Why is the Commodity Market Inaccessible to All?

Measuring Investors' Awareness Level and Penetration into Commodity Trading in South Tamil Nadu

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Nowadays commodity trading research is gaining greater attention among researchers. The reason is that commodity trading is the deciding factor of product-price fixation, price- fluctuation gain, and economic development. The study attempts to find out the investor's awareness level of commodity trading in the region selected for the study and is impact. The sample size is 279, data was collected at Tiruvannamalai, Vellore and Kallakurichi districts of South Tamil Nadu. The results show that lack of commodity trading awareness and technical knowledge is a real barrier to entering into trading. Still, most of the village people do not know much about commodity trading. Government, policy makers and trading agencies have the responsibility to create the awareness and educate the public to enable the people to be potential investors.

Keywords: Commodity –Trading –Awareness–Pension–Investment

1. Introduction

The *Cambridge Dictionary* defines commodity as a substance or product that can be traded, bought, or sold. India has six national exclusive commodity exchanges, namely;

1. Multi Commodity Exchange (MCX),
2. National Commodity and Derivatives Exchange (NCDEX),
3. Indian Commodity Exchange (ICEX),
4. National Multi-Commodity Exchange (NMCE),
5. ACE Derivatives Exchange (ACE) and
6. Universal Commodity Exchange (UCX).

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Presently, the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) also trade in commodities. Commodities market/share playing a vital role in the growth of the Indian economy. They also determine the price fixation of the commodities. The Forward Markets Commission (FMC) was the chief regulator of commodity futures markets in India. The Commodity Derivatives Market Regulation Department (CDMRD) is the division of the SEBI as the approved agency for registration, recognition and administration of Recognized Stock Exchanges. Clearing corporations and control the commodity derivative segment including ownership, governance, demutualization and exit.

Gordon, Hannesson and Kerr (1999) defined commodity that will possibly improve the allocation of marketing resources and public funds. A commodity market trades in raw or primary products rather than manufactured products (Teall, 2018). Commodities are classified as soft, energy, precious metal, industrial, and other categories. The pan-India turnover in commodity derivative segment during 2020-21 was Rs. 92,22,927 crore, compared to Rs. 92,24,839 crore in 2019-20, as per SEBI data.[1] Commodity trading profits were extremely low due to the recent global financial crisis caused by the pandemic - 'Covid-19' (Narayan, Narayan, & Sharma, 2013).

Commodity investment also has been very low. Many studies are concentrating on equity trading. Commodity marketing is growing fast. It is necessary to address this topic right now. This study is undertaken essentially to know the commodity trading opinions, habits and the perceptions of investors about the commodity marketing.

The objective of the study is to find out the awareness level of commodity trading in the southern part of Tamil Nadu. The secondary objective is to find out the potential for the penetration and future scope of commodity trading in the region under study. Commodity trading creates more social awareness and helps over-all economic development. The study is useful to general investors, on-line traders and policy makers. The present study also makes an attempt to answer the following questions:

1. What is the awareness level of commodity trading in the southern section of the state of Tamil Nadu?
2. Why is the commodity market unreachable to all?

1. https://www.financialexpress.com/market/mcx-sees-dip-in-futures-turnover-amid-bullion-trade-losing-sheen-options-trade-up/2330932/

Structure of the Study

This paper is structured as follows. The introduction in Section 1providesthe basis of commodity market, importance of the study and objectives of the study. Section 2 reviews the literature in the areas of commodity markets, awareness level and trading. In Section 3, the research framework, which includes a description of the questionnaire used, sample selection, data collection and tools for analysis is described. Section 4 considers the results and a discussion. Section 5 deals with the managerial implications. This is followed by conclusion, limitations of the study and scope for further studies.

2. Study of Related Literature

Krishnudu and Naik (2018) found no significant relationship between occupation, annual income, educational pre-requisite and purpose of investment in non-agricultural commodities. Commodities are not to be considered as an homogeneous asset class (Creti, Joëts& Mignon, 2013). Considerable differences exist between equity and commodity-trading commission Moderate brokerage charges are essential in commodity trading (Chandrakumar, 2018). The Common view is that, platinum and gold commodity trading is unprofitable (Narayan *et al.* 2013). Commodity investment behavior depends on income and risk taking capacity of the investors (Dhinakar, 2019). Any product cannot be considered as a commodity (Gordon *et al.,* 1999). Deepak and Kumar (2018) found that perception and awareness are low relationships in commodity trading. The bearish impact of a falling dollar on bonds and stocks is felt when commodities' prices start to rise. Murphy (1991) indicated that values of currency, bonds and stocks decrease when commodities' prices start to increase.

3. Methodology and Procedures

3.1 Instrument

In the survey containing questions demographic details about the respondents was also included regarding gender, age, marital status, income levels, place of residence, geographical area of the respondents, educational level, and occupation. Only one question was open-ended for the reason that computation and interpretation of such questions can be difficult and subjective. The author used the open-ended question technique to get feedback from respondents regarding commodity trading and the data has been incorporated into the recommendations.

The questionnaire was pre-tested by professionals for assessment and process evaluation to make sure that the precise wordings, length, sequencing of questions and formats were appropriate. All the statements were scrutinized, analyzed and rearranged to suit the commodity marketing, trading and obtaining awareness requirements. The respondents were asked to provide feedback on ambiguities and structure (if any) of the questions. On the basis of the pre-test, the original questions were reformulated and developed with some corrections. All the multiple-item responses in this study were measured on the seven-point Likert- scale.

Study population: The data for the study was collected from the Tiruvannamalai, Vellore and Kallakurichi districts.

3.2 Sample Design

The snowball-sampling procedure was adopted to study the data. The questionnaires were sent, seeking responses from friends and family members, via emails and other electronic channels like social media. Data collected through online responses to questionnaires was analysed for this study. Out of the 327 online questionnaires, 279 responses were obtained, and deemed usable; the rest were eliminated due to double entry, ambiguity, and blanks. Online questionnaire was designed using Google platforms, and the links were sent to students, friends and relatives. To identify the respondents through the referral chain (Biernacki & Waldorf, 1981) requests for participating in the survey were sent through email and mobile messages. The total approved sample size was 279.

3.3 Demographic Analysis

Table 1. Demographic Profiles of the Respondents

Variable	Items	Frequency	Percent
Gender	Male	202	72.4
	Female	65	23.3
	Prefer not to say	12	4.3
Marital Status	Married	203	72.8
	Unmarried	64	22.9
	Widow / Broken Family	12	4.3
Age	Above 18 and Below 25	47	16.8
	26 to 40	165	59.1
	41 to 55	45	16.1

	55 to 65	11	3.9
	Above 65	11	3.9
Education	School Education	47	16.8
	Undergraduate	164	58.8
	Postgraduate	44	15.8
	Other Education qualified	24	8.6
Occupation	Government Employee	63	22.6
	Private Employee	146	52.3
	Own Business	44	15.8
	Unemployed	26	9.3
Employment Mode	Full Time	192	68.8
	Part Time	47	16.8
	Flexi Working Time	10	3.6
	Not Applicable	30	10.8
Experience	Less than a year	47	16.8
	2 to 5	79	28.3
	6 to 15	87	31.2
	16 to 30	42	15.1
	Above 30	24	8.6
Area	City	22	7.9
	Urban	150	53.8
	Semi Urban	36	12.9
	Rural	71	25.4
Income	Below 10,000	59	21.1
	10,001 to 20,000	163	58.4
	20,001 to 40,000	33	11.8
	Above 40,001	24	8.6
Years of Trading	Nil	102	36.6
	One Year	52	18.6
	Two to Five Years	24	8.6
	Six to Ten Years	33	11.8
	More than Ten Years	68	24.4

Data Source: Primary data

4. Results and Discussion

4.1 Sampling Adequacy

Table 2: Kaiser-Meyer-Olkin Measure of Sampling Adequacy

Kaiser-Meyer-Olkin (KMO) and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy		.970
Bartlett's Test of Sphericity	Approx. Chi-Square	2535.119
	df	171
	Sig.	.000

The KMO-test value shows 0.970 and the Bartlett test value of $p<0.00$. Therefore, the results of the study are significant (Hair, Black, Babin, & Anderson, 2010).

4.2 Descriptive and Model Test

Table 3: Mean, Standard Deviation, Standard Error Mean, T-value and Significance

Items	Mean	Std. Deviation Mean	Std. Error	T test		
				t	df	Sig. (2-tailed)
Knowledge about capital market	5.333	1.467	.088	60.740	278	.000
Commodity trading knowledge	5.323	1.533	.092	58.010	278	.000
General investment knowledge	5.369	1.426	.085	62.910	278	.000
General financial knowledge	5.258	1.533	.092	57.287	278	.000
Commodity product knowledge	5.323	1.588	.095	55.988	278	.000
Deposits (banks, NFBCs, others)	0.685	.466	.028	24.564	278	.000
Pension schemes (government, private, insurance companies)	0.208	.407	.024	8.542	278	.000

Trading in equity, commodity and currencies	0.341	.475	.028	11.981	278	.000
Insurance (life, non-life and reinsurance)	0.789	.409	.024	32.196	278	.000
Reason/s for not entering into commodity trading	2.165	1.084	.065	33.371	278	.000
Opinion/s about commodity trading?	5.254	1.604	.096	54.730	278	.000
Commodity trading information received from	2.176	1.019	.061	35.679	278	.000
Opinion about future trading	2.846	1.484	.089	32.028	278	.000
Do you know the commodity trading procedure? Yes or No	1.656	.476	.028	58.117	278	.000
Suggestions for improving commodity trading	2.710	1.642	.098	27.565	278	.000
Investors' expectations	2.760	1.458	.087	31.619	278	.000
Opinion about commodity marketing more supporting to	2.222	1.129	.068	32.883	278	.000
Investor perception about risk associated with investments	4.781	2.409	.144	33.149	278	.000
Investors' risk handling methods	2.753	1.275	.076	36.061	278	.000

Henseler, Ringle, and Sinkovics (2009) have suggested the critical values of "t" as 1.65 for a two-tailed test (significance level = 0.10 or 10%), 1.96 (significance level = 0.05 or 5%), and 2.58 (significance level = 0.01 or 1%).

Table 3 shows that the values of 't' is the accepted level and the model is significant.

Table 4: Level of Awareness about Financial and General Investments and Commodity

Level of Awareness	Financial Awareness		Investment Awareness		Commodity Awareness	
	No.	%	No.	%	No.	%
Highly aware	32	11	11	4	7	2.5
Aware	31	11	14	5	10	3.6
Slightly aware	47	17	24	9	24	8.6
Neutral	28	10	26	9	24	8.6
Slightly unaware	45	16	64	23	64	22.9
Unaware	55	20	77	28	80	28.7
Highly unaware	41	15	63	23	70	25.1
Total	**279**	**100**	**279**	**100**	**279**	**100**

Table 4 above shows that commodity awareness is very low (14.7%), even though general financial awareness is37% among of the respondents. The results show that the majority of the respondents are unaware about commodity trading and investment.

Table 5: Investors' Awareness about Regulatory body of Government of India

Regulators	Frequency	%
Securities and Exchange Board of India (SEBI) ***Stock & Capital Market***	63	23
Reserve Bank of India (RBI) Banking & Finance	112	40
Pension Fund Regulatory &Development Authority (PFRDA) ***Pension***	15	5
Insurance Regulatory & Development Authority of India (IRDAI) ***Insurance***	71	25
Association of Mutual Funds in India (AMFI) – ***Mutual Funds***	14	5
Ministry of Corporate Affairs (MCA) – ***Government of India***	4	1
Total	**279**	**100**

The awareness of most of the respondents about the Reserve Bank of India (40%), and Insurance Regulatory and Development Authority of India (25%), Securities and Exchange Board of India (23%) is quite satisfactory. However, most of the respondents of the survey are unaware of the roles, regulations and functions of the MCA, AMFI and PFRDA.

Table 6: Awareness about Investment Avenues

Investment Avenues	Yes	%	No	%	Total	%
Deposits (Banks, NFBCs and Companies	191	68.5	88	31.5	279	100
Pension schemes (Government, Private, Insurance companies.)	58	20.8	221	79.2	279	100
Trading (Equity, Commodity, Currencies	95	34.1	184	65.9	279	100
Insurance (Life, Non-life and Re-insurance)	220	78.9	59	21.1	279	100

The maximum number of respondents are aware about insurance (78%), bank deposits (68%) as investment avenues. Life insurance policyholders expected high level of customer service quality from life insurance firm (Venkatesan, 2015a). Respondents have low awareness about private and public pension schemes (20.8%), and equity and commodity trading (34.1%) as investment avenues.

Table 7: Obstacles to Entering Commodity Trading Arena

Particulars	Frequency	Percent
No basic knowledge about trading	98	35.1
No basic knowledge about commodity trading	83	29.7
No knowledge about financial crisis	52	18.6
Not interested	46	16.5
Total	**279**	**100.0**

Table 7 shows that most of the respondents do not have the basic knowledge about equity trading (35.1%) and commodity trading (29.7%). The government and trading houses have the responsibility to impart basic knowledge about trading to the people through various channels, like awareness program, advertisements and through other multi-media.

Table 8: Opinions about Commodity Trading

Items	Frequency	Percent
Need huge investment	9	3.2
Low margin / Profit	19	6.8
High risk	8	2.9
More knowledge required	33	11.8
Inflation	67	24.0
Hedge against risk	73	26.2
Insufficient technical knowledge	70	25.1
Total	**279**	**100.0**

Insufficient technical knowledge (25.1%), need for hedge against risk (26.2%) and economic inflation (24%) are the various reasons indicated as barriers to entering the commodity trading ring, and few of the respondents' perception is that there is a need for huge investments (3.2%) to play as a commodity trader.

Table 9: Sources of Commodity Trading Information

Information sources	Frequency	Percent
Social media		
(WhatsApp, Facebook & Instagram, etc.)	85	30.5
Advertisements (TV, Newspapers, etc.)	99	35.5
Colleagues and relatives	56	20.1
Brokers, agents, investors associations, etc.	39	14.0
Total	**279**	**100.0**

Most of the investors received commodity trading information via social media (30.5%) and advertisements (35.5%). Brokers, agents and other investment-related associations (14%) also provide professional information to investors on commodity trading.

Table 10: Respondents' Opinions About Future Trading

Opinion on	Frequency	Percent
Equity trading	70	25.1
Commodity trading	61	21.9
Equity and commodity trading	50	17.9
No idea	38	13.6
Not trading in future	60	21.5
Total	**279**	**100.0**

More than 20% of the respondents' opinions indicate that they would never be interested in any type of trading in future;25% of the respondents are unsure whether they would ever enter into equity trading;17.9% are unsure if they would get a chance to enter the equity and commodity trading; and 13% of the respondents have no idea about commodity trading.

Table 11: Knowledge about Commodity Trading Procedure/s

Items	Frequency	Percent
Yes	96	34.4
No	183	65.6
Total	**279**	**100.0**

Many (65.6%) of the respondents do not know the commodity trading procedure. Hence there is a need to educate and create awareness about commodity trading.

Table 12: Respondents' Suggestions about Improving Commodity Trading

Suggestions	Frequency	Percent
Advertisement campaigns	106	38.0
Educate the people on commodity trading	43	15.4
Create awareness programmes	22	7.9
Seminars, conference and short-term courses	42	15.1
Other methods	66	23.7
Total	**279**	**100.0**

The respondents' opinions about improving commodity trading appear to be in favour of:

- advertising campaigns –38%;
- imparting education – 15.4%; and
- conducting seminars, conferences and short-term courses– 15.1%.

In fact, it is evident that 65% of the total 279 respondents recognize the need for improving their knowledge about commodity trading.

Table 13: Investors' Expectations about Commodity Trading

Expectations	Frequency	Percent
More transparency in commodity trading	88	31.5
Low investment	33	11.8
Easy delivery and settlement methods	47	16.8
User-friendly online trading systems	89	31.9
Low risk	13	4.7
High liquidity and returns	9	3.2
Total	**279**	**100.0**

Respondents favour more transparency (31.5%) and user-friendly (31.9%) online commodity trading systems in order to boost the commodity market.

Table 14: Commodity Marketing Support to Agricultural and Non-agricultural Products

Products	Frequency	Percent
Agricultural	96	34.4
Industrial	82	29.4
Consumer	44	15.8
Other products	57	20.4
Total	**279**	**100.0**

Respondents favour 34% support to boosting agricultural products followed by industrial products 29.4 %.

Table 15: Investors' Perception about Risks Associated with Various Investments

Investments	Frequency	Percent	Rank
Bank deposit	17	6.1	5
Bonds/debentures	11	3.9	6
Private deposit – chit funds	74	26.5	1
Commodity trading	39	14.0	3
Equity trading	65	23.3	2
Gold trading	18	6.5	4
Government pension schemes	11	3.9	6
Insurance policies	17	6.1	5
Mutual funds	10	3.6	7
Provident fund	6	2.2	8
Real estate business	11	3.9	6
Total	**279**	**100.0**	

According to investors' perceptions, private deposits or chit funds are the most (26.5%) highly risk-associated investments, followed by equity trading (23.3%) and commodity trading (14%). Providing appropriate education to investors reduces the bias towards investments and demonstrates the positive factors that lead to the development of the capital market (Venkatesan, 2020).

Table 16: Investors' Risk-handling Methods

Method	Frequency	Percent
Avoid investment	40	14.3
Diversify investment avenues	115	41.2
Exit with minimum loss	32	11.5
Invest small amounts only	58	20.8
Risk ignorance	34	12.2
Total	**279**	**100.0**

Investing in different investment avenues and diversifying investments (41.2%) are the best risk-handling methods followed by respondent-investors and also investing in small amounts (20.8%) is also favoured.

5. Practical Implications

Based on the results and discussions, the author drew the following insights that have managerial implications. The government and the trading agencies should concentrate more on educating the people through advertisements, highlighting the commodity market through various channels. Imparting basic commodity trading information in the syllabus of educational institutions should be considered seriously. Arrange special camps and invite also businessmen and women and educate them on the benefits of commodity trading and about the technical operating procedures. Strengthen the investor-awareness programs and ensure that the message reaches various categories of people, like senior school/college students, adults, housewife, businesspeople, executives and retired persons. Low brokerage, easy online-trading procedures and better relationship with trading brokers lead to inspiration to improved commodity trading.

6. Concluding Remarks

The study has confirmed that proper commodity awareness programmes lead to better participation in the commodity market(Chandrakumar, 2018; Dhinakar, 2019). Diversified investments reduce the financial risk and give realistic return on investments. Trading agencies, policy makers and government agencies should take the responsibility and lead to educate the people and create trading awareness for better economic growth of the nation.

7. Limitation and Extension

The limitations noticed in the study are: (a)the restricted sampling area, namely the three southern districts of Tamil Nadu and (b) the small sample size –279 respondents. If the number of districts and samples were to be increased, obviously the results of the data would also be different vary. The study concentrates on mixed respondents and convincing the respondents to take the survey/s is also a challenging task. The other limitations are(c) respondent's biasness and (d) the time constraint. The researcher however is convinced that the scope for future study in commodity trading does exist, and it is essential that periodical research should be undertaken to get the pulse and give the push to attain desired the level of awareness of the investors relating to commodity trading.

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