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FUTURES CONTRACT OFFERS PROTECTION TO FARMERS FROM CRASH IN PRICES

Glut is indispensable during times of bumper harvests and so is the associated price dips. A farmer in his life time would have experienced this many times. So far, this phenomenon was considered a natural outcome without any plausible remedy at hand. However, this perception has been effectively challenged by Samriddhi Mahila Crop Production Co. Ltd, a farmer-producer organization (FPO) for women in Bundi district of Rajasthan which has converted this dire situation into a wonderful opportunity.

Futures contract route helps the farmers to decide on a trade for a standing crop at a future date at a price agreed before the harvest. This is a suitable instrument to offset risks associated with price dip, a common phenomenon during peak harvest seasons. Farmers become aware of the market prices for their commodity by comparing the spot prices and prices prevailing in the future market. Forward markets thus give farmers an opportunity beyond Minimum Support Price to ensure price recovery and profit realization. Farmers with regular acquaintance with forward markets can understand the price trends for a particular agricultural commodity at a commodity exchange and they can decide on the sowing pattern. Farmers thus can cultivate crops according to the market demand lending a business behavior to this age old profession. The existence of commodity exchanges has the potential to enhance farmers' bargaining power at the local mandis as they are aware of the market price, both futures and spot.

However, not all agriculture commodities are allowed to be traded in future category. Currently rules do not allow futures trading in pulses and rice over fears it may lead to speculation or stoke inflation. But many experts differ on this perspective. Participation in futures market by individual farmers would look too far-fetched considering the prevalence of high membership fees, high margin deposits, portfolio management and limited produce, which farmers would find too harsh to comply. But for groups of farmers registered as FPOs, these limitations can easily be circumvented.

Futures contract which has so far remained an outsider has slowly crept into the trading network of the farmers. Samriddhi Mahila Crop Production Co. Ltd., an FPO with 2,300 members, used the futures market to sell produce at prices that were higher than what wholesale markets offered two months later. In September 2016, it sold 100 quintals of soybean on the NCDEX (National Commodities and Derivates Exchange) futures platform at 3,300 per quintal. By November, when markets were flooded with soybean following a record crop, prices had fallen to 3,000 per quintal securing a profit of 30,000 for the FPO. The experience has prompted the group to take more positions: since January 2017, the FPO has sold 400 quintals of mustard on NCDEX for delivery in April at 3,900 per quintal. The current mandi or spot price for mustard is 3,500 per quintal and a record harvest means prices may dip further. Apparently, this is not a local phenomenon and more farmers have turned to this option as an official means to offset risks. According to NCDEX, over 25,000 small and marginal farmers from 13 FPOs have successfully hedged their crops on its trading platform in the past 10 months.

Thus, when India as a nation is ardently pursing the prospect of cashless transaction combined with the objective of digitization, futures trading at commodity exchanges look more realistic than ever. So taking cue from FPOs like Samriddhi Mahila Crop Production Co. Ltd, India can think of extensively popularizing the same among farmers as it holds immense potential in doubling farmer's income.