Price Discovery in Mustard Seed and Mustard Oil Futures Markets, India

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ABSTRACT

Among different edible oilseeds grown in India, mustard occupy prominent place due to larger portion of population are consuming it as vegetable oil. Beside other factors, prices of oilseeds playing an important and highly influencing factor to the farmer's decision regarding the area allocation under oilseed crops. This study attempts to assess the future and spot price linkages for mustard seed and mustard oil in various selected domestic markets of India. The study was based on secondary data and it was analysed by using co-integration technique and Vector Error Correction Model (VECM). The significant coefficient of at least one error correction term confirmed the results of co-integration between spot and future prices of mustard seed, mustard oil and mustard oil in the all selected markets. The results of VECM revealed that the coefficient of the error correction term was negative and significant in the case of spot market for mustard seed and mustard oil in the selected markets. This implies that spot prices are stable in the long-run and any deviation in their prices due to external shocks that occurred in the short-run was well adjusted by the market forces over time. The model also revealed the existence of unidirectional short run causality in the selected market of mustard seed except Sriganganagar market. This phenomenon of price convergence for the crop clearly depicts that farmers would be able to effectively mitigate the price risk in future markets.

Keywords: Price Discovery, Mustard seed, ADF, Co-integration, Vector Error Correction Model