Price Efficiency and Volatility in Agri Commodities Market in India: An Empirical Investigation

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Abstract
The agriculture is a seasonal industry which creates higher price volatility and makes agriculture a very risky enterprise. Price discovery is facilitated by trading of commodity futures and consequently instability in the price of the underlying is reduced. In this study endeavor has been made to assess the futures trading impact on Indian market regarding agricultural commodities. The information regarding the daily prices of spot and futures markets, for 5 years (January 2011 – December 2015), for four agricultural commodities, which is taken from four diverse categories of agricultural products i.e. Castor seed (as Oil Seed), Chana (as Pulses), Kapas (as Fibre), Turmeric (as Spices) are integrated into various econometric models to analyze the concerned purpose. This study inspects the efficiency of price and effects of unpredictability spillover in agricultural commodity market of India by means of test of Johansen Cointegration, VECM and bivariate model of EGARCH(1,1) with respect to selected commodities of NCDEX. The empirical findings extensively signify that futures market of agriculture commodity is more proficient in terms of price efficiency and information dissemination as compared to the spot market. In addition, the study outcomes demonstrate that the spillover of information occurs from future to spot market along with this, the future market contain the potential to depict the most up-to-date information. The study results have realistic propositions for financiers and market partakers because they desire to circumvent price risk aligned with the unfavorable movement of prices. Financiers may make use of the futures price, which have a propensity to ascertain latest information more speedily than the spot prices. Furthermore, the policy makers who can better understand the interdependence of these markets will be able to coordinate the stability of financial markets easily.

Keywords: Price Discovery, Volatility Spillover, Cointegration, VECM, EGARCH Model

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