Gold option contract

Why in news?

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Recently Multi Commodity Exchange has introduced gold option contracts for the first time in India.

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What is a gold option?

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- It is a derivative instrument, which allows investors to buy or sell gold bullion at a future date at a predetermined price.
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- An option is similar to a futures contract in that the price, date and amount are pre-set for both.
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- The main difference between the two is that a futures contract is an obligation, or promise, made by the investor to uphold the contract whereas an option is not obligation.
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What are advantages of this?

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- It allows investors to evade any volatility in the price of the metal, for a price.
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- These options usually also turn out to be cheaper than binding future agreements
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- It will help in the wider participation of investors in the realm of commodity speculation
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- Gold options will also help bring into formal channels more of the gold that is traded.

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- Options, like other financial derivatives, allow price risks to be transferred between market players in an efficient manner.
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- The business of anticipating prices in the future is left to professional speculators while their clients benefit from the prospect of stable prices.
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- These derivatives can facilitate the conduct of real economic activity in higher risk segments including in agriculture and industrial activity that would not happen otherwise.
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What are the areas of concerns?

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- Almost a decade ago, a rapid increase in food prices pushed the government to impose a blanket ban on any speculation on agricultural products.
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- The wide-ranging nature of the move slowed the development of a healthy market for commodity speculation.
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- The government is now rising similar temptation and focus on gold market,instead on real-time monitoring systems.
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Source: The Hindu

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