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Commodity options see steady rise on bourses

Incentives for market makers, attractive lot sizes and hedging opportunities help bolster business

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Options contracts in non-agricultural commodities like gold and crude that were unveiled a few months ago are seeing good investor participation due to a combination of factors like market making, attractive lot size and the hedging requirements of market participants, though some of the other commodities are yet to register a strong traction.

On the Multi Commodity Exchange of India (MCX), crude oil options contracts have seen a steady rise since the debut in mid-May, while the turnover of gold contracts rose almost 10 times since the start of the year, partly also due to the exchange's liquidity enhancement scheme (LES).

Last year, the Securities and Exchange Board of India allowed commodity exchanges to unveil options contracts in certain commodities, thereby fulfilling a long-standing demand of the commodity market participants. Currently, MCX offers options contracts in gold, crude oil, copper, silver and zinc, while National Commodity & Derivatives Exchange has guar seed options contracts for trading.

Data showed the average daily turnover in gold options was about ₹64 crore in December, rising to more than ₹700 crore in July. The turnover in gold options contracts has surged since April when the exchange introduced a market making scheme in the contract.

Meanwhile, the average daily turnover in crude oil options contracts that does not have any market making support has risen from ₹117 crore in May to ₹137 crore in July. Market participants said that while commodity options is a good product for investors with hedging requirements, there are still some teething issues that the exchanges will have to resolve for turnover to pick up without market making. Market making refers to incentives provided to trading members that offer buy and sell quotes on the exchanges.

All that glitters

The average daily turnover in gold options surged from ₹64 crore in December to more than ₹700 crore in July

Month	Average Daily Turnover (₹ Cr.)				
	Gold	Crude Oil	Copper	Silver	Zinc
January	77.48	—	—	—	—
February	25.33	—	—	—	—
March	33.52	—	—	—	—
April*	125.73	—	—	—	—
May	646.05	116.84	33.41	31.9	—
June	519.88	127.99	45.78	59.59	24.17
July	728.15	139.79	20.49	19.54	17.31
Date of launch	17/10/17	15/05/18	21/05/18	24/05/18	21/06/18

*Liquidity Enhancement Scheme started from April 24 SOURCE: MCX

Quick acceptance for oil

"Options contracts are a good product and there is a high level of interest among investors," said Kishore Narne, head, Motilal Oswal Commodities. "While crude oil options contracts found immediate acceptance, others, most notably gold, needed the liquidity enhancement scheme primarily due to the big lot size.

There is a large number of retail investors in the commodity market and they find the lot size too big. If the exchange reduces the lot size in precious metals like gold and silver, the traction will go up significantly like we are seeing in crude without any market making scheme," he added.

MCX gold options contracts touched a record notional turnover of ₹2,931 crore on July 24. While the premium turnover was pegged at ₹33.26 crore, the notional volume witnessed on the day was 9,641 kg.

Market participants said physical players from the bullion and jewellery segment are using options as a hedging tool in addition to futures contracts.

However, the options contracts in copper, zinc and silver unveiled a couple of months ago are yet to gain traction.