

**In 1875 India's first organized
futures exchange was set-up.
It traded in cotton!**

In the 1860s, with the outbreak of the American Civil War, US cotton supplies to Britain's textile industry were replaced by cotton supplies from India, largely through the Mumbai port (formerly Bombay). With brisk cotton business and rising trade, the Bombay Cotton Association Ltd. was set up in 1875 to manage cotton price risks. Significantly, this took place barely a decade after the world's first modern futures trading platform was established at the Chicago Board of Trade.

Amidst an inherent volatility in cotton prices and robust domestic and export demand, MCX provides a cotton futures trading platform for stakeholders to manage their price risks. MCX cotton contract specification is well-tuned to the physical market best practices in terms of staple length, micronaire, tensile strength, etc. Given the highly volatile cotton prices (about 8 per cent annualized in 2014), it is imperative for stakeholders to hedge price risks using exchange-traded futures contracts.

BENEFITS OF HEDGING IN INDIA

- **Rupee-denominated** contracts.
- **Smaller contract size** allows hedging strategies for even small-sized physical player.
- **Time zone** advantage.
- Efficient **price discovery**, reflecting physical market fundamentals.
- **Highly liquid contracts** with low impact cost.
- Very good **hedging efficiency of cotton**.
- **Lowest transaction charges** of ₹0.75 per lakh of turnover*.
- Cotton is compulsorily **deliverable**.



*Refer circular no MCX/C&S/053/2014

Gold | Silver | Crude Oil | Copper | Aluminium | Lead | Zinc | Nickel | Cotton | Crude Palm Oil (CPO) | Mentha Oil | Cardamom

Multi Commodity Exchange of India Ltd.
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MCX
METAL & ENERGY
Trade with Trust

India's no.1 commodity exchange.

MCX COTTON

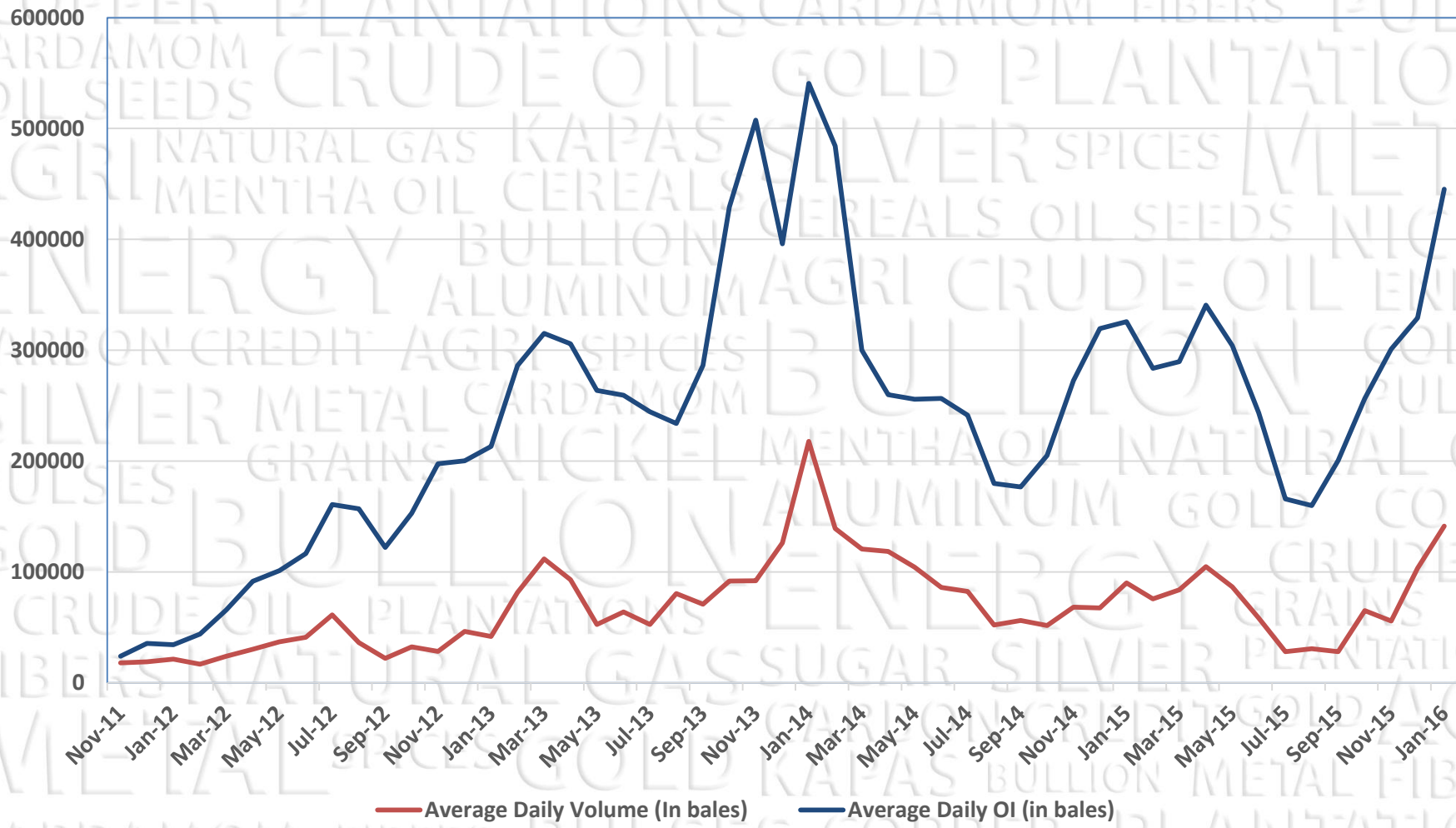
Cotton India 2015-16

Goa, 22nd – 24th Feb, 2016

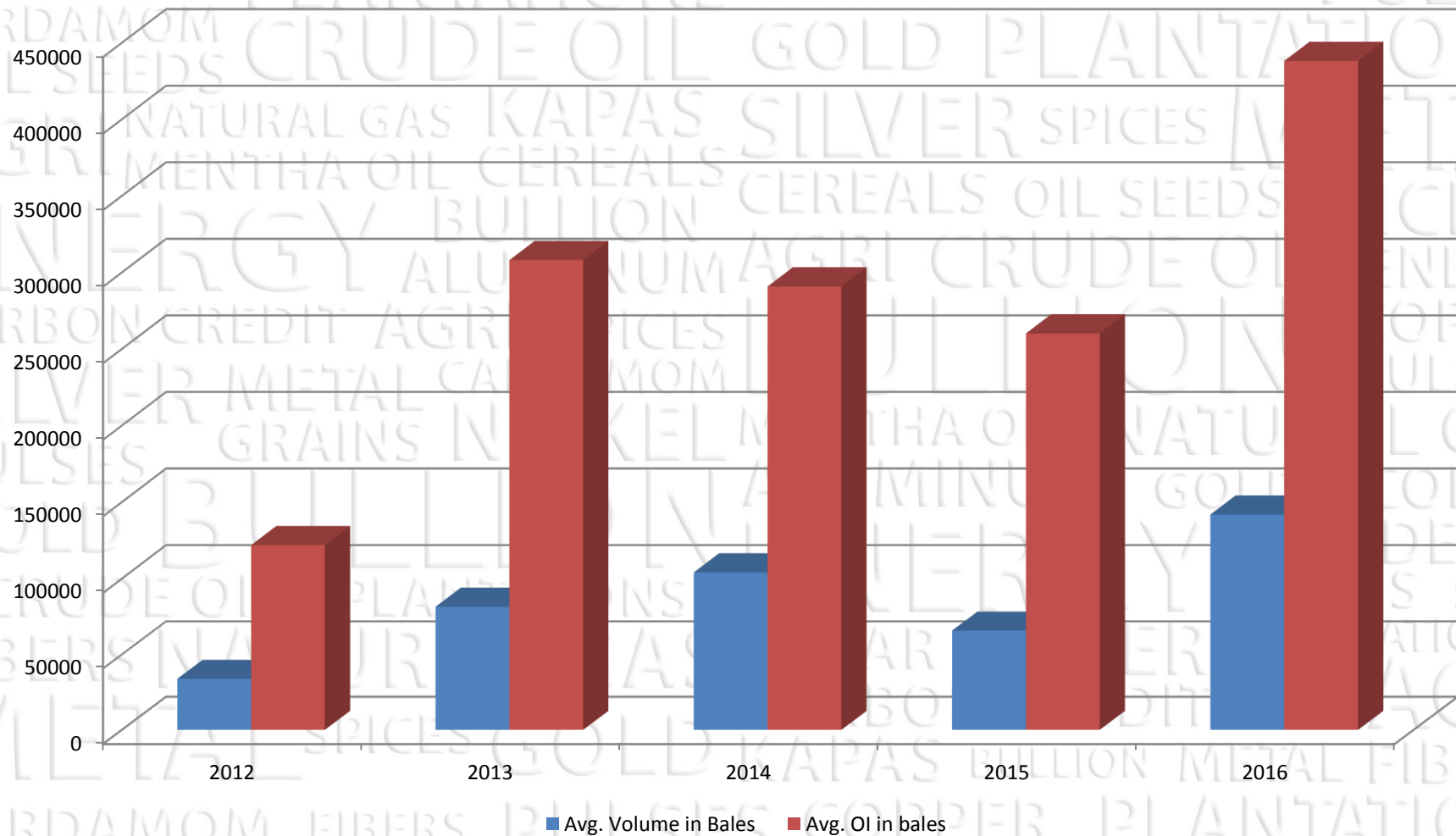
Cotton snapshot

- **App Indian market size : Rs. 60,000 Crores**
- **Annualized price volatility in 2015: 17%**
- **Exposure to price risk: More than Rs. 10,000 Crores**
- ✓ **Since launch MCX has witnessed trading in more than 8 crore bales**
- ✓ **Highest single day volume : 5,56,000 bales**
- ✓ **More than 5 lac bales are delivered through MCX since launch**
- ✓ **Market share of more than 90%**
- ✓ **More than 90% correlation with ICE prices**
- ✓ **Contract specifications covers more than 75% of cotton grown in India**
- ✓ **Minimum impact cost due to high liquidity**

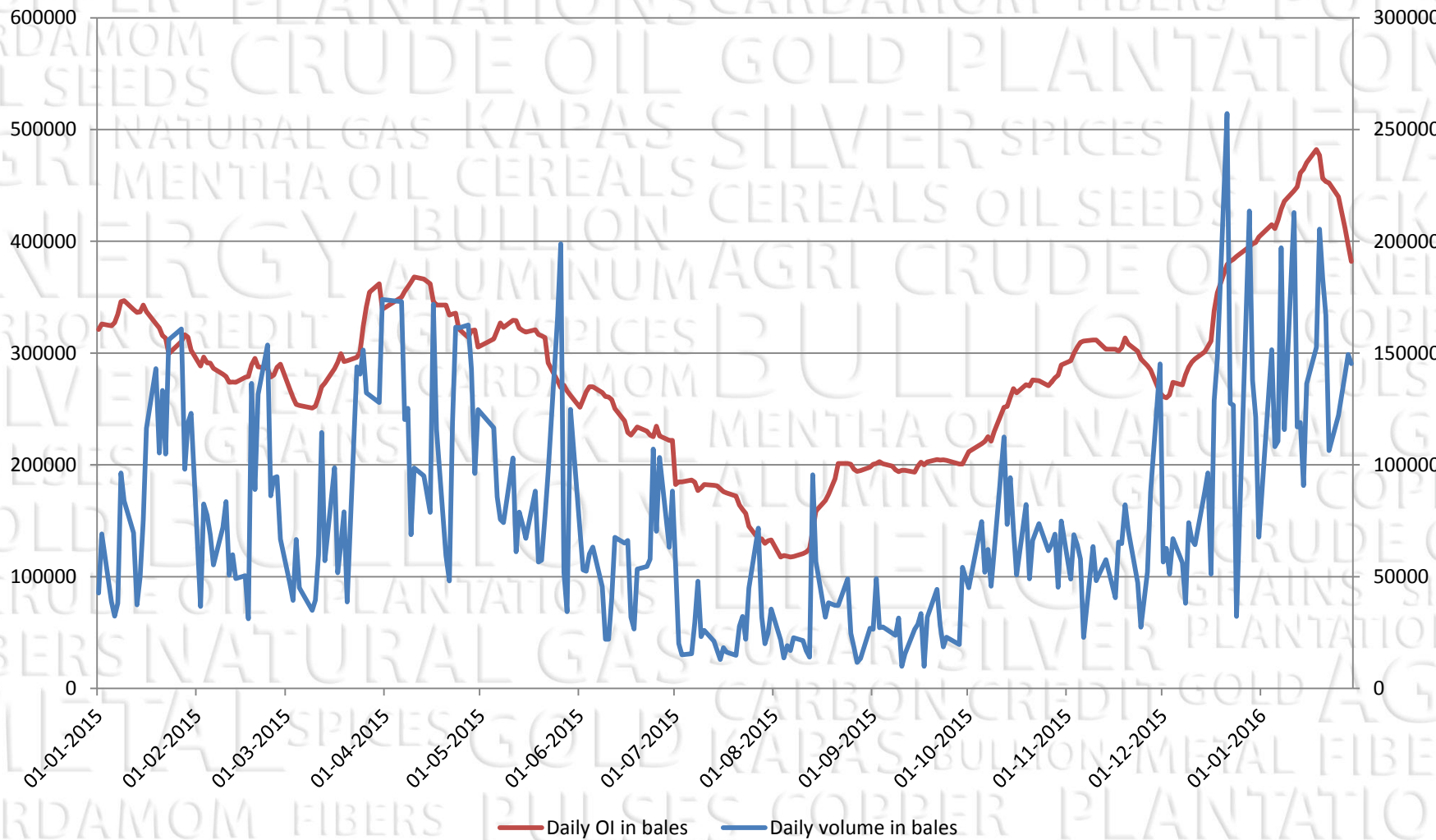
MCX Cotton Volume & Open Interest



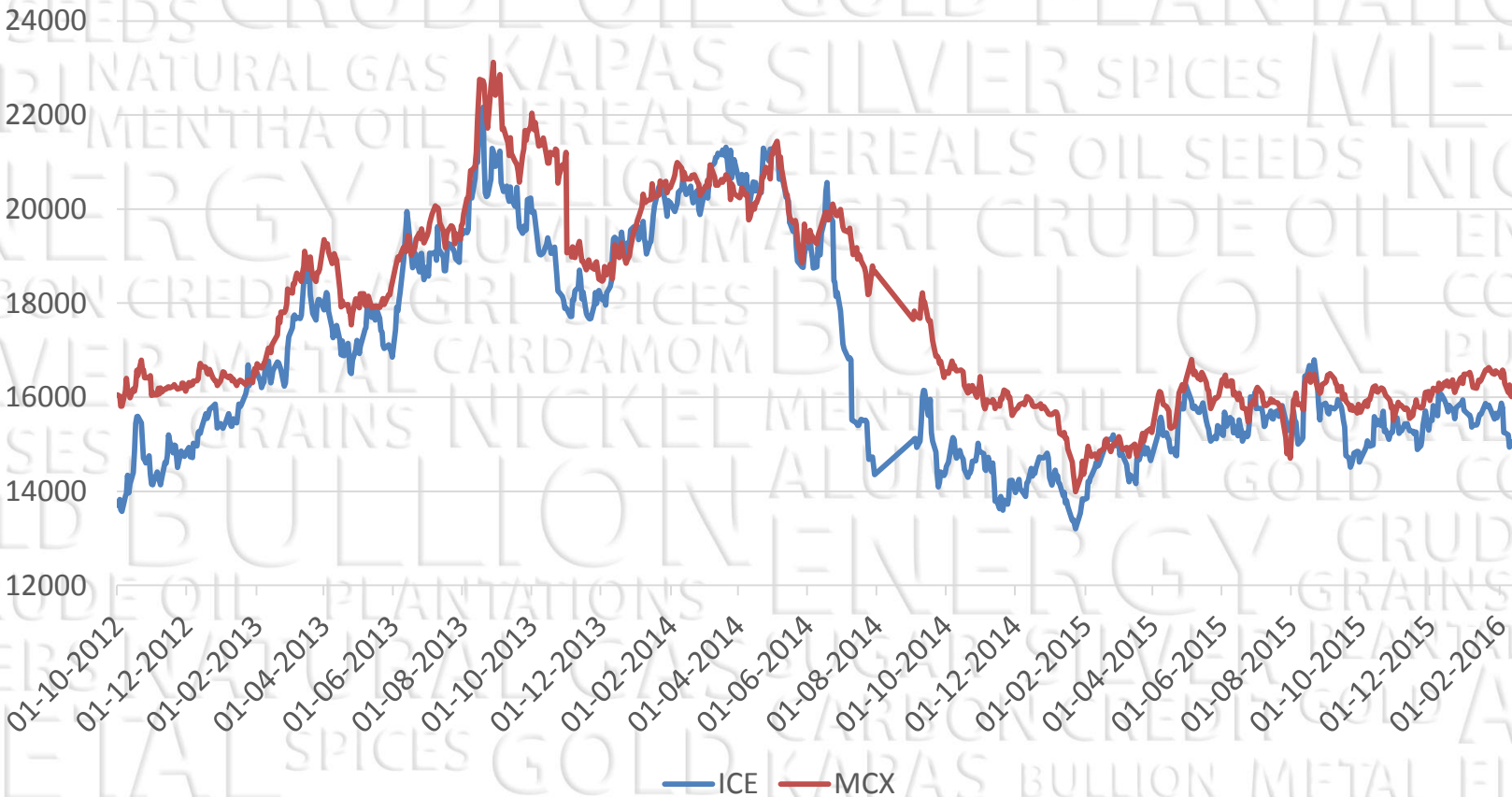
MCX Cotton Year wise Volume & Open Interest



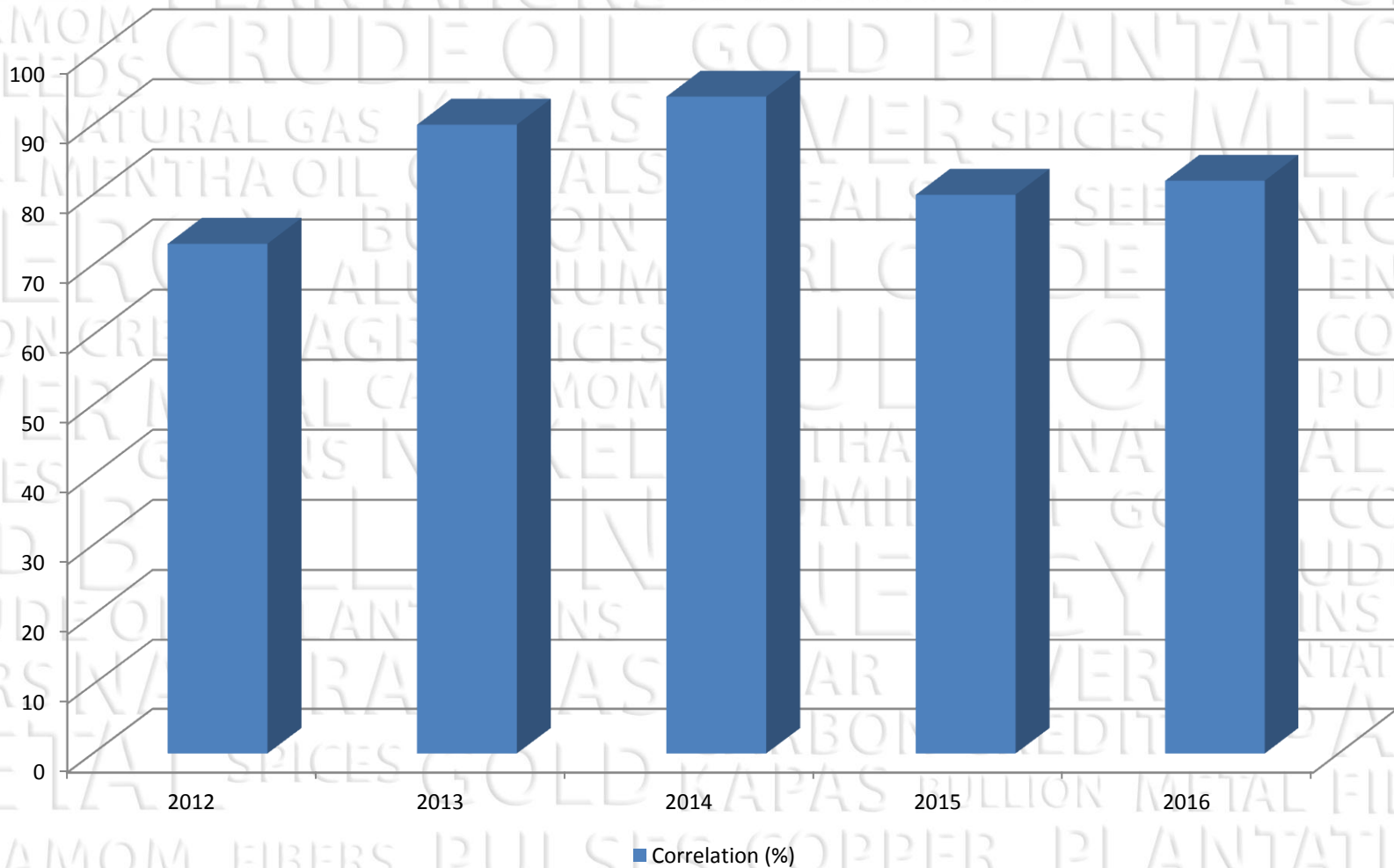
MCX Cotton 2015 onwards Volume & Open Interest



ICE-MCX Price Correlation



ICE-MCX Price Correlation (Year wise)



Month wise Delivery & Stocks

Month-wise Delivery of cotton at MCX Platform

Expiry date	Qty (Bales)
November 28,2014	3,700
December 31,2014	14,900
January 30,2015	17,200
February 27, 2015	18,400
March 30, 2015	21,700
April 30, 2015	19,600
May 29, 2015	28,500
June 30, 2015	44,600
July 31, 2015	19,000
Total	1,87,600
November 30, 2015	4,600
December 31, 2015	5,500
January 30, 2016	9,700

Stocks as on February 15, 2016 (Qty in Bales)

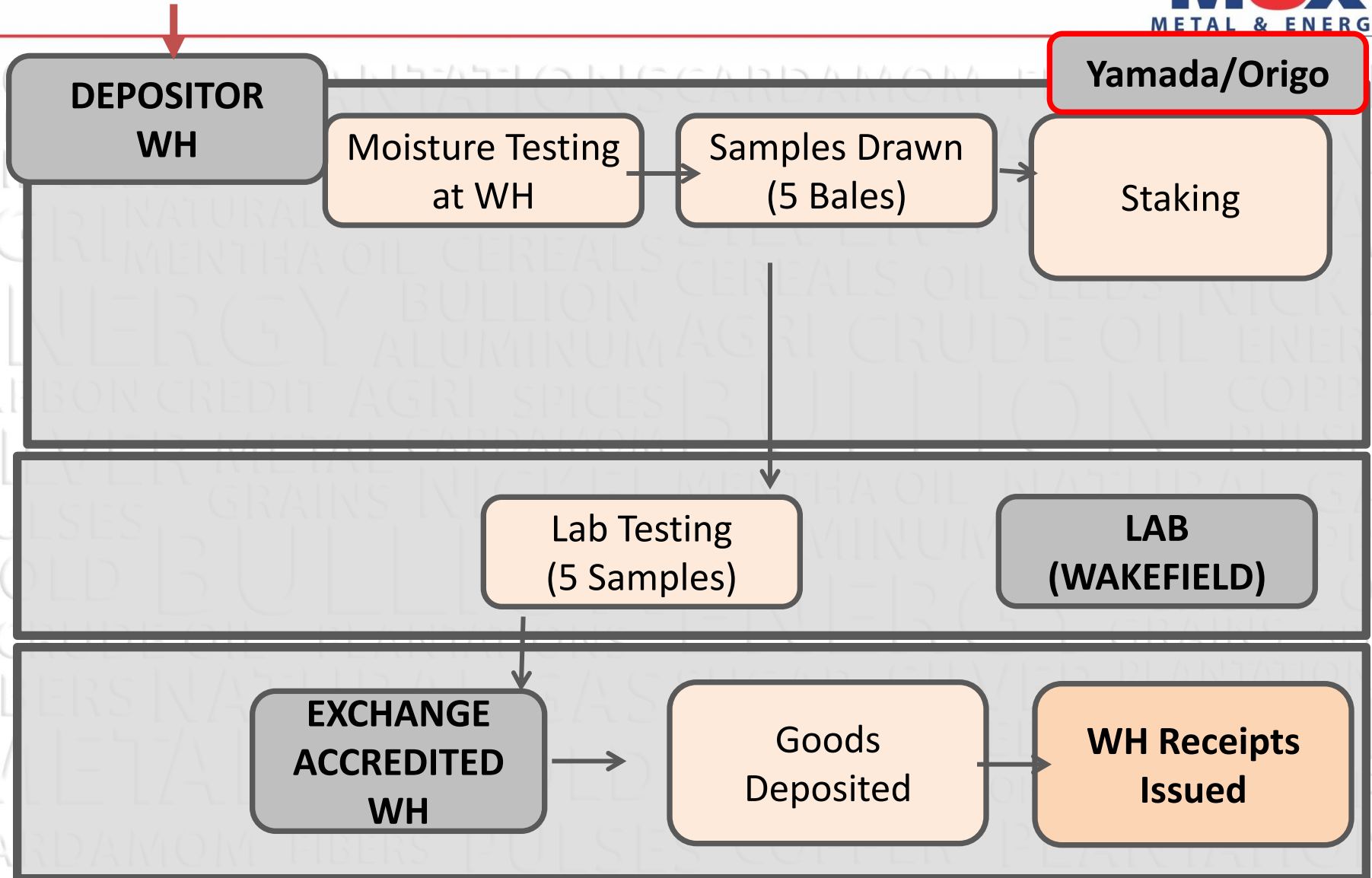
Stock eligible for Exchange Delivery	44,100
Quantity in process (QC awaited)	8,000
Capacity of warehouse	110,857

Cost of Delivery (Indicative)



Approximate cost for giving delivery of 100 bales	Rs/100 bale
Sampling & Assayer 's charges (per 100 bale)	3000
Unloading & Stacking at Ware house Rs 20/bale	2000
Ware house charges @ Rs 1.35/bale/day	135/day
Standard deduction for one month 0.35% (Assume price Rs 16000/bale)	56

Delivery Process

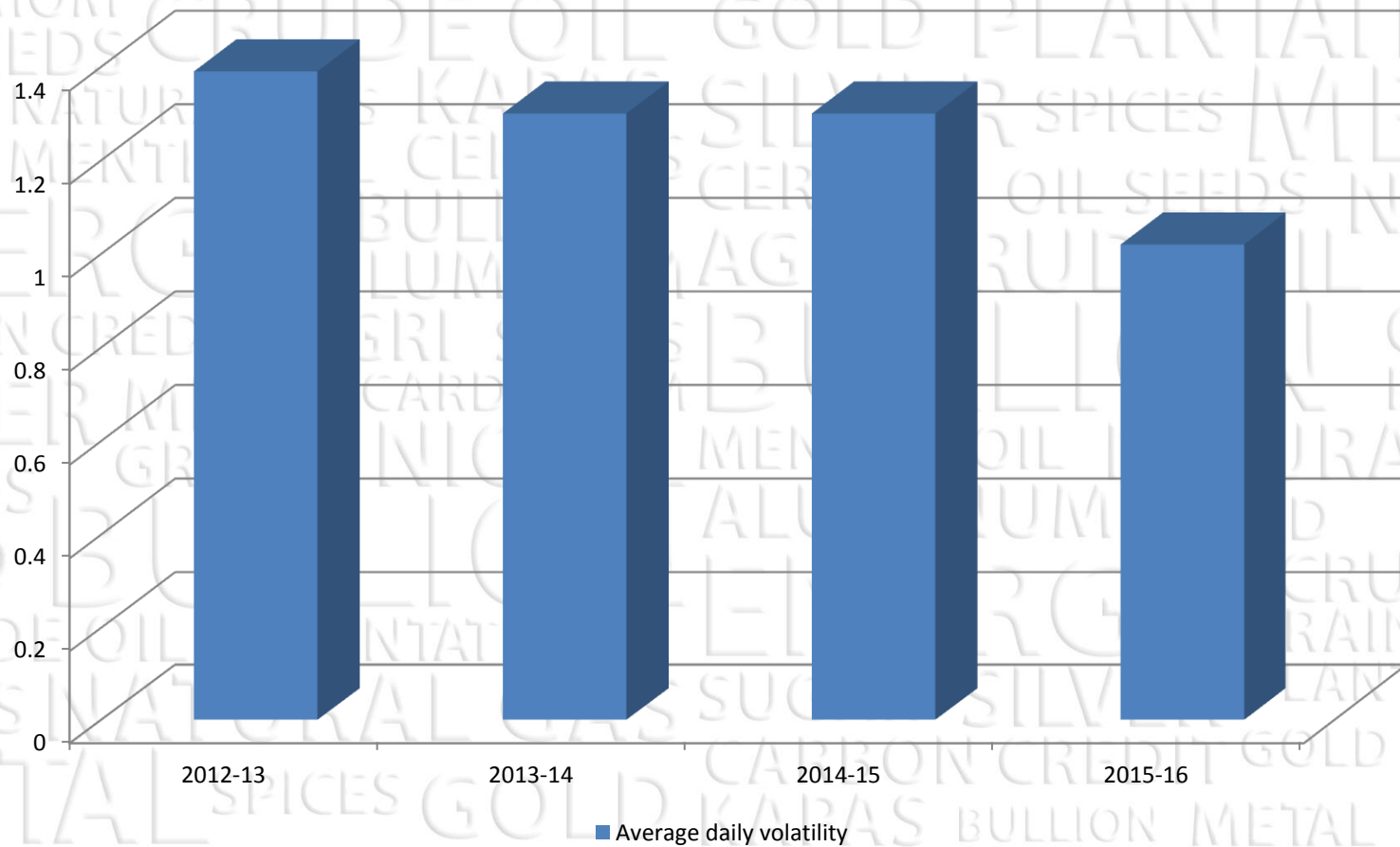




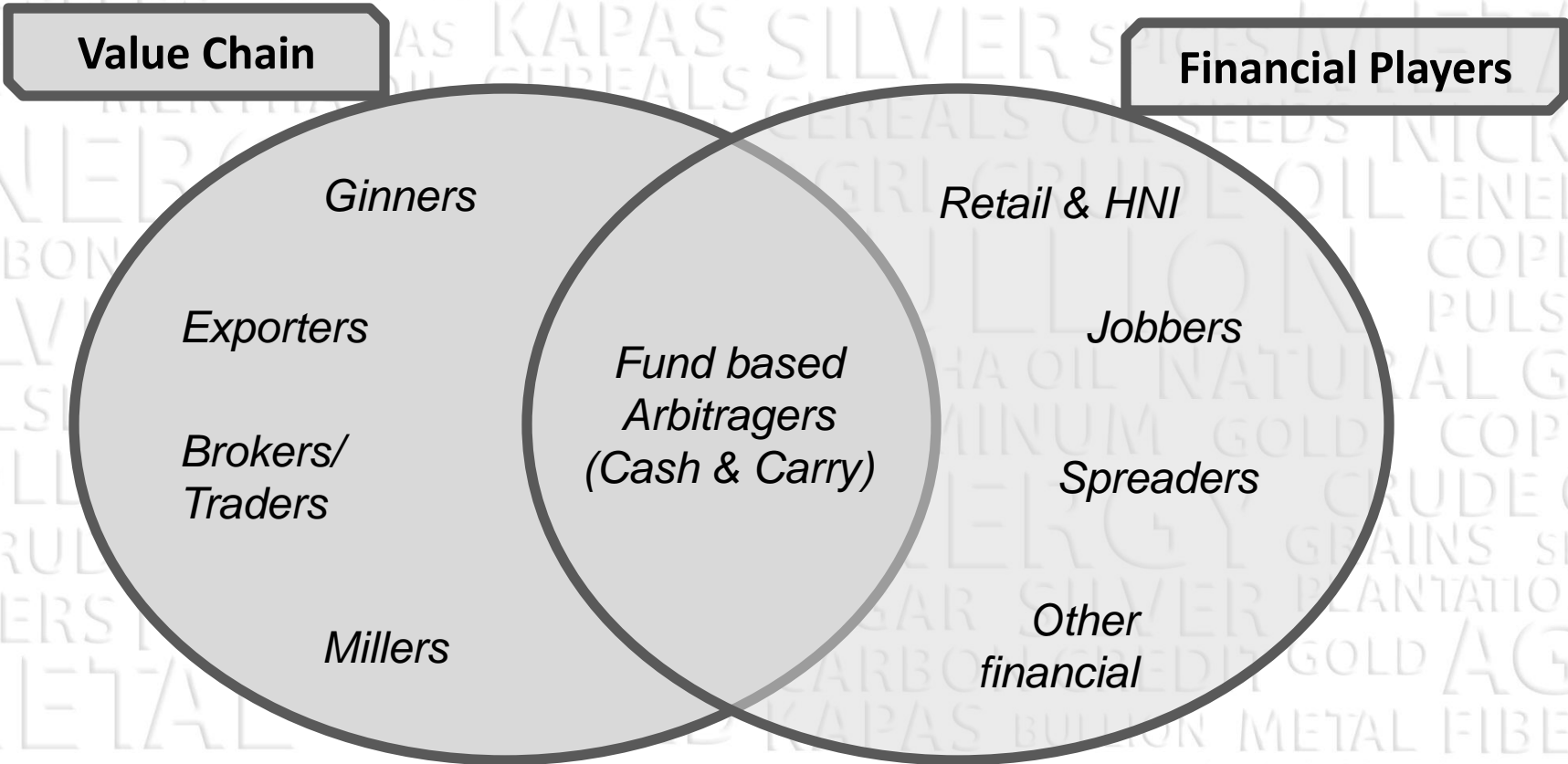
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Season wise Cotton Volatility



Participation Reach



KEY LIQUIDITY DIMENSIONS

DEPTH

MEASURES

- Trading volumes
- Increased Liquidity in mid-months
- Number of participants
- Impact cost

MCX Transaction Charge



Lot Size	25 bales
Price Quote	Rs. Per Bale (of 170 kg. each)
Tick Size	10
Tick value	250

Price (assumed)	16,000
Contract Value	4,00,000
Turnover (both sides)	8,00,000
MCX Transaction Charge	50 Paisa/ L
T. O. Charge/ Lot (Buy + Sell)	Rs 4.00

Process flow to start hedging on MCX

Placing Hedging Proposal to Management

Board Approval for Hedging received

Becoming a direct member of the Exchange

OR


Opening of A/c with MCX Member / Commodity Broker *

Filling Know Your Client Form (KYC)

Margin Money deposited on start of hedging

Commencing hedging through Broker terminal

Thank You



Efficient.
Transparent.
Trusted Risk
Management
Platform.

Hedge using MCX cotton futures

MCX provides a robust futures trading platform to the cotton value chain participants to manage their price risk amidst inherent volatility in cotton prices.

Cotton value chain participants can protect their profit margins of businesses and insure them from price risks by trading on the MCX futures platform.

ADDED FEATURES

- Healthy correlation between the international benchmark cotton prices of the Inter-Continental Exchange, the U.S., and MCX cotton prices, also proves the efficiency of the MCX platform in providing an **efficient hedging platform** to exporters and importers.
- Trust of stakeholders seen in increasing **delivery on MCX**: Increasing from 80,500 bales in 2011-12 crop year to 187,600 bales in 2014-15 crop year.
- The MCX cotton contract Ex Rajkot (Gujarat), (25 bales as trading unit) has a basis staple length of 29 mm, with facility to deliver 27 mm–31 mm at appropriate discounts or premiums **with a deliverable range represents more than 75 per cent of the cotton grown in the country.**
- **Delivery centers** at Rajkot, Kadi (Gujarat), Yavatmal, Jalna, Jalgaon (Maharashtra), Sirsa (Haryana), and Raichur (Karnataka).
- Lowest transaction charges (In cotton) of ₹0.75 per lakh of turnover*.

*Refer circular no MCX/CA&S/053/2014

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