Mercantile Exchange Nepal Limited
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MEX EXPRESS

A Smart Solution for Online Trading

www.mexnepal.com

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From the MD's Desk

A regulation on Commodity Market of Nepal is most anticipated scenario nowadays. Every trader, investor and speculator has their own prediction regarding the proposed legal framework. MEX is also in continuous process to preserve the market and to give a new beginning to the commodity sector. Being a leading exchange of Nepal, MEX has its main focus on the handling of the penetrated market. Being a guidance or leader, MEX is not only trying its best to preserve its member & client also spreading the importance of commodity market in Nepal continuously.

In the current financial turmoil, MEX Nepal has stood as un-panicked commodity exchange and putting its best effort around for the best possible output. In accordance to the current situation, MEX is more concentrated on awareness and eager enough to come up with new plans. Through MEX Express, Yearbook, Seminars, newspapers, client handbook in Nepali version, TV channels, etc. MEX is in continuous process to aware the market. MEX is soon going to launch pamphlets regarding market awareness for the clients. On the other hand, MEX is also preparing itself for the physical delivery of certain commodities and introduction of new products awaiting the proposed regulation for the commodity market. MEX has also been involved in a pioneer idea of MEX Talent Search which focuses on developing the fresh university graduates as an efficient manpower for the financial industry.

MEX is working hard for the new opportunities ahead and is keen enough to provide its clients with new market vibes soon. MEX is in its hard effort to bring the new and fair market practice among its members and clients. MEX has observed today's scenario as a challenging phase and is in continuous process of giving a new direction to the market.

- Dipendra Kumar Khatiwada
Managing Director
MEX Nepal

Inflationary Effect on Commodities

Imagine this: Ten years ago, a packet of toblerone (a large one since my hunger for chocolate knew no bounds) cost around NPR 100. Following the yesteryears, now if I go to my favorite departmental store and purchase the same commodity i.e. toblerone, it costs around NPR 200. What's the catch here-since the packet of toblerone, I had purchased ten years bears the exact resemblance I will purchase today. The word inflation comes to mind when we read between the lines.

The definition of inflation is not new to everyone. Well it can be defined as the rate at which the level of prices for goods and services is rising and consequently the purchasing power is falling. So we can say, as inflation rises, NPR buys a smaller percentage of the commodity. The preceding sentence clearly defines inflation.

In context with the recent volatility in the global commodity prices, the million dollar question amongst others is- how monetary policy makers respond to the oil price fluctuations? Others include-Why unexpected oil supply disruptions in the Middle East calls for different policy respond as unexpected increase in Chinese productivity or oil intensity? Before answering the million dollar question, let us enhance our knowledge regarding monetary policy.

As everyone is not aware with the term monetary policy, it can be said that the regulation of money supply and interest rates by central banks, including the Bank of Japan, the Bank of Canada and the U.S Federal Reserve, control inflation and consequently the currency stabilizes. Monetary policy also affects a nation's monetary supply and the direction of its economy. By impacting the effective cost of money, the Federal Reserve can affect the amount of money that is spent by consumers and businesses. In this way, monetary policy is one of the two ways the government can affect the economy.

Now, if we look at the history of the oil prices which was heavily regulated through production or price control, after World War II, the average price of oil was $28.52 per barrel which was adjusted for inflation to 2010 dollars. The fluctuation in the oil prices was always on a roller-coaster ride thereafter. It was not only the price of crude, which was adjusted for inflation, but in that period, the international producers suffered because of weaker US Dollar. If we keep on looking at the fluctuating price of oil, we can find many reasons behind it.

In the year 2003, oil price hit a record-high of $78 per barrel and in 2006 the average price plunged to $65 with the decrease of 16.66% vis-à-vis 2005. It was forecasted that the oil prices in 2007 will remain high and would possibly break the record.

There are lots of reasons for the oil price fluctuations. One of the major reasons is that all the investment capital, banks and hedging funds flocked into the oil market because this market was always deemed to be a speculation tool. With time, oil prices rose gradually with the rapid growth of the global economy. There was a prediction by the International Energy Agency that the world energy demand would increase at the highest rate in 2008.

In 2008, with the cometh of the recession years, the oil prices continued to sky-rocket. Indeed, geopolitics is the influencing factor in the price of oil. The intervention in Iran and Iraq by the US government drove oil prices to great volatility.

However, oil prices fluctuation is also based on the economic theory of supply and demand. When there is enhanced demand for cars and subsequently gasoline, especially in the developing countries, the oil prices fluctuates because of recessions that reduce world productivity and moreover, demand for oil in the developing countries. When we talk about the oil fluctuations in oil prices we can see that the actual volatility in prices is due to smaller shifts in supply and demand. If we take an example of Libyan production fall, the oil prices rose and the other suppliers pumped more oil into the economy to take advantage of the higher prices. When demand for oil is low then the response is also limited. Therefore, supply and demand elasticity of 0.1 percent increase in price would be still five times the reduction in supply or increase in demand.

Moreover, government should not use the oil stock with the intention to make humongous profits. Even large and relatively closed economies like United States of America and Europe have to import sizable fraction of oil they consume. So most of the existing analysis on the optimal design of monetary policy in the face of fluctuations is the oil prices put forward in an independent environment and a simplistic structure especially in modeling the demand side of global crude oil market.

After explaining the intricacies regarding inflation, I am worried about its effects years down the line. Ten years down the line, when I visit my favorite store to purchase toblerone for my children (since I believe my appetite for chocolates would gradually decline with years aging on), I only wonder how high the prices would reach in the aftermath of further inflation growth. Any guesses from my ardent readers?

Sharad Koirala
Assistant Manager
Business Development
Department

Most Popular Blog

Is the sun setting in the land of the rising sun?

The days might not be that sunny in the land of the rising sun. With the tensions surmounting the world economy, Japan just could not help itself from catching the same fire. The third largest economy is in a situation that will take the nation to an unprecedented slowdown because of which the government will reconsider its growth rate for the second quarter and will be deciding on trimming down the numbers that were previously expected to be higher.

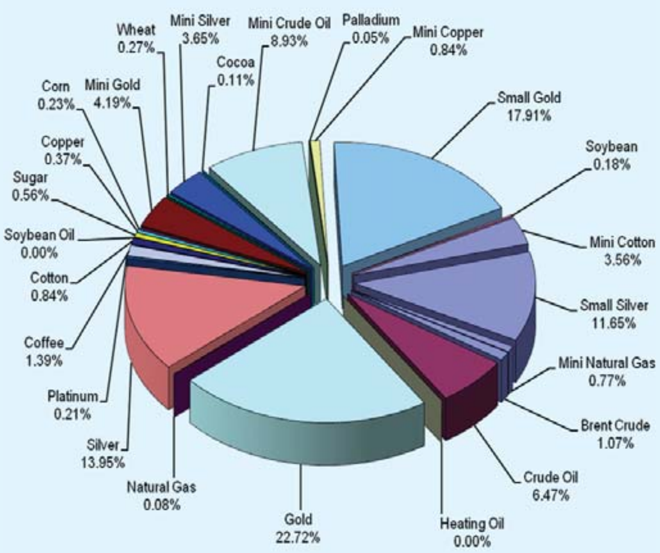
For the full version of the blog, please follow the link:
http://www.mexnepal.com/blog/Is-the-sun-setting-in-the-land-of-the-rising-sun/

Posted on: 28th August, 2012
Total Views: 9

Start Blogging-Say it loud
MEX encourages its valued members to come up with blogs and articles related to futures market which would be posted in our website, accompanied with the member's advertisements as well.
Mail your contents to media@mexnepal.com
So start blogging and learn to market your company

Market Capitalization

From July 2012 - September 2012 (in %)



Market Capitalization of all the commodities listed in the MEX terminal. Gold had the maximum market capitalization followed by small gold and silver.

Know Your Commodities

Soybean

Introduction

Soybeans are an important global crop, providing oil and protein. Soybeans are legumes, native to East Asia; those are grown for oil and protein around the world. They are cultivated primarily in warm and hot climates. They were originally used as nitrogen fixers in early systems of crop rotation-ancient farmers would plant a field of soybeans on an exhausted or depleted field and then plow the crop under to replenish the soil.

The US has been the largest producer of Soybeans, followed by Brazil. However, soybean production has been falling in the US recently, a trend which may continue in spite of the increasing demand for arable lands as pressure on food crops increases. Futures on soybeans have been traded on the Chicago Board of Trade (CBOT) since 1936. The soybeans can be broken down into soy oil and soy meal.

Some Facts about Soybean

- The soybean, also known as the soy bean, is a legume native to East Asia.
- An ancient Chinese legend says that the wild soybean's nutritious properties were first discovered by a band of traveling merchants about 5,000 years ago.
- Around 2838 BC, it was recorded that the soybean was valued in China for its medicinal properties.
- Soybeans were first cultivated in northern China and from there it spread into Japan, Korea and the rest of SE Asia and were first brought to America in the early 19th century.
- Some of the better known soybean products include soy meal, soy flour, soy milk, tofu, meat substitutes, tempeh, soy sauce, soy cheese, soy cream cheese, infant formula, bio-diesel fuel, animal feed, etc.
- World soybean production has increased by over 500 percent in the last 40 years, and will continue to grow on strong demand for animal feed (especially in China).

Fundamental factors affecting Soybean prices

- The agriculture policy of major soybean producing countries leads to greater impact on the soybean futures prices. In some cases the government itself increases the price of commodities for their own interest or for fulfilling their political needs.
- The trade policy with the soybean importing and exporting countries also affects the price of soybean. For example: In the year 1999, in china; the state VAT imposed on imported soybean meal increased from 1350 Yuan/ton to 1850 Yuan/ton.
- The food policy also affects the price of soybean. EU is the world's major importer of the soybean where genetically modified soybean is most imported, which is believed to be harmful to health.
- The United States is the world's largest supplier of soybeans; changes in the amount of its production will have significant impact on the world soybean market.
- The weather conditions such as heavy rainfall, droughts etc also affect the price of soybean.
- Transportation cost is the major variable that affects the price of soybean. Two-thirds of China's soybean is imported using a ship. The cost of sea freight cost of soybean imports accounted for more than 20%.

Soybean @ MEX

- Soybean was introduced in MEX terminal from the start.
- The highest initial margin for soybean was Rs.35, 000 and the lowest was Rs.30, 000 for the soybean contract.

Major Exporters and Importers of Soybean

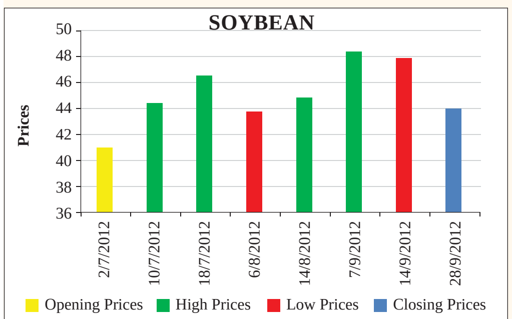
Exporters	Importers
United States	Japan
Brazil	Netherlands
Argentina	China
Paraguay	Germany
Canada	Mexico
Netherlands	Spain
Bolivia	Taiwan
China	S. Korea
Belgium	Belgium
France	Indonesia

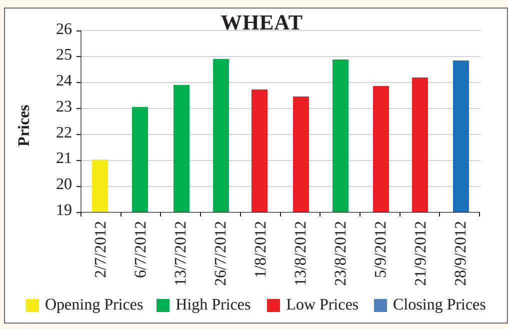
Source: USDA

CONTRACT SPECIFICATION

Name	Soybean
Symbol	SOY
Contract Size	20,000
Unit	Kg
Price Quoted	NPR/Kg
Trading Hours	03:45-00:45
Quality	No. 2 Yellow
Contract Months	F(January), H(March), K((May), N(July), Q(August), U(September), X(November)

Major Market Movers for Soybean and Wheat (1st July - 30th September 2012)





Note:

Date	News
2/7/2012	Opening Price as of 2nd July, 2012
10/7/2012	Soybeans erase losses on positioning ahead of USDA report
18/07/2012	Soybeans rally on strong cash markets
6/8/2012	Reports stating stronger than anticipated Soybean yields
14/08/2012	Little relief seen from US drought despite cooler trend
7/9/2012	Soybean demand very strong as prices hit record
14/09/2012	Speculators cut bullish bets in U.S. agro commodities-Soybean
28/09/2012	Closing Prices as of 28th September, 2012

Note:

Date	News
2/7/2012	Opening Price as of 2nd July, 2012
6/7/2012	Argentina wheat plantings seen falling 20 percent
13/7/2012	U.S. wheat mostly higher on global crop worries
26/7/2012	Russian wheat crop below the forecasted 47 million tons
1/8/2012	EU wheat down on Russia wheat surplus
13/8/2012	Wheat drops on expectations for larger U.S. supplies
23/8/2012	Russia's wheat yields down, squeezing forecasts
5/9/2012	EU wheat falls on risk-off mood, sluggish exports
21/9/2012	Speculators cut long wheat positions to smallest in more than two months
28/9/2012	Closing Prices as of 28th September, 2012

MEX Nepal initiates MEX Talent Search 2012

MEX Talent Search 2012- an initiative of MEX-is an event organized by MEX to extract the best of the talent. The event is directed towards giving an opportunity to undergraduates to showcase their virtues of speech before an august panel of judges who evaluated on various stipulated criteria. The competition was held at 20 various colleges across the valley affiliated with various boards. The competition, divided into two rounds, has closed the curtain on the preliminary round and the finalists are eagerly awaiting the final round with enthusiasm. We wish all the participants the very best as they strive to conquer the stage with their oratorical abilities.

Star Grading and SMS Facility

MEX Nepal, always being in frontline to take new step, has introduced Star Grading for its Non Clearing Members, wishing to upgrade the commodity market and inspiring our associates to advance more and be ahead in all aspects of the market. This grading will help the clients to differentiate and choose the members as per the requirements and this will push the market participants to have a more professional approach in the market. SMS facility was started from 29th August, 2012. The main purpose to start this facility was to notify the members regarding the notifications, circulars, and important events as per the management instructions.

MEX Nepal-Part of Teej Program at Pashupatinath Temple

MEX Nepal, as part of it CSR activities, set up a shelter at the premises of Pashupatinath Temple to assist the people thronging the temple during the celebrations of the much awaited festival of the year-Teej on 18th September 2012. This initiative was directed towards helping thousands of devoted worshippers with water and shelter. The employees of MEX Nepal voluntarily assisted the people by providing water and shelter to the numerous visitors. This form of altruistic actions was appreciated by the masses and was well-coordinated with the assistance provided by the corresponding authorities at the temple.

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MEX Nepal: Part of D&B Global Database

MEX Nepal had added another feather in its cap of achievements by becoming a part of Dun & Bradstreet Global Database. Dun & Bradstreet (D&B) is the leading source of global business information. The D&B's global commercial database accounts for more than 200 million records. The customers can use this unparallel source of information to mitigate risk, increase cash flow, thereby enhancing the profitability levels.

Reward's Galore

Mercantile Exchange Nepal Limited (MEX Nepal), a leading commodity exchange in NEPAL, holding its firm ground by completing its 3rd year of successful business, has continued its "Rewards Galore" series since January 2011 to reward its members for their continuous efforts and dedication.

The Winners of Rewards Galore for the month of:		
July, 2012	August, 2012	September, 2012
Money Plus and Securities Pvt. Ltd.	Norex Pvt. Ltd.	Oscar Commodity and Investment Pvt. Ltd

Demystifying Trading Techniques in Commodity Market

Mercantile Exchange Nepal Limited, in its constant endeavor to promote and enhance the competitive level of the market participants, organized a two-day training program titled, **"Demystifying Trading Techniques in Commodity Market"** at World Trade Center on 1st to 2nd of September 2012. The renowned figure of the Indian commodity market, Mr. Vishal Mehta, the Chartered Market Technician, affiliated with Bloomberg, furnished the training to over 180 participants over two days. The much anticipated training was attended by the broker members affiliated with MEX and Nepal Spot Exchange. At the end of the training, there was an interaction session between the brokers and the MEX and NSE management. The session was incorporated to solve any impending issues amongst the members with the participation of the higher authorities of MEX and NSE.

MEX introduces NCM-AE Agreement & NCM-Client Agreement and Client Handbook in Nepali

MEX Nepal keeping in mind the market needs and taking utmost care of the market participants is pleased to introduce "NCM-AE Agreement" & "NCM-Client Agreement" along with "Risk Disclosure Document" &"Power of Attorney" and Client Handbook in Nepali language.

MEX & IMS Pens MOU

Commodity Sansar.com Your Trading Partner

MEX-in its constant endeavor to strike partnerships across numerous domestic and international affiliates-had forged a strategic partnership by penning a MOU with IMS Investment Management Services Pvt. Ltd. The objective of signing MOU is to deliver a dynamic platform to the invaluable brokers affiliated with MEX all over the nation to enhance their services through Service Provider's (IMS Investment Management Services Pvt. Ltd) financial web portal www.commoditysansar.com and boost MEX members exposure in a best possible medium through Service Provider's website.

MEX Nepal & Mercantile Belize: MOU on International Information Sharing

Mercantile Exchange of Belize Ltd MEX Nepal

Mercantile Exchange Nepal Limited (MEX) and the Mercantile Exchange of Belize Limited (MERC Belize) had signed a MOU with an aim for international information sharing and strategic partnerships (data, skill & technology) to develop commodity derivatives markets in Nepal and Belize by sharing information and best practices pertaining to product development, business and marketing initiatives, technology, and areas of mutual interest. The MOU is another step towards MEX endeavors to integrate with the global commodities ecosystem.

MEX Nepal Trains Bangladeshi Broker

MEX Nepal has added another glorious chapter in the history of the institution by furnishing training to a leading stock broker from Bangladesh. Mr. Asraf Uddin Ahmed, the Deputy General Manager of Multi Securities & Services Limited, affiliated as a corporate member of the Dhaka & Chittagong Stock Exchange Limited, undertook training from the MEX Nepal employees in the exchange premises on the intricacies involved with commodity trading. In the week long training, MEX Nepal was able to furnish details incorporating various market mechanisms associated with the commodity market.

U.S and the Global Economy- A Theoretical Framework

Recently, the global stocks, riskier assets and commodities got a booster dosage from the U.S Fed, popularly known as Quantitative Easing. The unconventional third round of asset purchase that includes buying an additional $40 billion in agency mortgaged backed securities with no cap and stated end date and an extended operational twist, the global markets recoiled back to make the year high. The follow through sentiment was also lifted after the German constitutional court backed the European rescue funds. Lastly, as expected, it was the Fed who drove the market to cheer for backing the lackluster economic growth.

Despite the announcement on policy changes from Helicopter Ben before the presidential elections in US and a continual hyping of press reports from the media, there seems to be no recovery underway for jobs, housing state and government finances. As per the monthly job data from US labor department, the job growth has stuck throughout 2011 at around 80k to 100k a month. The U-6 rate which shows the broader measure of employment has been consistently in the 16 percent range. The Euro zone debt crisis which seems to be stable at the point will escalate once more in the coming days, if the bond yields in the peripheral economies of euro zone continues to rise and the economic reforms are not passed by the government. The US economy will weaken further and may even slip into recession if the euro crisis becomes particularly severe. More likely, however, is the scenario of US economy entering into a double-dip recession in early 2013 will be characterized by deficit cutting by congress and the administration will intensify.

In the US, the deficit cutting deal of $2.2 trillion which was finalized in August 2011 will not be enough if the cutting measures have to be used further by the Obama administration or new assigned government after the election. This may require another $ 2 trillion to $ 4 trillion in cuts, mostly spending on Social Security, health care, unemployment insurance benefits, education. There are no effective programs in place today to fundamentally increase net jobs in the US. Further tax cuts will not stimulate investment or jobs. Corporations will continue to refuse to commit their massive $ 2 trillion cash hoarding to investment or jobs as they await the outcome of the Bush tax extension in late 2012 and maintain a large cash cushion in anticipation of events in Europe and the possibility of another global credit crunch. Home prices will continue to fall by 5-10 percent more in key markets and at least 17 million mortgaged homeowners will experience negative equity.

US exports will not outperform the global trade market and will slow, as will exports globally, including China and the euro zone. As US exports softens, so in turn will their positive effect on US manufacturing production. In the event of a default by one or more sovereign economies in the euro zone, major banks in France, Austria and even Germany will become technically insolvent and may require a rescue package. In such case, the contagion will also spread to the US banks. The euro sovereign debt crisis temporarily stabilized as the US Federal Reserve followed the ECB and introduced QE3. However, the sovereign crisis will erupt again in the late spring as Italy and Greece encounter severe debt refinancing problems. Three to four times of the currently available $1 trillion to $1.5 trillion euro bailout fund- more than $ 4.5 trillion will be eventually needed to resolve the euro debt crisis. Several euro banks will become technically insolvent and will be nationalized by their governments and bailed out. Both German and French economies slowed to a virtually no growth at year end 2011, and consequently will slip into recession in early 2013.

In the BRIC (Brazil-Russia-India-China) model, having grown consistently in the 9-10 percent range in previous years, China's GDP will slow dramatically in late 2012, potentially to half the rate of previous years. Chinese manufacturing exports will contract. The Indian and Brazilian economies will slow significantly as well. All three key economies will introduce stimulus programs vis-à-vis to the US, euro zone and Japan.

Lastly, the world economy is already heading in the direction of contraction, given China's soft landing and slowing growth in the US economy, the pace of declining world trade will quicken, and global trade in general will contract. Global manufacturing will follow in turn. Will Greece or Spain default? Will Germany leave the euro zone?? Is the US heading towards another recession? Will we see the Lehman Style crashing in the US markets? Or have the world markets bottomed out and the gradual recovery is slowly but surely coming. Questions remain unanswered…..for which time is the only factor!

Jhabindra Khatri
Bhairab Investment Co. Pvt Ltd.

Derivatives market: Dwelling on the benefits

To have well developed commodity eco-system the government should concentrate on strong as well as efficient supply and value chain in agriculture sector of the country. Well-developed infrastructure of international standards should be created in order to have developed commodity ecosystem.

Since the human civilization, Commodity market is in practice. Being one of the oldest markets of the world, it remained as the core business of the society by transferring goods and ownership of them physically. Earliest commodities markets existed primarily for cash transactions with immediate delivery. Eventually, this market has turned into virtual one, as it is at present, and is termed as derivative market. In this virtual market, goods are traded very frequently by transferring the ownership but are moved from one place to another less often. In organized commodity exchanges, goods are bought and sold through standardized contracts (future, option).However the commodity derivative is purely speculative in nature, in some countries due to tight monitoring and regulation, it has played a very instrumental role.

In case of Nepal, the organized commodity derivatives market is a new, whereas CFD (contract for difference) of various foreign commodities, bullions and financial instruments were traded by the selected parties through unorganized ways for decades. On December 2006 with establishment of the Commodities and Metal Exchange Nepal Ltd (COMEN), the first commodity future exchange of Nepal, The trading of the commodity futures in domestically incorporated derivative exchange was formally started.

The growth of Nepal's derivatives market, in absolute term, is somehow good as per the evidences of last six year. In the true sense of terms, the Nepalese derivative exchanges have not fully abided by the fundamental of the organized derivatives market. In Nepal warehouse receipt financing system and the option of physical delivery for the listed commodities, the foundations for the development of commodity future market, spot and forward markets backed by the warehouses, are lacking. Nepalese so called commodity exchanges have been working just as the brokers of foreign derivative exchanges in the absence of such core keystones and mechanism for fair price discovery.

So the Nepalese derivatives exchanges have also not qualified as derivative exchanges, because they have been totally encouraging the general people for speculation or in the simple term of the day 'gambling'. There is no single transaction is made for hedging and arbitrage. In Nepal the 7 derivative exchanges combined paid up capital is not more than Rs 250 million, general investors have been billions of rupees in the market.

In Nepal, the stakeholders of commodity derivative market are farmers, manufacturers, processors, wholesalers, consumers etc, there are not confident about the operation of the market and its favorable impact on economy. Nepalese commodity derivative exchanges are not certified by the International Organization of Securities Commissions (IOSCO) and have not followed the principles of IOSCO in contract derivation and margin determination. Likewise, the Nepal's commodity exchange is not audited at all and no disaster recovery mechanism is there in their trading engine. This is also by the fact of lack of authentic regulator and the governing law in the country. In Nepal there in no place for domestic produces the exchanges only concentrated in trading of the future contracts. There is need of watch dog for the commodity market of Nepal with clear cut rules and regulations so as to prevent unfavorable impact and to protect the small investors.

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Money plus & Securities (P) Ltd
Maitidevi, Kathmandu

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