Petrol, diesel futures trading to help bulk consumers, no major respite yet for retail buyers

*A plan by Indian Commodity Exchange Ltd (ICEX) and Multi Commodity Exchange of India (MCX) to introduce futures contract in petrol and diesel after approval from the market regulator Securities and Exchanges Board of India (SEBI) may bode well for bulk and industrial consumers who will now get room to hedge their fuel risks, experts said.*Bilal Abdi | ETEnergyWorld | May 31, 2018, 14:44 IST

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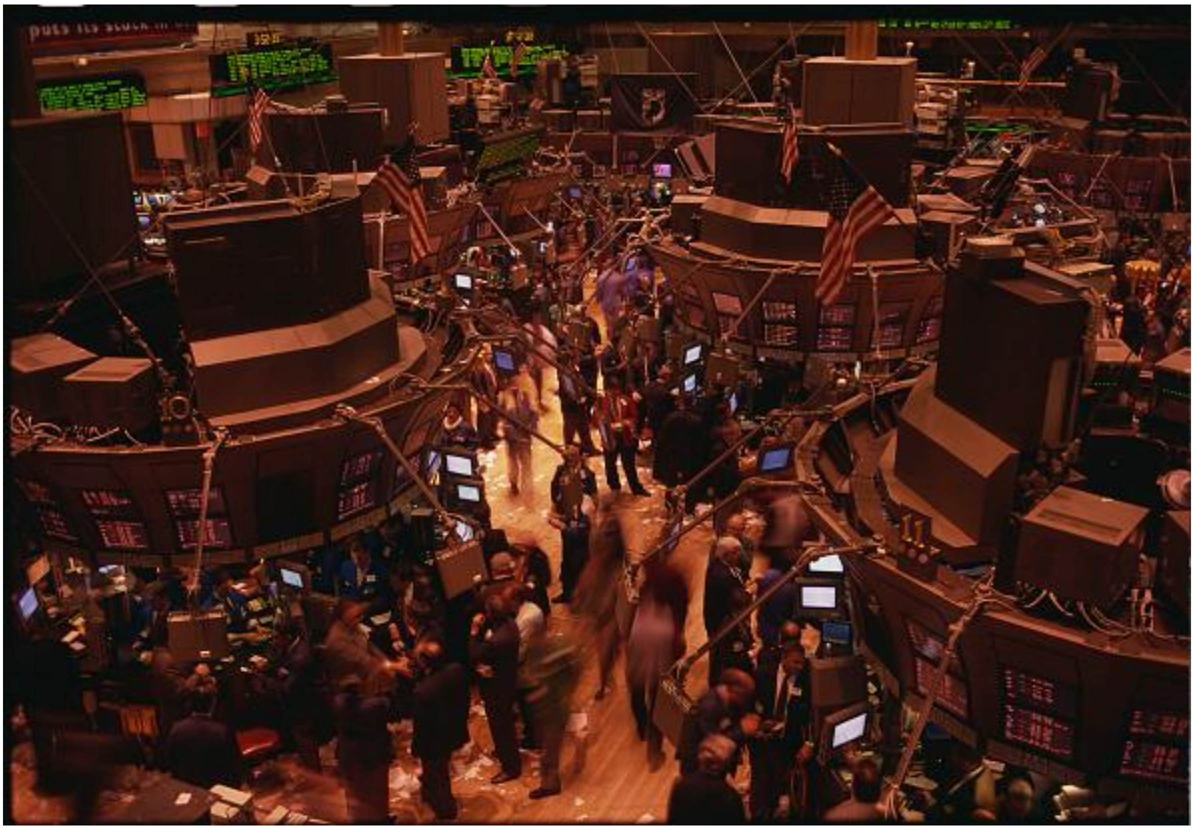
New Delhi: A plan by Indian Commodity Exchange Ltd (ICEX) and Multi Commodity Exchange of India (MCX) to introduce futures contract in petrol and diesel after approval from the market regulator Securities and Exchanges Board of India (SEBI) may bode well for bulk and industrial consumers who will now get room to hedge their fuel risks, experts said.



However, futures trading in petrol and diesel is unlikely to provide respite for retail consumers as the size for such contracts is likely to be too large for private consumption. “The details are still not out on the minimum contract size. However, as per reports, it is expected to start with 100 litres, so it will not be of any use to retail consumers,” said K Ravichandran, Senior Vice President at research and ratings agency ICRA. “The launch will help bulk, institutional and fleet buyers to hedge fuel-related risks with fixed pricing. The market will take some time to get used to petrol, diesel futures and will also have to take care of margin money,” he added.

MCX, the country’s largest commodity exchange, is looking forward to receiving necessary approvals for the launch. “We had submitted our proposal for petrol and diesel futures contracts with SEBI. After having details of guidelines and views of the Ministry of Petroleum and Natural Gas, we will work with SEBI for necessary approvals,” the exchange told ET Energy World in response to a detailed questionnaire on the plan.

The exchange also added that the contracts are expected to be ideal for refiners, transport companies, petrol pump owners, etc. Who are exposed to daily price fluctuations in the petroleum products. “Given that the exchange already has liquid crude oil futures, the addition of petrol and diesel futures would further help stakeholders like refiners to hedge their refining margins,” it said.

ICEX also informed ETEnergyWorld it had applied to SEBI for the launch of the petrol and diesel futures and is currently working with the regulator on the matter of the minimum contract size. Asked whether SEBI has intimated ICEX on when is a decision on the proposal expected, the exchange told ETEnergyWorld in an email response: “SEBI does due diligence of the proposal and once it satisfies itself with the feasibility of the contract proposal and the economic rational of the contract then the regulator gives its consent.”

ICEX Managing Director and Chief Executive Officer (CEO) Sanjit Prasad told ET earlier this week that the exchange had sent the contract specifications to SEBI in August last year and had received a no-objection note from the Oil ministry a few days back.

Futures are financial contracts which help the buyer to purchase an asset, or the seller to sell an asset, at a predetermined future date and at a predetermined price. Thus, petrol, diesel futures trading will involve buying specific quantities of petrol or diesel at a specified price with delivery set at a specified time in the future.

“Futures contracts can work both ways. For example, airlines, fleet owners, industrial consumers can buy a contract for 100 litres at a predetermined price expecting to hedge themselves against price escalation in future. However, the bulk consumer may lose out on money if fuel prices go lower than the predetermined price as per the future contract,” said a senior analyst at an accounting and consulting firm who did not wish to be identified. “The launch of petrol, diesel futures may not change anything for retail consumers,” he said.

The aviation, shipping and the railways industry consumed over 2,950 Tonnes of High Speed Diesel (HSD) in 2016-2017. Also, power generation, mining and manufacturing sector consumed more than 2,465 Tonnes, according to data sourced from the oil ministry.