

Sebi close to clearing petrol, diesel futures

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MUMBAI: Markets regulator Sebi is close to giving its green signal to the Indian Commodity Exchange (ICEX) to launch futures on petrol and diesel. This is aimed at insulating retail oil dealers, large transporters and fleet operators, and also consumers from being abruptly hit by volatility in prices of crude oil. On Monday, oil minister Dharmendra Pradhan said that his ministry has already given the nod for the launch of futures trading on these products, and that the timing was right for launching such products in India.

Sebi is examining the product features before allowing ICEX to go ahead with the launch. ICEX is also the first exchange in the world that, in August last year, launched trading in diamond futures contracts.

“We have received the ‘no objection’ from the ministry (of petroleum & natural gas),” said Sanjit Prasad, MD, ICEX. If Sebi gives the go ahead, the exchange is prepared to launch the products within a day, Prasad said. He had taken the lead in designing the products and has been working on its introduction for about a year now. An ICEX spokesperson said, “It is similar to taking insurance against price risk

or price uncertainty by hedging on an exchange.”

MAIN FEATURES OF THE CONTRACT

<p>Trading unit</p>  <p>100 litres</p>	<p>Tick size 1 paisa/litre</p>
<p>Last trading day Last business day of the contract expiry month</p>	<p>No. of contracts 1,2,3...up to 12 months</p> <p>Trading hours 10am to 11.30pm</p>

According to government data, in fiscal 2018, total consumption of diesel in India

was about 81 million metric tonnes while petrol was about 26 million metric tonnes – translating into about Rs 5.5 lakh crore worth of market for diesel and about Rs 2 lakh crore for petrol.

Since June 2017, oil marketing companies in India have been changing the prices of diesel and petrol daily. The price is announced every evening that is effective from the next morning. For petrol dealers, if the price is cut and they have old inventory, they are forced to sell it at a lower (just revised) price. This hits their margins.

For petrol and diesel buyers, like transporters, fleet operators and large consumers, it's the other way round. They are hit when the price of these products rise since they cannot change their freight rates every day, along with change in the prices of petrol and diesel, even though these account for a major part of their variable costs.

The launch of futures contracts on diesel and petrol will allow consumers to buy these contracts at a fixed price to take delivery at a future date – which could range from days to a few months. This means if they buy some amount of petrol and diesel at a particular price on a particular date for taking delivery, say after a month, and even if the price is higher on the date of delivery, they will still get the products at the same price on the date of purchase.

Similarly, a retail gas outlet that already has an inventory of petrol and diesel can sell its product on the exchange at a particular price and is assured of that same price even if the prices of these products decline when they have to sell their inventory.

“These products could also help retail gas outlets and transporters to acquire new clients by offering fixed prices for diesel and petrol for one, two and three months, or even for longer periods,” the ICEX spokesperson said.