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

MEX Nepal has stepped into its third year following overwhelming response amidst great fanfare during its second anniversary celebration. While this is a major benchmark in the Nepalese derivative market, we will not rest here and will be always looking forward to step ahead in the coming years and decades to come.

Reflecting on the previous year, we are pleased to have accomplished quite a lot, even at times of liquidity crunch and also despite the competitive nature of the market, we have not only managed to sustain but also have managed to mark our presence in far reaching corners of the country. We like to thank our well wishers and members for their immense support.

Heading onto the third year, we strive to be bigger and better than preceding years. While continuous research will pave way for additional products to be introduced, we will be working tirelessly to provide unmatched world class services for our members. We hope to have the same compassion and support from all our members and well wishers in the years to come.

"A rewarding life is filled with challenge" and we are ready for any challenges, but with business ethics.

Jitesh Surendran

Inflation: New Era of Derivative

Analyzing the food price index of the consecutive last 3 years in Nepal, it shows that the volatility is always in double digit figure. Co-relation with Banking sector interest for deposits and lending, inter-bank interest rates all shows fluctuation and volatility thereby affecting the overall household and creating uncertainty for next month's budget.

This problem is faced by everyone and a good way to mitigate such a risk is by using the same product as a risk mitigating tool.

Derivatives as we know, is nothing more than a risk mitigating tool. A wise way to protect oneself from rising inflation is through the use of inflation as a derivative tool.

By using inflation as a derivative tool, people shall be aware about their

a. Budgeting
b. Ratio of expense and savings
c. Reducing the risk which affects the wallet and
d. Information and planning

As an example, let's assume that the inflation for the next 3 months is 10%-15%. However the earnings remain the same.

Some ideas might be:

1. Minimization of daily expenses and compromise on lifestyle.
2. Utilization of inflation derivative to reduce risk.
3. Do nothing.

Obviously the choice would be either 1 or 2 but 2 is a better alternative. However, certain points need to be taken into consideration while using inflation as a derivative instrument. Post data, market trends, demand and supply parameters all need to be taken into consideration along with all the other fundamentals which causes inflation. By careful analysis of these parameters, one is able to determine the future trend and hence protect against risk.

Globally consumer price index, wholesale price index are tradable instruments through organized market place. But in Nepal, due to the lack of such indexes, the consumers are suffering. Introduction of such tools would enable an ordinary consumer to maintain his/her lifestyle while also ensuring that their risk is mitigated.

To be able to introduce this index, proper information regarding market trend is required. Likewise, demand and supply fundamentals can also be obtained through market research or through the help of government agencies. However, reviewability of collected information shall be another issue so parameters need to be put in place while developing and offering the product.

We assure all our well wishers that MEX is ready to take challenges to protect general public.

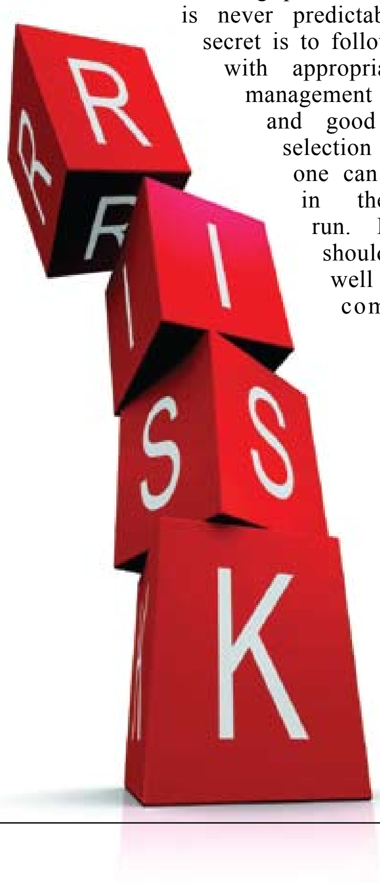
Dipendra Khatiwada
Managing Director
MEX Nepal

Understanding risk

Commodity market is a great alternative for investors planning to diversify his/her portfolio and earn high returns from price fluctuations. The volatile movements in prices in commodities market can present opportunities to earn high returns that no other market can provide. An added advantage of this market is that no matter how bad the situation gets, commodities will retain some value unlike the stocks of companies. However, as in any other market, greater returns require taking greater risks.

There is nothing an investor can do about the risk in the market but acknowledge it and try to understand it. It's the investor who decides how he wants to trade. Impatient traders are the ones who lose big. They take big risks to get rich quick. We might think that good traders do not ever have to bear loss. But it is not the case. Actually, good traders trade a lot, lose a lot and eventually earn a lot.

Beginners assume that learning how to predict the market prices movement is the key to making profit but market is never predictable. The secret is to follow trends with appropriate risk management methods and good market selection so that one can be rich in the long run. Investors should also be well aware of commodity demand cycles and factors affecting demand to trade well.



The risks in trading cannot be eliminated but can be managed. When a trader buys a futures contract, he will lose if the market price declines. His risk is theoretically limited as the commodity's price cannot fall below zero. If he is in selling position, he will lose if the market price goes up. Here, his risk is theoretically unlimited as the price of the commodity can rise to any level. However, the trader can limit his loss by offsetting his position when the trade is not going on in his favor.

Investor must come in terms with the fact that losses are part of the trading process. Losses cannot be avoided even by elaborate planning or strategies. Due to the randomness in market price, losses are inevitable but because of the same, eventually opportunities for profit will arrive. If an investor is not comfortable with the potential losses in trading, he/she should probably wait until the market and its associated risks are fully understood. A patient trader will eventually understand what the saying, "No pain, no gain" truly means.

Before becoming too excited about the substantial returns possible from commodity trading, it is a good idea to take a long, sober look at the risks. Reward and risk are always related. It is unrealistic to expect to be able to earn above-average investment returns without taking above-average risks as well.

There is no point trading commodities if you cannot handle the psychological discomfort of making losing trades. While people tend to take losses personally as a sign of failure, good traders shrug them off. The best trading plans result in many losses. Because of the amount of randomness in market price action, such losses are inevitable.

Arun Adhikari
Assistant Manager
Compliance Department
MEX Nepal

Best Blog

How does Circuit Breaker work?

Circuit breaker is a point at which a futures market/stock market restricts or slows down trading for certain period in response to unusual drop/rise in value. It is designed to prevent panic selling/ buying by stopping trading after the value of commodity, security or an index has fallen/risen by a certain amount. It may be a temporary halt of trading or day close of trading before the end of normal close of the trading session depending upon situation. Circuit Breaker helps for smooth running of market by avoiding any type of odd happening due to unexpected rise or fall in price level.

It may be helpful in following ways:

- They block investors who wish to exit their positions
- They block entry of bargain hunters, who play a key role in reviving the market.

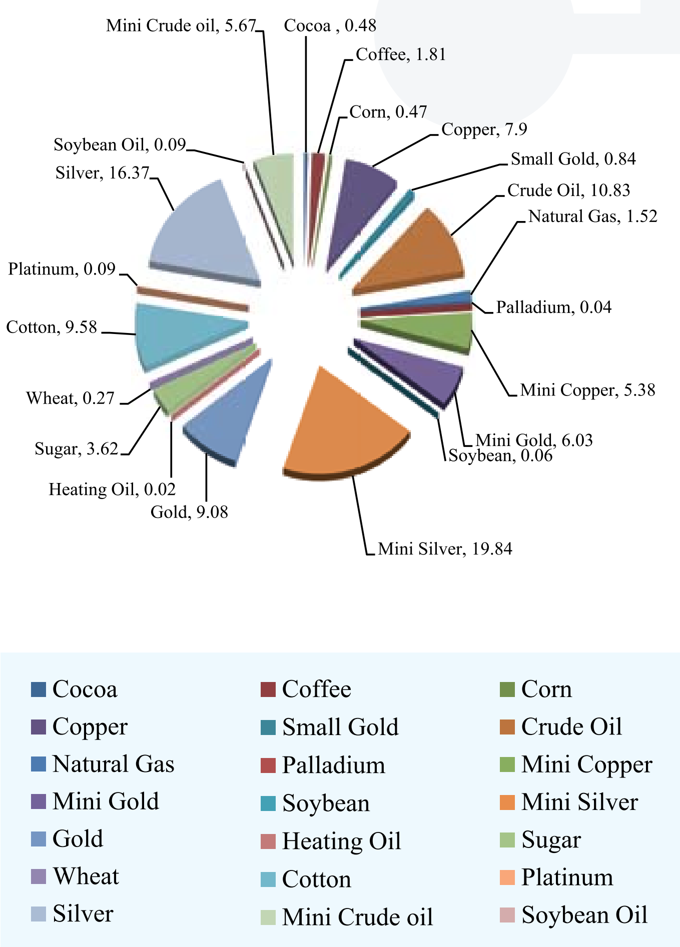
For example, if the Dow Jones Industrial Average falls 10% in a trading day, the New York Stock Exchange suspends trade for at least one hour. A circuit breaker is intended to allow investors to determine whether a situation is really as bad as it looks.

But do circuit breakers work all the time? Do they even work when big exchanges are interlinked with each other and transactions are executed through other exchanges?

This blog can be found @ http://www.mexnepal.com/blog/topic_details.asp?topicid=67&cudate=

Posted on August 17, 2010
Total Comments: 24

Market Capitalization
from Jan 2011 - March 2011 (in %)



Market capitalization of all the commodities listed in the MEX terminal. Beating gold, mini-silver has maximum capitalisation followed by silver and crude oil.

Know Your Commodities

Cotton

Cotton is a natural fiber that grows in a boll or protective capsule. It has been valued for thousands of years as it can be woven and spun into fabric. Cotton is the world's most important non-food agricultural commodity. It produces fluffy fibers for clothes and other beautiful fabrics.

Cotton was first cultivated in the Indus Valley Civilization. There is archeological evidence from Peru, India, and Mexico that cotton has been used for thousands of years. People in Asia and South America realized that soft white fiber of the wild cotton plant could be useful and started to grow cotton as a crop around 3000 B.C.

At present cotton is blended with other materials to create mixed fabrics like terry cotton. Cotton thrives well in the tropical and sub tropical regions. The largest producers of the cotton are China, India, United States and Pakistan.

Cotton Contract Specification at MEX

Name	Cotton
Symbol	COT
Cont. size	10000
Unit	KG
Price Quoted	NPR/KG
Trading Hrs	06:45 – 00:15
Quality	Strict Low Middling Staple Length
Contract Months	Mar (H), May (K), Jul (N), Oct (V) and Dec (Z)

Some facts about Cotton

1. Cotton is produced by small trees and shrubs.
2. Scientists have found fiber and boll fragments from the Tehuacán Valley of Mexico from about 7000 years ago.
3. It was one of the earliest crops grown by European settlers, having been planted at the Jamestown colony in 1607.
4. Cotton ranks 5th among the leading cash crops.
5. Cotton accounts for about 40 percent of total world fiber production.
6. There is more cotton grown globally than any other non-edible crop.
7. Cottonseed oil is cholesterol-free, high in poly-unsaturated fats and contains high levels of antioxidants (Vitamin E) that contribute to its long shelf life.
8. One cotton bale can produce 215 jeans
9. The cotton plant requires about 180 – 200 days from planting to full maturity and ready for harvest.
10. Cotton covers 2.5% of the world's total cultivated land.

USES

Cotton is used to make textile products like terrycloth for highly absorbent bath towel and robes, denim for blue jeans and chambray which is popularly used in blue work shirts and corduroy, seedsucker and cotton twill. The shiny cotton, the processed version of fiber is used in making the shirts and suits.

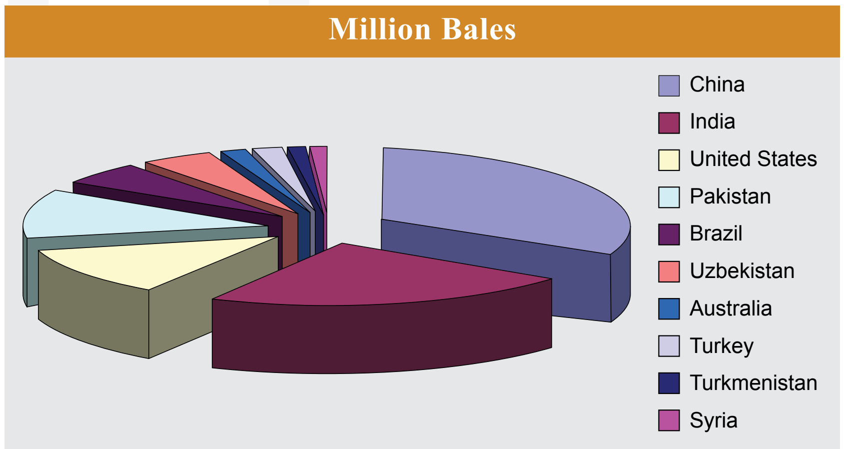
Cotton seed that remains after the cotton is ginned, can be produced as the cottonseed oil which is used for cooking purposes after refinement like other vegetable oils, the cottonseed meal can be given to ruminant livestock.

The extra long staple cotton which is grown in Egypt is favored for the luxury and up market brands worldwide.

Major Cotton Producing countries in 2009:

TOP TEN COTTON PRODUCERS - 2009	
People's Republic of China	32.0 million bales
India	23.5 million bales
United States	12.4 million bales
Pakistan	10.8 million bales
Brazil	5.5 million bales
Uzbekistan	4.4 million bales
Australia	1.8 million bales
Turkey	1.7 million bales
Turkmenistan	1.1 million bales
Syria	1.0 million bales

Million Bales



Factors affecting Cotton Production

The major factors affecting the cotton production are:

Seed Prices

The Seed prices have significant impact on the production of cotton. Rise in the price of cotton seeds shifts the farmers to other cash crops, which will ultimately lead to the shortage of cotton, increasing the price. For e.g. in 2007 U.S. farmers planted 30% less cotton than in 2006 due to rise in the cotton grain price. Most of the farmers shifted to corn and soybean at the expense of the cotton for Bio-fuel production.

Climate

Climate is another major factor which affects the growing condition that vary from year to year, not only for cotton but also for other main crops. Nature is always an unpredictable component in agriculture.

Synthetic fabrics

Synthetic fibers such as polyesters are proving to be tough competitor which is putting more pressure on cotton demand. Many mills are shifting towards cotton/polyester blends which prove to be more durable and easier to maintain compared to pure cotton fabric. In year 2003 polyester surpassed cotton as most used fiber.

Cotton Price Volatility

The price volatility of cotton has remained a major concern within the world cotton community. The year to year cotton price movements have been large because of problems faced by some major cotton producers. But history indicates that similar price movements have occurred in the past too. During 1984/85 cotton price dropped 26 percent and additional 20 percent in 1986, and then rose 56 percent from 1986/87. Cotton is the only commodity which experienced such volatility in comparison to other agricultural commodities.

Rejoice and Salvation in Trinity Services

Mercantile Exchange Nepal Limited (MEX Nepal) as a part of its Corporate Social Responsibility (CSR) is continuously contributing to the needy section of the society. For this purpose, on 21st January 2011, MEX Nepal made a charity to an orphanage "Rejoice and Salvation in Trinity Services". Rejoice and Salvation in Trinity Services is a non government orphanage which was established in the year 1990 at Bade Gaun, Jharuwarashi VDC-6, Lalitpur by Tika Ram Khati and San Devi Khati. Later on in 2002, it was registered in Social Welfare Council and CDO office in Lalitpur.

There are 7 board members who have been associated with the organization since 2002 and most of them are social workers, teachers and business women. The main objective of this orphanage is to raise orphans, semi orphans, abandoned and poor children, by providing fooding, lodging and free schooling. The vision of the organization is to expand the orphanage by giving priority to the children. Currently the orphanage is looked after by Mr. Suresh Kumar Khati (son Tika Ram Khati and San Devi Khati) and he has been actively involved in the promotion and handling of the Rejoice and Salvation in Trinity Services.

MEX CSR

There are currently 50 children and five single mothers residing in the orphanage. Similarly, 6 other orphans are living outside the orphanage under the sponsorship of this orphanage. These children have mostly come from underprivileged backgrounds and are either orphans, semi orphans or abandoned and belong to different castes and cultures. Along with taking care of the orphans, Mr. Suresh is constantly involved in free medical awareness in the remote village. Recently Mr. Suresh along with his team had run a medical camp in Sukurali VDC in Rupandehi.

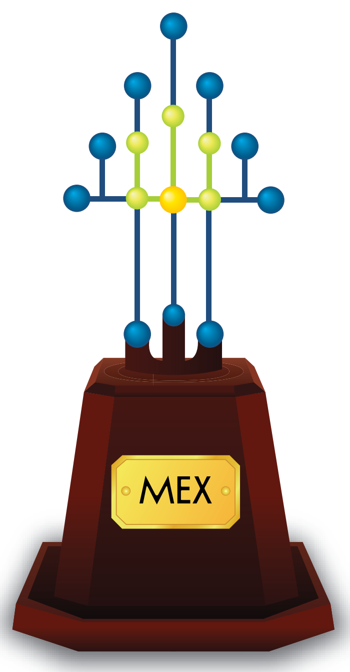
Mr. Suresh is also planning to construct a dormitory and wants to expand the capacity for 200 children in 5 years. But the major problem of this orphanage has been and still is the lack of financial backup and lack of donors. Likewise, the orphanage has not received any support from the government either. Due to lack of fund, the orphanage is constantly facing difficulty in meeting the daily expenses that ranges from Rs. 12,000 to Rs. 16,000. In addition to basic needs, they also face problems in purchasing school bags, books, school shoes and fees for the children.

Apart from these constant difficulties, some of the children from the orphanage have graduated and ventured out in the real world working in different sectors. "Most of the children's performances in terms of educational and social adjustment have been very good", added Mr. Suresh.

MEX Nepal values the concept of Corporate Social Responsibility (CSR) and it has gone a step further in its initiative of CSR by being the first organization in Nepal to help the orphanage home.

Rewards Galore 2011

MEX Nepal Ltd, the leading Exchange in Nepal, holding its firm ground by completing its 2nd year of successful business, has introduced a "Rewards Galore 2011" to reward its members for their continuous efforts and dedication.



The reward is based on the following criterias;

- Top Number of lots
- Top Number of clients introduced
- Top Number of AE/ Registered Users introduced

For the month of January, the reward was given to NCM No: 62
"WISE INVESTMENT PVT LTD"

Wise Investment

For the month of February, the reward was given to NCM No: 02
"JAMBHALA INVESTMENT"

Jambhala Investment

For the month of March, the reward was given to NCM No:02
"JAMBHALA INVESTMENT" again

Core Data Center Established in Nepal

MEX Nepal has now established its "Data Center" inside the country on 19th February, 2011 with a motive to provide its customers with impeccable connectivity and services, ensuring zero downtime during unforeseen problems on the international internet gateway.

New Products- Platinum, Palladium along with Small Gold

MEX has launched new products i.e., Platinum, Palladium and Small Gold to give more trading options for traders, effective from 22nd February, 2011 totaling to 16 commodities and 21 contracts all together in the MEX platform.

For complete information please refer to the updated contract specification @: www.mexnepal.com under Contracts tab.

Trade Verification for registered clients

MEX is the only exchange in Nepal to have the feature of Trade Verification for registered clients with a facility to verify their settled trades on the MEX website for further transparency in the marketplace.

MEX Year Book

Giving continuity to being the only exchange in the country to come up with creativity and innovation time and again, Mercantile Exchange Nepal became yet again the first exchange to bring out the MEX Yearbook. The purpose of the yearbook was to create brand awareness for the organization. Likewise, the second purpose was to educate the novice market in all the different facets associated with commodity futures and to draw in opinions from various experts in different fields.

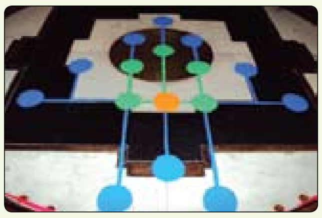
MEX introduces Premier Clearing Services Pvt. Ltd. as its 3rd CM

On 18th January, 2011, MEX Nepal introduced Premier Clearing Services Pvt. Ltd. as its third Clearing Member. This was done to provide additional liquidity to the market participants. By doing so, MEX Nepal became the first and only one exchange to have 3 clearing members.

Member Education Kit

The member education kit is DVD package designed to assist clients and members of MEX Nepal to help them understand and learn to use the Traders Work Station (TWS), MTWS and Web Admin along with the procedures of grievance handling, and compliance. It includes complete training tutorial with voice-over, explaining the use of each and every components of the software used for trading. This education kit is developed for proper understanding of the trading platform by all the MEX market participants – Members, Clients, and Registered users.

MEX Highlights










Hot Blooded Commodity: Silver

Silver, with its small market size and timeless speculative appeal has long been one of the most volatile of all the major commodities. Being the market leader in the intricate volatility for this market, Silver achieved 83 percent price increase in 2010, while gold added 28 percent only. Silver bullion is being increasingly accumulated by savvy investors around the world. It has taken a back seat in the popular precious-metals consciousness. Be careful with silver futures when going on overnight. In recent days, silver is making very big moves from one day to the next. It doesn't take much capital to move silver since its market is so small and speculators flock to this volatility. Silver is very useful precious metal for these fields; Coin production, Industrial, Photographic film, Electronic devices and course jewelry etc. Thus, symptoms of recovery in world economy may be helpful for silver prices to boom. Silver supplementary benefited from precious metal based fundamentals like Volatility in the Dollar index, Inflation, European Debt crisis and earnings report of major companies in 2010. The fundamental reason for investor's bullish outlook on silver is due to continuing and increasing global macroeconomic and geopolitical risks; silver's historic role as money and a store of value; the declining and very small supply of silver; significant industrial demand and most importantly significant and increasing investment demand.

The rocket-like performance of silver in recent days is attracting global investors as a safe haven investment. Currently precious metals are performing well on Geo-political tensions from Egypt to Libya. Going into 2011 many of the large trading firms are expecting another good year for commodities. The markets certainly have the momentum but there are many variables that could make this an even more volatile year for commodities especially silver. We should assume that gold and silver will both appreciate again in 2011.

After all, nothing has changed. The reasons that have been driving the metals higher all decade long remain in place. Governments and Central banks are pursuing policies that are destroying the purchasing power of national currencies. Over the next ten years or more, metal prices are predicted to remain high. Silver medium term target may be at $40.00 an ounce for uptrend and at $26.60 an ounce for downtrend. This is mostly due to increasing demand from countries undergoing intensive levels of urbanization and infrastructure building. In particular China and India will drive the cost of metals across the board up. It is widely predicted by metal and silver markets analysts that silver stocks will go higher through 2011 and 2012, with prices increasing at a much sharper rate than was previously thought.

Lok Bahadur Shahi
Head of R&D
Wise Investment Pvt Ltd

Spot Exchange Vs Futures Exchange

Spot and Futures Exchange are the markets where global commodity and currency values (prices) are determined. These are dynamic markets because they are always moving, and the moves and trends are larger than we find in any other set of markets. The "spot" market is the cash market, in which the trading takes place in the current value (price) of the commodity that is trading right now. Most of these trades end up in physical delivery. A "futures" contract consists of a standardized agreement to make the delivery at some fixed upcoming point in the future at a rate determined by the market with a standard delivery date and standard contract sizes traded on a centralized exchange. A very small number of these trades end up in physical delivery

Spot Exchange

Little Regulation

Not limiting to Nepal but the entire world, it is still one of the least regulated markets, which really can lead to manipulation and risk. That means if the traders run into a problem with their account, they really have little or no recourse because there is no one that 100 percent regulates the Spot markets the way there is with other markets. Therefore we have to make sure we know exactly where our account is actually being held. Whether it is being held at a large bank or some account and who else has the authority to operate it to ensure its security. Slowly, but surely, the Spot market is being regulated.

Brokers Trade against Clients

In Spot market the counterparty with whom we trade are the brokers. This means that our goals and their goals cannot be in alignment because we are trading against each other. In the global perspective the broker creates the spot market and not the exchange. There have been frequent instances leading to manipulation in turn resulting in less real trade volume in Spot Exchange.

No Commissions

Most, but not all, Spot Exchanges don't charge commission. Instead, they get paid on the spread. What they do is constantly make a spread that ensures they will profit from our trades. Often they widen the spread in the real market and create artificially wide spread to us and get paid on these spreads.

Huge Leverage

In Spot Exchange worldwide 400:1 leverage is not uncommon. Though this huge leverage exists it is not considered ideal. Leverage is a double sided sword and can work for you and against you. At MEX we have around 100:3 leverage.

Initial Margin

The margin for spot exchange is defined by the broker, where as the exchange defines the margin for futures.

Lot Size Flexibility

Spot exchanges are extremely flexible on lot sizes with availability of very small quantities. This is ideal for new traders and others having limited investment at disposal. The futures market generally has two lot sizes. A regular contract with a full-size quantity and a mini contract sliced down from regular one, that too only available on some commodities. Larger lot sizes can make money management in a small account extremely difficult and hence is an advantage of spot over the futures market.

Futures Exchange

Transparency

Futures markets are being operated by few but very large exchanges, such as Chicago Mercantile Exchange (CME Group). The CME Group is the largest exchange in the world and is the home of world futures market which is very well capitalized. These markets are exchange traded, which means one can see order flow, volume, open interest and outstanding orders. Spot exchange does not share that information.

Well Regulated

Most of the Futures market has multiple regulators, one from the commodity futures authority and the other from the security exchange. For the publicly traded company, another level of regulation comes in addition. However in the context of Nepal which of these authorities shall regulate these markets remain unanswered as yet.

Trades Matched on the Globex System

Commodity futures are traded on the Globex system, hence there is no broker on the other side of our trade. Instead, when we buy, our order is matched with a trader like us, not a broker or exchange. This leads to a very fair and free market. The Globex system is an order-matching system much like the NEPSE for stocks.

Purpose Based

Spot market looks at the short term implications of price movements. Traders who wish to speculate look at utilizing this financial instrument. Futures are designed to be used for hedging purposes against real trade.

Trading Times and Markets

Traders trade the Spot market at all hours of the day and night. Where as the higher-volume traded time in Futures is the U.S. day session, from early in the morning until approximately 2:00 p.m. Central Time (GMT -6hrs). Outside those times, a substantial drop-off in volume occurs.

Variable Spreads

Most of the Futures market does not have fixed spreads. Depending on the liquidity of the market at the time, the spread can be one pip or less or up to three pips. When the spreads are not fixed and created by the exchange it is easy for them to make money and impossible for the traders who are trying to make their fortune in few pips.

Summary

Considerable risk can be attributed to both markets due to leverage. Spot exchange allows for greater pricing transparency. Futures pricing can be quite complex and detailed determining the time, risk and interest rate factors. Both the Spot and Futures market experiences large moves almost daily. That means very frequent trading opportunities avail in both the markets. Every trader should realize that trading cost differences are not just limited to paying commissions but also includes spread, and interest premiums or charges. Although the charts and the trading opportunity in both the markets look identical, these two markets have their own characteristics and pros and cons.

Shashi Raj Bajracharya
Director
Futures Fortune Pvt Ltd

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