ABSTRACT

This paper examines the theoretical aspects of the Indian crude oil futures market, namely price discovery and spot market volatility. GARCH, Cointegration and Error Correction Models have been used for empirical analysis. The results were in line with theoretical expectations. There is a long run relationship between futures and spot market. The causality mainly runs from the futures market. The futures market predominantly aids the price discovery mechanism with the spot market helping in 5 months. The future market performs the price discovery function better than the spot market. The test results for spot market volatility shows that the futures market is not causing any adverse fluctuations in the spot market.