SUGAR TRADING IN FUTURES EXCHANGE:

INDIAN SUGAR MILLS ASSOCIATION

Indian sugar industry

- Annual sugar production: 25-28 million tons
- Annual domestic consumption: 26 million tons
- Trade on futures exchange in India:
  - Works out to 10% of average sales of a month
  - Should be 5 times of monthly sale to make futures exchange **robust**
- Only 2 sugar companies are registered as hedgers
- A client can have a maximum limit of 20,000 tons
  - Client can deliver 5000 tons in delivery month

To make futures exchange effective ….

- Increase in traded volumes
- Long term price visibility
- More participants with minimum impact costs

This will:

- Help in efficient & reliable price discovery
- Create better hedging opportunities/ risk management platform
- Help in better and informed policy decisions

OUR REQUESTS FOR CONSIDERATION

1. Increase in Client Limit

- Current overall Client limit at 20,000 tons
  - In vogue for last few years
- This limit should be increased to 50,000 tons
  - Can however, be done by adopting the hedge limit, but for that some conditions apply to establish physical availability of stocks
- The increased client limit will ensure
  - Higher positions by trade/ large consumers
  - Will increase volumes and liquidity

2. Increase in near month limit

- Near month limit was reduced 2-3 months back
  - From 8000 tons to 5000 tons
  - However, due to stock holding limits, this is further reduced to 500 tons
- That results in
  - Reduction in open position to 5,000 or 500 tons on the 1st of the delivery month
  - In turn limiting the deliverable quantities to 5000 or 500 tons from first day of the delivery month
- To increase volumes, millers need to deliver larger quantities
  - Hence, this near month limit be increased to 10,000 tons

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3. No stock holding limit for futures market

- Stock holding limit imposed by GOI in end of April, 2016
  - From 7.5 to 11.2 lakh tons of monthly trade during Jan-April, 2016, the trade volumes fell
  - To 4.1 lakh tons in May, 2016
  - To 2.0 lakh tons in June, 2016
- Stock holding limit as applicable to physical deliveries/ sugar stocks is also applicable to futures exchange
  - Meaning thereby that sugar dematted and delivered to accredited go-downs of the exchange has also been included in stock holding

3. No stock holding limit for futures market (contd.)

- Instead of 5000 tons in delivery months and 20,000 tons in other months, the stock limit of 500 tons is now applicable
  - Discouraging volumes and futures trade
- Sugar delivered to exchange accredited go-downs have an expiry period of 2 months during off-season and 4 months during crushing season
  - **Request for exemption of such stocks from stock holding limit upto the expiry period**
  - **Can be applied on delivery or after expiry period, whichever is earlier**

4. Margin money post physical delivery of sugar

- Currently, margin money @10% is reqd. from Clients
- This margin money reqd., even after physical delivery
- Basic purpose of the margin money is to avoid defaults or is used as a security against defaults
- After physical delivery, no risk of defaults or no need of security
  - So, after delivery, the margin money should be refunded
  - More so, because the miller pays additional amount as taxes, cess and transportation on delivery

5. Declaration of sugar hedges

- **Listed sugar companies could be asked to mention sugar stocks hedged**
  - In their quarterly and annual reports
- This practice is generally followed in foreign exchange hedges

6. Removal of staggered delivery

- Staggered delivery introduced for agricultural crops and commodities including sugar in 3rd May 2012.
  - It was later removed in 22nd May 2014.
  - But has been reintroduced in 20th Jan. 2016 for 10 days, <u>when no trade happens.</u>
- Sugar is a processed commodity hence,
  - Available for immediate and ready delivery
- Sugar can be comfortably delivered on any particular date and does not require staggered delivery of 10 days
  - Hence, **remove the system of staggered delivery from sugar**

7. Increase in monthly contracts

- Long dated futures contracts essential for proper price discovery and efficient hedging
  - Hence, visibility of contracts for next 24 months
- Request for monthly expiry period should be discussed only if staggered delivery is abolished in favour of one date delivery
  - And surely not at the cost of long dated futures contracts of 24 months
- The 5 expiry month contracts in a year may be increased to 6 months with alternate month expiry, with a total of max. 12 fixed month contracts

8. Banks and commodity funds to trade futures

- Allow banks to participate in sugar futures
  - Provided they have working capital exposure to sugar
- Allow commodity funds in India, which can participate in commodity future trade

Thank you