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AN ISO 9001:2008 CERTIFIED EXCHANGE

MEX EXPRESS

A Smart Solution for Online Trading

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From the CEO's Desk

Preserving Market Integrity

"True freedom is not absence of structure …. But rather a clear structure that enables people to work within established boundaries in an autonomous and creative way"

- Erich Fromm

Nepalese Futures markets have a history of self-regulation. The extensive rules and regulations of the exchanges are designed to support competitive, efficient, liquid markets. Exchange rules and regulations cover many aspects of futures trading – from contract specifications to trading practices to arbitration procedures.

The current scenario in the Nepalese futures market looks even worse than a rat race. This is not how the market should be developing. Systematic development of this market is very important for a long and steadfast growth. And also all the concerned stake holders of this market should follow core values of this business and also make sure their business associates are following this. Unless these values are given importance, it's not long that the commodity markets industry will lose its charm and also the market participants may not be happy to be part of these markets which are highly regulated in the countries, where these markets originated from.

Of course any market will take its course and transformation for its development but it needs to be systematic and the standards should be followed by all the exchanges in the country and should not be flexible as per the whims and fancies of the exchanges.The quality of the market participants will also deteriorate and in the long run the market place can turn out to be substandard with no values in the eyes of the market participants. The current scenario tends to ruin the whole industry where the new market entrants seem to resort to all substandard methods which is not at all in the long term sustainability of this industry and it should be stopped and they should also move to the standards which was prevalent in the market prior to their entry.

When there is no regulation, it's the stakeholders who have to be much more vigilant and careful in their operations and also in the best interest of the long term sustainability of these markets.

Let's not ruin this market with unhealthy market practices in the name of competition as its prevalent now.

- Jitesh Surendran
CEO
MEX Nepal

A Journey back to Future

Erratic are the mysteries of time and more inconsistent it will be for none of us have seen the future. Future- the one that is built with a series of all elusive and ineluctable process, the process where present becomes the past and the future is derived itself from and within the past. Even the greatest of creation seems handicapped to get a glimpse of the future. Dreadful may have been the deeds of futures in the past but what will it be like? Confused are the participants in futures market I believe. There is a horizon to be explored, a journey to be made and a destination to be reached. The nights are far spent and the days are at our hand; let us cast off the deeds of ignorance and put on the amour of awareness for it is the one that will truly enlighten the journey ahead. Like all the old beginnings, the pre-writing phase of mine was no different. Certainly the thought to jot down views about the volatility ruled market is itself highly volatile. So, here I have just tried to share some views about the most probable scenario of futures market in future. Thus, I come up with a journey back to future. You! Who my concerns are dear readers; all my dedications are to you.

Futures market – a platform where traders put their hard earned money, where they get sleepless nights just to see their trade in profit; has with no doubt presented the Nepalese economy with genuine investment opportunities and large number of participants have benefited from this opportunity. But not to forget, like every coin has its two sides, threat accompanies opportunity like a night follows a day. Obviously, times are not always in favor of the investors and these are the times they loose. Like it is said, history speaks for itself, the failure in the future market in past were because of the negligence of the traders who consider the market as gambling centre and treat it as ***"Satta"*** markets. Trends changes instantly and it requires adequate analysis rather than just a casual guess. Futures are not failures for it moves on its own and forecasting it accurately has never been so accurate.

To accurately portray, the overall economy of the nation is adversely affected. Stock market are on its historical low, banks and financial institutions are unable to make proper utilization of their deposits, the manufacturing industry are unable to operate to its optimal level and the real estate's lack the raw-materials to add an additional storey to their heights. The political scenario has handcuffed the growth of the economy leading to declining confidence among the investors. Well, commodity market is not an exception though. The main factor affecting it is the delayed regulation. Proper regulation of this sector will definitely enable fair market competition, price discovery and price information dissemination of commodities. This certainly will ensure participation of various sector of the country in this market and maximize opportunities for all. Whatever has been the past, the future markets has good potential in its journey ahead.

When history shows various sectors in an economy are failing, commodity market seems flourishing even during those times. This is just an instance. Let us take the example of S&P degrading the credit rating of US from AAA to AA+. Its immediate effect showed huge investment shift to commodity market. Future market provides itself with lot of opportunities. Derivative market is still a good way to balance short and long term investment. You can diversify your investment portfolio through derivatives.

A country where futures market is still developing has been largely affected by traders' psychological, economical and social aspects which have hindered its growth. It seems the people still have a long way to go on this market. Futures markets are for risk minimizing but people here are using this market only for speculating. We can now see the concern of futures exchanges being focused on the commodities available locally which is slowly shifting the trend of the futures market. This helps traders actually transfer their risk through hedging and it is also making the country resourceful. The market has lately but slowly been employing nation's local resources. People should still be made aware about the opportunities of these markets and the role it can play in an individual's and a nation's economic elevation.

The future will be very different of course, when there will be a guardian; a regulator, when exchanges and its participants will enjoy the benefits of fair competition. ***"A big part of financial freedom is having your heart and mind free from worry about the what-ifs of life"*** states **Suze Orman.** Well the author states it truly because one can never grab an opportunity in a state of dilemma. It's now high time to wake out of sleep, for now is our salvation nearer than we believe because as you sow, so shall you reap. Make decisions wise, don't let yourself ruin by rumors for the roads have been built, the tracks developed and the goals set for a journey back to future. Wish you a successful journey ahead!!!!

Bikash Bhagat
Assistant Manager
Business Development
Department, MSD
MEX Nepal

Most Popular Blog

Silver: The Investment of this Decade!

Some analysts opine –If gold was the investment of the last decade then silver could turn out to be the investment of this decade. Analysts hold the fundamentals responsible for this turnaround. The gold/silver ratio at the current moment is 50:1, which means that investors are buying 50 ounces of silver for every ounce of gold. Not only that, there is nowhere close to as much silver available for investment as there is for gold.

For the full version of the blog, please follow the link:
http://www.mexnepal.com/blog/blog.asp?cudate=2/16/2012

Posted on: February 16th, 2012
Total Views: 10
Total Comments: 1
Start Blogging-Say it Loud

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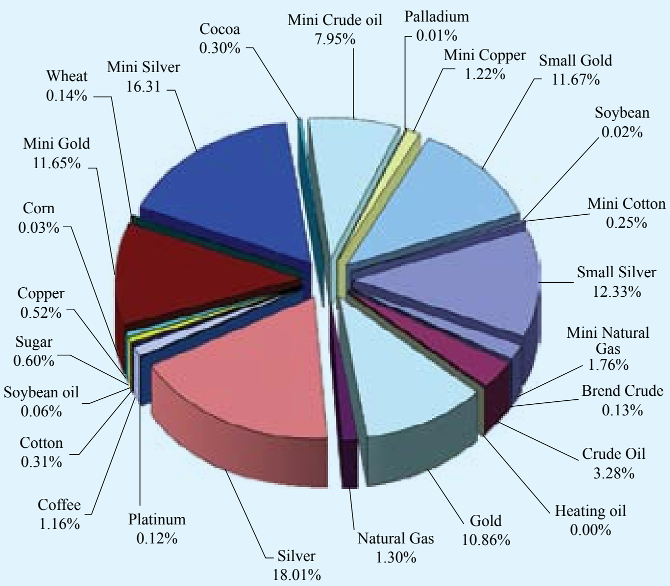
Mail your contents to media@mexnepal.com
So start blogging and learn to market your company

Market Capitalization

From January 2012 - March 2012 (in %)



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

Know Your Commodities

Copper

The name of copper is derived from the Greek word "Chalkos". Copper possesses a wide range of properties that make them invaluable for many applications. Copper has a remarkable combination of properties. It is a good electrical and thermal conductor, thus is used in many electronics and related devices. Similarly, copper is used to create alloys in combination with other metals like zinc, bronze, aluminum etc. Copper metal have been in use for thousands of years. The early decades of the 19th century saw the foundation of the Electrical age and thereafter the demand for copper increased tremendously. Britain was the major producer for much of the 19th Century but new mines were opened up in the USA, Chile and later in Africa. In 1911, the world's output of copper for the first time exceeded million tons per annum. With the increase of industrialization, new important uses were found for copper. Most copper one is mined or extracted as copper suffides from large open mines. Chile is the top mine producer of copper followed by the USA, Indonesia, Peru and China. World's copper production is expected to remain in deficit in coming years due to the high demand from major consuming countries like China, US and Europe.

Some Facts about Copper

- Major copper consuming countries include China, USA and Europe.
- Copper cookware is the most highly-regarded by the world's chefs. It has the best

heat transfer of any material used in cooking, and as heating is uniform there are no hot spots.
- Copper comes second in the list of metals with the highest electrical conductivity.
- Copper is one of the earliest metals to be used by humans. It was probably first used in 8000 B.C. by people living along the Tigris and Euphrates rivers in the Middle East.
- As of 2005, Chile has been contributing one-third of the world's production of copper.
- Copper is one of the most widely recycled of all metals. Approximately one-third of all copper consumed worldwide is recycled.
- Supply disruption is correlated to be low in copper since it is globally dispersed.

Fundamental Factors affecting Copper Prices

- Major copper consuming countries include China, USA and Europe. Any major news regarding copper demand from these countries affects the price of copper.
- Copper is commercial metal which is used by housing, automotive and electrical industries. So its demand is affected by the general state of major copper consuming economy. For example: in the time of recession the demand for copper went down which generally pressured the price of copper to low levels. Similarly in times of economic growth, demand generally gets high and so does the price of copper.
- Also some of the other key factor regarding the price movement of copper is related to the supply side. Any major data regarding production from major copper producing mines in countries like Chile, USA, Peru, Indonesia and China.
- As copper is produced in most parts of the world. There are numerous factors that can affect production and prices. In North and South America, production is often affected by labor unrest while in parts of Asia and Africa. It is affected by political unrest.
- Weather conditions also contribute to price change with floods and droughts affecting production and transport of copper.

Copper @ MEX

- Copper Regular and Copper Mini are two of the contracts available for trading in copper.
- The highest and lowest initial margin for regular copper has been Rs. 37,000 and Rs. 25,000 respectively. Likewise the highest and lowest Initial Margin for Mini Copper has been Rs. 20,000 and Rs. 15,000 respectively.
- Copper is the only base metal available for trading in the MEX terminal at present.
- The most traded copper contract is the COPJUL10 contracts with 8,828 lots being traded.

Top 10 Copper Producing Country of 2010 (in'000 metric tons)

Country	Production
Chile	5,427
China	1,247
Peru	1,136
USA	873
Australia	872
Indonesia	622
Zambia	808
Russia	622
Canada	478
Kazakhstan	434

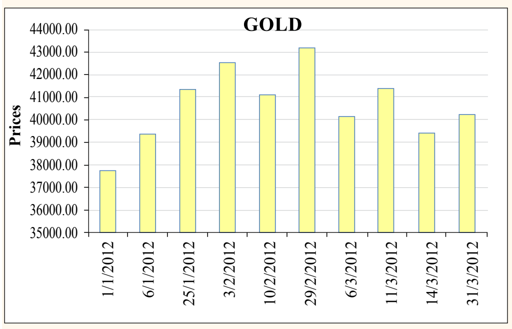
Major Exporters & Importers of Copper (2009) & Trade Flows

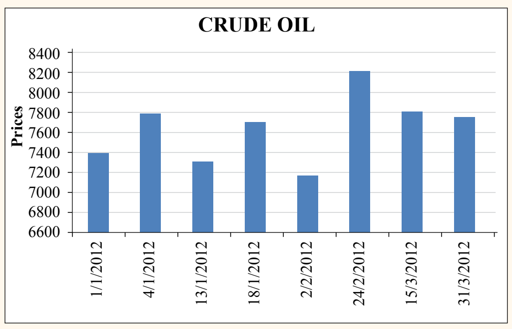
Exporters	Importers
Chile	China
Peru	Japan
Indonesia	India
Australia	Korean Republic
Canada	Germany
Brazil	Spain
Kazakhstan	Philippines
USA	Bulgaria
Argentina	Brazil
Mongolia	Sweden

CONTRACT SPECIFICATION

Name	Copper
Symbol	COP
Contract Size	1000
Unit	Kg
Price Quoted	NPR/Kg
Trading Hours	03:45-02:45
Quality	ASTM B 115. Grade 1 Electrolytic
Contract Months	March(H), May(K), July(N), September(U) & December(Z)

Major Market Movers for Gold and Crude Oil (1st January, 2012 - 31st March, 2012)





Note:

Date	News
1/1/2012	Opening Price as of 1st January 2012
6/1/2012	Escalating Tensions between Iran and the West
25/1/2012	Fed Projects short-term interest rates to stay near zero until 2014
3/2/2012	Bernanke's Weak Economic Outlook
10/2/2012	Strong US Economic Indicators & Moody Downgrading Italy, Portugal, Spain and the UK
29/2/2012	Downbeat assessment of the US economy and unemployment situation by Bernanke & ECB's LTRO Announcement
6/3/2012	European Debt Crisis & Strengthening of US Dollar
11/3/2012	Greek government announced an excellent take-up of the proposed deal
14/3/2012	Favorable FOMC Statement & US Bank Stress Results
31/3/2012	Closing Price as of 31st March 2012

Note:

Date	News
1/1/2012	Opening Price as of 1st January 2012
4/1/2012	Positive sentiments & geo-political concerns over Iran
13/1/2012	S&P downgraded the sovereign ratings of nine Eurozone countries
18/1/2012	Positive German ZEW survey and Chinese data
2/2/2012	Increase in DOE Crude Oil Inventory
24/2/2012	Driven by bullish economic data and fears over supply shortages
15/3/2012	Reports of refinery shutdowns & increase in DOE inventory
31/3/2012	Closing Price as of 31st March 2012

TRAINING PROGRAM TO SEJON MEMBERS



LAUNCH OF MEX YEARBOOK 2011


Training program to SEJON members

With a motive to enhance the knowledge of economic journalists of Nepal regarding commodity market, Mercantile Exchange Nepal Limited (MEX Nepal) organized a two day training program to the Society of Economic Journalists - Nepal (SEJON) on 9th and 10th January, 2012 at Union house, Anamnagar. On this occasion, Mr. Dipendra Khatiwada, Managing Director of MEX Nepal expressed his concerns regarding how the news about commodity futures market can lead to the long term development and influence the government to proceed with the establishment of regulation for this market. The Society of Economic Journalists - Nepal (SEJON) were delighted to see MEX Nepal organizing such training program which helps developing knowledge about commodity market among the economic journalist and the general public.

College Campaign

Continuing its effort to create awareness amongst people regarding commodity market, MEX Nepal has successfully conducted its training program in Liberty College. The training constituted the basics of derivative and trading mechanism of this market. MEX Nepal believes that such campaigns will help the participants explore the opportunities of this market and provide them a platform for career development thereby leading to the expansion and development of the market.

Reward's Galore 2011

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:		
January, 2012	February, 2012	March, 2012
Common Wealth Investment Pvt. Ltd.	Kohinoor Commodities and Investment Services Pvt. Ltd.	Simrik Investment Pvt. Ltd.

Launch of MEX Yearbook 2011

After an overwhelming response to the first edition, MEX Nepal proudly launched the second edition, MEX Yearbook 2011 amongst an impressive gathering in Union House, Anamnagar on 20th March, 2012. The dignitaries for the occasion included the Chairman of SEBON, Mr. Bauram Shrestha, who officially launched the MEX Yearbook 2011. In his speech, the Chairman re-affirmed that SEBON is finalizing the draft for the regulation of the commodity markets which will come into effect very soon. Mr, Jitesh Surendran, CEO of MEX Nepal, thanked the dignitaries and the media personnel for gracing the occasion and also put forward his views on the market outlook.

MEX CSR

MEX Nepal as a part of its Corporate Social Responsibility is continuously contributing to the disadvantaged section of the society. MEX Nepal has made supportive charity to a bunch of organization during the first quarter of 2012.

MEX Nepal has extended its helping hands to Social Welfare Center at Pashupatinath Temple, Kathmandu during the month of January, 2012. The company donated The Social Welfare Center blankets worth Rs 1, 20,750/- In continuation with its social activities; MEX has provided grocery worth Rs 20,000/- to the needy orphans in Rasuwa Langtang Liring Anath Sanstha which is located in Sanothimi, Bhaktapur. Another major contribution that led MEX to new heights was its sponsorship of Rs. 10,000 granted to Mr. Vinayak Jay Malla for climbing Lord Baden Powel Peak.

Nepalese Commodities Market-Theory Vs Practice

Commodities derivatives market of Nepal has already celebrated more than a half decade in Nepal. The progress which the concept achieved and the popularity that has been prevailing is due to the numerous uses of derivatives like hedging, arbitraging and speculating, which could provide not just the platform to minimize the risk, but also make income. The concept though in its advanced stage worldwide, is yet in the raw form observed in the Nepalese market. The introduction of the concept of derivatives worldwide primarily being for the hedging purpose, soon unleashed it in other arenas like speculating and arbitraging in original.

Nepal is an economy too small and too vulnerable- in the sense that it is affected by even smallest fluctuations in its neighboring economies and by tiny changes in the geo-political existences. The Nepalese economy adopted the introduction of derivatives concept (except for forwards) for the primary use of speculation. It has been advocated that the mere use of speculation in the derivatives market is not beneficial and economies like USA has barred its purpose for the same. The use of derivatives market is to leverage the economy in several ways than just to decentralize the savings from individual pockets, create small amount of employment and revenue generation for the government which is easily deliverable through other business services as well.

The commodities exchanges are the backstage to explore and implement the proper and pure meaning of derivatives market including the speculation. It is believed that commodities exchanges should primarily focus on price discovery and not price determination, price risk transfer and price information dissemination. But this is to be self assessed by the economy, exchanges and stake holders if such are being catered in actual practice. It is not being tried to advocate here that the exchanges should be there for physical only. The size and nature of the economy might not yet be in the advanced stage to afford that. While Nepalese exchanges have shifted from the financial futures to the spot trading, some exchanges have been doing research to introduce Nepalese agro products in the electronic trading platforms.

It is not that only exchanges should put in efforts and resources to introduce the agro-economy in the electronic platforms for the scientific and systematic price discovery to enrich the economy from the grass-root level (producers), but also would establish a system for Nepalese produce to have a scientific, non-monopolized and reasonable price. The unified efforts of the government, local authority, prevailing exchanges, stakeholders of the market and others should join shoulders to achieve the exchanges for physical in a smooth and planned manner.

The Nepalese derivatives market is leaping forward but with the disclosure of risk management mechanism and justified check and balance to its in-house and external stakeholders, it would remove further road blocks in the journey. The situations where the exchanges are proclaiming to be real exchanges by just providing a platform that executes an order instantly should disclose the reference quotes source.

There have been track records of some exchanges being gone into solvency or tending for such, causing the default not only in the payout of the profits and brokerage commissions, but also in the deposit aspects of the client due to the lack of risk management and self monitoring mechanisms. It is also the lack of regulatory authority that such conditions have emerged in the Nepalese derivatives ecology. The rise of questions in the practice of few exchanges would not just put the questions in the actuality of other systematized exchanges but would doubt the benefit of the derivatives to the economy as a whole.

It is a matter of wait and watch for the market as a whole on how the commodities derivatives would be regularized by the government level, how the exchanges would self monitor themselves and more importantly how the economy would benefit from the introduction of derivatives in a long run. The need of today seems to be the unity to build the market and to teach the society of the benefits to the national economy, provided that the existence of the exchanges is for the betterment of the economy to act as a hedging tool coupled with the benefit arising from the arbitraging and speculating activities.

Paban Kumar Shrestha
Manager
Lloyds Investment Pvt. Ltd.

Risk Management and Position Sizing

Risk management is about how much funds are to be put into each trade, to ensure that you will survive the losing trades, and continue trading to make a return with your trading system. Similarly, position sizing simply tells you 'how much' or 'how big' position to take on the given account size. Position sizing can be the key factor if you stay in the trade whether your gains are huge or minimal.

Traders in the CFD market are losing money although they are aware of risk and reward in general perspective. Few traders care risk in terms of return and other different dimension like investment, risk appetite, market volatility, and support & resistance level while deciding position size.

Most of the traders are strategically unaware about what is risk management and how can they minimize risk with the help of position sizing. Although, there isn't any hard and fast rule developed, if we follow strategic components of position sizing, it may help traders to gain success while trading as mentioned below-.

Strategic elements of position sizing

Investment: Investment in derivative market is putting money into trading with the expectation of gain, that upon thorough analysis within an expected period of time. Return and risk both are higher compared to other investments. To minimize such risk and maximize return with the help of position sizing, following illustration will help us to understand.

Account size	Rs.200,000 (20% @200gm @ Rs.5000 on XAU)	20% of trade value i.e. Rs. 10,00,000 X 0.20 = Rs 2,00,000
Lot size	200gm	Based on account size
Acceptable loss per trade (5%)	Rs.10,000 (variable)	Avg. fund in risk with each trade
No. of trades	20 trades/quarter	
Risk reward ratio	40:60 (To target 60 point profit, risk (loss) should not be more than 40 point)	If acceptable loss is Rs. 10,000 (5% of Rs. 200,000) then anticipated profit will be Rs. 15,000 (Rs. 10,000/0.40 X 0.60)
Profit	Rs.15,000 X 10 = Rs.150,000	If chance of winning and losing is equal
Loss	Rs.10,000 X 10 = Rs.100,000	
Net Profit	Rs.50,000/quarter	
Return	100% per annum Gross	

Note: Commission charges and tax are not included in this calculation

The table presented above depicts, while trading in 200 grams of gold, it costs around 200 X Rs.5000 = Rs.10,00,000 in physical market. But, if you want to trade in CFD, 20% amount of 200 gram gold, Rs.2,00,000 is required. While selecting the lot size one should always take care of account size and should not be less than 20% of trade value. If so, you can take the risk of 5% where you can trade at least 20 times (round figure) with 40:60 risk reward ratio which will give you Rs.50,000 in equal win/lose condition i.e. if same tested strategy is followed by the trader. If you are able to make 20 trades per quarter and make Rs.50,000 gross profit per quarter, your gross return will be Rs.200,000 per annum excluding commission and tax. For this statistically,

- Traders should be unbiased.
- Maximum number of transaction will help to meet equal chance of success and failure.

While trading one should note that if trader analyze properly, success rate will always be at least more than 50%. Hence, more return can be expected than earlier.

Risk Appetite:

It is the level of risk that trader is prepared to accept. If any loss occurs during trading, other activities (financial, physical and social) should not be disturbed due to this reason.

Market Volatility:

Volatile markets are ones where the price moves vigorously and unpredictably. Some commodities are more volatile in character than others but volatility is mainly a varying characteristic that affects all markets at different times. Volatility is closely related to risk. The more volatile the market, the more risk is experienced while trading so it should be coordinated with other components of position sizing. If your risk appetite and investment can resist it, you can trade if not drop until market becomes favorable.

Support and resistance:

Support and resistance represents key junctures where the forces of supply and demand meet. While trading, traders should find out key support and resistance level for entry and exit points with consideration of risk reward ratio.

- Entry → Buy, Buy Limit, Buy Stop, Sell, Sell Stop, Sell Limit; and get quote.

- Exit → Take Profit or Stop Loss

This strategy is developed for both investors and traders to ease discipline in investment while trading. However, without proper understanding of the crux of this lesson, investors as well as traders are not encouraged to follow it.

Sudersun Paudel
Managing Director
Capital Market Solution Nepal Pvt. Ltd.

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