RELATIONSHIP BETWEEN COMMODITY FUTURES AND SPOT PRICES OF WHEAT IN INDIA

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ABSTRACT

Indian farmers face price risk along with the yield risk at the time of harvest due to surplus supply. There is price uncertainty from the time of sown of the crops to the distribution of the crop in the market. Farmers need protection against price fluctuations of their crops. Commodity futures being unique hedging instruments not only provide protection against price risk but also helps if price discovery. Commodity futures have a positive role to play in an agriculture surplus country like India. With the emergence of national level and regional commodity exchanges, there has been significant increase in the volume of commodity trading in India. On the other hand spot market is more popular among the Indian farmers. Spot market is preferred for the distribution of agricultural production. So an attempt has been made in this study to differentiate between commodity futures and spot prices of wheat by analysing the relationship between both the prices. Time period of study has taken from January 2006 to December 2011. The result has been showed the significant correlation between both of the prices of Wheat.

KEYWORDS: Futures Price, Spot Price, Market Demand, Wheat, Price Risk.