

RASHTREEYA SIKSHANA SAMITHI TRUST

R V INSTITUTE OF MANAGEMENT

CA 17, 26 Main, 36th Cross, 4th T Block, Jayanagar Bengaluru, Karnataka 560 041



Four Day Continuing Education Programme on Commodity Derivatives Conducted By

Finance Department

i mance Department		
Date: 1st to 4th September 2020 Venue: Webinar		
Time:3.00 pm to 5.00 pm	Event : CEP	
No. of Participant: 254	Event Coordinator: Prof. Dileep & prof. Priya Jain	

Objectives

- To understand the Indian and Global Commodity Derivatives
- To Analyze Hedging strategies of Futures and options Contracts for Commodities.
- To know Commodity market Operations and clearing & Settlement procedure followed by commodity market.

Flow of the Event Session Details

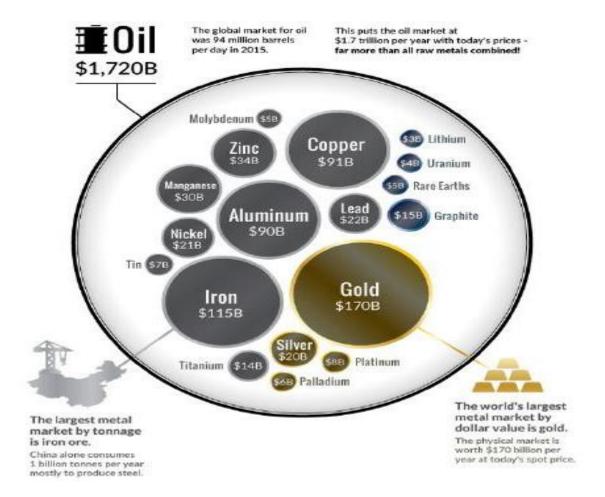
Session 1	Introduction to derivatives. Types of derivative contracts. Benefits of
	commodity derivatives markets. History of commodity derivatives markets.
	Global and Indian market. Major commodities traded. Regulation of
	commodity markets in India.
Session 2	Risk Management with Commodity Futures. Trading in futures. Margin system.
	Market participants. Convergence and Basis Risk. Hedging strategies using
	futures. Spread Trading. Practical aspects of hedging. Pricing of futures
	contracts.
Session 3	Commodity options. Types of option contracts. Hedging using options.
	Pricing of option contracts. Option Greeks. Trading strategies using option
	contracts. Commodity options in Indian market.
Session 4	Commodity market operations. Trading in commodity futures and options.
	Exchange risk management tools. Clearing, settlement and delivery in
	commodity markets. Innovative products in commodity markets.

Outcome Achieved/ Attained:

Dr. Ajoy Kumar, the resource person explained with meaning and types of commodities and discussed the following;

The Commodity trading is as old as human history, Starting with the barter system, today it has become the backbone of global economy. The largest traded commodity in the world is crude oil in terms of value

(\$1.7 Trillion). The largest metal traded is gold in terms of value (\$0.17 Trillion) and iron in terms of volume.



Functions of Commodity Derivatives Markets: Price Discovery, Risk Transfer, Market Completion

Types of Commodity Derivatives: Forward Contracts, Futures Contracts, Options Contracts, Swap Contracts.

Global Commodity Market

- Commodity derivatives are the oldest form of derivatives, while financial derivatives emerged much later
- Earliest instances of commodity derivatives were found in rice trading in Japan; tulip bulb trading in Amsterdam etc.
- Dojima Rice Exchange in Osaka, Japan established in 17th century, was the world's first commodity exchange. More structured trading started with establishment of Chicago Board of Trade (CBOT) in 1848.





Global Commodity Market

Table 17: Top 10 exchanges by number of commodity options and futures contracts traded in 2019

	Volume		Notional Value		Open interest	
	2019	YoY change	2019	YoY change	2019	YoY change
Shanghai Futures Exchange	1,411,969,733	20%	13,923,058	17%	5,748,273	37%
Dalian Commodity Exchange	1,355,584,225	38%	9,898,796	30%	9,686,951	113%
CME Group	1,133,124,055	-4%	60,597,611	-8%	24,486,658	-13%
Zhengzhou Commodity Exchange	1,092,486,045	34%	363,995	-93%	4,429,311	49%
Moscow Exchange	663,687,221	39%	450,110	47%	3,285,120	105%
ICE Futures Europe	482,608,092	-2%	23,296,908	-18%	13,491,751	2%
Multi Commodity Exchange of India	307,095,652	33%	1,108,564	18%	224,188	-34%
London Metal Exchange	176,260,936	-5%	17,939,963	14%	2,427,423	8%
ICE Futures US	92,613,557	-68%	2,020,422	-4%	3,094,748	5%
Borsa Istanbul	58,571,990	163%	11,751	195%	481,607	76%
Others	52,224,496	33%	706,864	60%	4,311,748	104%
Total	6,826,226,002	15.9%	130,318,041	-6%	71,667,778	15%

Source: WFE's Derivatives Report 2019

After the basics of Commodities the resource person discussed hedging with Futures and Options strategies and discussed the following;

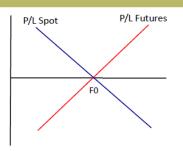
Hedging with Futures Contract

Hedging for a Buyer (Long Hedge)

Case 1: Rising Prices
Commodity: Copper

01-09-2020: Buy (Long) October Futures Contracts at Rs.525/kg 30-10-2020: The October Futures and Spot Price are Rs.535/kg

Loss in Spot Market (525-535) = (10) Profit in Futures Market (535-525) = 10



Hedging for a Buyer (Long Hedge)

Case 2: Falling Prices
Commodity: Copper

01-09-2020: Buy (Long) October Futures Contracts at Rs.525/kg 30-10-2020: The October Futures and Spot Price are Rs.520/kg

Profit in Spot Market (525-520) = 5Loss in Futures Market (520-525) = (5)

Practical Issues

Hedging for a Buyer (Long Hedge)

Commodity: Copper

01-09-2020: Buy (Long) October Futures Contracts at Rs.525/kg

The maturity of the contract is 30-10-2020

Practical Issue 1: The hedger wants to actually buy copper on 10-10-2020

Practical Issue 2: The contract size is 2.5 MT. The hedger wants to by 3.5 MT

Practical Issue 3: The delivery centre is Thane, but the hedger wants it at Bangalore

Practical Issue 4: The futures are on Grade A Copper Cathodes, but the hedger wants different grade

Practical Issue 1: Date Mismatch

Practical Issue 2: Quantity Mismatch

Practical Issue 3: Location Mismatch

Practical Issue 4: Quality (Asset) Mismatch (Cross Hedging)

Unhedged position is exposed to Price Risk and a hedged position is exposed to Basis Risk

Option Contracts

A contract between two parties, where the <u>buyer</u> of the option contract gets an <u>option to buy or sell</u> the underlying asset <u>on or before</u> a specified future date at a price agreed upon while entering the contract

Buyer/holder of an Option – LONG Position Seller/writer of an Option – SHORT Position

Buyer of option need not necessarily be the buyer of the underlying asset; this depends on the type of the option

Call Option: Option to buy the underlying asset Put Option: Option to sell the underlying asset

European Style Option: Exercised only on maturity American Style Option: Exercise anytime till maturity

Options Trading Strategies

Bull Call Spread

Expectation: Bullish

Strategy:

Buy one ITM Call Sell one OTM Call



Bear Put Spread

Expectation: Bearish

Strategy:

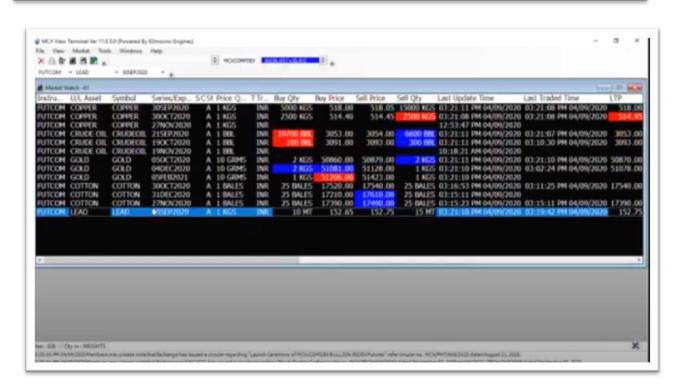
Buy one ITM Put Sell one OTM Put

And finally Mr. Shrikant Koundinya discussed about, Trading on Commodity Exchange, Exchange Risk Management Tool, Position limit, Clearing & Settlement and Online MCX Exchange trading.

Trading Platform



- Automated screen-based trading
- National reach
- Trading Session: Agri-Commodities & Others/Daylight saving hours
- Transparent, objective and fair system for automatic order matching
- Identity of the trader undisclosed
- Flexibility for placing orders
- Price Quotation in Rupees
- Square-off facility



Feedback & Coordinator Comment:

The entire program from Day 1 to Day 4 all the participant actively participated and well received by all the participants and lots of appreciation to resource person and RVIM team from the participants. Many of them requested to conduct such programme in the future.

Event Coordinators Director Prof.

Dileep S

Prof. Priya Jain

Annexure 1	Proposal / Approval
Annexure 2	Brochure of the event
Annexure 3	Brief profile of the speaker
Annexure 4	Attendees list
Annexure 5	Photo Gallery
Annexure 6	Detail Feedback (if required)

Annexure 1 Proposal / Approval

Date: 24th August 2020

From

Dileep

Assistant Professor,

R V Institute of Management, Bangalore

To

The Director

R V Institute of Management, Bangalore

Respected Sir,

Sub: Proposal to conduct Four Day "Continuing Education Programme (CEP) on Commodity Derivatives" on 01 -04 September, 2020

The Finance Department of RVIM, request for approval to conduct four day "Continuing Education Programme (CEP) on Commodity Derivatives" on 01 to 04 September, 2020. The Resource Persons are;

- 1. Dr. M Ajoy Kumar, Associate Professor, SIT, Tumakuru and
- 2. Mr. Shrikant Koundinya, currently leads the Training & Education function at the MCX Timing of the Programme is 3.00 pm to 5.00 pm

	Session Details
	Topic
Session 1	Introduction to derivatives.
Session 2	Risk Management with Commodity Futures.
Section 3	Commodity options.
Session 4	Commodity market operations.

Session 4 | Commodity market operations.

The above said programme may incurred the expenses of Rs. 6,000/- (Honorarium for resource person is Rs. 5,000/- and other Expenses Rs. 1,000/-). This is for your kind consideration and approval.

Thanking You

Truly Yours

Prof. Dileep

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Annexure 2 Brochure of the Event









Annexure 3

Brief Profile of the Resources Persons

Dr. M AJOY KUMAR

- Has 25 years of academic experience
- Associate Professor at Siddaganga Institute of Technology, Tumakuru since September, 1998
- Worked as Academic Associate in the Finance & Accounting Area of Indian Institute of Management Ahmedabad (IIMA) (1996-98)
- Finance Officer of a World Bank funded project of MHRD worth Rs.250 million at SIT,
 Tumakuru (2005-2015)
- Areas of specialization include financial and commodity markets, derivatives and cost management
- Published research papers in the areas of commodity derivatives, stock market, corporate finance etc.
- Conducted training programs on investment management, commodity markets etc.
- Conducted skill development programmes in the area of Finance for Ministry of MSME,
 Govt. of India.
- Works closely with the Training and Education Department of Multi Commodity Exchange of India (MCX), Mumbai for organizing training programs and carrying out research.

Mr. Shrikant Koundinya

FCMA, CGMA.

- He is a Fellow Member of the "Chartered Institute of Management Accountants",
- He has 25 years of diverse experience in finance and capital markets, especially in areas such as audit, research, ERP, MIS and corporate training.
- He is currently leads the Training & Education function at the Multi Commodity Exchange.

Dr. PURUSHOTTAM BUNG

- Dr. Purushottam Bung is an engineer with a rich experience of around 26 plus years in Academia and industry (domestic and international).
- He completed PGDM from Melbourne Business School, Australia, one of the top 10 B-schools in the world and MBA from Monash University, one of the top universities in the world. He has a rich entrepreneurial experience of around 10 plus years in the food processing industry. He is on the expert/advisory/editorial panel of many Institutions,

- Universities, NGOs and journals. Dr. Bung has presented and published 26 research articles in national and international refereed journals and undertaken several consultancy assignments.
- Dr. Bung was conferred with "Enterprising Academic Leader of the year (South India)" as part of National Education Excellence Awards in 2018. He was conferred with "Distinguished Educator" award in 2013. In 2015 he was awarded as 'Best Director of a B-school in Karnataka' as part of education excellence awards 2015. He is member of many Associations and Institutional bodies.
- He is elected as FELLOW of World Academy of Productivity Sciences at Beijing, China recently. He is also a research fellow of Institute of Productivity, UK. Dr. Bung is offering management consultancy services to local Businesses, Institutions and entrepreneurs as well. Very recently he has completed a HarvardX course in collaboration with Pearson Global and Ureka Education group, UK on 'Future of Learning' anchored by Prof. Richard Elmore, Professor and authority in Education and Learning from Harvard.

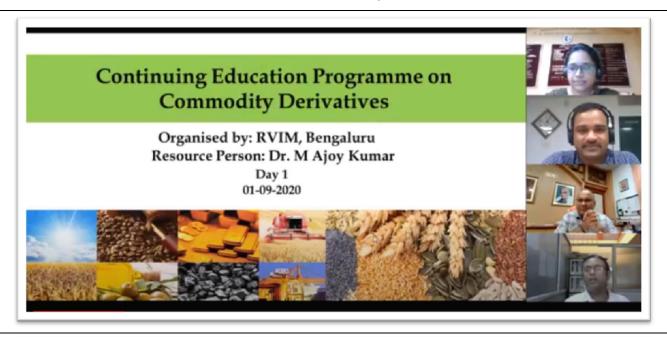
Annexure 4

Attendees list

Attendee Report

Attendee Report			
9/23/2020 10:47	7		
Webinar ID	Actual Start Time	# Registered	Unique Viewers
925 4527 7963	9/1/2020 14:34	532	289
User Name (Original Name)	Email	Leave Time	Country/Region Name
Dr. M Ajoy Kumar	ajoy@sit.ac.in	9/1/2020 14:50	India
Dr. M Ajoy Kumar	ajoy@sit.ac.in	9/1/2020 17:12	India
Prof. Dileep	dileep.rvim@rvei.ed	d 9/1/2020 17:12	India
Prof. Dileep	dileep.rvim@rvei.ed	d 9/1/2020 14:49	India
Dr. Purushottam Bung	drbung.rvim@rvei.e	9/1/2020 17:12	India
User Name (Original Name)	First Name	Email	Phone
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Ch.Raghavi	Ch.Raghavi	raghavivarma7@gn	n 6304293259
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Avinash Agarwal	Avinash	avinashagarwal210	297@gmail.com
Kavina	Kavina	Kavina.mb19@bitsa	9787001912
Mamatha Acharya	Mamatha	acharyamamatha9(8549049680
Manjunath	Manjunath	manjunathcb4ever	7411171860
Aman Hans	Aman	amanhans505@gm	9045344818
Vandana	Vandana	Singhvandana39@g	9547871969
Swati Swati	Swati	swatigoud456@gm	8660288928
Ratnavalli Bhagavatula	Ratnavalli	ratnavalli_bhagavat	8686641352
Tanveer	Tanveer	tanveerstat@gmail	9596560866

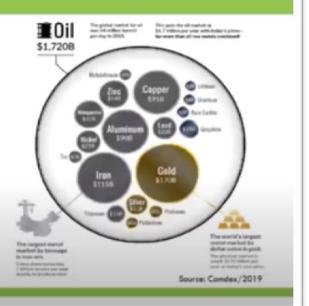
Annexure 5 Photo Gallery





Commodity Trade

- Commodity trading is as old as human history
- Starting with the barter system, today it has become the backbone of global economy
- All manufacturing activities require basic raw materials and energy, which explains the significance of commodities
- The largest traded commodity in the world is crude oil in terms of value (\$1.7 Trillion)
- The largest metal traded is gold in terms of value (\$0.17 Trillion) and iron in terms of volume

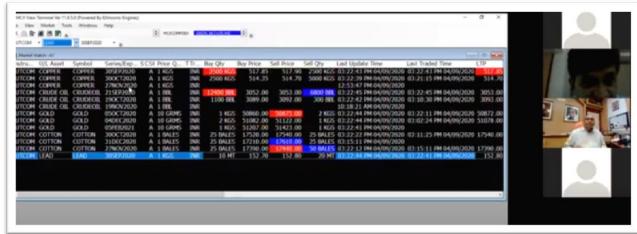


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Annexure 6 Detail Feedback (if required)

Name of the Participant	Your suggestions for improving future Programmes
Dr. S. Durga	Everything is good
Dr. Bhoga Suvarchala Munduru	nice session
Supraja Anupindi	The programme was extremely excellent.
Gururaj Patil	please increase the number of contact hours
Ajithukumar	very good learnings from this event, Thank you RVIM
Usha Sadhani	Please let us know about further session s
Priya Rani Arun Kumar	Amazing program insist for more such webinars on Derivatives
MOHAMMED SOUBAN S	It was indeed and great session thanku
AISHWHRYA R	Overall it is excellent
	It was a wonderful session explained so lucidly. Please organise many
Dr. Meenakshi Shrirang Wagh	more such programmes and especially on financial derivatives
РООЈА М	Thank you for such a wonderful program
	Arrange some other programs it will help us to gain knowledge thank you
Madhu Bangarimath	for giving an wonderful opportunity to us.
Meganathan D	Very informative thanks
MUKTI NILAY SHAH	Give us more opportunity in all the upcoming program.
	All 4 days were a new information to learn wanted to be in touch with
	RVIM for further wonderful and successful sessions.
Shubham Chugh	Thanks
Pavithra J	Its is really good and informative!!! Thank you RVIM !!!
	If possible, extend such type FDP for 1 week with evening time. Thank
Dr. Kiran J. Patel	you.
	Yes it was a interesting session for 4 days. Expecting more webinars on
V.vinodhini	finance domain.
Dr. Aruna Gudimetla	All 4 days session was informative. Excellent
	Very well planned and everthing was taken care off! Looking forward for
	more such workshops regarding finance (like crypto- currency as we have
Rashmi Gowda KM	very limited knowledge of such topics)
	It was an informative session , I learnt a lot from this sessions. Do keep
SWATI	this sessions further also .
	Overall the programe is excellent looking forward to join the session
Kumreiphi kharei	again,thank you □
KAJAL R TIWARI	bring session on finance topic related to current scenario

	Wonderful and fantastic session		
	I learned so many things from the sessions.		
Chandrashekhar Ramesh	The way of delivering the speaker was very awesome.		
Gajbhiye	I really appreciate it		
Pavithra J	Really informative and good !!! Thank you RVIM !!!		
	We are learning form RVIM to conduct effective and efficient way of		
	running the program. Nothing to suggest. Thank you very much for a		
Dr. BASAVARAJU P S	wonderful program		
	Very well organized program. Would like to attend many more such		
Dr. SHALINI R	programs.		
DINESH KUMAR A	no suggestions, keep up the good work team RVIM		
Mrs. M. GIRI KUMARI	You organized very well, hope to continue in future		
	No improvements required.		
Medapati pavani	The webinar is perfectly awesome		
	Thanks to RVIM for organize well sessions on 4 days about CEP program		
	and to give the permission to audience to asking question in face to face.		
Ramesha	Thank you once again		
	So many things were covered in a very short time span. Some more time		
Dr Meena Sharma	needed to understand things more clearly.		
	It was an amazing knowledge shared by the resource persons & had		
SIMRAN	wonderful experience in this sessions.		
Dr. Sarita Agrawal	Everything was very well organized. Keep it up		
	Well and sincerely organised one right from prayer song up to National		
Dr. Gopika G. G.	Anthem. Thank you so much for the organisers.		
Ranjitha L	No suggestions to improve and it's a great programme thank you RVIM		
	Excellent knowledge provided with examples which eventually has added		
Aishwarya Deokar	a lot of value. Keep doing such wonderful programs!!!		
	Continue taking this types of web. Helping to others for their		
Jainabbanu khalifa	understanding		
Vinutha MT	Informative session		
	All 4 days were a new information to learn wanted to be in touch with		
	RVIM for further wonderful and successful sessions.		
Shubham Chugh	Thanks		
Prof Santhosh Rebello	Very goodnew knowledge for.methanks a lot		
Smitha G Roopesh	It was completely excellent, so no need to suggest anything.		
Rency Joseph	Please provide it to our students		