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Mr. Sajnani has more than ten years of experience in the Indian financial markets. After completing his MBA in the Finance stream, Mr. Sajnani started his career at IL & FS Investsmart as a Senior Research Analyst, where he initiated commodity trading desk and developed quantitative finance tool for trading in equity derivatives. Since December 2005 till date Mr. Sajnani is associated with JM Financial Services Ltd. (JMFL). As an AVP of research team for commodities and currencies, at JMFL, Mr. Sajnani is responsible for business development, hedging/risk management associated with clients having underlying exposure to bullion/crude oil and devising company strategy.

1. In the Indian financial markets, commodity futures are seen as a portfolio diversification tool. What kind of interest do you observe in this regard among market participants and among your clients?

Commodity futures are definitely looked at as an alternative asset to speculate in and traders use bullion to hedge against unforeseen gyrations in the Indian capital markets. But a structured approach to encourage diversification flavour of commodities is the need of the hour, amongst a large set of market participants. Amendment of FCRA, introduction of commodity index-type derivative products would encourage "portfolio" approach in the commodities' investing style. For example: the introduction of rainfall index derivatives would prove beneficial to farmers, Nifty investors. The clients, who are in the business of hedging commodities or bullion, look forward to the exchange platform for a suitable hedge. Much of the current business in commodity futures is speculative in nature and primarily intraday trading. Improved training and knowledge dissemination would lay the foundation for commodity futures to be seen and used as a diversification tool.

2. NCDEX has launched innovative contracts in bullion, viz., Gold Hedge and Silver Hedge. Can you tell us about your experience of trading in these hedge contracts? What advantages do you think these hedge contracts offer to different market participants in the country?

With volatility in bullion prices on the rise, the need of the hour was to introduce contracts which would enable industry (jewellers) to hedge their exposure and requirement, without worrying about or being influenced by custom duty changes or other taxes or delivery related concerns. The key is import parity price for the jeweller and that is determined primarily by COMEX price converted to Rs/10gm. The hedge contracts designed by NCDEX follow this discipline and Indian jewellers who wish to hedge themselves with Indian prices of gold have shown interest. The concern from market participants, however, has been liquidity and to encourage vibrant participation from hedgers, far month liquidity should be deep.

3. In your opinion, how effective are Gold hedge contracts in addressing physical market anomalies?

The hedging inefficiency which would occur due to abrupt change in import duty or levies on gold and varying local spot market premia stands addressed by introduction of Gold hedge contracts. This enables Indian jewellers to hedge on the exchange without worrying about "local price aberrations" due to above factors and captures the actual movement of gold prices.

4. Do you see that Gold hedge contracts have a potential to promote financialisation of the incremental demand for gold in India?

Indian government would be happy to witness that physical gold imports are steady and do not balloon. With the characteristics engrained in Gold Hedge contracts, interest by speculators and long term positional investors should increase, which would be a boon to Indians looking to invest in "financial gold" also.

5. Off late silver prices in India are seen getting impacted with gold imports becoming costlier due to series of restrictions imposed by fiscal as well as monetary authorities in the country. In this context, do you think Silver hedge futures contracts would serve as an effective hedging tool?

Yes, Silver, which is considered the poor cousin of gold, would with rising prices of yellow metal garner incremental interest and hence the requirement of Silver hedge contract is essential.

6. Do you think evening trading in internationally-linked agricultural commodities will help improve trading efficiency? How?

Hedgers and business personnel were looking out for avenues to hedge exposure to internationally linked agricultural commodities in an effective and seamless manner. The evening session enables traders to participate in a more synchronous manner with the international gyrations. This improves risk management and discontinuity of prices due to lack of evening trading stands corrected.

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