A LITERATURE REVIEW ON INVESTORS ATTITUDE AND PERCEPTION TOWARDS COMMODITY MARKET

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Abstract:
The present study is focused to assess the factors that affect the investor intentions among the commodity market customers in India. Based on the review of literature, the study considered the several factors such as perceptions, awareness, and attitude have drastic effects over generating the investor intentions among the Indian commodity market. The researcher applied several statistical tools and techniques to analyze the data and the implications of the study are presented.

Index terms: Attitude, Awareness, Indian commodity market, Perceptions.

1.Introduction

Indian markets have already thrown open an avenue for retail investors and traders to participate: in commodity derivatives. For those who want to diversify their portfolios beyond shares, bonds, and real estate, commodities are the best option. Commodities actually offer immense potential to become a separate asset class for market-savvy investors, arbitrageurs and speculators. Retail investors, who claim to understand the equity markets may find commodities a vast market. But commodities are easy to understand as far as fundamentals of demand and supply are concerned. Retail investors should understand the risks and advantages of trading in commodities futures before investing. Historically, pricing in commodities futures has been less volatile compared with equity and bonds, thus providing an efficient portfolio diversification option. Like any other market, the one for commodity futures plays a valuable role in information pooling and risk-sharing. The market mediates between buyers and sellers of commodities and facilitates decisions related to the storage and consumption of commodities. In the process, they make the underlying market more liquid.

2.Review of Literature

Naik, Gopaland Jain Sudhir Kumar(2002),emphasised that the agricultural commodity futures market has not fully developed as a competent mechanism of price discovery and risk management. The study found some aspects to blame for deficient markets such as poor management, infrastructure, and logistics. The dominance of spectators also dejects hedgers to participate in the market.

Ahuja, Narender L. (2006), concluded that the Indian commodity market has made enormous progress since 2003 with an increased number of modern commodity exchanges, transparency, and trading activity. The volume and value of commodity trade have shown unpredicted marks. This had happened due to the role played by market forces and the active encouragement of the Government by changing the policy concerning commodity derivatives. He suggested the promotion of barrier-free trading in the future market and freedom of market forces to determine the price.

Suchismita Bose(2006) in her research paper "The Indian Derivatives Market Revisited" presented accounts of the major developments in the Indian commodity, exchange rate, and financial derivatives markets, and outlines the regulatory provisions that have been introduced to minimise misuse of derivatives.

Ashutosh Vashishtha and Satish Kumar (2010) in their research paper "Development of Financial Derivatives Market in India- A Case Study" studied the historical roots of derivative trading, types of derivative products, regulation and policy developments, trend and growth, future prospects, and challenges of derivative market in India and concluded that there is an increasing sense that the equity derivatives market is playing a major role in shaping price discovery. Factors like increased volatility in financial asset prices; growing integration of national financial markets with international markets; development of more sophisticated risk management tools; wider choices of risk management strategies to economic agents and innovations in financial engineering, have been driving the growth of financial derivatives worldwide and have also fuelled the growth of derivatives here, in India.

Kamlesh Gakhar and Ms. Meetu (2013) in their research paper "Derivatives Market in India: Evolution, Trading Mechanism, and Future Prospects" said that there are many issues (e.g., the lack of economies of scale, tax and legal bottlenecks, increased off-balance sheet exposure of Indian banks need for an independent regulator etc), which need to be immediately resolved to enhance the investors confidence in the Indian derivative market.

Daksha Pratapsinh Chauhan (2013) in her research paper “Performance Of Stock Exchanges In India” has studied the financial performances of BSE and NSE over the last one decade. And has tried to find out of the two stock exchanges which one is performing better financially on the various basis and concluded that BSE and NSE are the icons of the Indian capital market they are not rivals, both of them are the pillars of Indian economy. Both must try to be complimentary to each other. If both will go hand in hand than it will result in rapid growth and upliftment of the nation.

Shalini H and Raveendra P (2014) in their research paper “A Study of Derivatives Market in India and its Current Position in Global Financial Derivatives Markets” studied the scope, history, concept, definition, types, features, regulation, market, trend, growth, Future prospects and challenges of derivatives in India and status of Indian derivatives market vis-à-vis global derivative market and concluded that there is big significance and contribution of derivatives to financial system.

Gupta and Mokshmar (2018), in her study shows that India's most of the investment avenues are termed to be risky by the investors. The major feature of investment as perceived by the investors is income stability, principal amount, liquidity, easy transferability, and approval. there are a number of investment avenues available in India such as share, silver, real estate, gold, Life Insurance, Bank, postal savings, etc. The desired level of Return and the tolerance for risk help in deciding the choice of the investor. The investment may differ from the provident fund, national saving certificate, chit funds, insurance schemes, company fixed deposits, government securities, bonds, equity, mutual fund schemes and derivatives. It can be concluded that every investor want to save extra, be added risk directs to more profit. This is the major reason why the perception of the investor changes when it comes to the investment in equity and derivatives. There is lot confusion in the investment patterns and the investment avenues to be decided between equity and derivatives.

Gautami and Nalla Bala Kalyan(2018) in their reveal that as part of financial market reforms, new instruments and financial reengineering have been introduced in India since 1991. One area where the growth and innovation is slow is in the introduction of derivatives. In India, the appearance and enlargement of derivatives market is moderately a recent phenomenon. Since its beginning in June 2000, derivatives market has exhibited exponential enlargement both in terms of volume and number of traded contracts. The term derivatives, refers to a broad class of financial instruments which mainly include options and futures. These instruments derive their value from the price and other related variables of the underlying asset. They do not have worth of their own and derive their value from the claim they give to their owners to own some other financial assets or security.

Roy, Ashutosh (2006), suggested the participation of banks in the commodity futures market for effective commodity price risk management as financing by banks could provide efficient hedge against price risk.

Bhattacharya, Himdari (2007), pointed out that significant risk returns features and diversification potential has made commodities popular as an asset class. Indian futures markets have improved pretty well in recent years and would result in fundamental changes in the existing isolated local markets particularly in case of agricultural commodities.

Nath, Golka C. and Lingareddy, Tulsi (2008), emphasised that trading in commodity futures contributed to an increase in inflation as result showed that during the time period of future trading the spot price of selected commodities and their volatilities had posted remarkable increase.

Kaur, Gurbandini and Rao, D.N. (2010), The commodity spot and future prices had closely tracked each other in selected agri commodities and no significant volatility has been found in the prices of future and spot contracts of those agricultural commodities.

Brajesh, Kumar and Pandy, Ajay (2009) Observed that commodity futures market in India provide higher hedging effectiveness in agricultural commodities as compared to non agricultural commodities and price risk management role of Indian commodity futures market has also increased with increased activity in market.

Biswas and Rajib (2011) conducted a study to test price - volume relationships for Indian commodity state that the nature of price volume relationships in asset market has been an interesting subject in financial research as it reveals a very important aspect which has implications for market efficiency. The purpose of this paper is to examine price volume relationships in Indian commodity futures market. Though there exists contemporaneous correlation between volume and price change in some of the cases, but in general on the basis of the presence of Granger causality it follows that SIH is supported.

Moharna (2011) in her article observes that Indian commodity markets will cross Rs.110 to 112 trillion (lakh crore) by the end of this fiscal and already the turnover has crossed 88 lakh crore. "The Indian commodity market has had an exponential growth in the last 8 years i.e. after 2003 when the government had decided to open it. In the last fiscal i.e. 2009-10 the total turnover of Indian commodity markets was Rs.77 trillion and this year it is estimated to grow at a rate of 33% to cross Rs.110-112 trillion.

Iyer and Pillai (2010) in their paper examined whether futures markets play a dominant role in the price discovery process. The rate of convergence of information from one market to another is analyzed to infer the efficiency of futures as an effective hedging tool. This paper finds evidence for price discovery process happening in the futures market in five out of six commodities. However, the rate of convergence of information is slow, particularly in the non-expiration weeks.

Gurbandini and Rao (2010) draw attention that since commodity "futures" trading was permitted in 2003, the commodity derivative market in India has witnessed phenomenal growth. Though the volume of commodity futures trade increased exponentially since its launch in 2003, the functioning of the features market came under scrutiny during 2008-2009, due to price rise and the role of futures market in stabilizing spot prices was widely discussed. The study aims at testing the weak form of Efficient Market Hypothesis in the context of an emerging commodity market - National commodity Derivatives Exchange (NCDEX), which is considered as the prime commodity derivatives market in India.

Ali and Gupta (2011) analyzed the efficiency of agricultural commodity markets by assessing the relationships between futures prices and spot market prices of major agricultural commodities in India. In line with the ongoing global and domestic reforms in agriculture and allied sectors, the Indian Government is reducing its direct market intervention and encouraging private participation based on market forces. This has led to increased exposure of agricultural produce to price and other market risks, which consequently emphasize the importance of futures markets for price discovery and price risk management.

Muharjee (2011) made an attempt to re-validate the impact of futures trading on agricultural commodity market in India. The daily price information in spot and futures markets, for a period of 7 years (2004-2010), for 9 major agricultural commodities, taken from different categories of Agri-products, are incorporated into various econometric models to test the concerned objective. The empirical findings significantly shows that comparative advantage of futures market in disseminating information, leading to a significant price discovery and risk management, that can again help to successfully develop the underlying commodity market in India.

Muharjee, K.N. (2011). "Impact of Future trading in Indian Agricultural Commodity Market", MPRA paper No.29290, February 2011.

Kapil, et. al (2010) focused on the major operational and policy issues in the growth of commodity market in India. Hence, they viewed that the Indian commodity market is not well organized.

Iqbal et al. (2013) measured the relationship between investors' behaviour and financial market anomalies. The stock anomalies created due to over confidence of investors, overstated reactions, guesstimate and change in the investors' behaviour. Thus, the behaviour of the investors had led to abnormal market conditions.

Chen and Chang (2015) identified producers' role, hedge funds, and business entities were determined the price of commodity futures.

Erb and Harvey (2016) analyzed the misconceptions of investors when investing in the commodities. The low return was caused due to pitiable financial performance. The study result showed that misunderstanding had created disappointment with the commodity trading.

Ftiti et. al (2016) have studied the relationship between delays and delays. The study results showed that there was a relationship between delays and delays. Moreover, commodity market is a prime reason for fluctuations in the credit markets.

Jena, et al. (2016) have identified that commodity prices was linked with the commodity prices. But, the commodity prices were negatively correlated with the bond prices.

Han, L., et al. (2017) viewed that the investors had to improve their attention and to analyze market information for sinking the opportunity of arbitrage. Hence, the investors had more concern about the impact of the market efficiency for promoting the stocks' preservation.

Monga et al (2016) and Vasan (2018) identified that investors had preferred to invest in jewelry than other investment avenues like gold bars and coins, gold ETFs, etc. Hence, investors had given priority to safety than earning higher profits.

Kaur ,Gurbandini and Rao, D.N. (2010), The commodity spot and future prices had closely tracked each other in selected agri commodities and no significant volatility has been found in the prices of future and spot contracts of those agricultural commodities.

Senthil D (2012) investigated the investor's behaviour in terms of goals, preferences, factors influencing while selecting the schemes, service expectations etc,. The study found that the investor's main goal is wealth appreciation and suggests that the mutual fund companies should control the charges to be paid by the retail investors and bring the expense to a reasonable level.

Kumar, Brajesh and Pandy, Ajay (2013), investigated the short run and long run market efficiency of Indian commodity futures market. They had tested four agricultural and even non-agricultural commodities for market efficiency and unbiasedness. The result confirmed the long run efficiency of commodity futures prices and inefficiency of futures prices in short run prices. He found many factors like lack of participation of trading members, low market depth and thin volume with Government's interference in Commodity markets etc., as major evils for inefficient price risk management.

Bhatt. N Dr. Babraju conducted study on ―Perception of Investor towards Derivatives as On Investment Avenue‖ in the year 2014. The derivatives are risk management tool that support in effective management of risk by various stockholders. Derivatives provide a chance to transfer risk from the one who wish to avoid it: to one who wish to agree it. India‘s experience with the introduction of the equity derivatives market has been really encouraging and successful. The derivatives turnover on the NSE has surpassed the equity market turnover.

Kaustia M (2011) in their experiments on anchoring effects in the long term future stock returns estimates of investment professionals and found that expertise indeed significantly attenuated behaviour biases. A test of classic anchoring effect applied to stock market return estimates revealed that the effect obtained with students was several times higher than with professionals. Their results suggested that financial market professional may not hold steady return expectations. They also found that the professionals were not conscious of the impact of historical returns on their expectations.

Chaubey D.S and Dimri R.P (2012) in their empirical investigation identified that investment perception and various factors which influence the investors in their selection of the investment avenues. They found that the behaviour of investors for designing effective investment policies which indicated that investors' choice of their investment scheme is associated with the demographic factors like age, gender, marital status, occupation and income but it is not associated with their level of education, family size and annual savings. They concluded that physiological profiling is the most important aspect which needs to be taken care for various investment avenues.

Seru A et al., (2013) analyzed survival rates, the disposition effect and trading performance at the individual level using a large sample of individual investor records over a nine year period to determine whether and how investors learn from their trading experience. They found evidence of two types of learning that some investors become better at trading with experience, while others stopped trading after realizing that their ability was poor. Their results suggested that differences in the expected performance of investors may arise from different experience levels and if many inexperienced investors begin trading around the same time their trades could lead to time varying market efficiency.

3. Conclusion

The Literature review given above covers a period of 15 years from 2002 to 2017. It gives a birds eye view of various studies that deal with investment behavior of investors and their attitude towards commodities market investments, how different respondents consider different factors before making their commodities market investments,etc. Further review would throw more light into investor behavior in to commodity markets, their pattern of investment and their holding period etc.

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