



DERIVATIVES

Commodity hedging

Using futures to lock in a price for a commodity you produce, hold or must buy

Regulatory position as on 16 October 2026

For training and education only. Not investment advice.

A hedge is not a bet on prices. It is a way to fix a price now and remove the risk of a later move.

The hedger takes an opposite position in futures: a loss on the physical commodity is offset by a gain on the futures, and vice versa. The price is fixed either way, apart from basis risk.

Four words to know first



Hedger

A business exposed to a commodity price: it produces, holds, or must buy that commodity.



Futures contract

A standard exchange contract to buy or sell a set quantity at a set price on a future date.



Short hedge

Selling futures now to protect goods you will sell later from a fall in price.



Long hedge

Buying futures now to protect against a rise in the price of goods you must buy later.

Futures trade on an exchange. Most hedgers close out their position in cash before delivery.

A short hedge, with real arithmetic

THE SET-UP

A producer will have 100 units of a commodity to sell in three months.

The price today is ₹5,000 per unit. To remove price risk, the producer sells 100 units of futures at ₹5,000.

- 1 Price falls to ₹4,600. The physical sale brings $100 \times ₹4,600 = ₹4,60,000$.
- 2 Futures: sold at ₹5,000, bought back at ₹4,600 = ₹400 per unit gain $\times 100 = ₹40,000$.
- 3 Total received: $₹4,60,000 + ₹40,000 = ₹5,00,000$, which is ₹5,000 per unit — the price locked in.
- 4 Had the price risen to ₹5,400, the ₹40,000 extra on the sale would be cancelled by a ₹40,000 loss on futures. Still ₹5,00,000.

A hedge fixes the price. It removes the loss from a fall and gives up the gain from a rise.

Illustration with assumed round figures. Futures are assumed to track the spot price exactly.

Two sides of a hedge

Whether you sell futures or buy them depends on which price move would hurt you.

Short hedge — sell futures

- Used by someone who owns or will produce the commodity and will sell it later.
- Protects against a price fall between now and the sale.
- For example a farmer, a miner, or a maker with finished stock to sell.

Long hedge — buy futures

- Used by someone who must buy the commodity later as a raw material.
- Protects against a price rise between now and the purchase.
- For example a food processor, a refiner, or a jeweller buying metal.

A hedge trades the chance of a more favourable price for certainty about the price.

India's commodity derivatives market now

Aspect	What applies today
Regulator	SEBI has regulated this market since 28 September 2015, when the Forward Markets Commission (FMC) merged into it.
Instruments	Futures have traded for years. Options came later: the first, on gold, launched in 2017, and 'options on goods' were allowed from 2020.
Settlement	Contracts are settled in cash or, for many, by delivery of the goods on expiry. Most hedgers close out before expiry.
Farm contracts	Derivatives of seven farm commodities (including wheat, chana, mustard, the soya bean complex and crude palm oil) are suspended until 31 March 2027.
Mutual funds	Since 2019 mutual funds may use exchange-traded commodity derivatives, within limits, in hybrid schemes and gold ETFs (silver ETFs from 2021).

Sources: SEBI PR 237/2015 (FMC merger); SEBI PR 21/2026; SEBI circulars 21 May 2019 and 16 Jan 2020; MCX gold options launch, 17 Oct 2017.

Weather derivatives



What they are

Contracts whose payout is tied to measured weather — rainfall, temperature or wind — rather than the price of any good.



India's first one

NCDEX launched RAINMUMBAI in 2026: a cash-settled rainfall contract for the Mumbai monsoon, built with IMD data.



Not crop insurance

It pays on a measured index, not on your proven loss, and is meant for people who are exposed to that weather.

Weather derivatives are new in India: RAINMUMBAI came first, then a Chennai rainfall contract.

Source: NCDEX-IMD MoU of 26 Jun 2025; NCDEX RAINMUMBAI launch, 2026 (exchange and press reports).

Where things stand

Four dates and numbers that describe commodity derivatives in India today.

REGULATOR SINCE

2015

SEBI took over from the Forward Markets Commission on 28 September 2015.

FIRST COMMODITY
OPTION

2017

Gold options began in 2017; 'options on goods' followed in 2020.

FARM CONTRACTS
SUSPENDED

7

Seven farm commodities' derivatives suspended until 31 March 2027.

FIRST WEATHER
CONTRACT

2026

RAINMUMBAI, a rainfall derivative, launched in 2026.

Sources: SEBI press releases (FMC merger 2015; PR No. 21/2026 on farm suspension); press and exchange reports on commodity options (2017) and RAINMUMBAI (2026).

If you learnt this from older material

What older decks say

- A separate body, the Forward Markets Commission, regulates commodity futures.
- You can only hedge with futures.
- Weather derivatives are theoretical in India.
- All the main farm futures trade freely.

What holds now

- SEBI has regulated the market since 2015; the FMC no longer exists.
- Options on commodities also trade, since 2017.
- An exchange-traded rainfall derivative went live in 2026.
- Several farm derivatives are suspended until 31 March 2027.

The idea of hedging is unchanged. The Indian market around it has changed a lot since 2015.

Sources: SEBI (FMC merger 2015; commodity options 2017); SEBI PR No. 21/2026; NCDEX (weather derivative 2026).

Four things people get wrong



'Hedging removes all risk.'

It removes price risk on the hedged quantity. Basis risk remains: futures and spot prices may not move exactly together.



'A hedger wants to profit on futures.'

The futures gain or loss is there to offset the physical position, not to make money on its own.



'Hedging always leaves you ahead.'

If the price moves your way, the hedge gives up that gain. The aim is certainty, not the most favourable outcome.



'Weather derivatives are insurance.'

Insurance pays a proven loss. A weather derivative pays on a measured index, whether or not you lost money.

Check yourself

Q1

A producer sells futures at ₹5,000 to hedge 100 units. At sale the spot is ₹4,600 and the futures are bought back at ₹4,600. What price is locked in?

Q2

Who regulates commodity derivatives in India, and since when?

Q3

How does a rainfall weather derivative differ from crop insurance?

Sources and disclaimer

SOURCES FOR THE FIGURES IN THIS DECK

- Forward Markets Commission merged into SEBI w.e.f. 28 Sep 2015; the Forward Contracts (Regulation) Act was repealed w.e.f. 29 Sep 2015: SEBI press release PR 237/2015.
- Seven farm commodities' derivatives suspended until 31 March 2027: SEBI Press Release PR No. 21/2026, dated 27 March 2026.
- First commodity option (gold) launched 2017; 'options on goods' permitted from January 2020: contemporary press and exchange notices.
- Mutual funds permitted to use exchange-traded commodity derivatives, within limits, in hybrid schemes and gold ETFs: SEBI circular, 21 May 2019. Silver ETFs followed in 2021.
- India's first exchange-traded weather (rainfall) derivative, RAINMUMBAI: NCDEX-IMD MoU of 26 June 2025 and NCDEX launch in 2026 (exchange and press reports).
- All prices and quantities in the worked example and quiz are invented for illustration and are not quotes for any commodity.

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