Mercantile Exchange Nepal Limited
Invest - Trade - Earn
AN ISO 9001:2008 CERTIFIED EXCHANGE

MEX EXPRESS

A Smart Solution for Online Trading

www.mexnepal.com

Volume: 6 • Issue: 3 • Year: 2014 A.D

From the CEO's Desk

First of all, I would gladly like to take this opportunity to share to all the stakeholders of the Nepali financial market, especially commodity market, that MEX Nepal is approaching the completion of sixth year of its operation. It gives me immense pleasure to observe the positive vibes and the support with constructive feedbacks that we have received during this journey, even at tough times.

Continuing the habit of presenting new and innovative techniques to ensure the sustainable growth and transparency of the business, MEX Nepal is up with the invitation for the Market Makers from everybody who is potential and capable to fit in the criteria designed by the exchange. MEX Nepal has realized "Every bad incident has a good lesson within"- as it was during the tirade of negative news we got the idea to open up the call for Market Makers in the general public. Now, the general people can fit in the criteria to smoothen the operation of exchange by making the market. Earlier it was about blaming the exchanges but now it is about taking the opportunity to enhance one's benefit on one hand, and contributing the financial awareness on the other. As we had been mentioning, MEX Nepal is one of the pioneers in the country to start the dialogues for the development of the commodity market in the country, now MEX Nepal is trying to organize a half-day awareness program among the finance-literate community in the capital.

Truly it makes a lot of difference when something is done with a balanced and encouraged state of mind and at this point of time, when we are obsessed and obliged with the foundation of highly anticipated transparent and user-friendly trading platform, the new platform has provided enough scope in the Nepali commodity market for the Market Makers. The coming days would add up more challenges for sure, but with this friendly relation between us and the major stakeholders in the market, we will definitely tap them into opportunities.

Finally, I would like to mention that Doing days are on now and being Market Makers, all of you can help us take one step closer to the standardization process of the exchanges. MEX Nepal would not leave a stone unturned in doing the best to provide the market with new products and new trading dynamics.

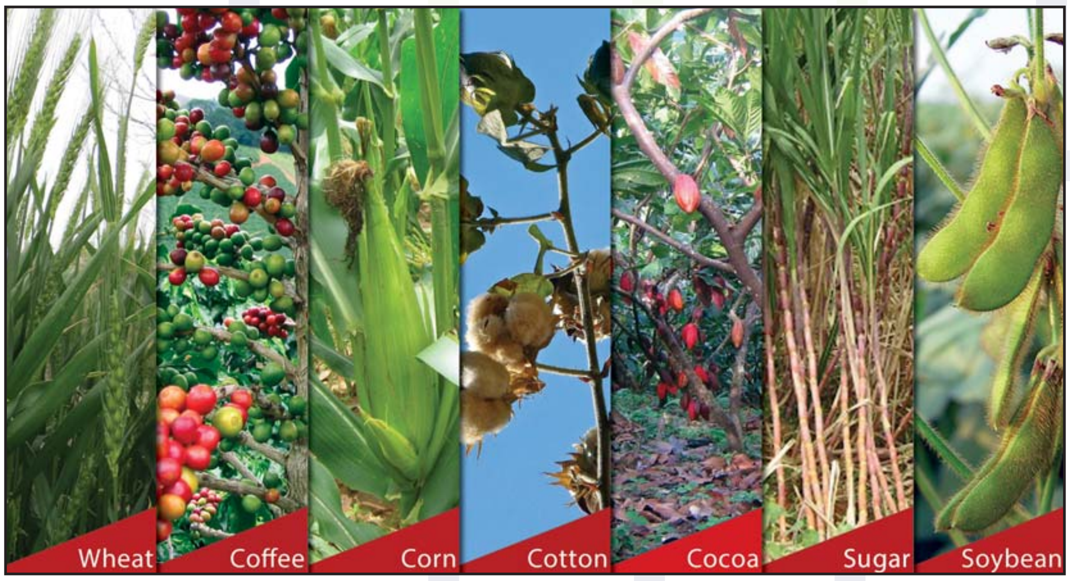
Be a Market Maker, Initiate the Change!

- Jitesh Surendran

Physical Delivery of AGRO COMMODITIES

The history of commodity market dates back to the 17th Century. At initial stages, the market for commodities was focused on agricultural products. The central idea of the commodity market then was to manage the risk of price difference during harvesting and processing of agricultural products. Today commodity market products exist not only in agricultural products but also into a wide array of tangible and intangible products such as metals, stocks, indices, forex etc.

Historically, commodity trading was aimed towards safeguarding the future price risk for agricultural products that were agreed to be delivered in the future. In other words, it can be said that in one way or other, the settlement of the contract was done via physical delivery of the traded commodity. Though online trading has popularized futures and spot products as dominant players of the commodity market, physical delivery of commodities has still not lost its charm for the end users of those deliverable commodities.



Unlike in futures, the product traded is physically delivered at the time of settlement of the contract thus ensuring the practicality of trade to the businessmen supposedly producers who use the commodity as raw materials. For example, for a sugar manufacturing company the guarantee of buying sugarcane in a future date can be a major issue for his business. A contract of physical delivery of 10,000 quintals of sugarcane from a particular farmer can be an efficient way to mitigate his risk.

Similarly as the price of the commodity is dependent upon the demand and supply in the market, it determines the fair price of the commodity in the real market. The continuous auction of the prices in the commodity market leads to fair price discovery of the commodity as well as ensures stability of the prices.

It would be a cliché to state that Nepal is an agriculture based country where most of the population of the country is dependent on this source of livelihood. Being an agro-dominated economy, the economic share of this sector is in diminishing in Nepal. Though this sector is given high priority less has there been the benefits reaped. The physical delivery of agro products at pre-stated date and pre-stated prices can be a strong base for development of agriculture sector as well. The effective functioning of the physical delivery mechanism can provide a strong base for this sector.

The mechanism of physical delivery of commodities can enable centralized grading of products. The more the market gets structured the need for standardization of the products will be a must. The quality of the products to be delivered needs to meet the national and international standards, thus encouraging quality consistency among producers. Standardization also reduces the cost of transaction and the cost of the entire procedure as well.

The need to practice and promote physical delivery mechanism is high especially in the agriculture sector. But there are major factors challenging the commodity market in the country. Commodity market in Nepal is in a developing stage and still this sector lacks regulatory body to look over it. Though the fiscal policy of 2071/72 addresses the role of commodity market in the national economy, efforts to address the issue has been minimal. Lack of regulatory authority has handicapped the potential growth of this market as a whole significantly affecting the trustworthiness of the physical delivery mechanism in the country. This sector requires support and backup of the government bodies to deepen its roots in the economy of the country.

Adding to above, lack of warehouses and storage mechanism of agricultural products also challenges the growth and stability of physical delivery of agro commodities in Nepal. The need for standard warehouses and storage house of agro products has been realized and highlighted by many as a major support for the agro industries.

Another challenge that this market faces is the lack of awareness among producers and investors. Not many people in the country are aware of the commodities market in Nepal and thus many investors are resistant to explore and invest in this market. To increase the market base efforts must be made to aware the customers and investors of this market. Either by enhancing the practical education in the academic sector or by conducting social campaigns, training programs by all of the market participants the reach of information about this sector must be spread wide.

The mechanism of commodity market or the mechanism of physical delivery in commodity market itself depends on a number of linked institutions, which are critical to its functioning. Integration and development of all the components of this market is necessary for overall development be it in case of agricultural, metal or energy sector and consequently the entire economy of the country as a whole. Fair price discovery and proper integration of all market participants will develop a system that generates itself market information, transparency, standardization consequently promoting self regulation.

Liberty Shakya
Assistant Manager
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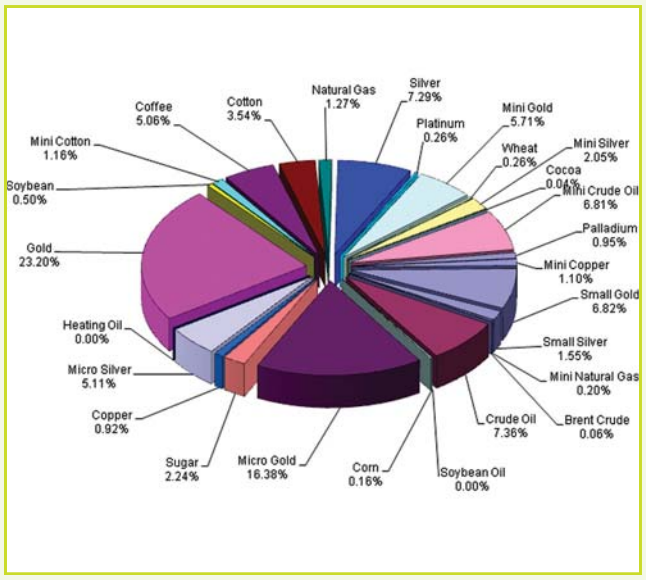
MEX Nepal

Market Capitalization - Futures Contracts

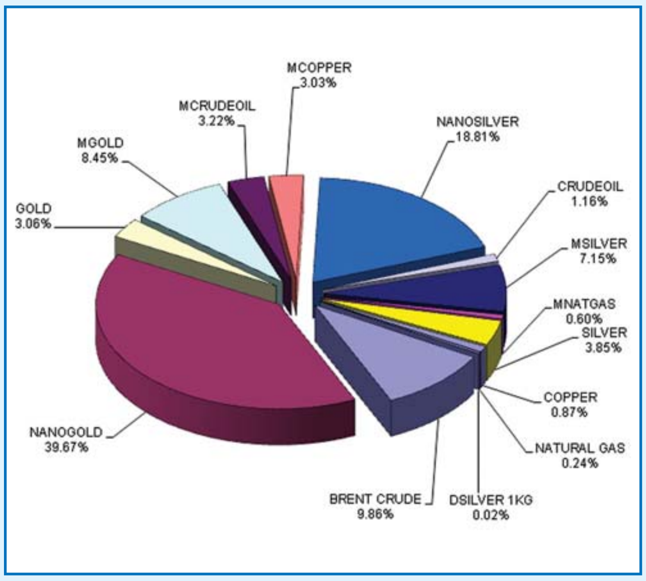
From July 2014 - September 2014 (in%)



Market Capitalization of all the future contracts listed in the MEX terminal. Gold has the maximum capitalizaiton followed by Micro Gold & Crude Oil.

Market Capitalization - Spot Contracts

From July 2014 - September 2014 (in%)



Market Capitalization of all the spot contracts listed in the MEX terminal. Nano Gold continues to have the maximum capitalization followed by Nano Silver and Brent Crude.

Know Your Commodities

Copper

Introduction

Copper is a metal that has been known to the world since ancestral times. From 8,700 BC, copper has been mined and worked continuously in different countries i.e. West Africa to China to Europe to Central and South America. It is one of the best electrical conductors, and its existence has helped to tie the world together in telecommunication. Copper is also used to create alloys in combination with other metals like zinc, bronze, aluminum etc. Light red in color and easily oxidized to a gritty green hue, copper can be useful to serve many purposes such as Building/ Construction (50%), Engineering (24%), Electrical (17%), Transportation (7%) and Miscellaneous Uses (2%). The top 5 producers in the year 2013 were Chile (Mine production: 5,700,000 tons), China (Mine production: 1,650,000 tons), Peru (Mine production: 1,300,000 tons), United States (Mine production: 1,220,000 tons) and Australia (Mine production: 990,000 tons).

Major Exporters & Importers of Copper-2013	
Exporters	**Importers**
1. Chile	1. China
2. Peru	2. Japan
3. Australia	3. India
4. Canada	4. Korean Rep.
5. Indonesia	5. Spain
6. United States	6. Germany
7. Brazil	7. Bulgaria
8. Spain	8. Brazil
9. Mexico	9. Finland
10. Mongolia	10. Philippines

Source: International Copper Study Group (ICSG)

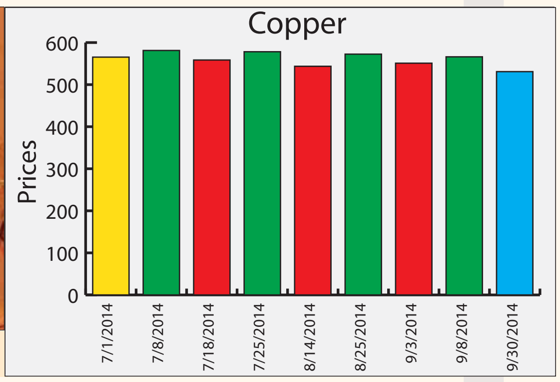
Fundamental Facts

- The major exporters of copper are Chile, Peru, Australia and Canada. So any news regarding the production pattern from these counties will affect the copper price.
- On the contrary, China, Japan, India, Korean Republic is the top most importers of copper. The demand patterns from these countries also influences the price of copper.
- China being the largest copper consumer, the Chinese currency, Yuan, affects the price of copper.
- As a commercial metal, copper is mostly used in the housing, automotive and electrical industries. Therefore, any changes from the major economies regarding the aforementioned industries will influence the prices drastically.
- As copper is produced in most part of the world, various factors hamper the price. In North and South America, labor conflict affects its price whereas in Asia & Africa, political instability hampers the price.
- Drastic changes in the weather conditions also contribute to the price change as the productions and the transport of copper is affected. A case in point was the earthquake in Chile in 2010, which affected the country's production and the export from the country thereby leading to inflating prices in the global markets.
- Copper is infinitely recyclable. Approximately one-third of the copper consumed worldwide is recycled.
- Copper was first used decoratively, its color and malleability making it easy to form ornaments and jewellery. It is one of vital constituent of carat silver and gold.

Copper @ MEX

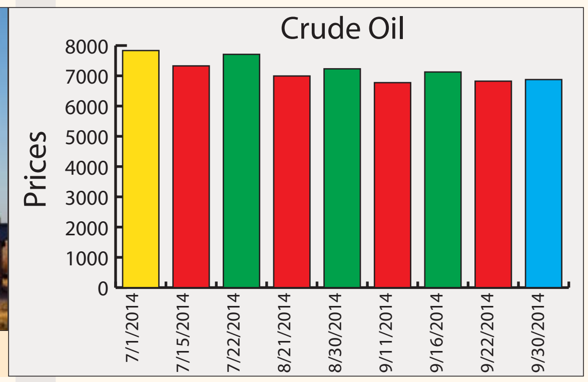
- Copper has been trading initially in the futures platform and later on the spot contracts in the MEX platform.
- Copper is the only base metal available for trading in the MEX terminal at present.
- Investors in MEX have been trading regularly in copper withstanding the influence of its more illustrious competitors including gold, silver and crude oil.

Major Market Movers for Copper & Crude Oil (1st July-30th September 2014)



Note:

Date	News
7/1/2014	Opening Price as of 1st July 2014
7/8/2014	Upbeat Chinese Manufacturing Data
7/18/2014	European Industrial Production fell by 1.1%
7/25/2014	Chinese Manufacturing Activity rises to 18 month high
8/14/2014	Chinese PMI fell to 50.0
8/25/2014	Growing Optimism from US Economy
9/3/2014	Growing Concern of Chinese Economy
9/8/2014	Strengthening of US Economy
9/30/2014	Closing Prices as of 30th September 2014



Note:

Date	News
7/1/2014	Opening Price as of 1st July 2014
7/15/2014	Libya Increases Oil Output
7/22/2014	Escalating Tensions in Ukraine and MENA Region
8/21/2014	Increased Supply from Iraq
8/30/2014	USA decreases supply by 2.1 Million Barrels
9/11/2014	Rate Cuts from ECB
9/16/2014	Better-than-expected USA Empire State Manufacturing
9/22/2014	Weak Economic Data from China
9/30/2014	Closing Prices as of 30th September 2014

Launch of New Product - DSILVER1KG

Aspiring to lead Nepali commodity market to the new heights, MEX Nepal had introduced the first full-fledged delivery mechanism for Silver- a physically deliverable product [DSILVER]. Always looking ahead to lead this market to novel horizons, we have added one more contract to the deliverable list – **"Delivery Silver -DSILVER1KG"** in MEX platform from 1st July, 2014.

Any individual or institution having its account in Century Commercial Bank Ltd. can trade in this product. Please note that a customer is allowed to take maximum of 9 lots in a day for this product; number exceeding 9 lots will be closed with the order's open price and commission will be deducted from customer's balance. All other norms, procedure & process and Terms & Conditions shall be same as followed for DSILVER20KG. The initial margin for the contract is 15% of the contract. The contract will have 15 days of validity whereas client can take the physical delivery within T+5 days. Trading hours is scheduled to be from 11:00 AM to 4:00 PM from Monday to Thursday and 11:00 AM to 1:00 PM on Friday. However, market shall be closed on international market and local bank holidays. Commission applicable is Rs. 200 + VAT per trade (for 1kg contract).

Modification of MEX Website

MEX is always looking forward to give full phase information to its valued customer. In this regard, We have tried our best to incorporate basic, general as well as important information in MEX's official website and with this attempt we have added a new column **"How Can I"** in *www.mexnepal.com*. This is available in Home page under "Customer Support" Tab. This new column briefs about the overall process required to get associated with us in various ways. Even though this is not new, we believe that this column might help you during the course of your business thereby guiding your prospective customers.

Besides, one more new tab has been added to our website, titled, **"Top Market Movers"**. The tab is also located in the homepage of the website and furnishes the information on the current top trending contracts listed in the exchange- both bullish and bearish, according to the **% Change** (from the previous close) of the prices. For easy comprehension, the contracts are categorized as **Gainers** i.e. Gaining Contracts and **Losers** i.e. Losing Contracts.

Launch of MEX Semi-Annual Publication

MEX Nepal rolls out a new publication series named ***"Trade Off"***, a semi-annual publication of the exchange. This publication includes in-depth information for particular commodities along with other important aspects of information related with the commodity market. This very first issue of publication includes detail analysis of two major commodities – **Ginger** and **Nickel**. The same can be accessed via

www.mexnepal.com >> Publication >> Semi-annual Publication

New Version of iPhone / iPad & MAC Trader

With continuous efforts of enhancing our Trading platform, on **Monday, 4th August, 2014** a new version of iPhone & iPad Trader and MAC Trader has been released with Bug Fixes and Improvements.

DSILVER Prices NOW in AX1 Manager Console

MEX Nepal, with its incessant attempt to enhance its market participants had added contracts of Delivery Silver i.e. DSILVER20KG and DSILVER1KG in Broker's AX1 Manager Console. This will allow our brokers to monitor every single price movement in DSILVER and guide their clients. If you know the price, you are better-off at your services to clients!!

College Campaign at KIST College of Management!

With a view to increase commodity market awareness within the Business Schools, MEX Nepal had started to organize college campaign in various Business Schools in the town. The experts from the Exchange give the presentations related to the commodity market in various Business Schools as per the requirements. MEX Nepal, in its constant endeavor of educating the market participants, conducted training at **KIST College of Management** for the BBA students of 7th Semester on **11th September 2014**. The training included introduction of the markets with a brief glimpse of the analysis involved and the career options for the students.

Derivative Instruments in Commercial Banks of Nepal

In giant economies like US and EU commodity market is taken as a backbone of success of their respective countries. But in Nepal it is a common myth that commodity market is a "Gambling Center". Many people believe that one who is an active market player in this market is a gambler. This conservative thinking is pulling back the growth of commodity market in Nepal. Unless this behavior of thinking commodity market as a gambling house changes, our country can't taste the success of economic development. It will be hard to say that commodity market is not present in Nepal in fact it is in a developing stage. In developed economies like USA, China, Japan, Russia, etc different derivative instruments are used for hedging purposes. They are using it for minimizing the risk associated in futures market and they are doing quite well.

Derivative is a security whose price is dependent upon or derived from one or more underlying assets. A derivative itself is merely a contract between two or more parties. Its value is determined by the price fluctuations in the underlying asset. The most common underlying assets include stocks, bonds, commodities, currencies, interest rates and market indices. Most derivatives are characterized by high leverage. Derivatives are generally used as an instrument to hedge risk, but can also be used for speculative purposes.

In the new millennium, the financial market has become more volatile than before. Futures contracts are the oldest way of investing in commodities. Futures are secured by physical assets. Commodity markets can include physical trading and derivatives trading using spot prices, forwards, futures, and options on futures. Futures are a great vehicle for hedging and managing risk; they enhance liquidity and price discovery. However, they are complicated

and one should understand them before starting trade.

Farmers have used a simple form of derivative trading in the commodity market for centuries for price risk management. Derivatives such as futures contracts, Swaps, Exchange-traded Commodities; forward contracts have become the primary trading instruments in commodity markets. Futures are traded on regulated commodities exchanges. It is common to find financial companies to use derivatives, such as forwards, options, futures, swaps to hedge risk. But this scenario is hardly seen in our country, although our commercial banks are using instruments like Forwards, Swaps but excessive use is not seen, and banks are using it for their client but not for themselves. Our banking sector is in preliminary stage and still much focus is needed in this particular sector. Since bank is a profit making institution they are always in safe and profitable side. Forward is used as NDF (Non-Delivery Forward), Swaps is used in FOREX market and some commercial banks are using Options in our Nepalese market. Clients usually come to bank in favor of asking them to lock the price while they are trading with foreign parties to ensure safe trading and minimize loss due to price fluctuation in future, so this arrangement is facilitated by bank by charging some premium.

Overall, it is believed that banks are doing futures agreement but all conditions are pre-set and are exercised at exercise date and order is executed. While in case of denomination of currency banks are exchanging currency of one type with other (let's say, Dollar is exchanged with Japanese Yen), so they are earning from the spread of interest rate of respective currencies that they are exchanging. Different use of derivatives instrument is observed in our banking sector but banks are not properly using it for hedging purposes. So a full-fledge grown up market is not seen although almost all commercial banks are using different derivatives instrument.

It is all because of lack of awareness among market players regarding commodity market; many people think that derivatives are 'time wasting' assets in the sense that their value declines as their maturity date approaches. Critics also contend that futures and other derivatives are used by speculators to bet on the market and take on undue risk. Many people are still unaware about commodity market. Lack of supervision and proper guidance from NRB (Nepal Rastra Bank) hinder in progress of commodity market. So due to this reason efficient market is hardly seen. There is a need that policies of NRB be revised, new plan and policies be formulated and more action oriented task be taken into accordance with commodity market and use of derivative instrument.

Lalbabu Sah
MBA (5th Trimester)
Apex College

What to look for when investing in Gold?

For centuries, the yellow bullion has played a major role in economies and cultures across the world. Gold is one of the most sought after commodities around the world from an investment perspective and is even more significant as an investment asset in South Asia and China due to its widespread use in traditional jewelry. In undeveloped markets like Nepal, where the financial sector is far from mature, gold presents one of the very few opportunities for an investor to diversify their investment portfolio (other areas being real estate, fixed deposits, and to a certain level public equities).

Investing in gold can be nerve wrecking due to its volatility and relatively quick reaction to economic and political developments. While there are many benefits of including gold in one's portfolio, this article will explore various factors that influence gold price both in the short run as well as the long run.

1. Demand and Supply

Like any commodity or most other goods and services, the law of supply and demand applies to gold as well. The price is directly proportional to the demand and inversely proportional to the supply of the metal. The demand and supply itself however varies on numerous factors. Gold is used for jewelry fabrication, for industrial uses in technology, for investment purposes in the form of gold bars and coins or exchange-traded funds (ETFs), and by central banks primarily as a hedge against currency devaluation.

The supply of the metal is determined by mine production, net producer hedging, and recycled gold. Both the demand and supply of the metal have been steadily declining over the past three years, with the total supply and down 5% in 2013 compared to 2012 and down 7% in the third quarter of 2014 compared to the same period last year.[1]

2. Central banks and mining companies

Central bank's net purchases constituted almost 10% of the global demand of gold in 2013 and they currently hold roughly 16% of all produced gold.[2] Central banks often buy gold reserves to hedge against inflation, devaluation of its currency, and the devaluation of its foreign reserves. Conversely, when the value of the USD and other foreign currencies increase, central banks often sell their gold to shore up their foreign currency reserves. Since these purchases or sales occur in huge bulk quantities, they have an almost immediate affect on gold prices.

Gold mining companies control large supplies of gold and it is in their interest to maintain high prices for the metal (at least enough to recoup their mining expense and make some profit). When the gold prices are on a downtrend, mining companies usually hold on to their gold reserve, which limits the supply in the market, effectively creating an artificial price floor for the metal. Such artificial 'hoarding' is known as net producer hedging.

3. Dollar strength

Since the global market of gold is denominated in US dollars, the strength and the weakness of the currency has a major influence on the price of the metal. All else equal, whenever the dollar strengthens, it takes lesser amount of dollars to buy the same amount of gold. As the dollar strengthens, gold prices decrease and vice-versa. Furthermore, anytime there is risk of the debasement of the US dollar, both individual and institutional investors (including central banks), tend to flock towards gold, driving its price upwards. The inverse relationship between gold prices and dollar strength is depicted in the chart below:

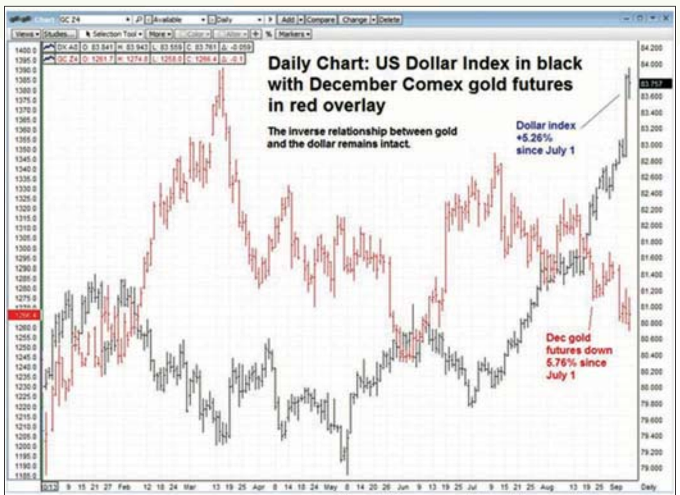


Chart Source: http://www.kitco.com

4. Economy

One of the factors affecting gold prices is the overall state of the economy. When the economy is doing well, most investments provide a healthy return and conversely, when the economic climate is unfavorable most investments provide lower or uncertain returns. At such times, investors tend to move towards safe haven assets such as gold, driving its price up. Gold's historical record of performing well in crisis periods supports this theory.

5. Interest rates

As interest rates of risk free assets rise, it is only natural for investors to replace gold with such assets, as the opportunity cost for holding gold gets higher. One of the primary reasons for the increase in opportunity cost of holding gold is that it offers no yield compared to an interest-bearing risk-free asset like a treasury bond.

It is important to note that as Chinese and Indian gold demand takes up a higher percentage of the overall gold demand share, interest rates will be less of a factor. The higher interest rates (which would mean a stronger economy) will positively affect gold consumption demand in India and China offsetting the selloff by investors. We can see from the chart below that for now, interest rates and gold prices are still strongly correlated.

Chart Source: http://www.fool.com

6. Market sentiment, speculation, and investing

Investors and speculator naturally tend to gravitate towards assets where they are expecting higher returns and when the market sentiment is at a high, it means they are expecting strong returns in riskier assets such as equity. At such times capital moves from risk free assets and safe havens to riskier and potentially more profitable assets like equities, driving the price of gold down.

Gold acts as one of the best hedges against currency devaluations and inflation as such, speculators in currency investments create massive capital swings, driving the price of gold accordingly.

All of these factors influence gold prices and at times certain factors are moving in opposing directions. As an investor in this commodity, it is paramount to thoroughly explore and understand each of these factors to determine where the next price swing is going to take place. While no investor in the world can predict the direction of gold or any other asset for that matter, the better ones take well thought through, researched, and calculated risks and increase their odds of success.

Yurop Shrestha
Director
GG Investments
Gahana Griha Investment Pvt. Ltd.

[1] *The London Gold Market Fixing Ltd.; GFMS, Thomson Reuters; World Gold Council*

[2] *http://goldratefortoday.org/4-important-factors-affect-gold-rate-part-1/*

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