

AN ANALYSIS OF RELATIONSHIP BETWEEN SPOT PRICE AND FUTURE PRICE OF SILVER IN MCX: APPLYING CO-INTEGRATION AND CAUSALITY TEST

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ABSTRACT

The key research objective of the study was to analyse the nature of relationship between future and spot prices of Silver in Indian Commodity Market (MCX) using Johansen Co-integration and Granger Causality Test. The data were taken from MCX Year Books, with data from April 2004 to December 2010. MCX has stopped publishing Year Books, last being Year Book 2011. While latest (raw) data could have been taken from the site of MCX itself for the period from 2004 to date, it was thought to examine the data given in the Year Book only, which is smoothed by MCX itself. While the exact spot price given for months respectively in the Year Books were taken, but to get the month wise future price of copper, same had been taken by taking the average of opening and closing future price of every month given in the Year Books. The various models used in the analysis were Augmented Dickey Fuller Test (ADF), Johansen Co-integration Test and Granger Causality Test. Non-stationary data were converted to Stationary data wherever it was required for better interpretation. The results showed that Silver Spot and Silver Future prices were Co-integrated and both of them do not granger cause each other.

Keywords

Metals, Industry Metals, Silver, Spot Price, Future Price, Augmented Dickey Fuller Test(ADF), Johansen Co-integration Test, Granger Causality Test, MCX

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