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Importance of hedging

For Jewelry makers

- ✓ Jewelry makers often use precious metals like gold and silver in their production and the prices of these metals can be volatile. To cope up with the potential price fluctuations jewelry manufacturers should hedge in commodities to protect themselves against any futures losses.
- ✓ In this insight we are going to see what factors are causes for price fluctuations and example of how hedging in MCX can help in reduce the losses generally bare by the manufacturers.
- ✓ In India today we are facing high price rise in gold, that can cause high business expense for jewelry makers and low customer base. Here are some reasons why gold prices are so high nowadays.

- Interest rate hikes by fed and rising bond yields
- Geopolitical conflict between Israel and Hamas has increased market volatility
- Strategic gold purchases in large quantities by central banks
- robust gold buying during the Indian festive season

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Here are some reasons why jewelry makers may find hedging in MCX beneficial :

- ✓ Price stability : It allows jewelry makers to lock in prices for precious metals through futures contracts. This provides stability in budgeting, especially when there is uncertainty about futures metal prices.

- ✓ Cost predictability : for better prediction of their cost of raw materials and it is crucial for maintaining profit margins and managing overall business expenses.

- ✓ Production planning : Knowing the future cost if precious metals enables jewelry makers to plan their production more effectively. It also helps in inventory management.

- ✓ Competitive advantage : Effective hedging can give a competitive edge by allowing them to offer more stable pricing to customers.

- ✓ Financial Security : Hedging provides a sense of financial security by mitigating the uncertainty related to commodity prices.

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Let's see one example of how one can gain profit or reduce it's losses with help of hedging in gold futures MCX

M/S Omkar needs 1 kg of gold in 1 month to fulfill its jewelry order. Today gold price in local market is Rs. 62670. After a month gold price expected Rs. 63082 per 10grms. It enters into a future contract to buy gold commodity in MCX.
Price of future contract today : 62533
Expected spot gold price after a month in MCX : 63049

After a month when actual purchase made @ Rs. 63082
Future position will be – Gain of Rs. 516 (63049-62533=516 per 10grms)(M/S. Omkar will purchase futures as contracted price and will sale in spot price)

Net amount of gold purchase is 62566(63082-516) per 10 grams.

Total benefit for 1 kg gold purchase will be Rs. 51600

- *As we have seen here, how a jewelry maker can reduce its expense of gold purchase and can increase its margin accordingly.*

For purchase of gold in local market, if,
- *Price expected to rise – buy futures contract*
- *Price expected to go down – sell futures contract*

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