INDIAN FUTURES MARKET : AN ANALYSIS

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ABSTRACT

The Indian government's efforts are directed towards the establishment of a free, fair, transparent and fully informed market with help of the Futures market, so that futures prices are truly determined by the forces of demand and supply. In the long term, the continuing rapid growth of economy in India creates a huge potential for Futures market. This study is an effort to understand the factors under PEST Analysis. For this purpose, data from different sources were collected and later analyzed by using statistical techniques. With an improving agriculture, widening scope of education, a balanced economy, friendlier infrastructure, vividly sketched out laws unstained by any kind of corruption will create the right climate for swift growth of the futures market. The PEST analysis shows that most of the factors considered are indeed going in favour of India's futures market.

INTRODUCTION

A futures contract is a legally binding agreement to buy or sell a commodity or financial instrument sometime in the future at a price agreed upon at the time of the trade. While actual physical delivery of the underlying assets seldom takes place, futures contracts are nonetheless standardized according to delivery specifications, including the quality, quantity, and time and location. The only variable is price, which is discovered through the trading process. In this study we are trying to find out the opportunities and challenges of futures trading in India through PEST analysis.

One of the key benefits of trading in the futures markets is that it offers the trader *financial leverage*, which is the ability of a trader to control large Dollar/Rupee amounts of a commodity with a comparatively small amount of capital. As such, leverage magnifies both gains and losses in the futures market. Another key benefit of futures trading is *liquidity,* which is a characteristic of a market to absorb large transactions without a substantial change in the price. Liquid markets easily match a buyer with a seller, enabling traders to quickly transact their business at a fair price. Most of the futures markets are considered to be "transparent" because the order flow is open and fair. Everyone has an equal opportunity for the trade. When an order enters the marketplace, the order fills at the best price for the customer, regardless of the size of the order. With the advent of electronic trading, transparency has reached new heights as all transactions can be viewed online in real time. In a very general sense, transparency makes all market participants equal in terms of market access. While making an investment, it is important to have confidence that the person on the other end of the trade will acknowledge and accept the transaction. Futures markets give traders this confidence through a clearing service provider system that guarantees the *integrity* of their trades. The brokerage charges are also very low when compared to trading in equities.

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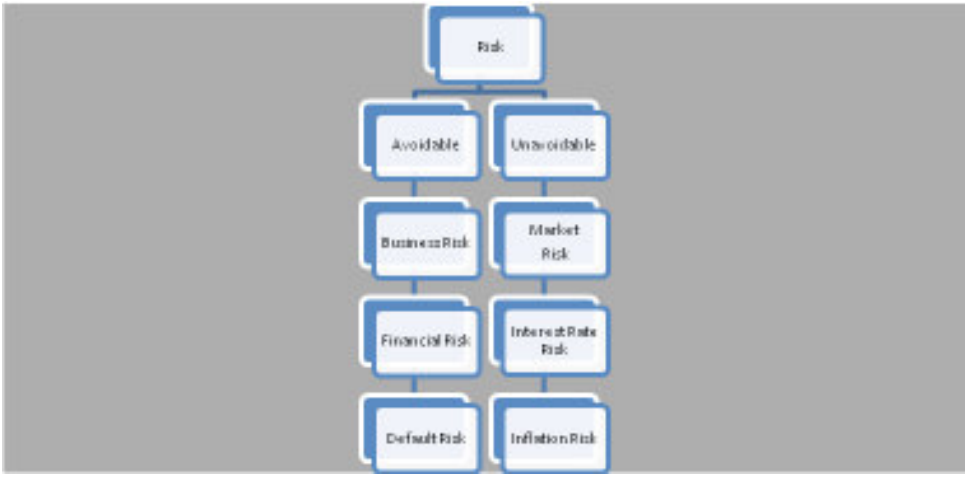
With lots of opportunities, there are some risks involved in futures trading (figure-1). Primarily among them is *Price Risks,* the risk of losses due to change in market prices. Price risk can increase further due to *Market Liquidity* Risk, which arises when large positions in individual instruments or exposures reach more than a certain percentage of the market, instrument or issue. Such a large position could be potentially illiquid and not be capable of being replaced or hedged out at the current market value and as a result may be assumed to carry extra risk. *Counterparty Risks* is the risk of loss due to a default of the Counterparty in honouring its commitment in a transaction (Credit Risk). If the Counterparty is situated in another country, this also involves Country Risk, which is the risk of the Counterparty not honouring its commitment because of the restrictions imposed by the government. *Dealing Risk* is the sum total of all unsettled transactions due for all dates in future. If the Counterparty goes bankrupt on any day, all unsettled transactions would have to be redone in the market at the current rates. The loss would be the difference between the original contract rate and the current rates. Dealing risk is therefore limited to only the movement in the prices and is measured as a percentage of the total exposure. *Settlement risk* is the risk of Counterparty defaulting on the day of the settlement. The risk in this case would be 100% of the exposure if the corporate gives value before receiving value from the Counterparty. In addition the transaction would have to be redone at the current market rates. *Operational risk* is the risk that the organization may be exposed to financial loss either through human error, misjudgment, negligence and malpractice.

Apart from the above mentioned opportunities and challenges, futures market are also impacted with lots of other reasons like political, economical, social and technological factors of the country, Which may be studied in a systematic way using an innovative tool called PEST analysis.

Figure-1: Risk Involved in Futures Market

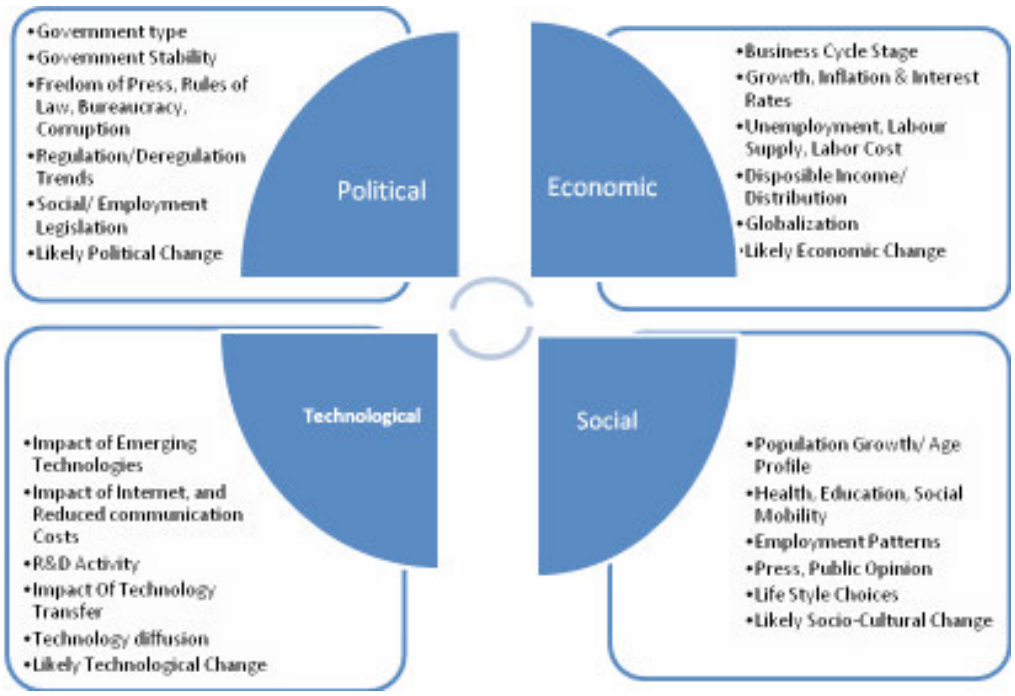


Source: Developed by the Researcher/ Data collected from different source

PEST Analysis: A conceptual framework

PEST Analysis is a simple, useful and widely-used tool that helps to understand the "big picture" of **P**olitical, **E**conomic, **S**ocio-Cultural and **T**echnological environment that influence any industry. Such factors are usually beyond the company's control but can often influence the company. These factors always present themselves either as opportunities or threats to an industry.

Figure 2: PEST Analysis in Diagrammatic Format



Source: Developed by the Researcher/ Data collected from different source

As with any investment, the general economic condition of the country plays an important role in establishing the futures market sentiment. A booming economy is the basis for expectation of price rise. Futures traders may opt to go long in a flourishing economy to make profits when prices rise in future. Political stability or uncertainty can have a major impact on futures prices as these directly affect the economy of the country. The growth prospects for a particular sector of the economy should also be a consideration before making an investment in futures. Index and single stock futures are influenced by many of the same factors as the delivery based stock market. High interest rates, changes in taxation policies, market sentiment, GDP growth etc affect the prices of these futures. SSFs move largely in line with the current price movement of that stock in the market, with some premium or discount based on the expected direction that the stock price will move in.

Studies in the Indian market find that volatility of the underlying market declined after introduction of derivatives trading (Gupta, 2002; and Nath, 2003). Theoretical studies on the effects of futures trading on the spot return volatility shows that the effect is ambiguous. Most of the empirical studies suggest that the introduction of a futures market has stabilized, or at least not destabilized, the underlying spot market. Kamara (1982) in his study finds that a financial future trading reduces the cost of entry of small traders into the financial markets. Maberly (1987) concluded that introducing new speculators into the markets improves risk sharing and increases liquidity, but can make cash prices more noisy and reduce net social welfare if these new speculators are less informed than traders already in the market.

Commodities form an important segment of the futures markets. Any factors affecting the supply or cost of production of a particular

commodity affects its futures contracts. For example, unfavorable weather can have a major effect on the futures of an agricultural commodity. Traders will expect supply to dry up in coming months causing the price to go up. Most traders will want to go long on the commodity, expecting price to rise. This will push the price up for futures of the commodity. Export import policies and restrictions may have a bearing on how futures trade when the goods are actually deliverable. Considering that many futures trades are often cross border transactions, complicated export import formalities can lower prices.

Currency futures are influenced by many factors, most important being the policies of the Federal Reserve and the US Treasury regarding money supply. Government policies regarding taxation and other decisions to bring down inflation will also have an effect on currency futures.

The recent performance of the dollar versus the opposite currency in the contract plays an important role in determining the price at which a futures contract can be struck. GDP growth and trade deficit should also be considered when trading in currency futures.

It is very important that investor examines its environment before making the decision to trade in futures market. This paper provides an external environment analysis aimed at evaluating the emerging trends of *index futures* and *single stock futures* (SSFs) in Indian futures market**,** so that investors can respond quickly to these change in the environment. A comprehensive model of PEST analysis is used to analyze the Political, Economic, Social and Technological environment. The analysis attempts to highlight the opportunities and threats that may emerge for stock & index futures trader to trade in Indian futures market.

Methodology

The main objective of this paper is to identify the key factors affecting the futures market in India. For this purpose a framework of PEST is used, which divides the factors in four categories, namely Political, Economical, Social and Technological. The study considered following variables in each factor category

S.No.	Factor	Variables
1.	Political	Political Events
2.	Economical	Inflation, Interest rate, Exchange rate, Economic growth
3.	Social	Demographic variables
4.	Technological	Internet and banking system

The secondary data on each variable is collected from different sources. Then the data is analyzed mainly by forming consolidated tables and charts. The calculations are made mainly on financial data for drawing meaningful interpretations.

ANALYSIS

a) Political Factors

Political factors have a huge influence on the regulation of the Futures market in India. Since the market is relatively new, the government tries to watch it closely. Before 1991, Indian economy was conservative in nature but after globalization, more and more foreign investors have showed their interest in different sectors of India. India became a fast growing economy in the world. The following table-1 shows the FII's participation in India. The capital market of India is very vulnerable. India has been politically unstable in the past but it is somewhat politically stable now-a-days. Political events in the past have affected the stock prices due to which the trading volume and the stock return have fluctuated (Nishat, M. and Mustafa, K.; 2002). The political instability of the country has a very strong impact on the capital market (table3). The share market of India gets impacted as the political changes take place.

The inflow and out flow of capital depends on the political and economic condition of the country. It is also causes excessive fluctuation in stock market (Nishat; 2000). Sidra et al (2009), Political events affect the stock price due to which the trading volume and stock return fluctuate positively or negatively as per the intensity of the event. The BSE Index, SENSEX, and NSE Index, NIFTY goes up and down with any kind of small and big political news. The following table-2 shows some big rise and fall due to some political news. The political stability of the country is very important for the performance and growth of capital market in India. The political balance of the country is the major factor in deciding the capital market of India. Index Futures are directly related to their corresponding Indexes. In case of Single Stock Futures, it is also directly correlated with market indexes, but there may be some exceptional cases.

Table-1
Some big falls of Indian Share Market and their reasons

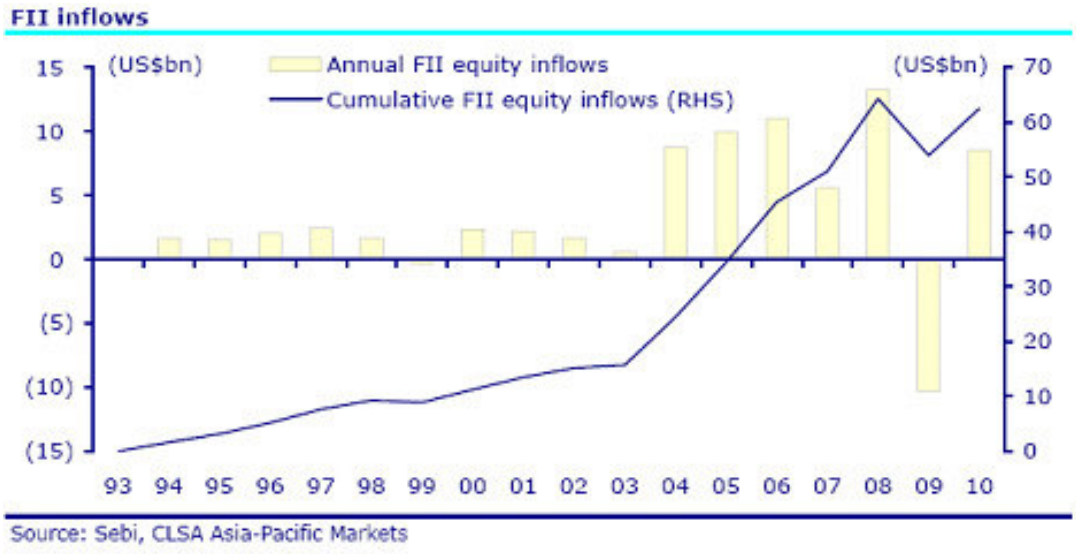
Year	Index	Reasons
October 24, 2008	The Sensex plunged by 1070.63 points (10.96 percent) to close at 8,701.07. Nifty ended at 2,557.25, Down 13.11 per cent or 386 points.	On Friday, the Reserve Bank of India gave the markets its biggest blow as it left key interest rates unchanged And lowered the GDP target to 7.5-8% for 2008-09.
10 October 2008	Sensex crashed by 801 points to close at a low of 10,528.	The crisis in the global markets, a fall in the rupee and poor IIP numbers led to the fall.
March 3, 2008	Sensex loses 900.84 points to close at 16,677.88	On frantic selling by funds, triggered by deepening concern over United States recession and some Budget-related concerns.
Friday, 25 January 2008	Sensex index soared 1,139.92 points to 18,361.66.	News that, India's central bank may cut a key short-term lending rate next week, dealers said. They said sentiment also improved on hopes possible further rate cuts by the US Federal Reserve and a fiscal stimulus package would help prevent the US from slipping into a recession.
January 21, 2008	Sensex saw its loss of 1,408 points at the end of the session on Monday. The Sensex recovered to close at 17,605.40 after it tumbled to the day's low of 16,963.96.	On high volatility as investors panicked following weak global cues amid fears of the US recession.
January 22, 2008	Sensex closed at a loss of 875 points at 16,730. The Nifty closed at 4,899 at a loss of 310 points.	Weak global cues amid fears of the US recession.
October 17, 2007	Sensex plunged by 1,743 points. The Sensex hit a low of 17,307.90.	SEBI proposal to tighten the rules for purchase of shares and bonds in Indian companies through the participatory note (PN) route.

April 2, 2007	The Sensex lost 617 points (4.7%) and closed at 12,455.	Reserve Bank of India decision to hike the cash reserve ratio (CRR) and repo rate (RR).
May 18, 2006	The Sensex registered a fall of points (6.76 per cent) to close at 11,391	Government was planning to enhance the tax liabilities for foreign institutional investors, who have poured huge money into domestic trading ring.
May 17, 2004	Sensex dropped by 565 points to close at 4,505	The NDA out of power and the Left parties, part of the UPA coalition government
April 28, 1992	The Sensex registered a fall of 570 points (12.77 %) to close at 3,870	Harshad Mehta securities scam.

Source: Developed by the Researcher/ Data collected from NSE and BSE.

FII's are the most important part of Indian futures market. From the figure-2, we see that their participations are increasing continuously which improves trading volume and liquidity in the market. But no one knows when their (FII's) sentiments change, and withdraw money from the market. One of the big reason's of Indian markets unexpected fluctuation are FII.

Figure-3
FII inflows in India



McKenzie and Faff (2003) have shown that the conditional autocorrelation in stock returns is highly dependent on trading volume for individual stocks but not for the index, reflecting the fact that liquidity disparity for stocks has a significant impact at individual level but not at the aggregate level. Santa- Clara et al (2000), with the cross-sectional evidence from size-sorted and industry portfolios suggest that the party in the presidency may affect the stock market through differences in fiscal and regulatory policies.

Indeed, previous research has found that GDP growth is slower during Republican presidential mandates, and that Democratic

administrations have been associated with significantly higher inflation rates (Alesina-1987), Alesina (1995). There is also substantial evidence that macroeconomic variables related to the business cycle can forecast stock market returns.

Table-2
Market Return Volatility: Pre and Post Election period

Year	%Return before election 1 Month	3 Month	12 Month	% Return after election 3 Month	6 Month	12 Month
1984	4.8	4.4	3.8	29.4	68	92.9
1989	-3.9	0.2	11.9	-2.3	13.1	90.8
1991	0	11.7	8.9	44	42.1	142.8
1996	11.8	33.2	6.7	-9.2	-18.9	-1.5
1998	2	-2	14.9	14	-14.5	-3.3
1999	2.9	16.7	-4.5	6.5	6.4	-13
2004	-13.4	9	-10.7	-5.8	6.7	16.7
2009	-2.84	-19.69	39.33	24.76	37.51	41.46

Source: Developed by the Researcher/ Data collected from different sources

Table-2 shows the impact of Lok Sabha election on market return which is an indication of the market strength and hence signifies the impact of the election on Index futures. This table shows the variation of market return one year before the election (pre election) and one year after the election (post election). The calculation starts from 1984 and covers till 2009. It can be clearly observed from the table that there is a positive variation of market return before and after the election. However some times (general election of 1996 and 1998) this trend of market return is in the opposite direction. This indicates that there may be some latent factors which affect the index futures return. According to Campbell, Grossman and Wang (1993), the fluctuation in trading activity is not only explained by publicly available information but also by non-information trade due to events, short selling, and insider traders. These factors are exogenous to the general price behavior in stock market.

b) Economic Factors

The economic measures taken by the government of India have a very strong relationship with the capital markets and stock index futures market is directly related to capital market. Whenever the annual budget is announced the capital market goes up and down with the economic policies of the government. If the policies are supportive to the companies then the capital market takes it positively by moving up and if there is any policy that is not supportive and it tends to bring the capital market down.

The economic factors in India are improving continuously. The GDP (Purchasing Power Parity), the GDP- per Capita (PPP), the GDP- real growth rate and also other economic factor has been shown in the following table-4, which indicates a tremendous economic growth story.

The economic factors which have more influence on *index futures* and *single stock futures* (SSF) market are:

- Inflation rate
- Economic growth
- Exchange rates
- Interest rates

Inflation Rate

The inflation rate (table-3) in India was last reported at 9.7 percent in October of 2010. From 1969 until 2010, the average inflation rate in India was 7.99 percent reaching an historical high of 34.68 percent in September of 1974 and a record low of -11.31 percent in May of 1976. In the present scenario, the inflation rate of India became a matter of concern which affects the savings of the investors and ultimately which influence the futures market. To control the inflation RBI & government, frequently apply their tolls (Credit reserve ratio, Bank rate, etc) to control the inflation which creates uncertainty in capital market and investors avoid trading in futures.

Table-3
Inflation Rate chart (%)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2010	16.22	14.86	14.86	13.33	13.91	13.73	11.25	9.88	9.82	9.70		
2009	10.45	9.63	8.03	8.70	8.63	9.29	11.89	11.72	11.64	11.49	13.51	14.97
2008	5.51	5.47	7.87	7.81	7.75	7.69	8.33	9.02	9.77	10.45	10.45	9.70

* The table displays the monthly average.

Source: *http://www.tradingeconomics.com/Economics/Inflation, Retrieved 02-12-2010*

* Note: Inflation rate refers to a general rise in prices measured against a standard level of purchasing power. The most well known measures of Inflation are the CPI which measures consumer prices, and the GDP deflator, which measures inflation in the whole of the domestic economy.

Interest Rate

The benchmark interest rate (reverse repo) in India was last reported at 5.25 percent. In India, interest rate decisions are taken by the Reserve Bank of India's Central Board of Directors. The official interest rate is the benchmark repurchase rate. From 2000 until 2010, India's average interest rate was 5.82 percent reaching an historical high of 14.50 percent in August of 2000 and a record low of 3.25 percent in April of 2009. To control the inflation RBI keeps changing the interest rate and as a result we see too much fluctuation in Stock and Index futures and it becomes difficult to manage the margin in futures trading. Fluctuations give opportunities also but only to experienced and large investors, small retail investors usually lose their money in uncertain markets fluctuations. The power of the relative interest rate to forecast expected returns was argued by Campbell (1991), and Hodrick (1992). Empirical studies on the effects of stock index futures trading on the stability of the cash market are "one shot" event studies examining characteristics of returns about the effects of futures trading. While it is impossible to control for and refute all conceivable alternatives to the hypothesis that the inception of futures trading affects the volatility of stock returns, there is a need to account for the most likely alternative explanations. The two most likely alternative explanations for changes in the volatility of stock returns are microeconomic factors and macroeconomic. Harris (1989) investigates the former and this study investigates the latter. The stability of the residual volatility is tested after adjusting for the effects of macroeconomic factors as identified in CRR.

Table-4
Interest Rate chart (%)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2010	3.25	3.25	3.38	3.63	3.75	3.75	4.08	4.50	5.00		5.25	5.25
2009	4.50	4.00	3.75	3.38	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
2008	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	5.50

* The table above displays the monthly average.

Source: http://www.tradingeconomics.com/Economics/Interest, Retrieved 02-12-2010

Exchange Rate

The Indian Rupee exchange rate (USDINR) depreciated 3.26 percent during the last 12 months. From 1973 until 2010 the USDINR exchange averaged 29.47 reaching an historical high of 51.97 in March of 2009 and a record low of 7.19 in March of 1973. From table-5, we can observe that Indian currency is improving and it is good for Indian economy.

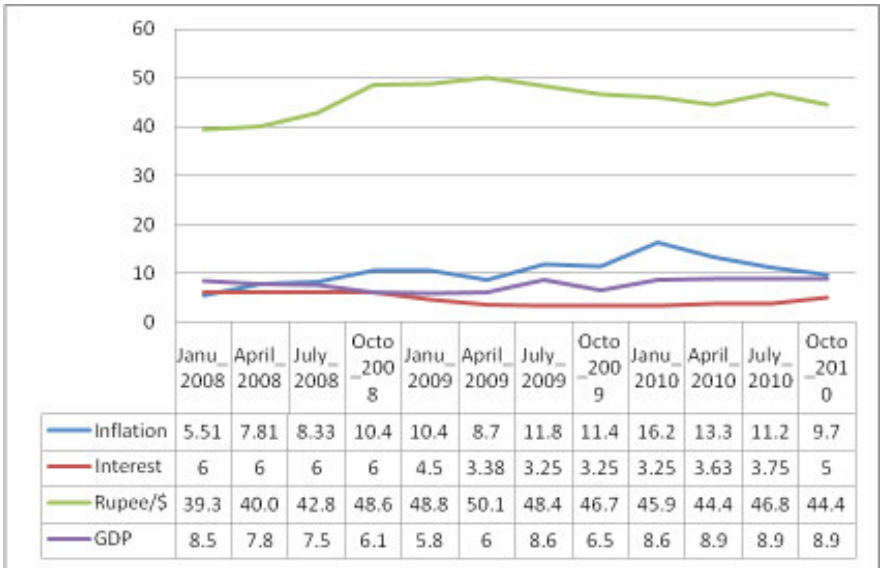
Table-5
Rupee Exchange Rate Chart (USDINR), (%)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2010	45.96	46.35	45.48	44.48	45.82	46.58	46.84	46.37	45.04	44.42	45.34	45.36
2009	48.87	49.31	51.25	50.10	48.52	47.79	48.45	48.33	48.45	46.72	46.57	46.61
2008	39.37	39.76	40.33	40.03	42.12	42.85	42.84	43.07	45.52	48.67	48.99	48.68

* The table above displays the monthly average.

Source: http://www.tradingeconomics.com/Economics/Currency.aspx, Retrieved 02-12-2010

Figure-3
Statistical graph of Inflation, Interest rate, Exchange rate and GDP



Source: Compiled by the Researcher from Economic survey of India

From the above figure-3, we show that GDP, Interest rate and Exchange rate of India are favourable for futures market but Inflation rate goes against it.

Table-6
Growth pattern of India

Economic Indicators	1950 -51	1960 -61	1970 -71	1980 -81	1990 -91	2000 -01	2005 -06	2006 -07	2007 -08	2008 -09
GDP at factor cost:at current prices Rs. cr.	9719	16512	42981	132520	515032	1925017	3402316	3941865	4540987	5228650**Q**
GDP at factor cost: at constant prices Rs. cr.	224786	329825	474131	641921	1083572	1864300	3249130	3564627	3893457	4154973**Q**
Per capita Net National Product at constant prices Rs.	5708	7121	8091	8594	11535	16172	25969	28074	30316	31821**Q**
Gross Domestic Capital Formation as percentage to GDP atcurrent market prices	8.4	14.0	15.1	19.9	26.0	24.3	34.3	35.5	37.7	34.9
Gross domestic **savings as percentage to GDP** at current market prices	8.6	11.2	14.2	18.5	22.8	23.7	33.1	34.4	36.4	32.5
Index of agricultural production (Base: triennium ending 1981-82)	46.2	68.8	85.9	102.1	148.4	165.7	191.9	200.7	207.1	185.6
Index of industrial production. (Base: 1993-94=100)	7.9**b**	15.6	28.1	43.1	91.6	162.6	221.5	247.1	268.0	275.4
Wholesale Price Index average (Base 1993-94=100)	6.8	7.9	14.3	36.8	73.7	155.7	195.6	206.2	215.8	233.9
Output Food grains (million tons)	50.8	82.0	108.4	129.6	176.4	196.8	208.6	217.3	230.8	233.9**d**
Exports Rs. crore	606	642	1535	6711	32553	203571	456418	571779	655864	840755
Imports Rs. crore	608	1122	1634	12549	43198	230873	660409	840506	1012312	1374436
SOCIAL INDICATORS										
Population (Million)	359.0	434.0	541.0	679.0	839.0	1019	1106	1122	1138	1154
Birth Rate (per 1000)	39.9	41.7	36.9	33.9	29.5	25.4	23.5	23.8	23.5	22.8
Death Rate (per 1000)	27.4	22.8	14.9	12.5	9.8	8.4	7.5	7.6	7.4	7.4
Education: Literacy Rate (%)	18.3	28.3	34.4	43.6	52.2	64.8	67.6	na	na	na
(a) Male	27.2	40.4	46.0	56.4	64.1	75.3	na	na	na	na
(b) Female	8.9	15.4	22.0	29.8	39.3	53.7	na	na	na	na

Source: Compiled from Economic Survey- 2009-10

- Q Quick estimates.
- na: Not available.
- b Relates to the calendar year 1950.
- Note: Data on GDP at factor cost at constant prices and per capita Net National Product at constant prices relates to 1999-2000 prices upto
- 2000-01. From 2005-06 onwards, data are based on new series (2004-05) prices.

c) Social Factors

India is a country of social diversities having different sub-cultures, languages, customs, religions, castes, etc.

Population

With more than 1 billion inhabitants, India ranks second only to China among the world's most populous countries. Its people are culturally diverse, and religion plays an important role in the life of the country. About 80.5% of the Indians practice Hinduism, a religion that originated in India. Another 13.4% of the population is Muslims. This makes India home to the third-largest Muslim population in the world after Indonesia and Pakistan. India also contains the majority of the world's Christians (2.3%), Sikhs (2%), Buddhists (0.8%), Jains (0.4%) and Jews. Eighteen major languages and more than 1,000 minor languages and dialects are spoken in India.

Total Population: 1,147,995,904 (2008 estimate)

Age structure: 0-14 years: 31.5% (male 189,238,487/female 172,168,306) (2008 estimate); 15-64 years: 63.3% (male 374,157,581/female 352,868,003) (2008 estimate); 65 years and over: 5.2% (male 28,285,796/female 31,277,725) (2008 estimate)

Median age: total: 24.1 years; male: 24.1 years; female: 24.2 years (2002)

Sex Ratio: At birth: 1.12 male(s)/female (2008); Under 15: 1.10 male(s)/female (2008); 15-64 *years*: 1.06; male(s)/female (2008)

Population growth rate: 1.578% (2008 estimate); Birth rate: 22.22 births/1,000 population (2008 estimate); Death rate: 6.4 deaths/1,000 population (2008 estimate)

The futures market is not much affecting social factors. However, it does not mean that social factors are not important to the futures market. Education, health, saving of Indian is improving continuously (table-6). These factors directly or indirectly influence futures market. For example, an improvement in the education of people is likely to increase their employability. This in turn is likely to increase their income and ultimately their savings. These savings may be directly or indirectly diverted to the futures market and as a result liquidity and turnover of futures market is likely to increase.

d) Technological Factors

Internet Trading

The advancement of information and communication technology is changing the competitive environment in the futures market. The Internet is an absolutely revolutionary concept in the financial services area. The new trading method, internet trading, has become a required distribution channel, taking the investors away from the traditional trading. The advantages of Internet trading are quite visible. First of all, the cost of making a trade has plummeted. Many on-line Indian brokerage firms charged as low as 0.03 % of the turnover as brokerage and the competition is continuous among the brokerage houses. They are charging low brokerage to attract the customers. The Internet makes it convenient for customers to do Futures trading. Traders can obtain real-time quotes, place orders, and receive related market data, news, and services anytime anywhere, no matter whether they are on a business trip or are at home. Internet trading is also convenient because it is quick and easy to trade.

Internet trading gives investors full control of their Futures trading activities. The

investors design their own trading strategy and make all decisions. For investors who are not seeking personal investment advice, online trading can be very useful. If one can trades without the help of a professional broker, internet trading is an ideal trading tool for them. On-line investors are using the Internet to their advantage, and the entire structure of Futures market is changing as a result. Equally more and more businesses have turned towards the Internet because of the large number of customers which can be reached through it. Most of the companies have internet trading systems which enable customers at their home to trade, with them by using their PC's. Internet trading systems enable the brokerage firms to cut costs, reduce order-processing time and improve information flow.

However, Internet trading had some disadvantages too. The first of these disadvantages is the reliability of online trading system. There are several factors that can affect the stability of the system. The online broker's server and the user's personal computer may be down. The Internet service can be down too. Also, the power cut may disrupt trading. In addition, the rapid growth of Internet trading requires to companies to constantly implement changes to meet the customers' growing needs. Firms need consistently to add more features to the software applications and upgrade to faster and more secure hardware. Computer experts need to be hired to maintain the system. Inappropriate management of the internet system may lead to huge costs and system failure. Finally, the Internet trading system is not 100% safe. Online security is one of the major concerns of investors.

Banking System: It become very easy to transferring money around the world with the development of communication technology and advanced banking systems. For Futures trading, it is crucial for customers to maintain a certain margin level in their account. In the past, it used to take a few days to move money around the country. Nowadays, people can transfer money to their account within minutes, which makes the Futures business more manageable. People can access their bank accounts using internet as well s their cellular phones.

However, there are several issues which are hampering the flowering of Indian economy and also the Futures market in turn. They are mentioned as under:

Infrastructure: India's low spending on power, construction, transportation, bureaucratic inefficiencies, urban-bias, telecommunications and real estate, are preventing India from sustaining higher growth rates. In the major part of India, only 44% of rural households have access to electricity which further deteriorates because of power-thefts, public sector corruption and other causes.

Education: In spite of the right to education, free education to all children, huge progress in terms of increasing primary education attendance rate and expanding literacy to approximately two thirds of the population, a lot is still missing. However, the literacy rate of 65% is still lower than the worldwide average and the country suffers from a high dropout rate.

Laws: India is ranked 133th on the Ease of Doing Business Index (2010), behind countries such as China , Pakistan, and Nigeria. The Constitution provides protection of child labor, slavery, equality of opportunities and forced labor etc. in form of fundamental rights, but the implementation of provisions cited is a matter of concern. Better designed labor regulations can attract more labor- intensive investment and create jobs for India's unemployed millions and those trapped in poor quality jobs – *World Bank: India Country Overview 2008*.

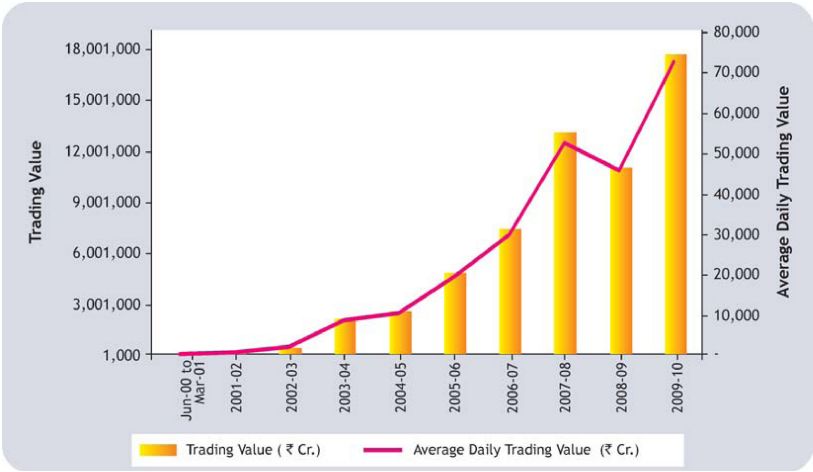
Economic disparities: A basic problem facing India's economy is the sharp and growing regional variations among India's different states and territories in terms of per

capita income, poverty, availability of infrastructure and socio-economic development. Reforming cumbersome regulatory procedures, improving rural connectivity, establishing law and order are essential to create a stable platform for natural resource investment. It could balance business opportunity, reinforcing the Futures market.

Agriculture: though 65% of India still lives in villages, but agriculture has not received the right kind of attention yet. Current agricultural practices are neither economically nor are environmentally sustainable, causing little improvement in yields for many agricultural commodities low. Disheveled roads, poor market infrastructure, and excessive regulation make farmers' access to markets difficult.

Corruption: Corruption has been one of the pervasive problems affecting India. The 2010 report by Transparency International ranks India at 87th place and states that significant setbacks were made by India in reducing corruption.

Figure-4
Business growth of F & O



Segment

Source: NSE fact book-2010-11

CONCLUSION

The Indian government's efforts are directed towards the establishment of a free, fair, transparent and fully informed market with help of the Futures market, so that futures prices are truly determined by the forces of demand and supply. In the long term, the continuing rapid growth of economy in India creates a huge potential for Futures market (Figure-4). The entry of the foreign investment firms will help the development of the market as the trading will be very active when there are a large number of participants. Social factors suggest that there will be increasing savings power, improved education and employment scenario in India which is likely to bring domestic investors towards futures market. Moreover, the Internet trading system is also changing the competitive environment of the futures market industry since more and more investors are adopting the low cost and convenient trading system associated with it. The advanced banking system is making the futures business more manageable. Although the Indian market has been quite volatile, retail and small investors should adopt some pre-determined strategies to be safe against the unexpected turns of the market. Chidambaram (2008) said that retail investors should gain knowledge before entering into currency

futures market. "The risks could be very high and so retail investors should not jump into it unprepared."

With an improving agriculture, widening scope of education, a balanced economy, friendlier infrastructure, vividly sketched out laws unstained by any kind of corruption will create the right climate for swift growth of the futures market. The PEST analysis shows that most of the factors considered are indeed going in favour of India's futures market.

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