

A STUDY ON EFFICIENCY OF STEEL FUTURES MARKET IN INDIA

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Abstract

Indian steel futures markets are in relatively nascent stages as compared to the older and more developed markets of the west. The paper presents a study of the production and consumption trends of steel in India and the efficiency of the two major steel exchanges in India. The study revealed that India's steel consumption is expected to almost double to 124 million tonnes a year by 2012–2014 from 65 million at present levels. There is massive expansion going on in the steel sector in the country, both in the public and private sector that will see India becoming a major steel producer by 2012–2014. A study on the factors influencing the steel prices revealed that the volatility in the steel industry has been fueled by various factors like demand-supply imbalance, raw material prices, changes in the crude-oil price, business cycles, production constraints, trade policies, US dollar value, funds by the government and the Chinese demand. Among the various factors influencing the steel prices it was found that the factor which had a greater influence on the steel prices was the fluctuations in the business cycles followed by the production constraints and the trade policies. The Multi Commodity Exchange (MCX) of India began its steel futures trading on March 12, 2004. The results of Trace cointegration tests (Johansen's method) between 1 year MCX futures and spot prices show the presence of cointegration between spot and futures prices. This indicates that the MCX steel futures market is efficient and the cointegrating equations can be used to predict spot values from the prior future values. The study also explores the relationship between the domestic and the international steel futures prices, thus proving India's status as a price taker in the steel market.

Keywords: steel futures, MCX, cointegration test.

JEL Classification codes: G13, G14, H21.