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: 1 • Issue: 1 • Year: 2009A.D

Message from Managing Director

Challenge to develop market culture has driven us to organize an Exchange at juncture of isolated physical market. The factors of markets are various but the willingness of happiness with freedom of grower & investor asks us to facilitate an organized marketplace that can serve the objectives of an open market economy.

A long history of commodity exchanges from Havana Cigar exchange, Peking Duck Exchange to Chicago Board of Trade are the milestones for both restricted and open type of economies. MEX exists one step further in this regard simply by facilitating the willingness of buyer/seller trying to organize the pattern of demand and supply. We have an example of Ethiopia that during the harvesting season of maize their farmers were not able to get 1/5 of the price of maize which was invested during plantation, so 80% of the maize were left on field, but after 6 months 90% people of the same country were suffering from starvation.

The equilibrium on demand and supply can be maintained by an organized marketplace, known as commodity exchange. Both supply and demand can be paralleled with the scope of organized marketplace. The access, facility, law abiding capacities are additional features which define the resistant capabilities of an exchange.

The problem of Nepalese market is the challenge of the market itself. Isolated regional commodity markets are other factors to generate the difference in purchasing power parity from one region to another region, which creates the unequal drawing for equal work.

Fair and transparent price discovery and commercialization of Nepalese agro sectors are being focused; MEX is initiating the steps toward these sectors. Transformation of traditional agro economy to market economy is challenge to us for our success and for nations as well. But we are in market with strong determination for this transformation.

Without clearing and settlement mechanism, no company can claim as an exchange, so we are proud to claim as an exchange with effective clearing and settlement and risk mitigating system.

A team with sharp brain and dedication, leadership with vision, commitment to serve the objective of the organized market, makes us more professional to serve all market users.

Prosper of MEX lies on the trust of market users and services offered by MEX. We are not ready to loose these assets at any cost, by maintaining these assets we are going to provide a new dimension for the country's economy, which can be claimed within years.

- Dipendra Khatiwada

Government of Nepal introduces taxation in Commodity Market

Being a new concept in Nepal, MEX has been facing a tough time introducing commodity futures market; not just to the general public but also the government as well. Within a short span of time, MEX has been able to make a mark in financial market. However, it is our understanding that in order to survive in this cutthroat environment, any market needs to be regulated. For this reason, MEX has been in a continuous discussion with the Government of Nepal to form a regulation for the commodity exchange.

Till now the government has not shown any reflection on our appeal. But due to our determination, the government has been able to realize the brighter side of this endeavor. Recently it has levied tax of 10% on capital gain which is an achievement in itself. There is still a huge populace who are completely unaware of this market. Tax imposition has further created confusion among investors since they are unclear about how the government will be charging taxation in commodity market (TDS) in futures commodities market. It can be imposed on any one of the following ways:

- Every settled position
- Monthly Income
- Semi-annual Income
- Yearly Income

In the global context, capital gain tax has deeply affected derivative market. Whenever the government imposed transaction tax on financial market, it usually resulted in a loss of business dealing with foreign exchange as well as decreased government's revenue. Such was the case in the United States' derivative market during 1960s, Japan's during 1990s, and Taiwan's during 2000s.

In the early 1960s, New York was the center for Eurobonds, an international bond that is denominated in a currency not native to the country where it is issued. In 1963, the U.S. imposed a tax on foreign borrowing in U.S. capital markets to help finance the country's growing intervention in Vietnam. As a result, the market for Eurobonds shifted from New York to London. The volume of Eurobond issues in London went from US$ 148 million in 1963 to US$ 2.7 billion in 1970 - - an 1800% increase for London. The center of Eurobond trading did not return to New York, and jobs were lost, and the tax revenue generated for the U.S. Government declined steeply. This experience influenced U.S. policy makers to cautiously approach transaction taxes on securities or commodity futures markets.

In 1987, Japan imposed a transaction tax on securities and commodity futures ranging between 0.3% and 1% of the

transaction's full value. At first, the tax generated 4.2% of the Government of Japan's general account revenue in 1988, but by 1993 the revenue share had fallen to .96% of the general account revenue, because of the shift in market volume to less-taxed, offshore locations. Japan then removed the transaction tax, recognizing that it had not raised revenue and had diminished its market's liquidity.

Taiwan imposed a transaction tax of 0.05% on the value of the commodity futures contract in 1993. This affected the Taiwan Futures Exchange (TAIFEX), which lost trading volume to the Singapore Exchange (SGX). In 2000, Taiwan reduced the transaction tax to .025%, and in 2005 furthered reduced it to 0.01%. TAIFEX's volume then jumped from 31.87 million contracts in 2003, to 92.66 million contracts in 2005. The competitive advantage enjoyed by the SGX diminished, and trading shifted back to Taiwan. Taiwan's revenue generated by the transaction tax declined immediately after the reductions, but three years later, the increase in volume had caused revenue to exceed previous levels.

This history repeats itself. In recent decades, many countries have reduced, or eliminated, their commodity futures transaction taxes and securities transaction taxes. A University of Massachusetts's study found that of 38 countries with transaction taxes on securities and futures, 17 have reversed their policy, and reduced or removed the taxes.

While it is true that sound regulation is an important confidence-building tool for financial market, it is also true that the burden of financing a financial regulator should not be borne solely by the market participants. Sound market is a national asset. To ensure impartiality in regulation, regulators should be independent of the markets they regulate, not financially dependent. Regulators desperate for budget revenue can be tempted to strangle the proverbial goose that lays golden eggs.

The Nepalese Futures Commodity Market is in its formative stage. It has just started to take the steps forward for its growth and development. Nevertheless, government should understand the impact of tax imposition in the Futures Commodity Market that would affect the whole structure of derivative market. If we take an example of the stock market, Capital Gain Tax has decreased the volume of transaction of Nepal Stock Exchange in 2065 B.S. So in the latest budget the government has decreased the rate of tax form 15% to 10 %.

Government should also analyze the periphery of commodity futures trading in current market scenario and should also acknowledge the way it is growing. Moreover the government should not only see how much an investor has been earning but should also look at the difficulty they are facing for earning it.

In case of Indian Future Commodities market as well, increase in capital gain tax from 0.017% to 0.125% raised the transaction cost by 800%. The trading was estimated to exceed INRs.50 trillion rupees this year but due to such action, the number of transactions has decreased considerably. Indian government have removed commodity transaction tax .The Government of Nepal should learn from such experience and be cautious before imposing TDS in commodity market.

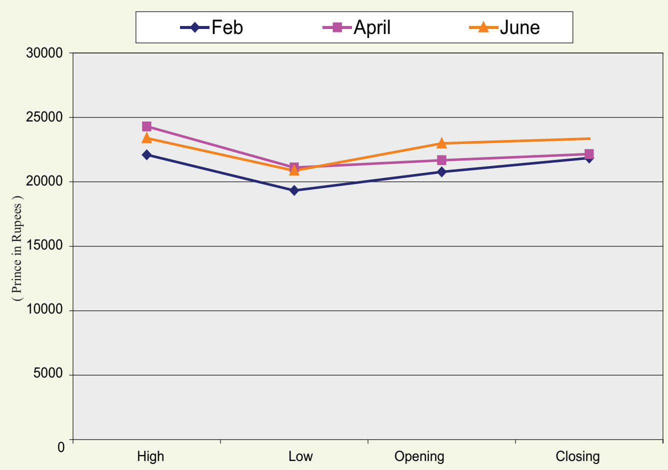
The government is still far behind before it fully understands the expertise of commodity future market and thus levying such a high proportion of tax for a new market seems somewhat unjust for all the participants. The imposition of the TDS has opened a new source of revenue generation for the government. But since commodities future market is still struggling to grow, we assume that the government should acknowledge this market in its initial phase.

On a positive note, we do appreciate this step as it indicates that the government is finally considering commodity exchange as a promising business that will help people to gain or alleviate risk from the market volatility. Imposing tax signifies that the government will act in response to our call for the formulation of a separate regulatory body for the future market. To conclude MEX is appreciative of all the support Government of Nepal has shown so far. We look forward to get similar kind of coordination in the future.

Abhishek Gautam
Assistant Manager
Business Development, MEX

Gold

GOLD LINE CHART

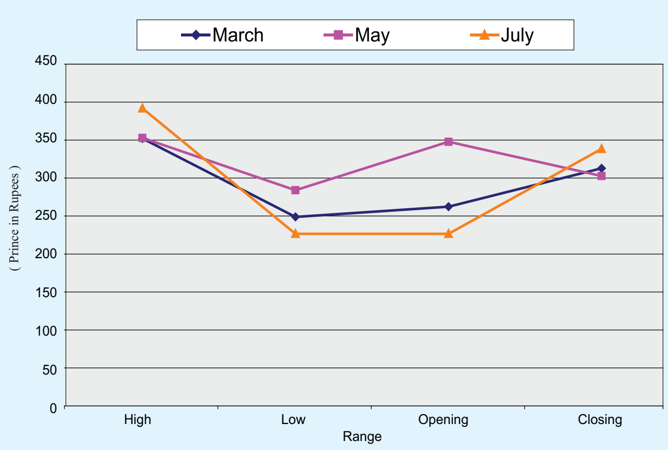


GOLD DATA

	Feb	April	June
High	22094.88	24292.8	23381.82
Low	19335.43	21116.42	20873.01
Opening	20769.38	21677.95	22979.35
Closing	21846.65	22157.54	23343.26

Silver

SILVER LINE CHART



SILVER DATA

	March	May	July
High	352.08	352.92	391.8
Low	248.88	284.04	226.66
Opening	262.32	347.76	226.66
Closing	312.84	302.76	338.4

Know your Commodities

Heating Oil Futures Contracts

Commodity Symbol : HEA
Exchange : MEX
Trading Hours : 4:15 AM until 2:45 AM
Contract Size : 10,000 Liters
Contract Months : All months (Jan. - Dec.)
Price Quote : NPR/Liter
Tick Value : 100

Introduction of Heating Oil Futures

Heating oil is also called distillate or Number 2 oil.

When crude oil is refined, about 25 percent of the oil becomes heating oil and about 50 percent becomes gasoline. Heating oil is primarily used to heat homes in the Northeast.

The United States produces about 85 percent of its heating oil, while the remainder is imported from Canada, the Virgin Islands and Venezuela.

Oil companies begin to ramp up production of heating oil before the winter season begins to ensure ample supplies of heating oil to meet the winter demand.

Weather during the winter months of December, January and February are critical to watch. The weather in the Northeast is the place to focus.

Guidelines on Trading Heating Oil Futures:

• The biggest opportunity for a quick rise in price occurs during the winter months. Unexpected or prolonged periods of extreme cold in the Northeast will typically cause sharp rallies in the price of heating oil futures.

• Simply buying heating oil futures in the winter is not a "no-brainer" trade. It gets cold every winter; the catch is that the weather has to be colder than expected and more heating oil needs to be consumed than anticipated for the season.

• Heating Oil prices typically follow crude oil.

The various factors that can affect the price of the heating oil are as follows:

Season: The demand for heating oil is higher in colder seasons which results in higher prices during the winter months.

Crude oil prices: Any fluctuation in the prices of crude oil invariably affects the prices of heating oil because heating oil is a by-product of crude oil.

Local competition: The heating oil prices are generally low in regions that have a large number of dealers because of the dealers' lower prices to acquire a larger market share.

Distribution costs: The heating oil prices are higher in remote regions due to inefficient and costlier distribution channels.

Conclusion:

As a protection of falling cash market prices; producers, traders, and marketeers can buy or sell heating oil futures to lock in prices for future delivery, and thus, protect the value of future heating oil market.

Soybean Futures Contracts

Commodity Symbol : SOY
Exchange : MEX
Trading Hours : 04:45 AM-16:45 PM, 20:15 PM-00:00 AM
Contract Size : 20,000 KG
Contract Months : Jan, Mar, May, Jul, Aug, Sep, Nov
Price Quote : NPR/KG
Tick Value : 440

Introduction of Soybean Futures:

Soybeans are one of the most active and popular commodities to trade.

Soybeans are crushed to produce two main products - soybean oil and soybean meal. The oil is used in an extensive list of products and the meal is primarily used in animal feed.

The main producers of soy are the United States, Brazil, Argentina, China and India.

Uses of Soybean

• Soybeans are an important source of vegetable oil and protein.

• It is a major ingredient in making cooking oil, soy sauce, margarine, mayonnaise, salad dressing, baby food, diet-food products, beer and ale, mayonnaise, noodles, fungicides, antibiotics and in many meat and dairy substitutes.

• Technical uses of soybeans include adhesives, cleansing materials, polyesters, and other textiles.

• It is used in the manufacture of plastics, solvents, gas pedals, dent proof trunk covers for cars and other industrial products.

• Today's diesel engines can run almost entirely on bio diesel fuels made from soybean oil.

Guidelines on Trading Soybean Futures:

• The summer months will be the most active and volatile. Monitor the weather in the Midwest for excessive heat or floods.

• Monthly crop reports are a big market mover. Watch how the market reacts to the reports. Be cautious if the market moves lower on a bullish report.

• Keep antacids nearby. The market can be a roller coaster during the summer and emotions can control the markets.

• Avoid buying expensive options when the market is very volatile. Traders can bid prices to levels that may be sucker bets.

• Don't over-analyze, it is just supply and demand that moves soybean prices and every other market.

The various factors that can affect the price of the Soybean are as follows:

Global supplies for soybeans fluctuate constantly due to

- planting judgment,
- discrepancy in temperature and
- amount of rainfall throughout the growing season

On the contrary, demand seems to change seldom, that too on a low quantity. Consequently, prices can fluctuate substantially in an every day basis.

Conclusion:

Soybean futures contracts are one of the most actively traded among all the agricultural futures markets. Soybean futures markets facilitate for long-term business planning, reliable product quality and service, which can lead to operational profitability against unfavorable price movements.

Upcoming Events

MEX certified derivative course in National College

MEX will be organizing a certified derivatives training jointly with National College namely MEX Certified Derivatives Basics (MCDB). The Training will be conducted in the National College which is our Authorized Training Center. The course is focused especially on educating the market participants regarding the futures commodity exchange

Nationwide Seminars

Our corporate objective is to achieve participation from all over the country. For this reason, we are scheduling to execute talk programs which will allow people from all over the country to gain knowledge of this market. We are looking forward to organize seminars in the near future.

Future Plans of MEX

Introduction of the local commodities like Rice, Paddy, Maize and Lentil

So far we have been successful in introducing globally traded commodities. Now to benefit the local market, we decided to introduce those commodities that are mostly traded in local markets. Based on market research and trading feasibility, there are four commodities; rice, paddy, maize and lentil, which we will be introducing in the near future for our participants to trade in.

Development of a systematic warehouse

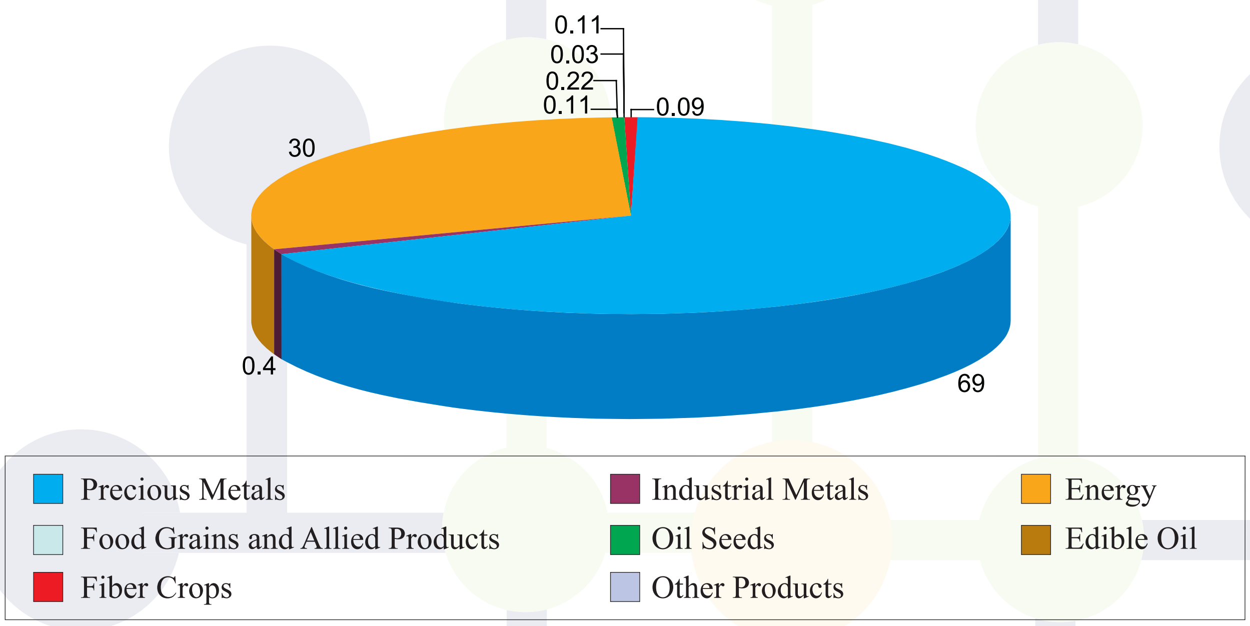
Till now the contracts are settled on cash basis. Nevertheless we are in the process of setting up a warehouse backed by quality services. With the introduction of warehouse, traders who prefer to settle the contract on delivery basis can do so with quality assurance. In addition to that, warehouse receipt can be used as a negotiable instrument against the bank loan.

Start trade on indices

We are on the verge of starting both the Agri index and Market index. For Agri index daily household related commodities are included in a basket similarly for market index all the possible market indicators are taken in consideration.

Market Review

Market Capitalization Percentage



Name of Commodity	Percentage
Precious Metals	69
Industrial Metals	0.4
Energy	30
Food Grains and Allied Products	0.11
Oil Seeds	0.22
Edible Oil	0.03
Fiber Crops	0.11
Other Products	0.09

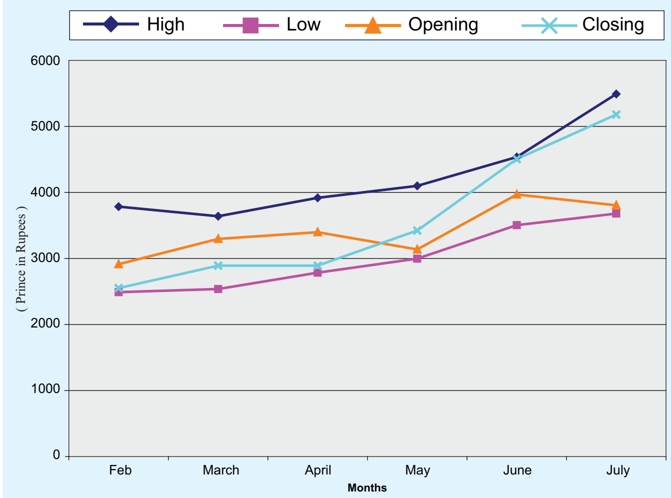
The market capitalization of the MEX listed commodities from January, 2009 till June, 2009 shows major share of precious metal i.e. 69% followed by the energy contracts with share of 30%.This shows precious metal and energy contracts are popular among investors while other contracts like fiber crops, oil seed and other products are not frequently traded which may be due to the lack of awareness among the investors.

Media and MEX

The futures price of the commodities traded in Mercantile Exchange Nepal Limited (MEX) is scrolled in ABC Channel from Monday to Friday.

Crude Oil

CRUDE OIL LINE CHART



CRUDE OIL DATA

	Feb	March	April	May	June	July
High	3784.5	3639	3918.75	4099.5	4536	5490.75
Low	2490	2537.25	2784.75	2997.75	3504.75	3680.25
Opening	2913.75	3297	3397.5	3136.5	3969	3805.5
Closing	2551.5	2891.25	2891.25	3423	4506	5178.75

Achievement of MEX

Obtained membership of Management Associations of Nepal (MAN) and Nepal Chamber of Commerce (NCC)

Within a short span of time, we have been able to achieve a membership of Management Association of Nepal (MAN), an apex body of the management professionals. Yet again we got the membership of Nepal Chamber of Commerce (NCC) which is the first assembly spot for business in Nepal. We are honored to have been recognized as a growing industry that will be contributing in the overall economy of Nepal.

Increase in the number of Non-Clearing Members

As a part of our business expansion strategy, we are engaging ourselves to get the attention of latent members especially from outside the valley. To this point we have been successful in making Non-Clearing Members (NCMs) in Bhairawa, Dharan, Pokhara , Biratnagar, Nepalgunj and Birtamod . We have a good coverage of NCMs from Birtamod to Nepalgunj as well. Altogether we have 47 Non Clearing Members and 2 Clearing Members as of now.

Introduction of Segregated account

MEX is the pioneer to introduce the segregate account with our banking partner which is Laxmi Bank Limited .It has added a new dimension to the banking sector. Under this account the fund of each client is segregated with different account number and client code. It safeguards the client's amount for the trading purpose.

ISO Certified 9001:2008

MEX certified ISO 9001:2008 by URS (United Registrar of Systems Ltd, UK)

Introduction of Spot Price

In accordance with the plan of MEX to introduce the local commodities for trade, currently MEX has started to publish the spot reference price of local commodities. The commodities are wheat, rice, paddy, chana, cardamom, potato, lentil and maize.

Nepal:
Towards the Path of Derivatives Market

Once when teaching the subject of finance in academic institutions, it was only dream to show any illustrative derivative instrument for the students in Nepal. Some banks started to introduce forward foreign exchange agreements attaching it with the Letter of Credit (L/C) contracts opened by their clients for the purpose of importing goods from abroad. Still there is not any progress from the part of the state to realize the benefit of this instrument in Nepal. However private sector initiative in this respect are commendable nowadays. Some derivative exchanges started to work with futures. Nepal Mercantile Exchange in conforming to the international standard deals with commodity futures though commodities are not Nepali originated.

In my personal opinion, derivatives markets are now need of the time in Nepal. This market creates both backward and forward linkages to develop the economy. Particularly, commodity futures market will help to discover the real prices of the commodity, ensure the quality products, promote warehousing and buffer stocks and enhance the financing for agricultural and industrial products. Investors will benefit from the market from speculative returns and traders might take advantages of risk hedging. The ultimate net result is the well functioning of the market that provides risk reduction opportunities tailoring the needs of the stakeholders.

However, derivatives are complex instruments and require sophisticated knowledge to handle. In addition, there should be legal, regulatory and supervisory institutions in place to safeguard the interest of the stakeholders. The government and Nepal Rastra Bank should take initiatives in this regard as soon as possible to foster the market and reap the benefits of instrument for the betterment of the economic development.

Dr. Gopal Prasad Bhatta
Chief, Price Division Department
Nepal Rastra Bank

Loss Reduction Methods in Futures Market

The success that a trader achieves in the markets is directly correlated to one's trading discipline or lack thereof. So trade with discipline and you will succeed and not, you will surely fail. There are some points we should keep in mind before starting trade and when the trade runs.

Adopt a definite trading plan.

Before you begin to trade commodities you have to be clear on the amount of risk and loss you can sustain, a good knowledge on market trends and how much assistance , if any, you need from a commodities futures broker in making trading decisions.

If you're not sure, don't trade.

Never trade if you are not sure where and when to start as this is not gambling. Start trade after watching the market conditions closely.

If you cannot afford to lose, you cannot afford to win.

Losing is a natural part of trading. If you are not in a position to accept losses, either psychologically or financially, you have no business trading. In addition, trading should be done only with surplus funds that are not vital to daily expenses.

Be aware of the trend. ("The trend is your friend").

The traders should understand the market trend clearly before trading. Trading along with the market trends can reduce your losses and increase your profits. Therefore, the traders must identify the points from where the market conditions get changed to keep track with the trends.

Use Stop Loss.

We should always use stop loss order so as to minimize further loss from the trade in the commodity market. The more we use stop loss the more we can minimize the risk.

Cut your losses and let your profits ride.

The basic failing of most traders is that they put a limit on their profits and no limit on their losses. A man hates to admit he's wrong. Therefore, an individual will often let his loss ride, becoming larger and larger in hopes that eventually the market will turn around and prove him correct. Then after a while, he begins hoping for a small loss and gives up hoping for a profit.

Taking a small loss does not necessarily mean you were wrong in your thinking. It simply means that your timing was perhaps incorrect and that you should wait for the correct timing and situation to allow you to reenter the market. So don't keep your losses going.

Don't trade in too many markets.

It is difficult to successfully trade and understand a specific market. It is next to impossible for an individual, especially a beginner, to be successful in several markets at the same time.

Always lower the trade Size when you are trading poorly.

All good traders follow this rule. Why continue to lose on five lots (contracts) per trade when you could save yourself a lot of money by lowering your trade size down to a one lot on your next trade? Lower your trade size, try to make a tick or two and then raise your trade size after two consecutive winning trades. The risk of loss exists in futures trading, even then if following these points and trading in a disciplined way, you can reduce your looses to the maximum.

HCB Himalayan Commodity Brokers
Mehaboob Mohammed
General Manager
Himalayan Commodity Brokers Pvt. Ltd.

Importance of Money Management In Futures market

Many people believe that it is easy to make money by investing in futures market but to make this possible trader should consider 3 important factors: price forecasting, timing and money management.

Price forecasting indicates which way a market is expected to trend. This will help traders to determine whether the market is bullish or bearish. Timing is crucial in future market which determines specific entry and exit points. Money management analyzes the risk to reward ratio on the basis of money invested and to take risk at each time on trade.

Money management is the process of analyzing trades for risk and potential profits. It determines how much of risk is acceptable to maximize profits. Most of the traders ignore money management in trading because their emotions are drawn by market sentiments rather they spend their time on trading, trying to find imaginary trading system.

Traders don't like to take loss but seeks for profit. Again if loss is made, one doesn't want to calculate what percentage of return is needed to alter from residual. Importance of money management is the percentage gain necessary to recover from a drawn down. Drawn down means how much money you lose until you get back to break even. Many traders think that if you lose 10% profit of your money all you have to do is make a 10% profit to recover your loss. But this is not true.

Suppose you start your trading with Rs. 5,00,000 and lose 10% of Rs. 5,00,000 which leaves you with Rs. 4,50,000. To get back to break even, you need to make a return of 11.11% on your new account balance not 10%. 10% of Rs. 4,50,000 is only Rs. 45,000 and so you have to make 11.11% on 45,000 to recover the Rs. 50,000 loss. Even worst is that as the drawn downs deepen; the recovery percentage began to grow geometrically. See the table below as 50% loss requires a 100% returns just to get back to break even.

% loss on Capital	% of gain on Balance require to recover loss
10%	11.11%
20%	25%
30%	42.85%
40%	66.66%
50%	100.00%
60%	150.00%
70%	233.00%
80%	400.00%
90%	900.00%

Risk only a small percentage of total equity on each trade, preferably no more than 2% of your equity and keep your risk to reward ratio at a minimum of 1:2, preferably 1:3 or higher. For every losing trade, it took 3 winners make up. Suppose your total equity is Rs. 5, 00,000, then the amount you can lose in single trade is 2%; i.e., Rs. 10,000. Risking Rs. 10,000 your profit target should be Rs. 20,000 to Rs.30,000 or more by which your chance of making profit will be increased.

The key to success is to manage your trade in a manner that allows you to minimize your risk and maximize profit. Use stop loss to define your compatibility of bearing loss. Always have actual stop in this market since mental factor doesn't work.

Letting profits run and cutting losses short is one of the oldest principle of trading. Surprisingly, most of the traders do just opposite. They average on losses and book profit in short, which is a simplest way of losing your money. So, never add to or average down a losing position. If you are wrong, admit it and get out. When you make 2-3 trades that shows losses, whether they be large or small something is wrong with you not the market. Your trend may change, study the reason for your losses. Remember you will never lose any money by being out of the market. The secrets of success in future market are not to make money fast, but to make it consistently.

QUEST COMMODITIES
Sagun Shakya
Managing Director
Quest Commodities and Investment Pvt Ltd

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