

**PROJECT REPORT ON**  
**“A STUDY ON THE RELATIONSHIP BETWEEN BASIS PRICE AND FUTURE**  
**PRICE: A CROSS COMMODITY ANALYSIS”**

**Submitted By**

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**Submitted To**



**VISVESVARAYA TECHNOLOGICAL UNIVERSITY, BELAGAVI**

**In partial fulfilment of the requirements for the award of the degree of**

**MASTER OF BUSINESS ADMINISTRATION**

**Under the guidance of**

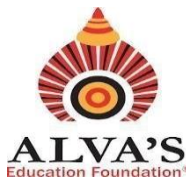
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# ALVA'S INSTITUTE OF ENGINEERING & TECHNOLOGY

(A Unit of Alva's Education Foundation @Moodbidri)

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Date: 09/09/2024

## CERTIFICATE

This is to certify that **Thrupthi** bearing **USN 4AL22BA115**, is a bona-fide student of Master of Business Administration course of Alva's Institute of Engineering and Technology, Moodbidri for the batch 2022-2024, affiliated to Visvesvaraya Technological University, Belagavi. The Project report on "**A Study on the Relationship between Basis Price and Future Price: A Cross Commodity Analysis**" is prepared by her under the guidance of **Dr. Vishnu Prasanna K.N.**, Professor, in partial fulfilment of the requirements for the award of the degree of Master of Business Administration of Visvesvaraya Technological University, Belagavi Karnataka.

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## DECLARATION

I, Ms. Thrupthi (USN: 4AL22BA115) hereby declare that the project report on **“A STUDY ON THE RELATIONSHIP BETWEEN BASIS PRICE AND FUTURE PRICE: A CROSS COMMODITY ANALYSIS”** is prepared by me under the guidelines of Dr. Vishnu Prasanna K.N., Professor of Finance, PG Department of Business Administration, Alva's Institute of Engineering and Technology, Mijar, Moodbidri.

I also declare that this project work is towards the partial fulfilment of the university regulations for degree of MASTER OF BUSINESS ADMINISTRATION by Visvesvaraya Technological University, Belgaum.

I have undergone a project for a period of 6 weeks. I further declare that this project is based on the original study undertaken by me and has not been submitted for the award of any degree/diploma from any other University/Institution

Date: 19-09-2024

  
Signature of the Student

Place: Mijar, Moodbidri

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With regards,

Thrupthi

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## **EXECUTIVE SUMMARY**

This analysis examines the relationship between the basis and future prices across various commodities, emphasizing its significance in market dynamics and the investment strategies. The basis, is defined as the difference between the spot price and the future price of a commodity, is a crucial indicator of future price movements.

A positive basis, where the spot price is higher than the future price, typically signals an expected decline in the prices. a negative basis, where the future price is higher than the spot price, indicates an anticipated increase in a price. This predictive capacity of the basis arises from factors such as storage costs, convenience yields, and market expectations.

Different commodities exhibit distinct basis-future price relationships due to unique market structures and supply-demand dynamics. For instance, agricultural, energy, metals commodities, which are often perishable, tend to have more volatile basis movements compared to non-perishable commodities like metals, where storage and transportation costs are more predictable.

Market efficiency plays a crucial role in this relationship. In efficient markets, arbitrage opportunities quickly correct basis deviations, ensuring a stable and predictable relationship between basis and future prices. Less efficient markets may experience prolonged basis anomalies due to slower corrective mechanisms.

External factors such as carrying cost, consumption trend, demand, distribution cost, exchange rates, inflation rates, production level, storage cost, supply level, transportation cost significantly impact both the basis and future prices. Adverse weather conditions can disrupt supply chains and widen the basis, while geopolitical tensions can cause sudden shifts in spot and future prices, affecting their correlation.

Understanding the basis-future price relationship is essential for traders and investors to devise effective hedging strategies and optimize portfolio management. It helps in anticipating price movements, managing risks, and capitalizing on arbitrage opportunities. Cross-commodity analysis provides insights into the relative performance and risk profiles of different commodities, aiding in diversified investment strategies.