

# Electronic Spot trading

**Introduction:** Karvy Comtrade Ltd has taken membership of Spot Exchange, National Spot Exchange Ltd (NSEL) which has been allowed and permitted by Government of India. NSEL is promoted by NAFED and FT. It is a national level institutionalized, electronic, transparent spot exchange, which is poised to transform the rural economy. It is a state-of-the-art unique market place providing customized solutions to various problems faced by the farmers, traders, processors, exporters, importers, investors and the general mass.

The basic objective of National Spot Exchange is to set up a national level, electronic, transparent, institutionalized, demutualised market place, where on one hand, the farmers can sell their produce & on the other, the processors, exporters, traders & users can buy produce electronically. Mission is to reduce the cost of intermediation & improve marketing efficiency, thereby raising farmer's price realization without increasing the consumer's price.

## General features of Electronic Spot exchange

- Delivery-based online trading
- Standardized contracts with specified delivery place
- All contracts have single-day duration
- Outstanding positions at the end of the day will lead to compulsory delivery
- Normally the delivery period is 2-8 days
- Leveraged products, although the full payment must be done before delivery takes place.

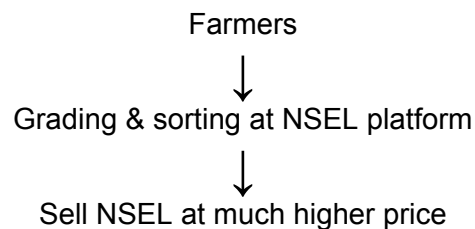
## Benefit to the farmers

- To offer them the best price for their produce by enabling them to access a national level market.
- To increase their bargaining power, as they will get a right to quote their own selling price, which is not possible in existing APMCs?
- To increase their holding capacity by creating a mechanism for warehouse receipt financing by the banks.
- To increase farmers realization by reducing cost of intermediation and connecting them to actual users directly.

**CURRENT TERMS OF TRADE:** The agriculture markets, also called as mandis, are regulated by respective state governments, and the individual states have their own agriculture marketing acts (APMC Acts). The current system allows farmers to sell the produce in these mandis only through authorized commission agents.



**NATIONAL SPOT EXCHANGE LIMITED:** The electronic spot exchange complements the existing marketing system in the country with its improvised technology & reach through the online system. The buyers can get the assured quality produce at spot markets at times. The risk of default from both sellers & buyers does not exist in the electronic spot exchange.



**How Spot is Different from other:** NSEL is the conduit between the physical market of commodities & the futures market. NSEL is the missing link between the farmers & the futures market. How spot is different from other is explain by the following example.

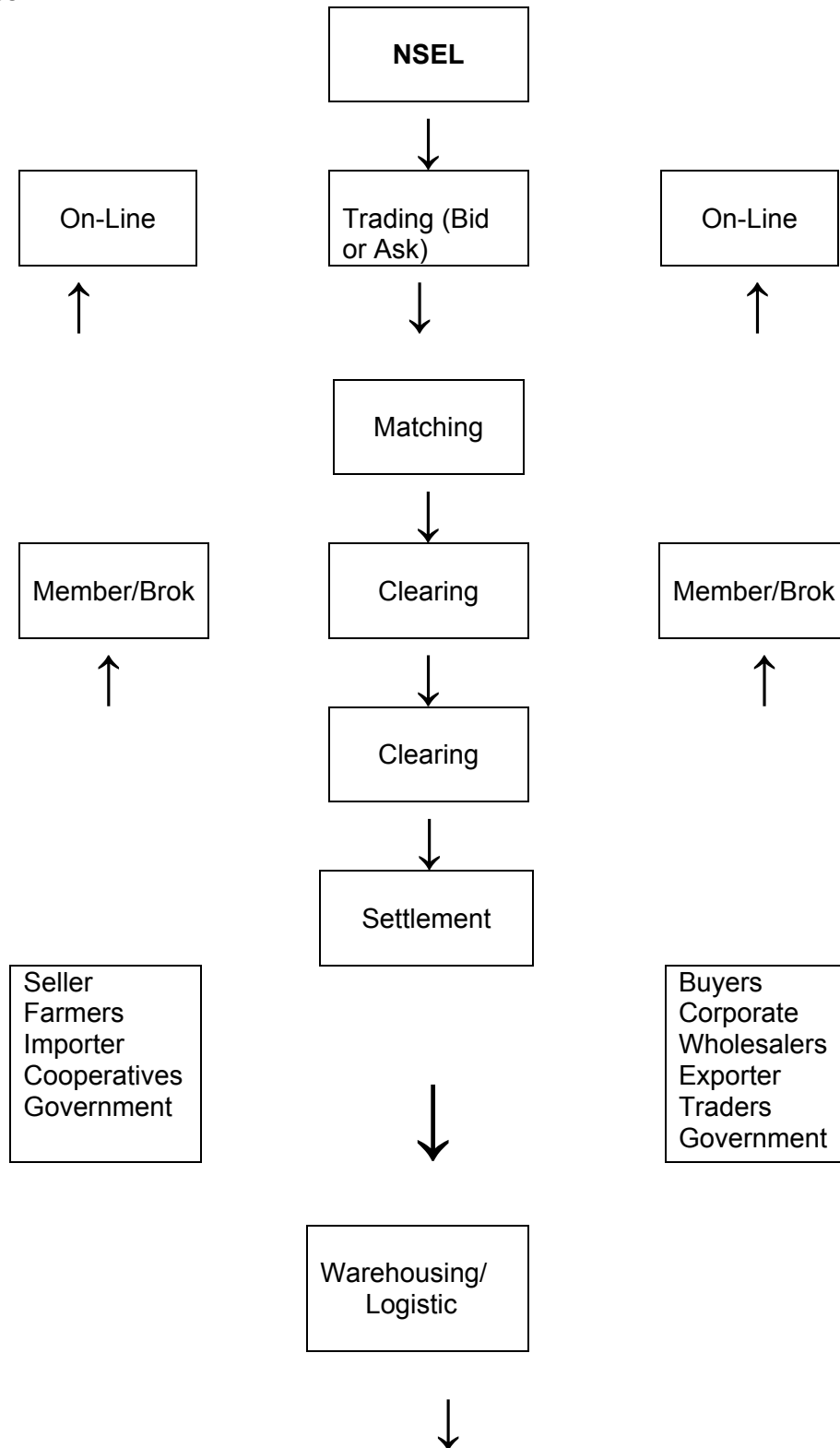
Eg- Gold ETFs- Cost structure

Parameters	Benchmark Gold ETF	UTI Gold ETF	Kotak Gold ETF	Reliance Gold ETF	National Spot Exchange
Entry load	1.5%	0%	1.5%	1.5%	0%
Exit load	0%	2%	0%	0%	0%
Annual/recurring expense (storage, insurance)	1%	1%	1%	2.5%	0.2%
<b>Total</b>	<b>2.5%</b>	<b>3%</b>	<b>2.5%</b>	<b>4.0%</b>	<b>0.2%</b>

**Electronic spot exchanges in the context of current spot futures markets:** With the commencement of electronic spot exchanges, there are now four types of marketing channels. **One** is the agriculture market (mandis) that operates through long chain. **Two**, the futures market works mainly as a price discovery & risk management tools, but deliveries are quite negligible even as it closely works with the spot markets. The third channel is direct marketing (contract farming) to the processors or retail chains, **finally**, the spot exchanges facilitate a delivery based online trading system.

<b>Comparison of Markets</b>			
<b>Particulars</b>	<b>Spot markets (mandi)</b>	<b>Futures market</b>	<b>Electronic spot exchange</b>
Operates through	More than 9000 APMCs	3 national online exchanges (MCX, NCDEX, NMCE), 24 regional exchanges	NSEL & NCDEX Spot
Reach	Confined to particular market place	Across the Country through online trade	Across the country through online trade
Delivery	Immediate	At expiry	2-8 Days
Leverage	No	Yes	Partial
Risk	Less	High	Average
Returns	Less	High	Average
Transportation	Required	Required	Required
Trading through	Mandis/physical market	Electronic platform	Electronic Platform
Quality	Varied	Standardized	Standardized
Regulation	State APMC ACTS	FMC	FMC & State APMC Acts

**Operating system:** Spot exchange offer online trading in various commodities with standardized contracts. The farmers, traders, exporters, importers, can buy/sell at most competitive prices & exchange provide counter-party guarantee for all the trades.



Physical Delivery

**Contract traded on NSEL platform .....currently**

- Gold bar 1 kg ex- Ahmedabad & Kolkata
- Gold bar 100 gm ex- Ahmedabad & Kolkata
- Imported Silver bar 30 kg ex- Ahmedabad & Kolkata
- Intraday Silver Granules 25 kg ex- Kolkata Contract
- Imported Urad ex- Mumbai
- Imported Tur ex- Mumbai
- Gaur Seed ex- Bikaner
- Cotton Bales ex- Mumbai
- Red Arecanut Rashi ex- Shimoga

**Commodities to be added on NSEL platform...shortly**

Sr. No.	Commodity Name	Delivery Center
1	Castor Oil	Patan
2	Castor seed	
3	Wheat future	
3	Jeera	Unjha
4	Gold & Silver	Delhi, Mumbai, Hyderabad, Chennai
5	Black pepper	Kochi
6	Cardamom	Vandanmedu

**Conclusion:** This market will bring variety of benefits to the existing system such as Price transparency, better price realization for farmers & lot of arbitrage opportunities for trader community. The emergence of these delivery based electronic spot markets will add fillip to the economic reforms, & this will help in constructing a matured & vibrant marketing system. This market is a good platform to bring together & provide synergy among the existing marketing systems.