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## International Journal of Multidisciplinary Research in Science, Engineering and Technology (IJMRSET)

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# A Study on Investors Awareness towards Commodity Market

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**ABSTRACT:** The commodity market is an important part of the global financial system, providing investors with various opportunities to hedge risk and diversify their portfolios. Nevertheless, investor involvement in commodity trading largely depends on their awareness, knowledge, and perception of the commodity market. The purpose of this study is to investigate the degree of awareness among investors about commodity markets, the determinants of their involvement, and the difficulties they encounter. Through a survey-based analysis, this study examines the level of investor awareness regarding commodity derivatives, trading mechanisms, risks involved, and possible returns. The study findings offer insights into how financial literacy, market access, and regulatory environments influence investor confidence in commodity trading. The study also underscores the necessity of education programs and policy interventions to increase investor engagement. The findings will assist policymakers, financial institutions, and market regulators in developing strategies to raise awareness and ensure well-informed decision-making in the commodity market.

## I. INTRODUCTION

There are two major commodity exchanges in India- Multi Commodity Exchange (MCX) and National Commodity and Derivatives Exchange (NCDEX). These exchanges provide a platform for trading in various commodities such as metals, energy, agriculture, and other products.

### Types of Commodities in Indian Commodity Market

The Indian commodity market deals with a wide variety of commodities, including agricultural products, energy resources, metals, and other raw materials. Here are some of the major types of commodities traded in the Indian commodity market:

- **Agricultural Commodities:** This includes crops such as wheat, rice, maize, cotton, sugarcane, soybean, and various other grains, pulses, and spices. These commodities are traded on the National Commodity & Derivatives Exchange (NCDEX) and Multi Commodity Exchange (MCX).
- **Energy Resources:** This category includes commodities such as crude oil, natural gas, and petroleum products like diesel and gasoline. They are traded on the MCX and the Indian Energy Exchange (IEX).
- **Metals:** This category includes base metals such as copper, zinc, aluminum, nickel, and lead, as well as precious metals like gold and silver. These commodities are traded on both the MCX and NCDEX.

### Exchanges in Commodity Market of India

There are two major commodity exchanges in India where commodities are traded, namely:

- **Multi Commodity Exchange (MCX):** MCX is a leading commodity exchange in India, established in 2003. It offers a platform for trading in a wide range of commodities, including precious metals, base metals, energy resources, and agricultural commodities. MCX is based in Mumbai and operates throughout the country.
- **National Commodity and Derivatives Exchange (NCDEX):** NCDEX is another major commodity exchange in India, established in 2003. It provides a platform for trading in agricultural commodities such as cereals, pulses, spices, oilseeds, and other products. NCDEX is based in Mumbai and operates across the country.

Apart from these two major exchanges, there are other smaller exchanges in India as well, such as the National Multi Commodity Exchange (NMCE), the Indian Commodity Exchange (ICEX), and the Ace Derivatives and Commodity



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Exchange (ACE). These exchanges also offer a platform for trading in various commodities, though their volumes are relatively lower compared to MCX and NCDEX.

### II. REVIEW OF LITERATURE

#### **Bhagwat, S., Maravi, A., Omre, R., & Chand, D. (2015).**

India, being an economy that heavily relies on agriculture, has well-established markets for most agro-based commodities. It is also the world's largest consumer of gold, indicating a large market for the precious metal. Spot markets for various commodities exist in many cities across the country, with Indore being a hub for soya, Ahmedabad for castor seeds, and Surendranagar for cotton. This study aims to analyse the current scenario of commodity futures market in India, which provides trading for various types of commodities. The study evaluates the extent to which commodity policies and regulatory frameworks have influenced the market. With India's pace of growth, it is expected to become a major player in terms of commodity consumption, production, and trade in the international market.

#### **Hussain Yaganti, C., & Kamaiah, B. (2012).**

This study examines the effectiveness of commodity futures contracts for spices and base metals in hedging, using cointegration and error correction methodologies with various maturity time horizons ranging from one to three months. The optimal hedge ratios are determined using both Ordinary Least Squares (OLS) regression and Error Correction Model (ECM). The futures market is found to be dominant in price discovery for nearby month contracts, while for far month contracts, there is no long-term relationship between spot and futures prices for turmeric and cardamom.

### RESEARCH OBJECTIVES

- To analyse the extent of awareness of investors towards the Commodity Market.
- To identify the perception of investors towards the Commodity Market.
- To examine the way in which diversification, inflation hedge, potential returns and supply & demand dynamics affect the perception of investors towards the Commodity Market in India.

### III. RESEARCH METHODOLOGY

This research is Exploratory Research. The data was collected with the help of closed ended questionnaire through 100 respondents.

#### SAMPLE DESIGN

Convenient sampling method is used in this study.

#### SAMPLE SIZE

100 respondents.

#### TOOLS OF ANALYSIS

We used the Form of Questionnaires. Ms Word, Ms Excel are some of the tools used in this project. The collected data is analysed with the help of graphs and pie charts.

#### DATA COLLECTION

Data Collections methods used are both primary and secondary.

#### TECHNIQUES USED FOR DATA ANALYSIS

Graphs and Percentage Analysis was done.

#### LIMITATIONS

- Respondents were confined and like the whole population could not be surveyed
- Respondent can be biased.
- The data and details presented may not be deemed adequate by the respondents.
- Time was limited



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### IV. DATA ANALYSIS

| Q1.Gender |   |           |         |               |                    |
|-----------|---|-----------|---------|---------------|--------------------|
|           |   | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid     | 1 | 61        | 61.0    | 61.0          | 61.0               |
|           | 2 | 39        | 39.0    | 39.0          | 100.0              |
| Total     |   | 100       | 100.0   | 100.0         |                    |

From the survey undertaken on 100 employees on the topic 'A Study on Investors' Awareness On Commodity Market', the author came to know that 61% of the respondents were male and 39% were female. Such an indication is of increased participation or interest of male employees in the survey. The importance of its gender distribution is because it may have an effect on how the commodity market may be invested and how aware the investors may be regarding the commodity investment.

| Q2.Age |   |           |         |               |                    |
|--------|---|-----------|---------|---------------|--------------------|
|        |   | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid  | 1 | 20        | 20.0    | 20.0          | 20.0               |
|        | 2 | 56        | 56.0    | 56.0          | 76.0               |
|        | 3 | 24        | 24.0    | 24.0          | 100.0              |
| Total  |   | 100       | 100.0   | 100.0         |                    |

The data from this survey is about the age of 100 respondents in 3 categories: 20-30, 31-40, and 41-65. 56% of them are in the 20 to 30 age stratum, 24% in the 31 to 40 stratum, and 20% in the 41 to 65 stratum. Results suggest a younger demographic makeup, with more than half of participants in the 20 to 30 years age bracket.

| Q3.YourOccupation |   |           |         |               |                    |
|-------------------|---|-----------|---------|---------------|--------------------|
|                   |   | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid             | 1 | 15        | 15.0    | 15.0          | 15.0               |
|                   | 2 | 54        | 54.0    | 54.0          | 69.0               |
|                   | 3 | 20        | 20.0    | 20.0          | 89.0               |
|                   | 4 | 11        | 11.0    | 11.0          | 100.0              |
| Total             |   | 100       | 100.0   | 100.0         |                    |

The following is a survey data of 100 respondents grouped into four categories: Service (33 respondents), Business (30 respondents), Retired (29 respondents), and Others (8 respondents). A great majority (54%) are retired, some 54% indication that there are significant numbers of older individuals or those no longer in active employment.



## International Journal of Multidisciplinary Research in Science, Engineering and Technology (IJMRSET)

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| Q4.YourIncome |       |           |         |               |                    |
|---------------|-------|-----------|---------|---------------|--------------------|
|               |       | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid         | 1     | 15        | 15.0    | 15.0          | 15.0               |
|               | 2     | 46        | 46.0    | 46.0          | 61.0               |
|               | 3     | 39        | 39.0    | 39.0          | 100.0              |
|               | Total | 100       | 100.0   | 100.0         |                    |

The results from this survey show the income distribution of 100 such respondents divided over three brackets. The group earning 15,001-25,000 makes up 46 percent; 39 percent of the group makes 10,000-15,000. Only 15% report incomes above 25,000. Most respondents fell into the lower to middle salary ranges as per the data.

| Q5.Howdidyoumanageorinvestyourmoney |       |           |         |               |                    |
|-------------------------------------|-------|-----------|---------|---------------|--------------------|
|                                     |       | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid                               | 1     | 15        | 15.0    | 15.0          | 15.0               |
|                                     | 2     | 61        | 61.0    | 61.0          | 76.0               |
|                                     | 3     | 24        | 24.0    | 24.0          | 100.0              |
|                                     | Total | 100       | 100.0   | 100.0         |                    |

The post shows how 100 people handle their finances. Over half (61%) invest some money for the future, while this represents being financially planned. Meanwhile, 24% of these people spend all their money on such home and office expenses which indicates that there is no savings left at all.

| Q6.Areyouawareofthecommoditymarket |       |           |         |               |                    |
|------------------------------------|-------|-----------|---------|---------------|--------------------|
|                                    |       | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid                              | 1     | 35        | 35.0    | 35.0          | 35.0               |
|                                    | 2     | 65        | 65.0    | 65.0          | 100.0              |
|                                    | Total | 100       | 100.0   | 100.0         |                    |

Considering that there are 100 respondents, 65% of them know about the commodity market, and 35% are ignorant. From the awareness of the majority it looks like they are aware of some financial literacy or probably they have been exposed to some investment concepts.

| Q7.HaveyoueverinvesteddireclyorindirectlyinCommodityM |       |           |         |               |                    |
|---|-------|-----------|---------|---------------|--------------------|
|   |       | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid   | 1     | 45        | 45.0    | 45.0          | 45.0               |
|   | 2     | 55        | 55.0    | 55.0          | 100.0              |
|   | Total | 100       | 100.0   | 100.0         |                    |



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Of 100 respondents, 55% of respondents have invested in the commodity market (directly or indirectly), and 45% have not. Given its narrow margin, participation should have been nearly even, and so participation and nonparticipation were moderate with respect to commodity investments.

| Q8. Whattypeofcommoditieshaveyouinvestedin |   |           |         |               |                    |
|--|---|-----------|---------|---------------|--------------------|
|  |   | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid                                      | 1 | 13        | 13.0    | 13.0          | 13.0               |
|  | 2 | 59        | 59.0    | 59.0          | 72.0               |
|  | 3 | 15        | 15.0    | 15.0          | 87.0               |
|  | 4 | 2         | 2.0     | 2.0           | 89.0               |
|  | 5 | 11        | 11.0    | 11.0          | 100.0              |
| Total                                      |   | 100       | 100.0   | 100.0         |                    |

It is this survey in which 100 respondents indicate their commodity investment preferences. It is likely that accessibility or regional relevance dominates as the majority of commodities have a share of 59 per cent belonging to agricultural commodities. Coming in at 15%, precious metal and then 13% industrial are traditional safe haven and industrial demand indicators.

| Q9. Whatisyourprimaryreasonforinvestingincommodities |   |           |         |               |                    |
|--|---|-----------|---------|---------------|--------------------|
|  |   | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid  | 1 | 14        | 14.0    | 14.0          | 14.0               |
|  | 2 | 49        | 49.0    | 49.0          | 63.0               |
|  | 3 | 23        | 23.0    | 23.0          | 86.0               |
|  | 4 | 14        | 14.0    | 14.0          | 100.0              |
| Total  |   | 100       | 100.0   | 100.0         |                    |

Almost half of respondents (49%) invest in commodities for means absent from the standard options, with 49 per cent indicating ‘Other’ includes a rationale other than the tools mentioned above). The second largest reason (23 per cent) is portfolio diversification, after which the numbers are tied for the next largest reason (14 per cent each) at inflation hedging and the potential for a high return.

| Q10. Howdoyoustayinformedaboutthecommoditymarket |   |           |         |               |                    |
|--|---|-----------|---------|---------------|--------------------|
|  |   | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid  | 1 | 13        | 13.0    | 13.0          | 13.0               |
|  | 2 | 57        | 57.0    | 57.0          | 70.0               |
|  | 3 | 17        | 17.0    | 17.0          | 87.0               |
|  | 4 | 5         | 5.0     | 5.0           | 92.0               |
|  | 5 | 8         | 8.0     | 8.0           | 100.0              |
| Total  |   | 100       | 100.0   | 100.0         |                    |

Commodity market updates top news source is news websites with 57 percent of the respondents dependent on them for news. Social media is the least popular, with 8% following financial news channels (17%) and investment newsletters (13%).



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| ANOVA <sup>a</sup> |            |                |    |             |        |                   |
|--------------------|------------|----------------|----|-------------|--------|-------------------|
| Model              |            | Sum of Squares | df | Mean Square | F      | Sig.              |
| 1                  | Regression | 56.178         | 15 | 3.745       | 13.600 | .000 <sup>b</sup> |
|                    | Residual   | 23.132         | 84 | .275        |        |                   |
|                    | Total      | 79.310         | 99 |             |        |                   |

The results of the ANOVA (Analysis of Variance) test that analyses the significance of the overall model in the regression table. The model has an SST of 79.310, which is further partitioned into a regression sum of squares of 56.178 and a residual sum of squares of 23.132. It implies that there is a large amount of variance in the dependent variable, which is explained by the regression model, as SSR, accounts for about 71% (56.178/79.310) of total variability. 14 of the degrees of freedom (df) for regression are = 15, indicating 15 predictor variables were included, and the residual df = 84, which is less than 100, or 99 total df + 1. Mean square for regression (3.745) is gotten by dividing SSR by df of SS, and residual mean square (.275) is obtained by dividing SSE by df of Sse. The F statistic is 13.600, and the explained variance is (regression) versus the unexplained variance (residual). The associated p-value (.000) is highly significant (p < 0.001), and therefore regression model is statistically significant. This implies that at least one of the predictor variables is associated with the dependent variable.

### Chi-Square Test Calculation

$$\chi^2 = \frac{(O - E)^2}{E}$$

Where:

- O = Observed value
- E = Expected value

$$\begin{aligned} \chi^2 &= \frac{(58 - 51.8)^2}{51.8} + \frac{(12 - 18.2)^2}{18.2} + \frac{(16 - 22.2)^2}{22.2} + \frac{(14 - 7.8)^2}{7.8} \\ &= \frac{(6.2)^2}{51.8} + \frac{(-6.2)^2}{18.2} + \frac{(-6.2)^2}{22.2} + \frac{(6.2)^2}{7.8} \\ &= 0.742 + 2.113 + 1.732 + 4.926 = \boxed{9.51391} \end{aligned}$$

$$\text{Degrees of Freedom (df)} = (2-1)(2-1) = 1$$

$$\text{Chi-Square Critical Value at 0.05 (df=1)} \approx 3.841$$

Since 9.51391 > 3.841, reject the null hypothesis.

This table then shows how a Chi-Square test statistic  $\chi^2$  is calculated to see if there is a difference between observed and expected values in categorical data. The formula compares each observed value (O) with its corresponding expected value E. In this example, four categories are analyzed, and  $\chi^2$  has a value of 9.51391; this is how much-observed data deviates from the expected distribution. It can then be compared to a critical value from the Chi-Square distribution in order to judge statistical significance.

### V. FINDINGS AND DISCUSSIONS

1. The studies show that investors have poor market knowledge because 65% do not understand commodities and stay away from educational online tools.
2. The research survey showed that commodities provide a helpful way to add variety to investments. In contrast, the published studies only described their possible advantages.
3. Survey participants show that 75% agree that economic growth affects commodity trading, confirming the research areas without examination.'



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The literature review and the survey data analysis converge on common themes regarding supply-demand dynamics, inflation hedging and other factors driven by government policies on investors' perceptions. Through Literature Review, Gaps are identified in understanding how supply-demand fluctuations impact investor confidence. The survey shows that 75 per cent of respondents (47 per cent Strongly Agree + 28 per cent Agree) consider a significant relationship between economic growth and commodity trades, indicating the role of supply and demand dynamics. This suggests that investors assume commodities are critical equipment for times of economic development, explicitly concerning raw materials and energy. If anything, both also talk about commodities as good inflation hedges. While the literature is critical about not exploring the macroeconomic factors of inflation, the survey corroborates this with the finding that investors associate the rise in prices during economic growth with the intrinsic value of the commodities.

### VI. CONCLUSION

In conclusion, investors who are interested in the commodity market should prioritise conducting thorough research before making any investment decisions. This research should include understanding the fundamental factors that affect commodity prices, such as supply and demand dynamics, geopolitical events, and economic indicators. Investors should also be aware of the unique risks and challenges associated with investing in commodities, such as price volatility and the potential for unexpected supply disruptions. In addition, investors should consider diversifying their portfolio by investing in a range of commodities and commodity-related assets, such as exchange-traded funds (ETFs) or futures contracts. Overall, by staying informed and conducting careful research, investors can make informed decisions and potentially capitalise on the opportunities that the commodity market can offer.

### SUGGESTIONS

- Government and Broking houses must promote and increase awareness for Commodity Trading in India.
- Investors must understand the risks and benefits of investing in Commodity market.
- Investors must diversify their portfolio for investing in Commodity market.
- Investors must keep an eye on market trends.
- Do Proper research and analysis before investing in commodity market.
- Increase Transparency: To attract more investors, the Indian Government can consider increasing transparency in commodity trading by providing accurate and timely information on supply and demand, market trends, and government policies affecting the commodity market.
- Develop Infrastructure: The Indian Government can consider investing in infrastructure to support commodity trading.

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