A Study On Commodity Futures With Reference To Selected Precious Metals At Iifl Wealth Management Ltd

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ABSTRACT

Commodity futures play a crucial role in global financial markets by providing a structured mechanism for price discovery, risk management, and speculative opportunities. Among various commodities, precious metals such as gold, silver, platinum, and palladium hold significant importance due to their intrinsic value, industrial applications, and role as a hedge against inflation and economic uncertainty. This study explores the dynamics of commodity futures trading in the context of selected precious metals. It examines factors influencing price fluctuations, trading volume, and market volatility while analyzing the role of futures contracts in mitigating price risks. The research also investigates the impact of macroeconomic indicators, geopolitical events, and market speculation on the price movements of precious metal futures. Using historical data, statistical analysis, and financial modeling, this study aims to provide insights into the efficiency and effectiveness of commodity futures in price stabilization and investment diversification. The findings will contribute to a better understanding of how futures markets function in the precious metals segment and their implications for investors, traders, and policymakers.

INTRODUCTION

Commodity markets play a vital role in the global economy, providing a platform for price discovery, investment opportunities, and risk management. Among various commodities, **precious metals** such as **gold, silver, platinum, and palladium** have gained significant attention due to their economic, industrial, and investment relevance. These metals are not only valued for their intrinsic worth but also serve as a hedge against inflation, currency fluctuations, and geopolitical uncertainties. Commodity futures contracts, which allow traders and investors to buy or sell a specific commodity at a predetermined price and date, have become essential financial instruments in the trading of precious metals. Futures markets offer participants an avenue to speculate on price movements, manage risks, and enhance market liquidity. The role of commodity futures in price stabilization and economic growth makes them an integral part of the financial system.

NEED OF THE STUDY

The study of commodity futures in the context of selected precious metals (such as gold, silver, platinum, and palladium) is essential due to their significant role in global trade, investment, and economic stability. The following points highlight the need for this study: Precious metals are subject to high price volatility due to geopolitical events, inflation, interest rates, and currency fluctuations. Futures contracts help investors, businesses, and industries hedge against unpredictable price movements, reducing financial risks.

OBJECTIVES OF THE STUDY

1) To examine the role of commodity futures in the price determination of selected precious metals.

2) To examine the level of awareness towards gold exchange traded fund in stock market

3) To examine investment information seeking behaviour of gold exchange traded fund investors.

4) To study market trends, volatility, and speculation in precious metal futures trading.

5) To provide insights into investment opportunities and challenges associated with precious metal futures.

SCOPE OF THE STUDY

The study on commodity futures in relation to selected precious metals (gold, silver, platinum, and palladium) covers various aspects of financial markets, economic influences, and trading mechanisms. The scope of this study includes the following key areas: The study focuses on gold, silver, platinum, and palladium, which are actively traded in futures markets. These metals are analyzed in terms of their market trends, demand-supply dynamics, and investment significance. Examining the structure and functioning of commodity futures markets for precious metals. Understanding the role of exchanges such as the COMEX (New York Mercantile Exchange), London Metal Exchange (LME), and Multi Commodity Exchange (MCX). Studying historical and real-time price movements in precious metal futures. Identifying factors influencing price fluctuations, including economic events, inflation, currency exchange rates, and global crises.

METHODOLOGY

RESEARCH METHODOLOGY

RESEARCH DESIGN

The objectives of the dissertation, a quantitative research was held. The main characteristic of quantitative research is that it is mostly appropriate for small samples, whileits outcomes are not measurable and quantifiable. Its basic advantage, which also constitutes its basic difference with quantitative research, is that it offers a complete description and analysis of a research subject.

3. Data Analysis Techniques

- **Statistical Analysis:**
o Use of **descriptive statistics** (mean, median, standard deviation) to assess price volatility.
o **Time series analysis** to study trends and patterns in the futures market.

- **Correlation and Regression Analysis:**
o Examining relationships between macroeconomic indicators and precious metal futures prices.
o Identifying key factors that drive market fluctuations.

- **Technical Analysis:**
o Applying indicators such as Moving Averages, Relative Strength Index (RSI), and Bollinger Bands to understand market trends.
o Evaluating trading volumes and price movements to predict future trends.

LIMITATIONS OF THE STUDY

1) The study focuses on major global futures exchanges dealing with precious metals.

2) It considers a specific timeframe for analysis, typically ranging from past 5-10 years for trend evaluation.

3) The study may have limitations due to market unpredictability, data accuracy issues, and external economic disruptions affecting price trends

4) **Limited Time Frame** The study was conducted within a restricted time period, which may not capture long-term trends or seasonal variations in commodity futures, especially in the context of precious metals.

REVIEW OF LITERATURE

Speculation and Market Dynamics in Precious Metals Futures

Sifat et al. (2021) investigated speculative activities in energy, precious metals, and agricultural futures during the COVID-19 pandemic. Their study revealed that speculation in precious metal futures intensified during the crisis, leading to increased market volatility without corresponding abnormal returns. This suggests that during unprecedented crises like the pandemic, speculative behaviors in precious metals futures markets may exacerbate price fluctuations without yielding significant profits for traders.

Bosch and Pradkhan (2015) examined the impact of speculation on precious metals futures markets. They found that while speculative activity did not significantly affect short-term returns and volatility post-2006, there was evidence of a destabilizing impact on conditional volatility in gold, silver, and palladium futures markets prior to June 2006. Additionally, they observed a potential long-term destabilizing effect on returns when considering accumulated positions of speculators over monthly horizons. ResearchGate+1ADS+1ADS

DATA ANALYSIS AND INTERPRETATION

TABLE SHOWING PERFERENCE BEST POSSIBLE RETURN

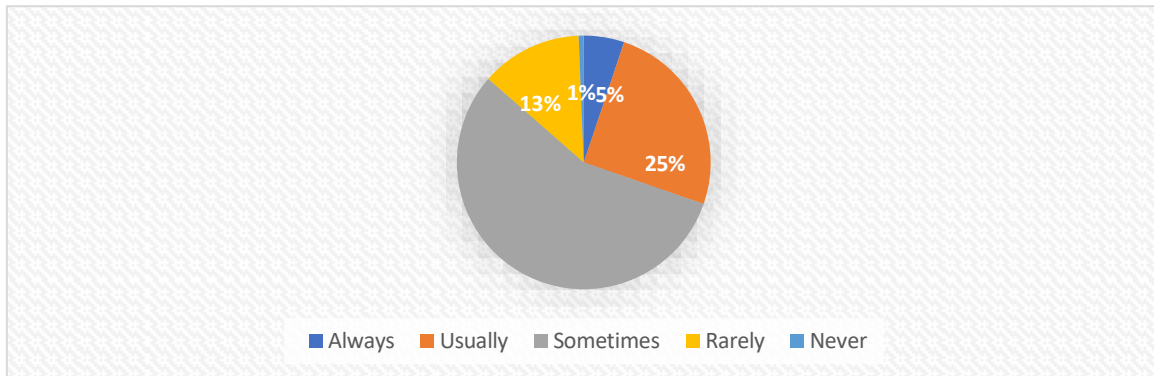| Particulars	No. of Respondents	Percentage of Respondent
Always	8	5
Usually	39	25
Sometimes	87	13
Rarely	20	56
Never	1	1
Total	155	100

SOURCE: PRIMARY DATA

CHART SHOWING PREFERENCE BEST POSSIBLE RETURN

INTEPRETATION

From the above table is interpreted that the number of respondent always is 5%, usually is 25%, sometimes is 56%, rarely is 13% and never is 1%.

INFERENCE

The majority of respondents are rarely the best possible return even if there were risk involved in the commodity trading.

TABLE SHOWING INVESTORS MONEY TO BE SAFE EVEN IF IT MEANS LOWER RETURN

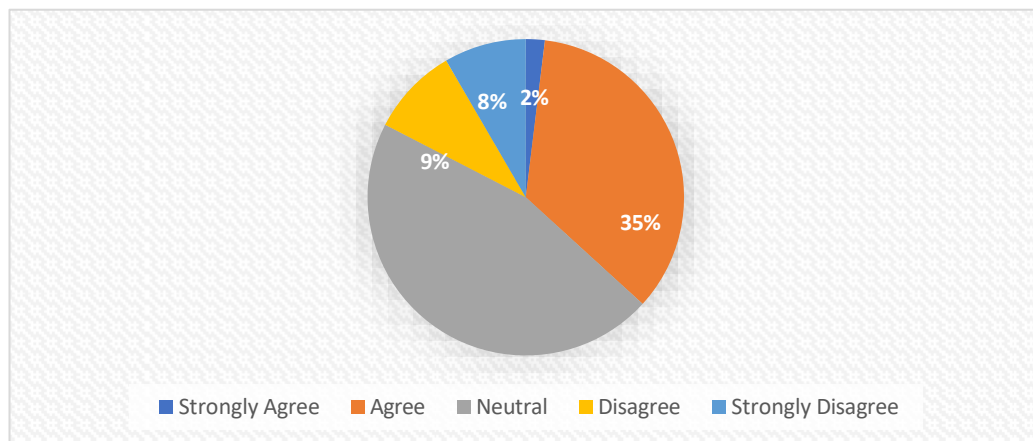| Particulars	No. of Respondent	Percentage of Respondent
Strongly Agree	3	2
Agree	54	35
Neutral	71	46
Disagree	14	9
Strongly Disagree	13	8
Total	155	100

SOURCE: PRIMARY DATA

CHART SHOWING INVESTORS ON MONEY TO BE SAFE EVEN IF IT MEANS LOWER RETURN

INTERPRETATION

From the above table it is interpreted that the number of respondent strongly agree is 2%, agree is 35%, strongly agree nor disagree is 46%, disagree 9% and strongly disagree is 8%.

INFERENCE

The most of the respondents are strongly agree nor disagree in investment money to be safe even it is means lower return.

INFERENTIAL ANALYSIS

ONE WAY ANOVA ANALYSIS

One- way Anova is a statistical technique that is used to compare the means of more than two groups.

STATISTICAL ANALYSIS

Null Hypothesis (H0): There is no significant difference among various age group on trading frequency habit.

Alternate Hypothesis (H1): There is significant difference among various age group on trading frequency habit.

DESCRIPTIVES

	N	Mean	Std deviation	Std. Error	95% Confidence Interval for mean		Minimum
					Lower Bound	Upper Bound	
Less than 20	5	2.80	.447	.200	2.24	3.36	2
20-35	34	2.44	.991	.170	2.10	2.79	1
35-50	74	2.23	.915	.106	2.02	2.44	1
50 and above	42	1.95	.987	.152	1.64	2.26	1
Total	155	2.22	.955	.077	2.07	2.37	1

ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	6.360	3	2.120	2.386	.071
Within Groups	134.182	151	.889		
Total	140.542	154			

RESULTANOVA was performed to examine the difference among age group on trading frequency habit.

Results of ANOVA showed P value 0.071 is more than 0.05 or p >.005 hence null hypothesis is accepted. There is no significant difference among age group on trading frequency habit.

ONE WAY ANOVA ANALYSIS

One- way Anova is a statistical technique that is used to compare the means of more than two groups.

STATISTICAL HYPOTHESIS

Null Hypothesis (H0): There is no significant difference among various age group on the literacy awareness level.Alternate Hypothesis (H1): There is significant difference among various age group on literacy awareness level.

DESCRIPTIVE

	N	Mea n	Std deviatio n	Std. Error	95% Confidence Interval for mean		Minimum
					Lower Bound	Upper Bound	
1	5	2.40	.894	.400	1.29	3.51	1
2	34	2.21	.808	.139	1.92	2.49	1
3	74	2.24	.658	.077	2.09	2.40	1
4	43	2.26	.727	.111	2.03	2.48	1
Total	156	2.24	.713	.057	2.13	2.36	1

ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	.177	3	.059	.114	.952
Within Groups	78.566	152	.517		
Total	78.744	155			

RESULT

ANOVA was performed to examine the difference between various age group on literacy awareness level.

Results of ANOVA showed P value .952 is more than 0.05 or p >.005 hence null hypothesis is accepted. There is no significant difference amoung various age group on literacy awareness level.

CORRELATION

Correlation is a statement technique for investigating the strength and direction of the relationship between quantitative continuous variables, Correlation measures the degree of association between two variables.

STATISTICAL HYPOTHESIS

Null Hypothesis(H0): There is no relationship between trading frequency habit, goal of an investors, literacy awareness level, emotional risk tolerance.

Alternate Hypothesis(H1): There is relationship between trading frequency habit, goal of an investors, literacy awareness level, emotional risk tolerance.

DESCRIPTIVE STATISTICS

	Mean	Std. Deviation	N
Trading Frequency Habit	2.33	.675	156
Goal of an Investor	2.27	.703	156
Literacy and Awareness level	1.78	.540	156
Emotional Risk Tolerance	2.50	.606	156

CORRELATIONS

		Trading Frequency Habits	Goal of an investor	Literacy Awareness Level	Emotional Risk Tolerance
Trading Frequency Habits	Pearson Correlation	1	.299**	.260**	.095
	Sig.(2-tailed)		.000	.001	.240
	N	156	156	156	156
Goal of an investor	Pearson Correlation	.299**	1	.075	.121
	Sig.(2-tailed)	.000		.351	.132
	N	156	156	156	.156
Literacy Awareness Level	Pearson Correlation	.260**	.075	1	.108
	Sig.(2-tailed)	.001	.351		.178
	N	156	156	156	156
Emotional Risk Tolerance	Pearson Correlation	.095	.121	.108	1
	Sig.(2-tailed)	.240	.132	.178	
	N	156	156	156	156

Correlation is significant at the 0.01 level (2 -tailed).

RESULT

The results from Table indicates that the trading frequency habit ,goals of the investor, literacy awareness level and emotional risk tolerance 1 and 0.00 are positively and significantly correlated with each other (p<.01). The correlations between .095 and the .000 exhibit a positive correlation. The correlations between .240 and the .001 exhibit a positive correlation. The correlations between .156 and the .121 exhibit a positive correlation. The correlations between .156 and the .132 exhibit a positive correlation. The correlations between .108 and the .178 exhibit a positive correlation. P value .09, .240,.15, .12, .13,.15,.10,.17,15,1 which above 0.05. So H0 is accepted and H1 is rejected.The correlation between the variables are low and moderate.

FINDINGS

- The majority 58% of the respondents are Female.

- The most 48% of the respondents are age between 35-50 years.

- The majority 53% of the respondents are under graduate

- The most 31% of the respondents are monthly income

- The Most 47% of the respondents are showing in business people in Occupation wise calculation.

- The most 42% of the respondents are showing Three to Four years of participation in the commodity trading.

- The most 34% of the respondents are consulted through friends for commodity trading.

- The most 43% of the respondents are preferred to buy Bullion – gold; Silver.

- The most 42% of the respondents are mostly satisfied with return from investment.

- The most 24% of the respondents are showing liquidity factors preferred by the investors.

- The most 33% of the respondents are wealth maximization factors are motivated in the commodity trading.

- The most 40% of the respondents are neutral about awareness in gold investment.

- The majority 65% of the respondents are aware to a certain extend in charges levied by brokerage firms.

- The most 41% of the respondents are neutral in ability to invest.

- The most 26% of the respondents are rate of interest and money inflation that affects in the change of gold prices.

- The majority 63% of the respondents are not invested to avoid loss in commodity trading.

- The majority 69% of the respondents are rarely grievances while transacting in commodity market.

- The most 46% of the respondents are positively had stock exchange grievances

SUGGESTIONS

- From survey it is found the most of the potential customers are concerned about the brokerage charges. If it can charge moderate brokerage it will help to attract more and more customers.

- More agents and marketing executives should be appointed to educate customers

- Investing in gold as a benefit is constantly useful for long haul.

- You may invest in gold ETF or gold funds either directly with a mutual fund distributor.

- You can also invest in these funds with the help of a mutual fund distributor.

- Many of the investor are speculator and want to earn high income at faster growth rate so the firm has to concentrate more on the speculator who want to earn higher return at the shortest period**.**

- The investor should wait till the end of the bear market to make their investment strategy.

- Investors who are students above 18 years of age may invest in direct plans of mutual funds through AMC.

CONCLUSION

The study concludes that information on overall commodities and awareness and flucations on gold towards

domestic into international and also market news creates much impact on gold and it helps all the clients to invest in gold and the demand for is always on the rise, since a trunk of gold is always monetary assets and great social status value and other forces that affect financial assets, the factors affecting gold are very different**.** They select suitable investment schemes with regard to their annual income, monthly savings objective, time of investment, investment objective, and reasons for investment in gold exchange traded fund and level of risk. The gold exchange traded funds investors change the investment frequency, preferred level of risk and sources of information for performance analysis to overcome the problems with regard to making investment in gold exchange traded funds. Hence, these factors enable the investors to make right decisions and to overcome the problems with regard to making investment in gold exchange traded funds.

BIBILOGRAPHY:

📚 Books on Commodity Futures:

1. **"Commodity Derivatives: Markets and Applications"** – Neil C. Schofield
o Comprehensive guide on commodity derivatives, including futures, options, and swaps.
2. **"Trading Commodities and Financial Futures"** – George Kleinman
o Practical insights into how commodity and financial futures markets operate.
3. **"Options, Futures and Other Derivatives"** – John C. Hull
o Widely used textbook in finance; includes detailed sections on commodity futures

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🌐 Websites for Data & Research:

1. **Multi Commodity Exchange of India (MCX)**
o Real-time prices, contract specifications, and reports.
2. **National Commodity & Derivatives Exchange (NCDEX)**
o Information on agricultural and non-agricultural commodity futures.
3. **Commodity Futures Trading Commission (CFTC)**
o U.S. regulatory body; provides reports, data, and regulations.

📖 Academic Journals:

1. **Journal of Futures Markets**
o Publishes research on derivatives markets, including commodity futures.
2. **The Journal of Derivatives**
o Focuses on derivative instruments, pricing, and hedging strategies.
3. **Journal of Commodity Markets (Elsevier)**
o Covers financial and economic aspects of commodity markets.