

Derivatives Trading

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Why in news?

- On December 20, 2021, the capital markets regulator suspended futures trading in seven commodities, viz., wheat, paddy (non-basmati), moong, chana, soybean and its derivatives, mustard seed and its derivatives, and palm oil and its derivatives on the exchanges.
- The trading was initially suspended for a year, but in December 2022, the ban was extended for another year, i.e., until December 20, 2023.

What is derivative trading in commodities?

- The derivatives are short-term financial contracts that are bought and sold in the market.
- Profits are made in the derivatives trade by predicting the price movements of the asset that underlies the contract.
- The derivatives trade can be in **futures and options**.

- In a futures contract, a supplier pledges to sell a certain quantity at a fixed price at a future date.
 - An option is a derivative contract which gives the buyer (the owner or holder of the option) the right, but not the obligation, to buy or sell an underlying asset.
 - Farmers can put fixed amounts of their products, which fit the quality standards of the exchange, to be sold at a fixed price — almost like price insurance.
 - These contracts can be exited by either the producer or the trader by paying a margin price to the exchange.
 - Agricultural commodities like cotton, paddy, soya bean, soya oil, mustard seed, etc., are traded on the **National Commodities and Derivatives Exchange (NCDEX) and the Multi Commodity Exchange (MCX).**
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Q1) What is National Stock Exchange of India Limited?

The National Stock Exchange of India Limited (NSE) is India's largest financial market. Incorporated in 1992, the NSE has developed into a sophisticated, electronic market, which ranked fourth in the world by equity trading volume.

Source: [SEBI ban on Agri commodities trade: Why farmers are protesting against the regulator in Mumbai](#)

Source: <https://vajiramandravi.com/current-affairs/derivatives-trading/>

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