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### Efficiency of Indian Commodities Market: A Study of Agricultural Commodity Derivatives Traded on NCDEX

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### Abstract

Since commodity "futures" trading was permitted in 2003, the commodity derivative market in India has witnessed phenomenal growth. Though the volume of commodity futures trade increased exponentially since its launch in 2003, the functioning of the futures market came under scrutiny during 2008-2009 due to price rise and the role of futures market in stabilizing spot prices was widely discussed.

The study aims at testing the weak form of Efficient Market Hypothesis in the context of an emerging commodity market - National Commodity Derivatives Exchange (NCDEX), which is considered as the prime commodity derivatives market in India.

The study considered daily spot and futures prices of four agricultural commodities traded on NCDEX over a 13 month period (the futures contracts originating and expiring during the period July 2008 to July 2009). The four commodities chosen are Pepper, Refined Soya Oil, Guar seed and Chana as they account for almost two-thirds of the value of agricultural commodity derivatives traded on NCDEX.

27 Future Contracts for the above four commodities were analyzed for the period of study. Autocorrelation and Run test have been used to test the efficiency of the agricultural commodity market. It has been observed that the coefficients are high for lags in the beginning and the values continue to fall as the lags increase. However, the fall in values of autocorrelation coefficients is not much. This may suggest that information embedded in longer period of lags would be as influential in determining future price as that of information embedded in short lag periods. The results of Autocorrelation and Run test indicate that both spot and futures prices are weak form efficient.

Keywords: Efficiency, Commodities, market, derivatives, agricultural, Random Walk theory, Efficient Market Hypothesis

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