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

MEX EXPRESS

A Smart Solution for Online Trading

www.mexnepal.com

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Message from CEO

In the months ahead we will work closely with the proposed market regulator by providing the information that the authorities need to ensure that our markets remain the safest and most competitive in the world. As an industry, we have many challenges ahead in educating users and transforming our infrastructures. We will draw on our expertise in the exchange traded and cleared markets to help to move derivative markets to the next stage.

The prevalent tax on derivatives trading in the country is hurting the investors to a great extent. It would decimate liquidity in the market in an unprecedented way. The high frequency traders will trade somewhere else, and it's not going to benefit tax authorities. If liquidity dries up in the market, traders are not going to be able to get out of positions in an efficient manner. So, who really gets hurt by this taxation in the long run, are the investors and also if traders opt to trade elsewhere then it's going to be a loss to the nation as well.

MEX is also keen in listing locally produced agro commodities for trading purpose which shall ultimately benefit the producers of the country. For this purpose MEX has promoted Nepal Spot Exchange (NSE), another very first in the country to enhance trading of deliverable products. MEX had committed to launch delivery of gold in the month of March 2010, due to various constraints we could not make it happen but through the spot exchange we are working closely with NEGOSIDA and banks to achieve delivery of the precious metals and also on the warehousing for the delivery of agro products.

We also urge the authorities to allow foreign direct investments to these markets, as many exchanges from other countries are keen to take stakes in MEX Nepal and vice versa and also to attract investments into the country and also the regulators/authorities to provide solution for members and market makers to hedge their market risks.

- Jitesh Surendran

Clearing Houses and Risks Associated

The derivatives trading on organized exchanges in Nepal, i.e. Futures have grown enormously over the last few years. These markets have become a major part of the Nepalese financial sector and a growing number of other developed and developing countries. In measure of the market risks associated with their activities, many financial market participants, including the major banks and firms that serve as market-makers for derivatives, assume that markets for exchange-traded derivatives will provide sufficient liquidity to allow them to offset their market risk exposures quite promptly. Furthermore, during periods of market volatility the amounts of payment associated with exchange traded derivatives can have a huge magnitude, consequently, when markets are already under stress, a delay in the completion of exchange-related payments or deliveries could well lead to systemic disturbances.

Both the liquidity of exchange-traded derivatives markets and the timely completion of payments and deliveries associated with these markets are critically dependent on the financial integrity of clearing house, in which are concentrated the credit and liquidity risks of exchange trading and the responsibility for managing those risks. Let's develop a clear understanding of the sources and types of risk to clearing houses for exchange-traded derivatives and of the techniques that such clearing houses utilize to manage those risks.

Clearing houses provide a range of services related to guarantee of contracts, clearance and settlement of trades and management of risk for their members and associated exchanges. Clearing houses can be organized in a wide variety of forms: some clearing houses are organized as departments of their affiliated exchanges, others are independent legal entities. Some clearing houses provide services to only one exchange; others serve a group of exchanges. In all but a very few cases the clearing house acts as the central counterparty to all trades on the exchange. The clearing house's counterparties are its clearing members, which generally are a subset of the exchange's members. Other trade counterparties are the clients of one of the clearing members. The clearing house typically has a principal-to-principal relationship with its clearing members.

In addition to the clearing house and its clearing members, another key element of the settlement infrastructure for exchange-traded derivatives is the bank or network of banks through which money settlements are effected. The central bank or private settlement banks are utilized, depending upon the banking structure. As central counterparty to its clearing members, the clearing house is exposed to the risk that one or more clearing members will default on their contractual obligations. Clearing houses face other risks relating to the financial resources they typically maintain to help cover losses and ensure timely settlements; the investment of such resources usually entails some credit risks, liquidity risks, market risks or custody risks. And, like any other payment and settlement system, exchange clearing houses face various operational risks. Finally, clearing houses face legal risks. For example, bankruptcy laws or other laws may impede the operation of safeguards that the clearing house relies upon to limit its credit and liquidity exposures.

The risk management procedures of exchange clearing houses in many countries has revealed that a common set of safeguards are typically utilized to limit the likelihood of defaults by clearing members and to ensure that if defaults do occur, the clearing house has adequate resources to cover any losses and to meet its own payment obligations without delay. These include: (1) financial and operational requirements for membership in the clearing house; (2) margin requirements that collateralize potential future credit exposures and either collateralize current credit exposures or limit the build-up of such exposures by periodically settling gains and losses; (3) procedures that authorize prompt resolution of a clearing member's default through close-out of its proprietary positions and transfer (to a non-defaulting clearing member) or close-out of its clients' positions; and (4) the maintenance of supplemental clearing house resources (capital, asset pools, credit lines, guarantees, or the authority to make assessments on non-defaulting members) to cover losses that may exceed the value of the defaulting member's margin collateral and to provide liquidity during the time it takes to realize the value of that margin collateral.

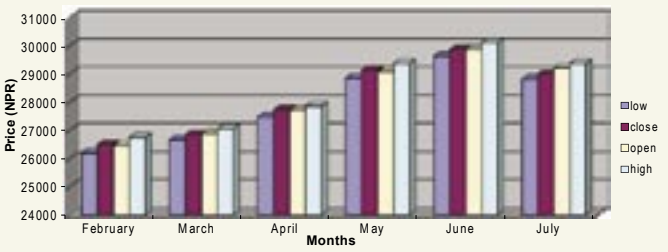
Clearing houses that utilize private settlement banks typically limit risks of settlement bank failures by selecting only the most creditworthy commercial banks. The agreements provide that transfers between clearing members and the clearing house on the books of each settlement bank are effected simultaneously and are final, and that final transfers of funds between settlement banks are effected as soon as possible. Together, these steps can reduce substantially the amount and duration of a clearing house's exposures to any one settlement bank.

Clearing houses also may be vulnerable to weaknesses in money settlement arrangements. The specific potential problems differ, depending on whether the central bank is used as the settlement bank or private settlement banks are used. Nonetheless, where those weaknesses exist, they have two common underlying sources: (1) the use of interbank payment systems that entail the risk of unwinds of provisional funds transfers late in the day; and (2) a lack of clarity regarding the obligations of the various parties in the settlement process ¬ the clearing house, clearing members and settlement banks ¬ in the event that a clearing member (or settlement bank) were to default. Clearing houses that use central bank funds in settlements avoid the risk of settlement bank failure. In the interim, the clearing house's credit exposure to the defaulting clearing member could increase substantially as a result of volatility in prices. Moreover, if the payment system does not settle until late in the day and the defaulting member owed a substantial amount, the clearing house could have considerable difficulty meeting the resulting liquidity pressures. When commercial banks are used as settlement banks, transfers on their books from clearing members to the clearing house may be final prior to transfers in the interbank payment system. However, transfers between settlement banks usually are not final until the central bank payment system achieves finality. Thus, the clearing house is exposed to settlement bank failure from the time its account at a settlement bank is credited until the time the payment system achieves finality. As in the case of an unwind of a payment from a clearing member, if a provisional payment from a settlement bank is unwound, the clearing house could have considerable difficulty covering the resulting liquidity shortfall. In addition, if a clearing house's legal agreements with its settlement banks and clearing members are not drafted clearly, there is a potential for disputes to arise in the event of a default of a clearing member or of a settlement bank.

To the extent that individual clearing houses in many countries are vulnerable to the potential problems, hence certain steps that the clearing house takes to reduce their vulnerability. It does not mean to imply that systemic risk considerations require any individual clearing house to take any of these steps. Nonetheless, clearing houses should carefully consider whether implementation of the steps discussed below could produce benefits that exceed the costs. The public benefits in terms of reduced systemic risk would accrue from these steps and that each of the steps has already been taken by some clearing houses. The steps: (1) "stress testing" to identify and limit potential uncollateralized credit exposures and liquidity exposures to clearing members from extreme price movements, and to ensure that the clearing house's financial resources are of adequate size and liquidity; (2) enhanced intraday risk management through more timely trade matching and more frequent calculation of margin deficits and through the development of the capacity to conduct more frequent settlements of margin deficits or variation losses; and (3) strengthening of money settlement arrangements by utilizing payment and settlement systems that provide real-time or at least intraday finality of funds transfers and by eliminating uncertainty about the obligations of the various participants in settlement arrangements in the event of a failure of a clearing firm or a settlement bank.

Sandeep Bojan
Management Trainee
Mercantile Exchange Nepal Limited

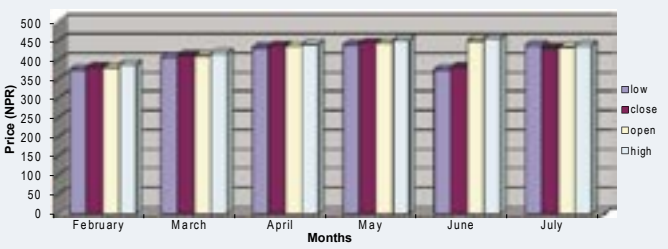
Gold Chart



Gold Data

Months	Low	Close	Open	High
February	26194	26494	26458	26755
March	26664	26842	26893	27058
April	27472	27727	27706	27870
May	28851	29140	29091	29379
June	29640	29871	29881	30122
July	28817	29009	29218	29381

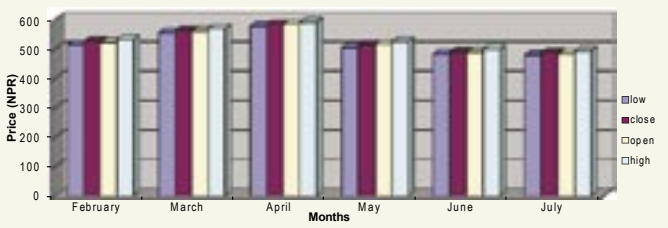
Silver Chart



Silver Data

Months	Open	High	Low	Close
February	375.62	382.044	380.968	389.312
March	407.8667	413.1667	412.2067	418.0733
April	431.8469	437.3545	435.6372	440.8676
May	439.5533	445.1533	444.8867	452.5067
June	375.62	382.044	450.54	457.278
July	438.288	431.064	433.68	438.288

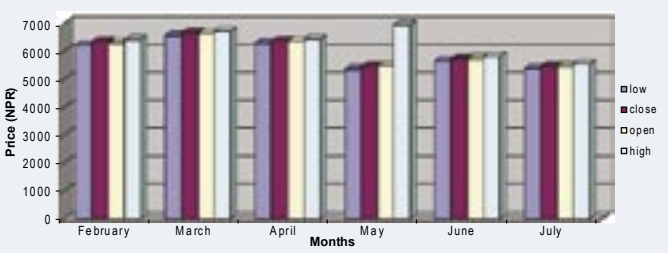
Copper Chart



Copper Data

Months	Open	High	Low	Close
February	514.4089	526.1067	522.8444	532.9467
March	555.5044	563.4356	562.9556	570.0356
April	578.548	583.86	585.68	591.612
May	505.4871	513.4871	516.72	525.1482
June	483.7046	491.3215	491.2985	499.9385
July	480.24	488.784	483.904	493.744

Crude Oil Chart



Crude Oil Data

Months	Open	High	Low	Close
February	6229.285	6367.658	6312.571	6424.384
March	6573.552	6673.819	6648.073	6730.237
April	6302.25	6377.762	6376.061	6445.348
May	5367.264	5467.264	5510.6	6964.937
June	5662.982	5744.33	5749.179	5832.134
July	5389.875	5473.8	5470.05	5560.05

Know your Commodities

Sugar

Recommended MEX Contract

Name	Symbol	Cont. Size	Unit	Min Tick	Tick Value	I.Margin	Margin %	Price Quoted	Trading Hrs
SUGAR	SUG	20000	KG	0.02	400	35,000.00	3%	NPR / KG	12.15 - 00:30

For centuries, sugar has been a highly valued and widely traded commodity. Sugar cane production originated, according to historians, some 2,500 years ago on the Indian subcontinent. Today, sugar is a basic part of the production and consumption of many foods worldwide. For a beginner commodity trader, sugar is a great market. Sugar futures contracts require a small margin and rarely make extreme moves. Currently, an account margin of Rs. 35000 will control about 20000 kgs worth of sugar. For beginners in the commodity market, engaging in the trade of sugar futures contracts is a great way to acquire knowledge and experience in investments. The most notable of properties of this commodity market is the fact that only small margins are required and that the market rarely makes extreme moves in either direction. Thus, traders and investors can wait to make their move for more favorable conditions.

There are two main types of sugar grown in the world: cane and beet. Both produce the identical refined sugar product. Sugar cane is a bamboo-like grass grown in semi-topical regions. It accounts for about 70% of world production. Beet sugar comes from the sugar beet plant, which grows in temperate climates and accounts for the balance of world production. Intemperate weather, disease, insects, soil quality and cultivation affect both cane and beet production, as do trade agreements and price support programs.

India, Brazil, China, Thailand, Cuba and Mexico are among the leading sugar cane producers. European Union nations, the Russian Federation and Ukraine produce the majority of all sugar beets. The European Union, Brazil, Thailand, Australia, Cuba and Ukraine are leading sugar exporters.

Both cane and beet sugar are grown in regions of the U.S.; sugar beet production in the U.S. accounts for about 9% of the world total and cane production about 3% of the world supply. U.S. sugar cane is grown in Florida, Louisiana, Hawaii, Texas and Puerto Rico. Beet sugar is grown in 14 states, with Minnesota, Idaho, North Dakota and California leading production.

The sugar industry closely monitors the level of sugar stocks relative to sugar consumption as a measure of available supply. In the past, small changes in the ratio have led to large price movements in the opposite direction.

Most sugar is either consumed in the country where it is produced under government controlled pricing arrangements or moved from one country to another under long-term supply agreements. The sugar not subject to such agreements is freely traded among a number of nations, corporations and individuals. This makes the market for sugar a "residual" market - a market in which freely traded sugar is only a fraction of worldwide production. Since the free market may be only 20-25% of world production, a small change in production or consumption can translate to a much larger change in free market sugar supply. The delicate supply/demand balance is a main reason for sugar's high levels of historical price volatility

Sugar has made several extreme moves over the last thirty-five years. The last big move to 18 cents a pound was last year. In the early 1980's sugar hit 44 cents a pound. In the early 1970's sugar hit 66 cents!

On the other side, sugar once got as low as 2.5 cents a pound. The whole 112,000 pound contract was worth only $2800! You could have taken delivery and warehoused it for a few years and sold it for 15 cents a pound or $16,800. (Or just kept rolling the contracts forward with no delivery) That's not a bad profit if you believed sugar was not going to be free. Multiply this times ten contracts and you are looking at over $160,000 on a $30,000 investment. There certainly is opportunity if one is willing to take on the risk.

Hurricane seasons are a time when the sugar market gets a lot of attention. There is always the possibility that the crop in some of the sugar growing areas could get blown away and damaged beyond recovery. This could happen, but is rare. Many traders buy options to cover this vulnerable period of time, looking to profit. Though over the long haul, more precise timing is required to cover the option premium expenses.

Conclusion:

Sugar futures market has been assumed as a highly and widely traded agricultural future markets. Sugar is identified as the suitable future contract for those who are beginners in commodity market because it requires low initial margin and it has a non volatile market. The thing that needs to be considered in sugar future market is buying the option which helps to hedge the contract during natural disasters like hurricane, floods etc.

The world's top 10 sugar cane-producing countries, by quantity, 2006

Source: United Nations Food and Agriculture Organization, FAOStat, 2006

Rank	Country	Production (1000 tonnes)
1	BRAZIL	455,291
2	INDIA	281,170
3	CHINA	100,684
4	MEXICO	50,597
5	THAILAND	47,658
6	PAKISTAN	44,666
7	COLOMBIA	39,849
8	AUSTRALIA	38,169
9	INDONESIA	30,150
10	UNITED STATES OF AMERICA	26,835

MEX Events

Seminar from beautiful city of Pokhara

On July 3, 2010 Mercantile Exchange Nepal Ltd.(MEX) in association with Clearing Members - Axis Broking Solution Pvt. Ltd. and Himalayan Commodity Brokers Pvt. Ltd. (HCB) organized an awareness seminar on "Commodity futures – A new investment alternative" in Fewa Prince Hotel, Pokhara with the chief guest Mr. Mankaji Makaju, President, Pokhara Chamber of Commerce & Industry.

More than 200 participants including local NCMs, existing clients, media and local people attended the seminar. The seminar helped gather existing members and clients and also helped to create consciousness about the commodity market among the locals.

Media And MEX

Honorable Deputy Minister Mr. M.L.A.M Hizbullah, Sri Lanka Visited MEX

Honorable Mr. M.L.A.M Hizbullah, Deputy Minister of Child Development & Women's affairs, Sri Lanka, visited MEX on June 22, 2010 to gain knowledge of functional and operational aspect of the commodity market and working milieu of a successful exchange like MEX as well.

Cambodian Delegates visited MEX

H.E. Kao Thach, Deputy Director General of the Securities Exchange Commission of Cambodia (SECC), Mr. Chan Narith , Director of Securities and Mrs.Sok Sokunchivy, Senior Official of Securities Market Supervision Department, SECC, Mr. Chhoeng Chantha, Head of Financial market Division, Financial Industry Department, Ministry of Economy and Finance visited to learn about the working mechanism of MEX.

MEX Visit of SAFE (South Asian Federation of Exchanges)

Mr. Aftab Ahmad, Secretary General, SAFE, Islamabad, Pakistan and Mr. Shanker Man Singh, General Manager, NEPSE visited Mercantile Exchange Nepal Limited on June 18th 2010 in connection with the MEX membership application to SAFE. SAFE is a forum initiated by exchanges in South Asia with the objective of promotion and development of securities and commodities markets in the South Asian region.

New Three Commodities in the List of Traded Commodities in MEX

As a part of continuous innovation and improvement, MEX has introduced three new commodities along with two mini-contracts to provide new flavor and flexibility to the clients. The newly introduced three commodities; Sugar, Coco and Corn will provide new flavor to the commodity futures traders and the two new mini contracts; Mini-Silver and Mini-Copper commodities will provide more flexibility to small investors.

Offline Support of MEX

MEX is the first exchange in Nepal to provide offline support to its clients. This facility will enable clients to get assistance during emergencies such as internet down, electricity down or no connectivity to MEX Nepal server. By using this support, clients can settle their existing positions over the phone through a certain procedure and can even keep OCO/Limit/Stop. They can trade offline by giving instructions to their NCMs who will in turn relay the information to their CMs. The CMs will further inform the exchange. The offline support is only available to settle existing positions and not for taking new positions.

MEX BLOG:

MEX has recently started its own blog on different topics related to the commodity market. Participants can post their comments on these topics which can be viewed at: http://www.mexnepal.com/blog/blog.asp.

5 Fatal Factors to be Considered in Commodity Trading

Traders enter into the commodity market with the expectation of getting rich quickly. The hardest part of this market is to retain your initial investment. While these markets offer immense opportunities, most traders lose money. The reasons behind this are:

1. Lack of Trading Methodology:

A well defined trading system assists in minimizing losses and maximizing profits. Each investor must have their own trading system which depends on their risk bearing capacity. For this, the investor should first indentify the kind of trader he is. He should then determine the kind of market he is going to trade on. Success of business does not happen by accident, rather, it is a derivation of having a clear strategy.

2. Lack of Money Management:

Money Management determines how much money an investor is willing to risk on each trade. The trader must understand the risk of trade before entering into any position in the market. For this, he needs to be aware of the risk reward ratio. The best risk to reward ratio is 1:3 which means, 3 losses are equivalent to 1 profit. For instance, if you are willing to take Rs 10,000 risk, your target profit should be Rs 30,000. Always take only calculated risks and enter those positions where your desired risk to reward ratio can be achieved. Traders must define his entry and exit level and then place stops and limits. The stops and limits should not be changed once the market is trading near the stop or limit levels. It is best to use trailing stops. If you get stopped out, wait for the next signal to enter the market rather than altering the stop again and again.

3. Lack of Discipline:

Discipline is the most important attribute a successful investor has. Most traders fail because they cannot control their emotions and end up executing their own established trading strategy. It is normal for a trader to make money in the demo account. But the same traders lose money while trading in real market with real money because they fail to exercise discipline. Traders need to understand that disciple means following his own trading system. It is found that although some traders have no trading system, but through dedication and development of discipline, have achieved success. On the other hand, traders who have excellent trading systems are unsuccessful because they lack the discipline to apply their trading rules.

4. Lack of Patience:

Trading requires patience. Most traders have patience only when the market is going against them but lose patience as soon as the market starts favoring them. For example, if a trader has Rs 50,000 floating loss, he will hold his position hoping the market will turn in his favor. But if the same trader has Rs 5,000 floating profit, he will quickly settle his position. In short, they tend to book their profits a lot quickly than settle their losses. Due to this lack of patience, their initial investment starts decreasing which make them more frustrated. This results in them making more and more errors which compounds into serious losses. Patience is a bitter plant, but it has sweet fruit.

5. Unrealistic Expectation:

Traders always expect the market to be in their favor. For example, if the trader has a long position, he will only watch news favoring his position, ignoring other news that are against his position. The opposite is the case if he has a short position. He does not want to see where the market is heading, but only expects the market to favor him. This unrealistic expectation results in him facing huge losses.

SAGUN SHAKYA
Managing Director
Quest Commodities and Investment Pvt. Ltd.

MEX Highlights

(From Left) Mr.Chantha Chhoeng, Head of Fin Mrkt Div, MEF- HE. Kao Thach, Deputy Dir-Gen of the SECC, Rep of HE. Dir Gen- Mr.Chan Narith, Dir of Securities Mrkt Supervision Dept - Mrs. Sok Sokunchivy, Sr Official of SECC

Delegates with MEX Sr. Employees


SECC Delegates at SEBON

Abhishek Gautam, Asst. Manager of MEX, giving the presentation of Issue and Challenges in financial sector. organized by University Grant commission


MEX, HCB and AXIS Jointly Organized the seminar in Biratnagar

MEX, HCB and AXIS jointly organized the seminar in pokhara


Honourable Deputy Minister Mr. M.L.A.M Hizbullah, for Child Development & Women's affairs, Sri Lanka, visited MEX to learn the working milieu of a successful commodity exchange like MEX


CEO with Mr. Aftab Ahmed (Sec Gen, SAFE) and Mr. Shanker Man Singh (Gen Manager, NEPSE) @ MEX

Avoiding Losses: Sell in Spot Markets or Hedge in Futures Markets?

Investors face the risk of loss in normal business activities if there is unexpected price change in good or security (bonds and shares). Investors can hedge against the risk of loss. A hedge is a transaction or action taken to avoid one's exposure to losses. It is a technique designed to offset some existing or anticipated risk. One of the most important derivative tools of hedging is the futures contract. In futures contract, one party agrees to buy specified asset in the future from second party; the second party agrees to sell it. The contract specifies the quantity and quality of the good, price, the delivery date, and the delivery location. Futures contracts are traded in futures markets such as MEX. Futures contracts enable investors to reduce or, in some cases, eliminate risk they face from adverse, unexpected price changes. Wheat, rice, or soybean farmers can use futures contract to reduce uncertainty about the prices they will receive for their products. A farmer, for example by agreeing through a futures contract to deliver a certain amount of wheat at a specified future date and price, avoids exposure to unfavorable price movements in future date. Thus, the farmer is a hedger who hedges the price risk of wheat. Hedging on other assets like silver,

crude oil, gold, coco, and foreign currency is possible through futures contracts. For instance, wholesalers dealing on coco can use the futures contracts to hedge against decrease in price of coco in future date.

A usual question put forward regarding hedging is, 'why should we hedge when we can sell the assets in spot market if we expect prices to decline?' In spot markets, purchases and sales of good, share or bond takes place immediately or shortly thereafter. Payment usually is made immediately, although credit arrangements are sometimes used. In reality, selling the asset in spot market is preferable in some circumstances. The principal rule for deciding whether to make a transaction in the spot market or to hedge in futures market is

If you can achieve your goal "effectively" in the spot market, then complete your transaction in that market.

However, the key to this rule is the word "effectively." In many situations one or more of the following factors cause difficulties if the transaction is completed in the spot market.

Liquidity – the spot markets for a given good or security often is not liquid for large trades. Thus, the investors who sells good or security in spot market, causes a significant price change in that good or security when liquidity does not exit. There is no liquidity problem for trades in most futures contracts.

Cost – the commissions and size of the bid-ask spread in the spot market often cause the cash transaction to be expensive relative to the same transaction in the futures market. For example, transaction cost on 500 stocks transactions in the stock market is more than the one futures transaction in stock index futures market with the same 500 stocks underlying. The margin requirements are also lower.

Execution – transaction in futures market is initiated much quicker than a spot transaction due to liquidity reasons.

Short selling – a short sale in the spot market typically is expensive and imposes several restrictions designed to limit or discourage short selling. Short selling in futures markets can be accomplished easily.

Indeed, the fact that futures are low cost, effective way to manage price risk is one of the main reasons for the existence of futures markets. Once certain facts about futures markets are understood, one can see that futures markets are an integral part of a well-run economy. Therefore, futures markets are popular among the investors in the developed countries.

Mr. Kaji Bahadur Dahal
Lecturer
Shanker Dev Campus

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