

Price discovery in the Indian gold futures market

Pantisa Pavabutr · Piyamas Chaihetphon

© Springer Science + Business Media, LLC 2008

Abstract This paper examines the price discovery process of the nascent gold futures contracts in the Multi Commodity Exchange of India (MCX) over the period 2003 to 2007. The study employs vector error correction models (VECMs) to show that futures prices of both standard and mini contracts lead spot price. We find that mini contracts contribute to over 30% of price discovery in gold futures trade even though they account for only 2% of trading value on the MCX. Our finding reveals that trades initiated in mini contracts are much more informative than what the size of their market share of volume suggests.

Keywords Gold Futures · Price Discovery · Information Share

JEL classification G14 · G15

1 Introduction

Futures markets perform two important roles, hedging of risks and price discovery. The efficacy of the hedging function is dependent on the price discovery process or how well new information is reflected in price. In general, futures markets are found to respond faster to new information than spot markets since the transaction cost is lower and the degree of leverage attainable is higher.

P. Pavabutr (✉)

Department of Finance, Faculty of Commerce and Accountancy, Thammasat University,
2 Prachan Rd., Bangkok 10200, Thailand
e-mail: pantisa@gmail.com

P. Chaihetphon

Merrill Lynch Securities (Thailand) Limited, 87/2 Wireless Rd., Bangkok 10330, Thailand
e-mail: piyamasc@gmail.com