Exchange Traded Forwards: Flexibility in Delivery Systems

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Deliveries are an indispensable part of commodity trade, be it spot or futures. Most efficient price discovery with maximum convergence with physical market takes place only when contracts are delivery based. In futures, though delivery is not an end in itself, the threat of delivery dissuades participants from artificially rigging up or depressing futures prices and ensures that convergence takes place between spot and futures on the settlement date.

The recently launched exchange-traded forwards by NCDEX are compulsory delivery contracts. They guarantee delivery of the underlying commodity as against the futures contracts which permit settlement of trade without taking deliveries.

Moreover, exchange traded forwards allow trading parties to decide the delivery location as per their mutual consent, instead of limiting their choices to exchange-approved warehouses as in the case of futures transactions. A maize seller, for instance, by entering into exchange traded forwards, can make deliveries in multiple consignments by using a uniform delivery mode for all deliveries for the contract, as agreed at the time of trade. He can make delivery at rake point or truck point within 100 kms of agreed location. Alternately, he can opt for direct delivery mode, or simply deliver at exchange-approved warehouses through COMTRACK, to track the movement of goods online. This helps in optimising delivery and transportation costs.

"Multiple delivery options is a great convenience, especially for those who do not have delivery infrastructure of their own across the country,'' said Vijay Jain, Director, Samriddhi Commodities, a commodity trading firm from Kolkata that participates in maize forwards. "We can compare physical price and future price of a commodity and if the physical price is higher we can also sell our commodity on forward segment instead of giving delivery on the futures segment.''

With futures exchanges in India only being a decade old, there has been limited success with augmenting deliveries. Exchange traded forwards have the potential to plug this gap. The flexibility provided by exchange traded forwards with regards to location and mode of delivery and the consignment size, would help traders give and take deliveries at locations that are not covered by existing delivery network under futures market. This would allow more number of physical market players to participate in this market, widen their market reach and grow their business.

The NCDEX Edge:
• Reduction of Bilateral Agreement Risks
• Flexible Contracts
• Reduced Operating Costs • Access to National Market Place

THE DELIVERY MODE FOR TRADES UNDER FORWARDS SEGMENT ARE:
• Free On Truck (FOT) basis as delivery mode from seller's location • Free On Rail (FOR) basis as delivery mode from seller's location • Ex-NCDEX Warehouse (ENW) - COMTRACK as the delivery mode from Ex-NCDEX Warehouse (ENW)

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