ministry of Consumer Affairs, Food and Public Distribution
- 2100+ Members and more than 2,96,000 trading terminals (connected to Exchange via VSAT, internet, leased line, etc.)
- Avg. daily turnover during FY12 (till Dec'11) was Rs 51,419 cr. and recorded a highest daily turnover of Rs 1.12 lakh cr. in Sept. 2011.
- In CY 2011, MCX was 5th largest# commodity futures exchange, globally, in terms on No. of contracts traded
- In CY 2011, MCX was world's No. 1* # in Silver, No. 2* # in Gold, Copper & Natural Gas and No. 3* # in Crude Oil

** In terms of the number of commodity futures contracts traded for each of these commodities during this period*
 # Source: Data published for the period between January 1 - June 30, 2011 on the websites of exchanges listed in "Certain Conventions"; use of market data, and Futures Industry Association Annual Volume Survey, March 2011

MCX – part of a larger commodity ecosystem

MCX METAL & ENERGY Trade with Trust

Futures exchange for commodities

MCX Trade with Trust India's No.1 Commodity Exchange

MCX-SX MCX STOCK EXCHANGE

Retail chains, distributors

Farmers

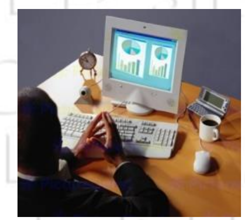
Industry including food processing units, manufacturers

National Spot Exchange

Spot exchange for commodities

NBHC National Bulk Handling Corporation Ltd. Adding Value to Commodities

Logistics network platform for commodities



Speculators, arbitrageurs

Hedgers

Thank You

Multi Commodity Exchange of India Limited is proposing, subject to market conditions and other considerations, a public offer of equity shares by way of an offer for sale and has filed a Draft Red Herring Prospectus ("DRHP") with the SEBI. The DRHP is available on the websites of SEBI at www.sebi.gov.in and the book running lead managers at www.edelcap.com,http://www.online.citibank.co.in/rhtm/citigroupglobalscreen1.htmand www.morganstanley.com/indiaofferdocuments. Investors should note that investment in equity shares involves a high degree of risk and for details in relation to risk factors, please see the section titled "Risk Factors" in the DRHP.

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