



Mercantile Exchange Nepal Limited

Invest - Trade - Earn

AN ISO 9001:2008 CERTIFIED EXCHANGE



Commodity *Insights*

Agro Commodities

Cocoa

Introduction

Cocoa is a highly demanded agricultural commodity, which is used to make chocolates and bakery products. It is grown especially in the warmest regions on earth within 20 degrees north and south of the equator. Most of the cocoa comes from African nations but origin of cocoa was depicted from the South American culture. Annually more than 3 million tons of cocoa is consumed around the world. The International Cocoa Organization (ICCO) provides the daily price for cocoa beans.

Fundamental Facts

- World largest producer of cocoa, Ivory Coast and Ghana are unstable countries. The political, social and labor issue regularly threatens to decrease and disrupt the supply of cocoa. Following news from these countries would help track the cocoa market.
- Black pod disease is the main threat to cocoa. A major outbreak regarding this disease can move the price of cocoa to higher level.
- Cocoa is strongly co-related to the British pound than the Dollar index because Britain has dominated West African cocoa industry.
- Global cocoa and confectionery industries are the key players which drives the price of cocoa.

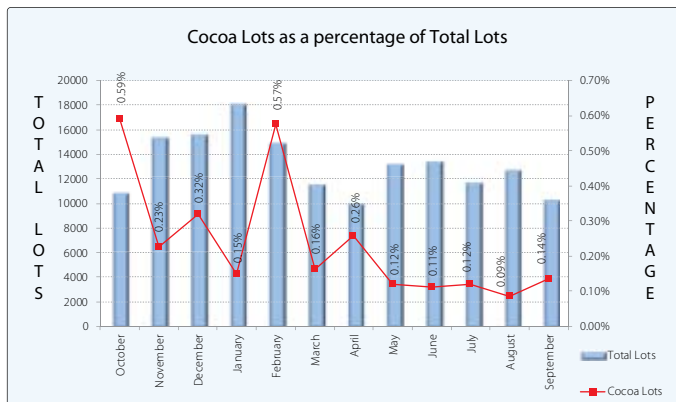
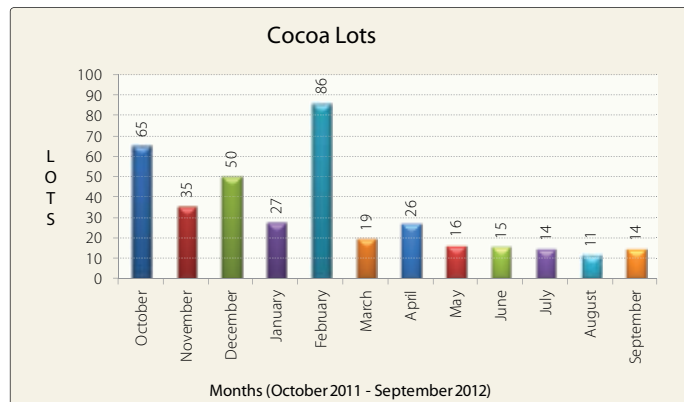
Explanation of Charts

A Cocoa trade at the MEX terminal remained very low during the review period as not even a single time the lot size had been able to cross the 100 mark in a month. The number of lots stood at 65 lots in the month of October, 2011 which was also the second highest in the review period. The price of cocoa futures was affected by the macroeconomic factor as European Union effort to solve the region's sovereign debt crisis triggered the positive effect in the price of most agro commodities including cocoa. This rise in the price of cocoa was followed by the lowest level of cocoa price in the previous months; which generated interest among the MEX trader to trade this commodity. However, the following months saw decline in the number of lots by 46 percent to reach 35. The month of November saw downtrend in the price of cocoa due to unresolved macroeconomic scenario within Eurozone and ample supply of cocoa from biggest producer of cocoa i.e. Ivory Coast and Ghana. However, this opportunity was not able to en-cash by the local trader as Eurozone scenario was confusing for the trader to make decision out of it. However, the lots size increased in the month of December, 2011 to reach 50 as cocoa price continued its downtrend due to news regarding the ample supply from North African countries.

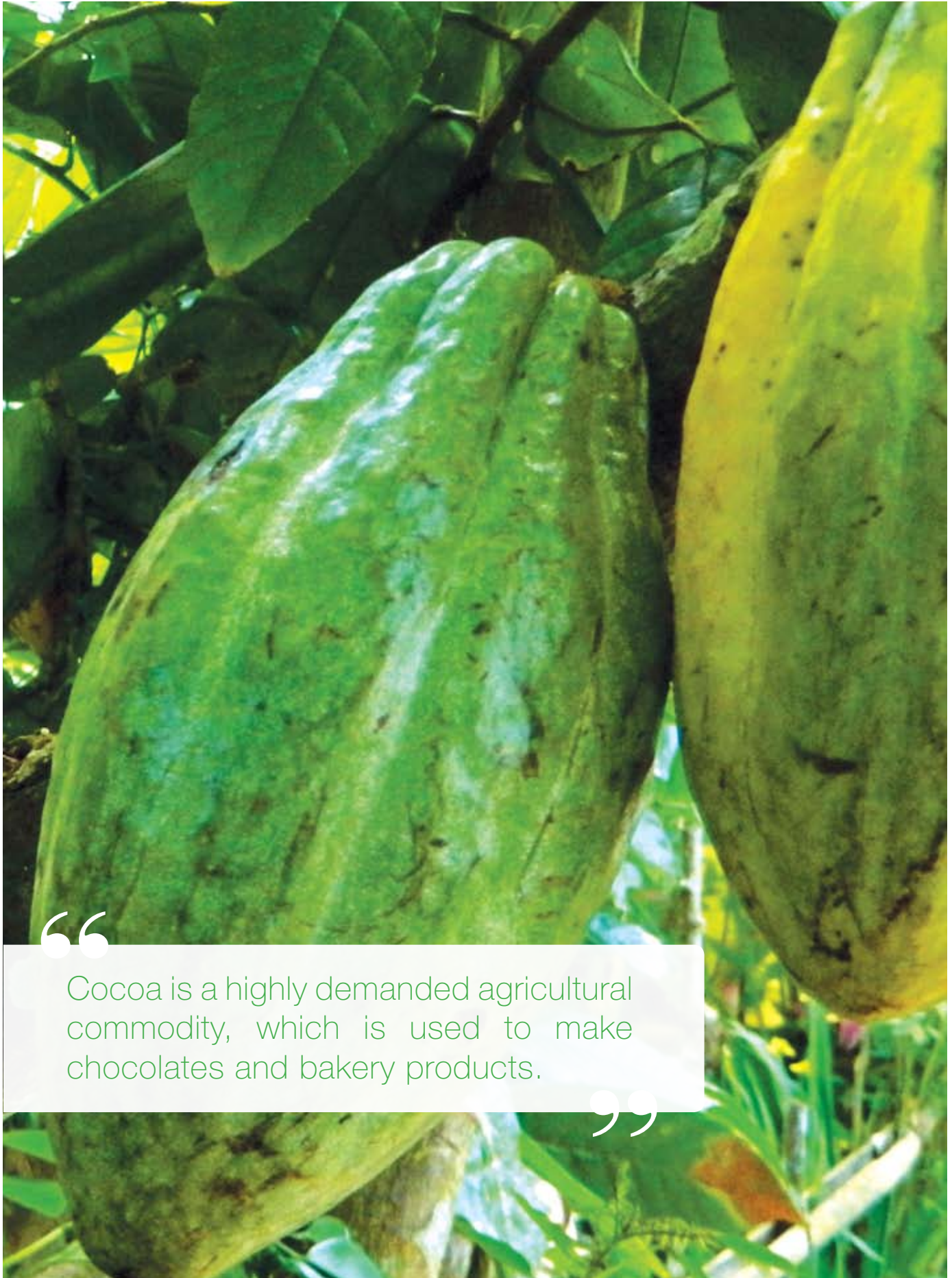
However, the irregularities in volume trend continued in the month of January, 2012 as the lots size declined by 46 percent to reach just 27 lots. This decline in the cocoa trade was due to mixed news coming out of the market where downtrend in the price of cocoa was followed by the dry weather conditions in the Ivory Coast resulting in confusion status among the MEX trader. The month of February, 2012 saw the maximum number of trade which was at 86 lots. This increase in the interest among the cocoa trader was due to the news regarding the end of boycott and agreement by the Ivory Coast exporter which resulted in the price decline and saw traders interested to trade.

The following months of March, April and May saw decline in the volume at 19, 26 and 16 lots respectively. The reason being the high volatility in cocoa price as market received mixed news. The favorable weather report along with smaller deficit in supply report makes the price quite volatile. Similarly, the rise in the USD along with unsolved European debt crisis affected the market. In these circumstances, cocoa traders at MEX terminal opted to stay away from the trading.

The number of lots kept on remaining at very low levels in the month of June and July as the number of trade were only 15 and 14 lots respectively. The price of cocoa in the international market in this period was on a bullish ride due to unfavorable weather conditions in the cocoa producing zone of North Africa. The weather condition was unfavorable due to low level of rainfall in Ivory Coast and Ghana. However, this bullish ride was not able to gain much attention among the MEX trader which saw them missing the opportunities. Similarly, the month of August and September also continued to see low volume as 11 and 14 lots were only traded on the MEX terminal as price didn't move in any particular direction during these period.



Commodity *Insights*



“

Cocoa is a highly demanded agricultural commodity, which is used to make chocolates and bakery products.

”

Coffee

“

The coffee in the world is grown in the bean belt. The bean belt is the region between the Tropic of Cancer and Capricorn

”

Introduction

Coffee, a soft commodity in current commodity market, was initially discovered in the 7th century and is now being produced by more than 70 countries globally. Coffee is also regarded as one of the important commodity and popular beverage where over 2.25 billion cups of coffee are consumed in the world every day. The major types of coffees that can be found at international markets are Robusta and Arabica, with the latter one believed to be of better quality compared to Robusta or any other coffees. Arabica, having bitter taste and fewer flavors, accounts for about 80% of all coffee produced in the world considering its popularity and demand internationally.

Brazil is the global leader in coffee production followed by Honduras, Colombia and Peru and the lead producer has been producing almost one-third of all worlds' coffee. Unprocessed or raw coffee are primarily supplied to multinational companies like Procter and Gamble, Kraft, Nestle, Sara Lee and other major related industries globally. Similarly, US, Germany and Italy are the top coffee consuming countries.

Regarding trading of coffee at international arena in future markets, New York and London are regarded as two major hubs for trading. However, considering the volume of coffee trading, New York Board of Trade (NYBOT) stands as a pioneer in trade facilitator.

Fundamental Facts

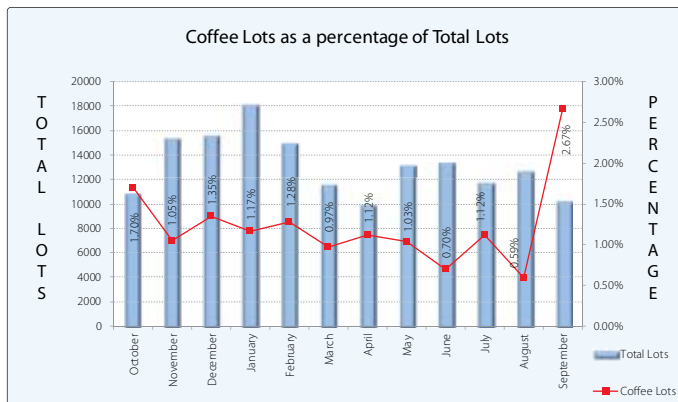
- Weather is the prime factor that affects the prices of coffee. Unfavorable weather conditions in major coffee producing regions/countries affects production, which eventually affects the prices.
- Supply/Demand fundamentals significantly determines coffee prices. Similarly, any major changes in cropping patterns as it is closely integrated with demand of coffee, drastically impacts the prices.
- All the coffee in the world is grown in the bean belt. The bean belt is the region between the Tropic of Cancer and Capricorn.
- Brazil and USA, being the major producer and consumer of coffee respectively, any major fundamental changes in these countries significantly affects the prices of this soft commodity.



Explanation of Charts

The lots of coffee traded in the month of October, 2011, numbered 187 i.e. exactly 174% more than the lots traded in the month of September, 2011. Unfavorable weather conditions in the major coffee producing nation, Brazil and hoarding of coffee by traders in the US in the month of October resulted in trending coffee prices and subsequently significant increase in the trading lots. The percentage of lots of coffee traded out of total trading lots stood at 1.70% in the month of October. Around the mid of November, with the continued European warehousing problem and with the news of increasing demand for Brazilian and Vietnamese coffee, both the lots and percentage of total lots of coffee for the month declined before gaining momentum in the month of December, 2011 with total lots of 211.

With the news of reduced output of coffee in Brazil and Vietnam by 10.3 and 5 percent respectively and forecasted output of coffee to fall by 4 percent for the year in the very beginning of the month of December, the speculators provided the momentum to the market and due to bullish market, buying pressure significantly rose the lots of coffee traded for the month and with continued thrust, the level touched the highest point of 212 lots in the month of January.



Commodity Insights



In the month of January, the market forecasted a record harvest for the year 2012/13 with harvest to begin from May, 2012. 49 to 52.3 million bags of coffee are expected to be produced this year, beating the highest ever production of 48.5 million of bags in the year 2002/03. Considering international market, the Nepalese market in the month of February traded the total coffee lots of 192, i.e. 20 lots down from previous month's figure. Similarly, March and April also showed declined trading volume with only 113 and 112 lots of coffee respectively. With the mixed market fundamentals like Arabica's biggest 3 days loss in almost a month time, rise in export of Cameroon Arabic coffee by 50 percent in the month of April and other production related news, the market remained volatile,

reducing the volume of coffee traded in these months.

With changing market fundamentals in the month of May like rise in Columbian coffee production and significant increase in demand of coffees by emerging nations or economies, the Nepalese commodity traders instantly reacted to these fundamental and traded bullish for the month of May, taking the lots traded to 137 for the month, higher than that of previous two months, making it 1.03 percent of total volume traded for the month. With a large portion of crop looming from Brazil and over worries on Euro zone debt crisis the Arabica futures dropped to a two year low point in the month of June, hitting the Nepalese traders, which ultimately dragged the trade lots to a meager volume of 94 for the month.

The polarized market fundamentals coming from European economy, Brazilian production data and international demand conditions for coffee left the coffee prices fluctuating in the month of July and August with trade lots of 132 and 76 respectively, before gaining volume in the month of September to a level of 277 lots, highest for the review period, representing 2.67 percent of total trade volume.

Corn

“

Corn is most important plant grown in US due to its high nutrition value and wide variety of uses.

”

Introduction

Corn, also called as maize, is one of the most important agricultural crops in the world. It is believed that it was first cultivated in highlands of Mexico thousands years ago. Christopher Columbus and his team took it to Europe and then it was introduced all over the world. There are various varieties of corn like – yellow, black kernels, red, pink and blue which are often spotted, stripped or banded. Corn is most important plant grown in US due to its high nutrition value and wide usage options. It is mainly used to prepare variety of foods (breads, muffins, cereal, popcorn, meal, corn oil, etc.). The usage of corn also expands to its use as sweeteners, alcoholic beverages, ethanol, etc.

Fundamental Facts

- Weather is an important factor for production of corn. Any fluctuation in weather condition like rainfall, temperature, soil moisture, etc. affects the corn supply. Likewise, natural calamities like floods, drought, earthquake, etc. affects its production which ultimately affects the corn prices.



Commodity Insights

- Any main event in major corn producing, consuming, importing, and exporting countries affects the prices of corn.
- Price fluctuation of substitute's products increases the demand volatility of corn which ultimately affects its price.
- Any major technological change or fungus & diseases during production, harvesting or distribution may increase or decrease corn productivity and supply which reduces prices of corn.
- The seasonal cycle of crop also affects its prices. For example, the price of corn tends to be lower during its harvesting seasons and higher at the time of sowing due to its tight supply.
- Corn is extensively used for the ethanol production; therefore demand of corn for the ethanol production also influences the price of corn. Ethanol has expanded its use as an alternative fossil fuel due to the hike in the energy prices; this has led to the increase in demand for the ethanol. Thus, ups and downs of the fuel prices also affect the corn prices.

Explanation of Charts

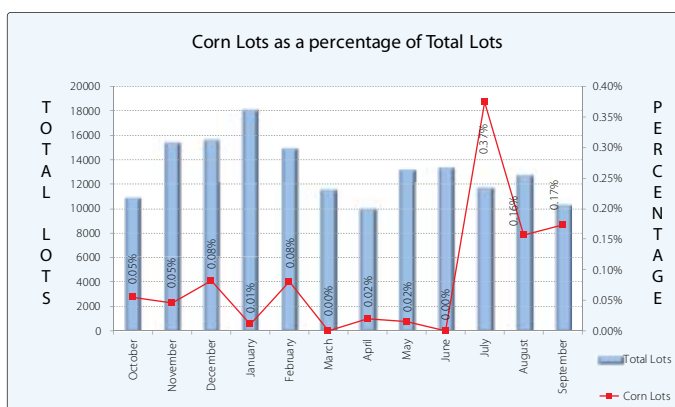
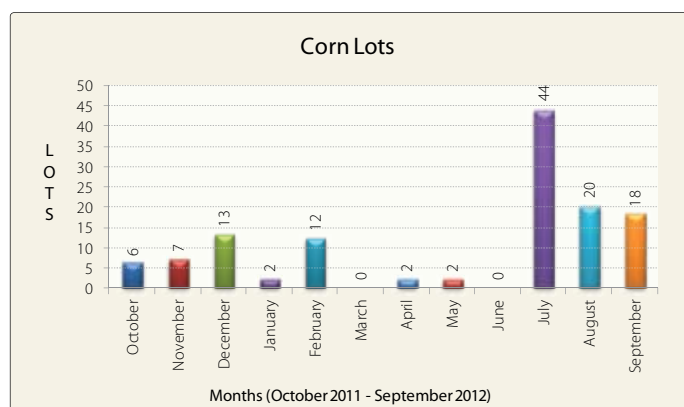
Corn was in a bearish trend during

September 2011 and the trend remained very similar in the month of October too. A little bit of hope was seen during the month. The trading of corn started with 6 lots in the month of October in the MEX terminal. European banks came up with a recapitalization plan to stabilize the weaker financial chain like Greece and Italy. This showed a glimpse of hope to the investors but really could not hold long. The trade lots increased to 7 lots to November, not a significant improvement as the dollar got strong and therefore the dollar denominated assets, commodities, came down. The US dollar Index rallied for most of the time in the year which brought the commodity prices down for the term. The trade lots further increased to 13 in the month of December. The positive job growth in USA and other encouraging economic data helped the price boost. Besides that, 5 central banks had added liquidity to the European market hinting some stability which also encouraged the investment.

Influx of capital from the hedge funds and other large speculators into the commodity markets decreased the trade lots to only 2 lots in the opening month of the year 2012. Drought effects got higher coming to the month of February and European Union also

showed scope of its crisis resolution bringing the trade lots to 12 in the month of February. March and June were the two months when there was no trade of the corn commodity in the MEX terminal.

April and May were the months with only 2 lots traded. The prices were low during this period as the USA and Europe were both slow and the US jobs data and the European Union drove money out of the commodity market. The month of July came up with the highest trade lots of the review period, 44. Quantitative Easing III and the coordinated interest rate easing in Europe and Asia helped the price of the commodity rise and encourage the investors for the investment. Trade lots again decreased to 20 lots in August owing to the USDA report which actually showed the corn yield to the lowest level which demotivated the investment in the commodity. The decrease in the trade lots continued in the month of September with 18 lots traded as the announcement of ECB also going for QE hinted the overall weak economic condition and moreover, the Nepalese financial market also went through turmoil.



Cotton

Introduction

Cotton is one of such commodities where more than 100 countries have cotton plantation but the production and the trade both are influenced by only few of the countries. Cotton is a perennial tree which is cultivated as the annual crop. It is a shrub usually found in the tropical and subtropical climatic zones of the earth. Cotton happens to be the world's most unique agricultural commodity traded as its uses are not only limited to the fibers but can also be used as food. Cotton, sun-lover and water-averter, is highly used as important textile fibers in clothing and household furnishing. Moreover, the byproducts which are derived from the cotton seed and stalks give us edible oil that is used for human consumption and also used to prepare a high-protein animal feed supplement. It would be interesting to know that the edible oil given by the cotton plant remains among top 5 most consumed oils in the world.

Fundamental Facts

- Used to produce many different textile products: towels, denim for blue jeans, socks, T-shirts, bed sheet, etc. their blend with other fibers give other qualities of clothes like polyester.
- Also used to make fishing nets, coffee filters, tents, explosives, paper, cottonseed oil, etc.
- Largest producers of cotton are China and India and most of their production is consumed by themselves in their textile industries.
- Largest exporters of raw cotton are United States of America (\$4.9 billion) and Africa (\$2.1 billion). The total trade of cotton in the world is around \$12 billion in 2011 according to Wikipedia.
- USA encourages its cotton growers in a highly subsidized rate of \$ 2 billion per year which is itself creating trade disputes among the producer nations.

“

The cotton seed and stalks give us edible oil that is used for human consumption and also used to prepare a high-protein animal feed supplement.

”

- United States-Brazil is a famous trade dispute under the Dispute Settlement Mechanism of the WTO for the unfair subsidies in cotton. USA was alleged of not abiding by its commitments in the Uruguay Round Agreement on Agriculture and the Agreement on Subsidies and Countervailing Measures. And surprisingly, the Dispute Settlement Panel in WTO ruled against the United States on several key issues of the case on September 8th, 2004.



Commodity Insights

Explanation of Charts

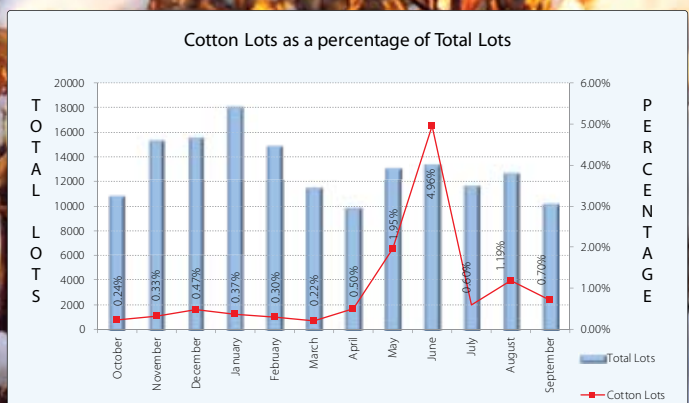
The decreasing trend that was observed in the later months in 2011 up to September continued in October also and the trading lots further decreased to 26 lots in October. The most probable reasons that drove the prices downwards were market uncertainty, price intervention by the Chinese government and spinner shifting. As the cotton commodity is very volatile, the investors were uncertain about the strength of demand in the cotton textile industry as the China Cotton Index had unexpectedly lowered down. Moreover, many spinners were turning to polyesters which also deteriorated the demand forecasts. Not a meaningful improvement as such was seen in November as the lots increased to 51 but the signals were good on the whole. There was emergence of aggressive offers of cotton in India which raised the expectations thus mildly increasing the trade lots. And the uptrend was supported by the increased pace of procurement for the storage in China. The trading lots further increased in December and reached 74 lots, most of it being in the short position as there were estimates of fall in the world production forecast. Coming to the end of the month, Trading Corporation of Pakistan well supported the market prices in Pakistan giving a glimpse of some bullish hope.

January did not show much fluctuation, with a slight fall of trade lots to 67, which indicated that the market was relatively stable. The supply and demand dynamics showed gradual shift in the positive direction. Cotton plantings reduced in China by approximately 10% reflecting higher production cost and similar condition prevailed in USA where plantings dipped by 5% to 10%. February showed a dip in the trade lots reaching 45 lots and the trend on the whole remained unclear still. The drop in the month was basically the wait for the new supply and demand outlook report. The slowdown in the cotton plantings also continued which resulted in the decrease in the hope. The trading lots decreased to 25 in the next month. In March, the prices still failed to break out from the trading range. The spinners were very cautious and reluctant to any rise in the merchant's offering prices making the overall market stiff.

April came up with some gain in the trade lots, just doubling and reaching 50, resulted by the limited movement that was seen in the new supply and demand fundamentals. The expectations of announcement of additional import quota also hiked the price supported by the uncertain Indian export policy. May showed up with more than five times increment in the trade lots in the MEX

terminal reaching 259 lots. The intentions of the Chinese government kept threatening the market with its upcoming policies and that resulted many anticipation in the market regarding the price volatility. There were forecasts of increased Chinese imports and the production status of Pakistan supported the bullish movement. June consisted of highest traded lots in the MEX terminal, 667 lots; the volatility of the cotton market supported that. The dryness in the North US pressurized the cotton production increasing its price and encouraging the long position sentiments of the investors. Cotlook Index for the month was very encouraging.

The trading lots came down again to 70 lots in July. Australia emerged into the cotton market as a new player affecting both production and consumption thus decreasing the trade lots again. August showed some considerable growth supported by the strong performance of New York Futures market again increasing lots more than double to 152. The strong grain and oilseeds market influenced the rise in the prices. Weather impact and the production forecast reports influenced more to the price hike. The market again slowed down in September and lots decreased to 73, one of the reasons being the current turbulence in the Nepalese financial market which was also supported by the export and import facilitations declared in the global conventions.



Mini Cotton

Introduction

Cotton is one of such commodities where more than 100 countries have cotton plantation but the production and the trade both are influenced by only few of the countries. Cotton is a perennial tree which is cultivated as the annual crop. It is a shrub usually found in the tropical and subtropical climatic zones of the earth. Cotton happens to be the world's most unique agricultural commodity traded as its uses are not only limited to the fibers but can also be used as food. Cotton, sun-lover and water-averter, is highly used as important textile fibers in clothing and household furnishing. Moreover, the byproducts which are derived from the cotton seed and stalks give us edible oil that is used for human consumption and also used to prepare a high-protein animal feed supplement. It would be interesting to know that the edible oil given by the cotton plant remains among top 5 most consumed oils in the world.

Fundamental Facts

- Used to produce many different textile products: towels, denim for blue jeans, socks, T-shirts, bed sheet, etc. their blend with other fibers give other qualities of clothes like polyester.
- Also used to make fishing nets, coffee filters, tents, explosives, paper, cottonseed oil, etc.

- Largest producers of cotton are China and India and most of their production is consumed by themselves in their textile industries.
- Largest exporters of raw cotton are United States of America (\$4.9 billion) and Africa (\$2.1 billion). The total trade of cotton in the world is around \$12 billion in 2011 according to Wikipedia.
- USA encourages its cotton growers in a highly subsidized rate of \$ 2 billion per year which is itself creating trade disputes among the producer nations.

“

Largest exporters of raw cotton are United States of America (\$4.9 billion) and Africa (\$2.1 billion).

”

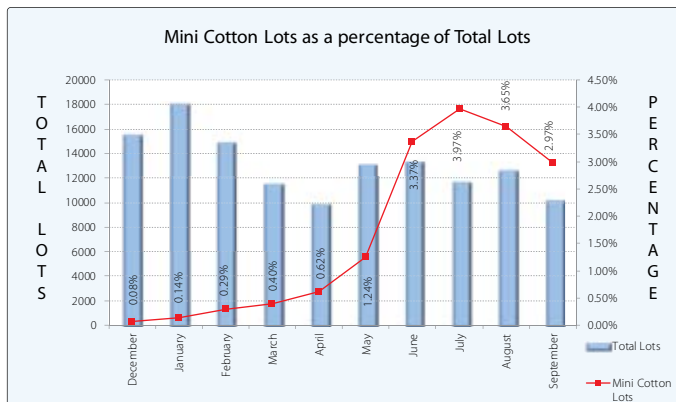
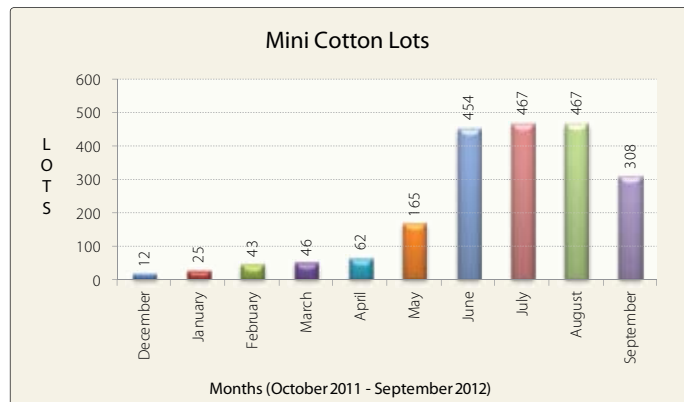
United States-Brazil is a famous trade dispute under the Dispute Settlement Mechanism of the WTO for the unfair subsidies in cotton. USA was alleged of not abiding by its commitments in the Uruguay Round Agreement on Agriculture and the Agreement on Subsidies and Countervailing Measures. And surprisingly, the Dispute Settlement Panel in WTO ruled against the United States on several key issues of the case on September 8th, 2004.

significantly as a result of the stable market. Some cautious optimism persisted in the market taking into consideration the trend in the previous months, all showing a positive direction of trading. Further increment in the trade lots were seen in February as the lots traded were 43 which mostly came in response to the awaited new demand and supply outlook report. The slowdown in the cotton plantings continued which also provoked the supply deficit thus increasing the price and the trade lots. A small increment

Explanation of Charts

No trade is seen from the graph below in the Mini Cotton up to November as the contract was launched on the MEX terminal only in December 2011. A total of 12 lots only got traded in this month as this was a newly introduced commodity in the market. Moreover, the month already had the projections of fall in the production forecast. The production forecast in India was also lower. Above that, the seasonal selling price did not emerge as an influencing factor like in previous periods.

The trading lots more than doubled in the month of January and reached 25. The cotton market was relatively stable in the month which increased the price modestly and ultimately the trade lots. Though it was high time for the harvest-time pressure, the pressure could not pull down the price



Commodity Insights

was seen in March as the trade lots reached 46. This, in no way signifies that the trend attracted any further investment from any investor. The sideways movement in the price trend resulted in the small movement in the price and the trade lots. India had suspended its exports during this period. New foreign investors introduced in the market who also took the cautious long positions which brought small price movement.

The increasing trend continued and the trading lots reached 62 in April which signified the decent increment in the interest of the investors in the cotton investment. Coming to this month, the substantial proportion of the world supply and imports remained in the hands of Chinese government who was in the position to announce additional import quotas which could hike the price and the trade lots. The

uncertain nature of the Indian export policy also played into the market sentiments of the investors in this month. May came up with the increment of more than twice in the trading lots and reached 165. The price intervention plan of the Chinese government and the forecast of the increased Chinese imports played a significant role for the increment. The trading lots in June also increased by more than twice and reached 454. For this increment, the encouraging Cotlook index played a significant role. The dryness in the North US stimulated the price rise and subsequently the rise in the trading lots.

July and August remained with higher but equal trade lots of 467. This increment was a result of decreased production due to the civil war in Ivory Coast and the market was also supported by the strong performance of

the New York futures market. The weather impact and the production forecast also stimulated the price rise in the market. Though the business confidence among the investors remained fragile, the trading lots did not make it appear. A slight trade lot decrement to 308 in September was due to the provoked domestic news scandals in the country though the import and export facilitations were declared in the conventions globally.



Soybean Oil

Introduction

Soybean oil is widely used oil and is commonly called 'vegetable oil'. Soybean oil is a very healthy food ingredient despite the bad publicity regarding fats and oils in general. Soybean oil is very popular because it is cheap, healthy and has a high smoke point. Soybean oil does not contain much saturated fat. Like all other oils from vegetable origin, soybean oil contains no cholesterol. Saturated fat and cholesterol cause heart diseases and are mainly found in products from animal origin such as milk, cheese and meat products.

“

China is the world's largest and the Indians are the second largest importer of Soybean oil

”

Commodity Insights

Fundamental Facts

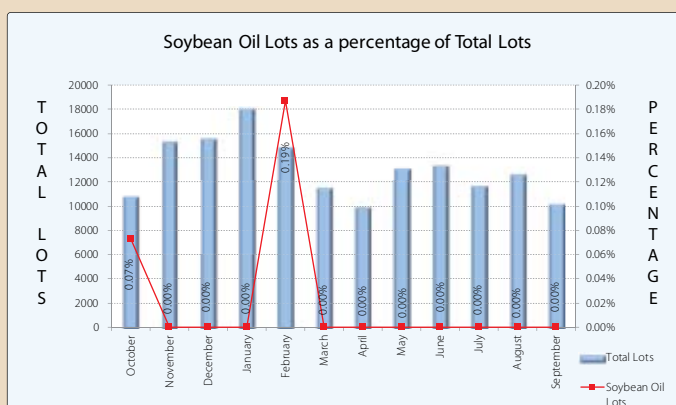
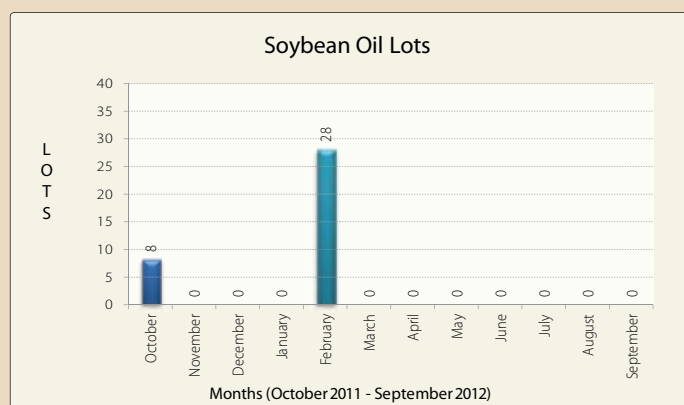
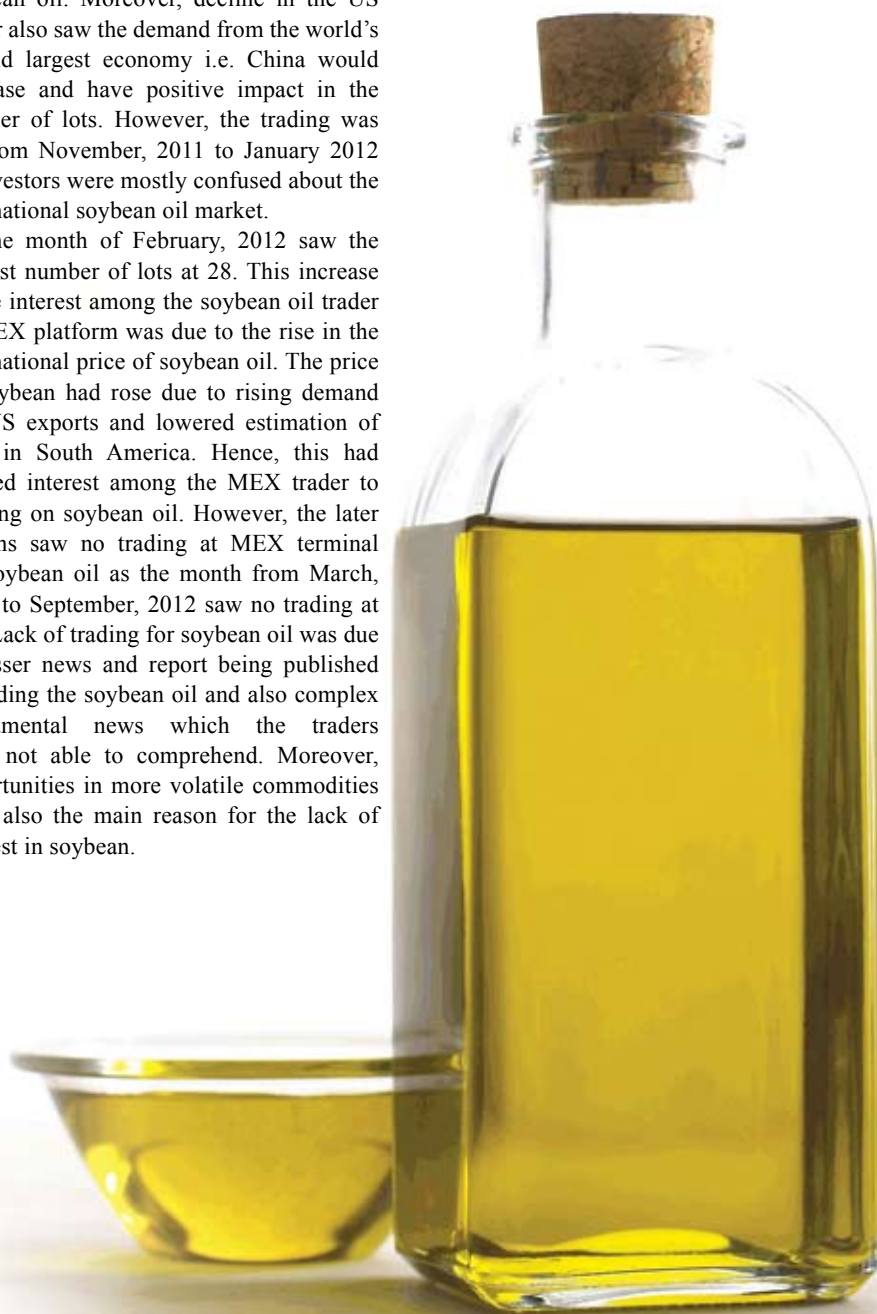
- Soybeans, in comparison to other beans, grains and cereals, contain a huge amount of fat.
- Soybean oil has normally a shelf life of 1 year but it's better to store soybean oil for only a few months at room temperature.
- According to the University of Stellenbosch Business School (USB)'s 2011 Consumer Attitudes about Nutrition Survey, soybean oil was among the top three oils ranked 'very healthy' by consumers.
- Argentina and Brazil are the leading players in the international soybean oil market.
- In the past 10 years, the increased global bio-diesel production capacity has increased the consumption of soybean oil in Europe.
- China is the world's largest and the Indians are the second largest importer of Soybean oil.

Explanation of Charts

Soybean oil is one of the least traded commodities in the MEX platform as over the review period only 36 lots were being traded. The trading was done only in the month of October, 2011 and February, 2012 when the total lots being traded was 8 lots and 28 lots respectively. The month of October saw price of soybean oil rise on a weak US dollar. Moreover, the price of mineral oil was also rising in the international market which increased the demand for the soybean oil in the international market. These also have direct effect in the price of soybean oil which makes the trading very predictable. This news saw rise in the interest among the trader in the MEX platform for trading

soybean oil. Moreover, decline in the US dollar also saw the demand from the world's second largest economy i.e. China would increase and have positive impact in the number of lots. However, the trading was nil from November, 2011 to January 2012 as investors were mostly confused about the international soybean oil market.

The month of February, 2012 saw the highest number of lots at 28. This increase in the interest among the soybean oil trader in MEX platform was due to the rise in the international price of soybean oil. The price of soybean had rose due to rising demand for US exports and lowered estimation of crop in South America. Hence, this had created interest among the MEX trader to go long on soybean oil. However, the later months saw no trading at MEX terminal for soybean oil as the month from March, 2012 to September, 2012 saw no trading at all. Lack of trading for soybean oil was due to lesser news and report being published regarding the soybean oil and also complex fundamental news which the traders were not able to comprehend. Moreover, opportunities in more volatile commodities were also the main reason for the lack of interest in soybean.



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.

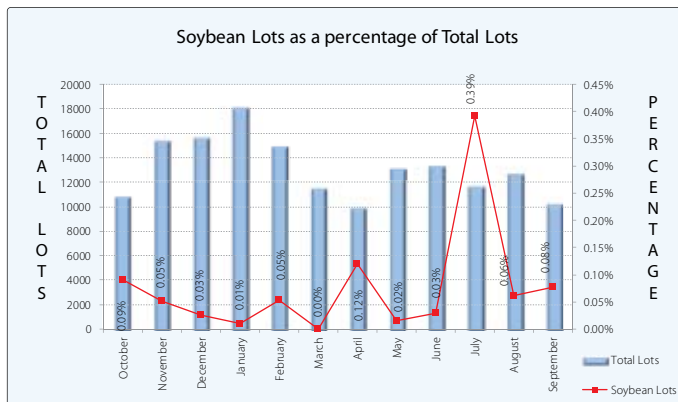
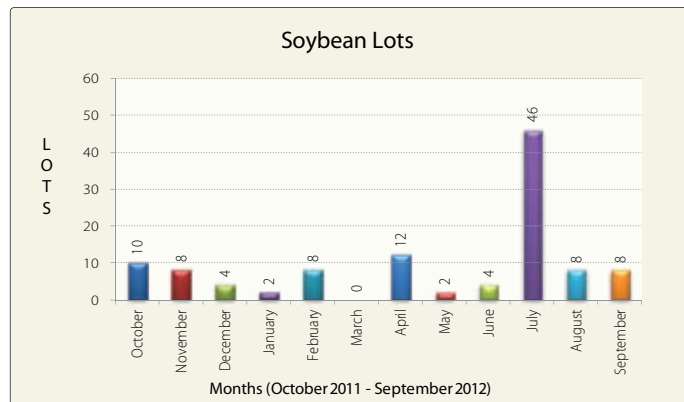
The US has been the largest producer of soybeans, followed by Brazil. However, soybean production has been falling in the US recently, a trend which may continue in spite of the increasing demand for arable lands as pressure on food crops increases. Futures on soybeans have been traded on the Chicago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

Fundamental Facts

- 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).

Explanation of Charts

Soybean is one of the lowly traded commodities in the MEX Platform which can be well understood from the lots charts. The volumes of soybean had remained below 50 lots in the entire review period. The number of trade in the month of October, 2011 was 10 lots which were followed by 8 lots, 4 lots and 2 lots for the month of November, December and January respectively. This decline in the number of lots or decline in the interest for trading for soybean in MEX platform was due to the volatility in the price of soybean at the international market. The price of soybean was on strong bearish trend starting from October, 2011 to late November, 2011. After this strong bearish trend, soybeans trend reversed and increased till the end of December, 2011.



Commodity Insights

Similarly, price remained volatile in the month of January, 2012 as well. This change in the price of soybean was due to the reason such as strong US dollar, slowdown in the demand for soybean, decline in the production of corn from one of the largest producer of corn i.e. Argentina etc. In these circumstances; the local traders were less reluctant to take position as they have little experience about such scenarios whose effect could be seen in the number of trade at the MEX platform. Similarly, in these four months starting October, 2011 and ending January, 2012 the total lots of soybean as compared to the total lots of MEX have remained below 0.10 percent which was extremely low. However, the month of February, 2012 saw strong rise in the number of lots as the volume increased four times compared to previous month and reached a total of 8 lots. This rise in the number of lots was due to the rise in the price of soybean in the international market. The price of soybean had rallied to reach 5-month high in the month of February, 2012 due to

rising demand for US export and estimation of lowered crop in South America. This fundamental factor was well understood by the trader and they take position in the soybean. However, percentage of soybean lots as compared to the total lots still remained very weak at 0.05%.

Moving into the month of March, 2012 there was no trading in the soybean as the price decline due to profit taking activities in the international market and local trader who had position on soybean had already settled the position so they weren't interested to trade. Moreover, the number of lots had increased in the month of April to reach 12 after which it declined in the month of May and June when the total lots stands at 2 lots and 4 lots respectively. The rise in the number of lots in the month of April was due to US Department of Agriculture report which reported decline in the stock of soybean and also forecasted lower output from South America which caused the prices to rise and also generate fair interest in the MEX platform.

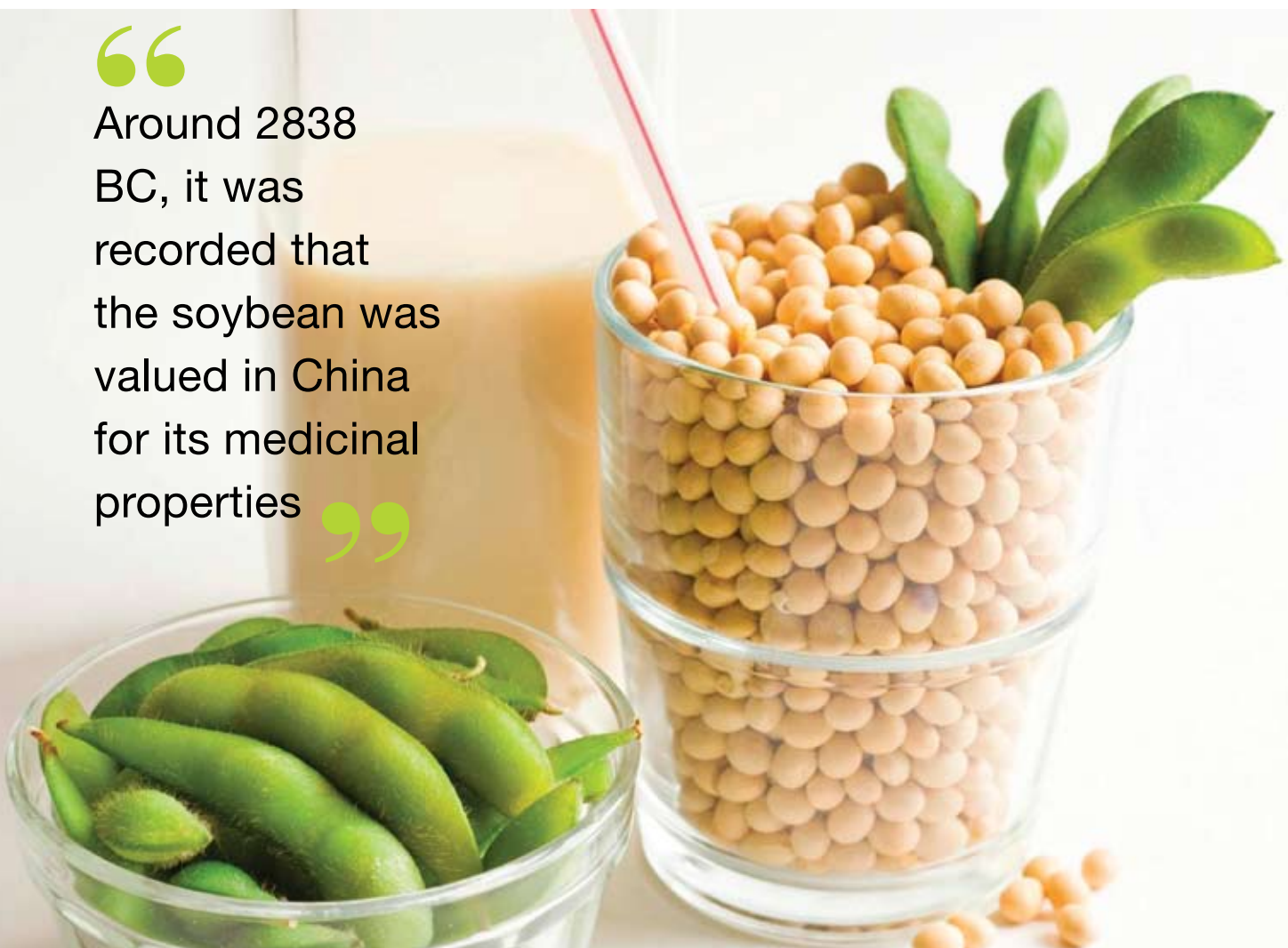
However, the number of lots declined in the month of May and June as the price of soybean was on bearish trend to reach two months low due to pressure of liquidation of the previously held long contract and also the expectation of better production output in the US. The month of July, 2012 saw major increase in the number of trade at MEX as lots reached 46. This increase in the interest in the soybean trade was due to the rise in the price of soybean as there was the worst drought in the US in nearly 50 years. This encouraged traders to go long at the MEX platform. However, the month of August and September again saw drop in the number of trades due to profit booking activities and total lots in these months' stood at 16.



“

Around 2838 BC, it was recorded that the soybean was valued in China for its medicinal properties

”



Sugar

Introduction

Sugar is the generalized name for a class of sweet-flavored substances used as food. They are carbohydrates and as this name imply, are composed of carbon, hydrogen and oxygen. The world produced about 168 million tonnes of sugar in 2011. The average person consumes about 24 kilograms of sugar each year (33.1 kg in industrialized countries), equivalent to over 260 food calories per person, per day. The five largest producers of sugar in 2011 were Brazil, India, the European Union, China and Thailand. In the same year, the largest exporter of sugar was Brazil, distantly followed by Thailand, Australia and India. The largest importers were the European Union, United States and Indonesia. Currently, Brazil has the highest per capita consumption of sugar, followed by Australia, Thailand and the European Union.

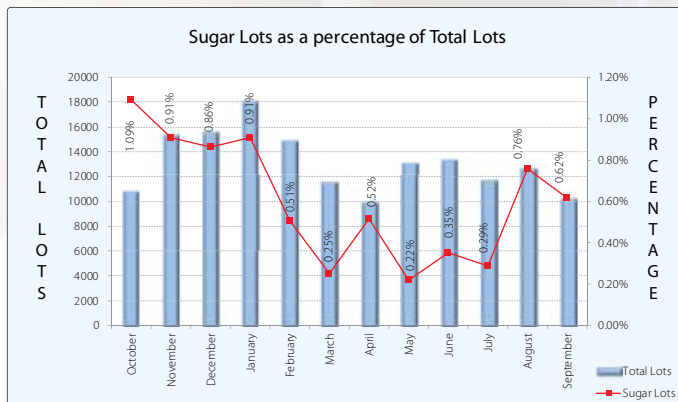
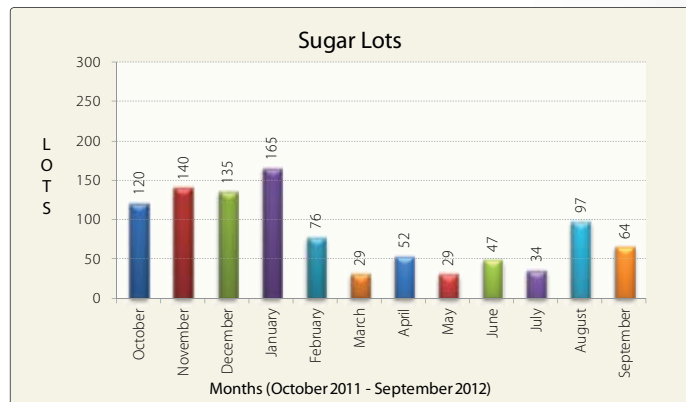
Fundamental Facts

- The world supply and demand, production and consumption are the major factors that influence the world sugar prices.
- Increasing population and growing income have a major impact on the consumption and price trends.

- Increase in international crude oil prices has resulted in an increase in the demand for ethanol as an alternate source of energy.
- Any news coming out of the largest producing and consuming countries have an effect on the price of the sugar.

Explanation of Charts

The trading of sugar at MEX terminal declined over the review period as compared to the previous year, 10 out of 12 months saw sugar volume crossing 400 lots whereas in this year the volume have come down and not a single month saw the trade around 400 lots. The first four months i.e. October, November, December and January saw the lot size at higher numbers when in all occasion the lot sizes were more than 100. However, in the following months the number of trade declined and in all occasion lots size remains below 100 lots. The number of lots for the month of October, November and December 2011 were 120 lots, 140 lots and 135 lots respectively. The price trend in the initial days of October, 2012 was bullish for sugar as flood in one of the major sugar



Commodity Insights

exporting countries i.e. Thailand generated interest among the local trader to trade the commodity. Similarly, news from Brazil, world's largest sugar producer and exporter, regarding cut in sugar production due to bad weather saw price to rise and generated fair amount of volume in the month of November and December.

Likewise, the lot size in the month of January, 2012 was highest in the review period at 165 lots as harvesting news from Brazil was very encouraging which saw prices soften. This news helped local traders to go short in the MEX platform and saw highest lots in the 12 months period. However, the following months saw drastic decline in the trading of Sugar as lots size for the month of February and March stands at 76 lots and 29 lots respectively. This decline in the interest on sugar was due to mixed news in the international market regarding sugar. The previous month report from Brazil regarding the encouraging harvesting was offset by the delayed in the harvest which spread confusion in the international sugar market. Similarly, international sugar analyst predicated rise in the global sugar stock due to higher output forecast from the EU and Russia which created confusion for the trader in the local market and saw the volume to decline, also the lowest levels in the year.

“

The world supply and demand, production and consumption are the major factors that influence the world sugar prices.

”

The following months of April, May, June and July continued to have low volumes at 52, 29, 47 and 34 lots respectively. The report released showed that the production of sugar in major sugar producing countries like India and Brazil had increased substantially which added certainty in the sugar supply and move the price downwards in the international market. Similarly, sluggish global demand for the sugar complemented quite well to the rise in the sugar production globally ensuring lower price volatility in the sugar price at the international market. This also discouraged the local traders to take position in sugar and saw volumes at lower side. In these 10 months sugar lots as a percentage of total lots remained extremely low where only at one occasion the percentage was above 1 percent.

Moving onto the last couple of months the lots increased considerably as the total lots had increased to 97 lots and 64 lots in the month of August and September respectively. This rise in the number of sugar lots in the month of August was mainly driven by the unfavorable weather condition in the US. The US experienced the worst drought in many decades which impacted the price of agro commodities including sugar. Similarly, India which is also one of the major producers of sugar experienced worse monsoon which also helped prices to move higher. This saw MEX traders take long positions to take advantage of bullish trend in the sugar market. Likewise, glut of supply from Brazil also played an important role for traders to take position in sugar on the month of September, 2012 as 64 lots were traded in that month.

Wheat

“
The level of
worlds ending
inventory to be
exported and
imported
”

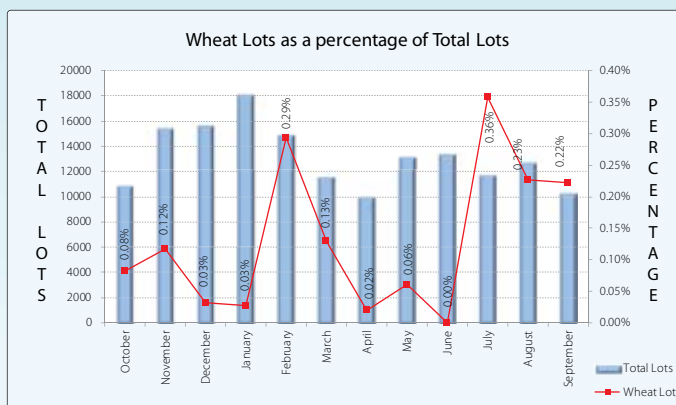
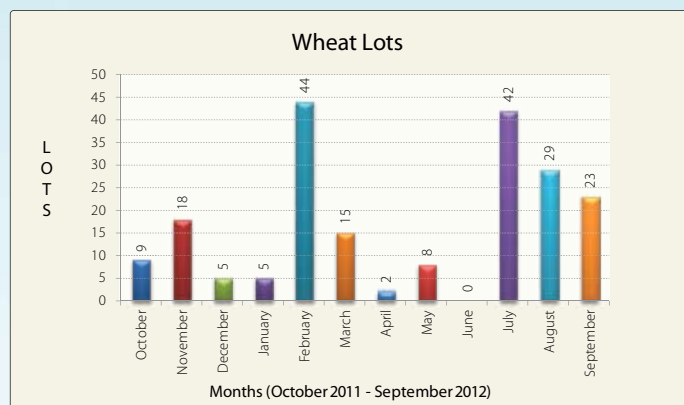
Introduction

Cultivated in many regions of the world, wheat is the most important cereal crops grown. It is one of the highly consumed food staple. Wheat covers more of the earth's surface than any other cereal crop for cultivation. Although it takes more land space than other cereals, it is only the third-largest cereal crop, behind maize and rice. Due to its importance, the investment in it has become a compulsion. In order to safeguard themselves from the risk of adverse price movement, the producers and the merchandisers involve in hedging activities.

Fundamental Facts

- Unfavorable weather conditions like heavy rainfall, drought, hot dry weather conditions etc. affect the production and price of wheat.
- Review of key supply and demand factors affecting wheat market is necessary for analyzing the wheat market.
- The level of worlds ending inventory to be exported and imported.
- Impact of U.S dollar depreciation on wheat prices.
- Current events impacting the wheat prices.
- Transportation cost also affects the price of wheat

Commodity Insights



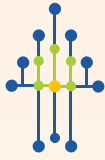
Explanation of Charts

The trading of wheat on MEX platform kicked off with 9 lots for the month of October, 2011, representing .08 percent of total traded volume. With Japan showing positive signs on joining Trans-Pacific Partnership (TPP) trade negotiations, rising hopes for US wheat producers, trading in the month of November increased to 18 lots, an increment of 50 percent from previous month, i.e., October. Amidst fluctuating prices of wheat at international market, the trading lots for the months of December 2011 and January 2012 remained at a constant level of 5 each, representing 0.12 percent and 0.03 percent respectively of total trading lots.

The lots traded in the month of February reached to 44 lots, highest for the review period. Agro report from United States Department of Agriculture (USDA) highlighting optimistic projection for wheat can be attributed towards surge in trading volume for the month of February. The trading lots for March, April and May remained at lower levels with 15, 2 and 8 lots respectively, which became null for the month of June. With drought significantly affecting wheat harvesting in US and fall in wheat production in other major producers like India and China, as the price of wheat surged amidst reduced supply, significant increase in long wheat position took the

trading lots for the month of July to 42 lots representing 0.36 percent of total traded volume in the trading platform.

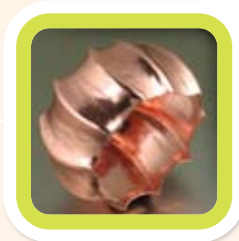
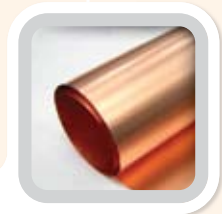
Amidst financial turmoil in Nepalese financial sector concerning regulation on commodity market and related issues combined with negative publicity on commodity market, despite surge in wheat prices in international market in line with declined wheat supply and reduced inventory levels, the trading volume for the month of August and September remained at 29 lots and 23 lots respectively. The main reason for fall in trading volume during ending months of the review period can be attributed towards chaos in Nepalese financial market, especially commodity market.



Mercantile Exchange Nepal Limited

Invest - Trade - Earn

AN ISO 9001:2008 CERTIFIED EXCHANGE



Commodity **Insights**

Base Metals



Copper

Introduction

Copper is derived from the Greek word “Chalkos”. It possesses a wide range of properties that make it invaluable for many applications. Copper 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 a major producer for much of the 19th century but new mines were opened up in the U.S.A., 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 in industrialization, new important uses were found for copper. Chile is the top producer of copper followed by China, Peru and the

United States. Likewise, according to the International Copper Study Group (ICSG), the top importers of copper are China, Japan, India and the Korean Republic

Fundamental Facts

- The major copper consuming countries include China, US and Europe. Any major news regarding copper demand from these countries affects copper prices.
- The other key factor affecting copper prices is related to the supply side. Any major news related to the production of copper from major producers also affects the price of copper.
- Weather conditions also contribute to price changes with floods affecting production and transport of copper.
- Copper is a commercial metal which is extensively used by the housing, automotive and electrical industries.

Hence, data relating to these industries from major consuming countries affects copper prices.

Explanation of Charts

Copper prices had a volatile last quarter in 2011 being pressured mainly by the continuing euro zone crisis on one hand, while being supported by upbeat import data from China on the other hand. A total of 76 lots were traded in October and the figure remained similar during the month of November. Investors were seen taking their money off the markets as a result of the uncertainty in the global arena. However, copper prices got a real boost in prices following import data from China, the largest consumer which showed that copper imports in China rose to a 16 month high in October. As a result, copper prices increased in the international market, attracting bargain

Commodity Insights

hunters to take positions in the copper. This interest in copper got further boost with the rate cut by ECB (European Central Bank) resulting in a 26% increase in copper lots in December to 96 lots. This constituted about 0.61% of the total lots traded during the month of December.

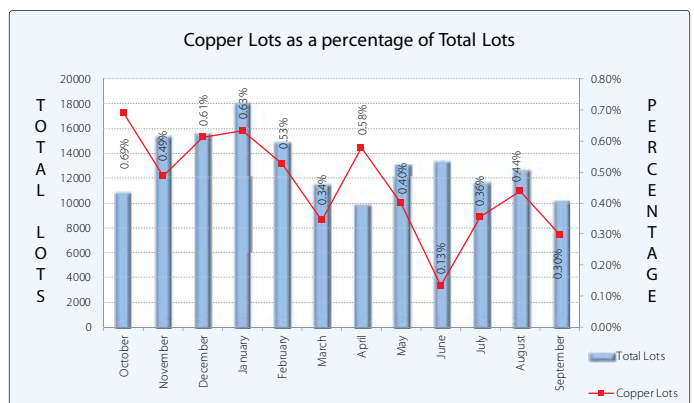
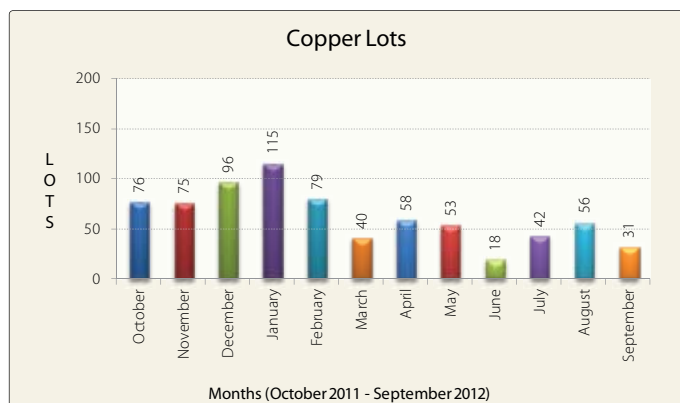
January saw the total lots traded to 115 lots, which constituted about 0.63% of the total traded lots in the MEX terminal. The continuing increase in copper prices saw investors flocking to the copper market, supporting the copper lots. But with copper prices at 5 month highs, in February, doubt regarding the sustainability of the prices saw many traders stay off the market, resulting in on 79 lots, a 0.53% of total lots traded at the MEX terminal. March posted the third lowest lot for the review period, with only 40 lots being traded. The slowing of the Chinese economy coupled with persisting euro zone debt woes saw copper prices fall in the international market. The next month saw copper lots increase, albeit marginally.

In the month of April, a total of 58 copper lots were traded, which was 0.58% of the total lots traded. The continuous fall in copper prices saw buying opportunities, resulting in an increase in copper lots. The fall in copper imports in China was the contributing factor for falling copper prices. Likewise, lingering worries from the euro zone, especially after yields on Spanish bonds inched higher also saw a broad decline in the commodity prices, driving copper prices lower too. The following month saw marginal decline in the copper lots, hinting that investors were still unsure about the outcome from the euro zone crisis. Concerns that the U.S. economy is struggling to sustain

Copper is a commercial metal which is extensively used by the housing, automotive and electrical industries.

its positive momentum and that Greece may exit the euro drove copper prices to a 5 month low. As a result, only 53 lots were traded in the month of May. June recorded the lowest volume in copper for the review period with only 18 lots being traded, which made up a meager .13% of total lots traded. While speculation was rife about the third round of quantitative easing in the U.S., which boosted copper prices, however the persisting problems in the euro zone as well as rate cuts in China kept investors away from the copper market.

July saw a turnaround in the total lots with a 133% increase in lots from 18 in June to 42 in July. The decline in copper prices fuelled mainly by disappointing import data from China and EU worries saw bargain hunters step into the market to take advantage of month low prices. August however saw prices reverse and start increasing supported by positive data coming out of the U.S. and a stronger euro. Likewise, hopes of another round of stimulus in the world's largest economy also drove investors to the copper market, pushing prices as well as total lots higher. September saw total lots decline although the prices hit a 4 month high following another round of quantitative easing announced by the Federal Reserve. Investors were seen profit taking following the high prices which decreased total lots to 31 making up 0.30% of total lots traded at the MEX terminal.



Commodity Insights

Mini Copper



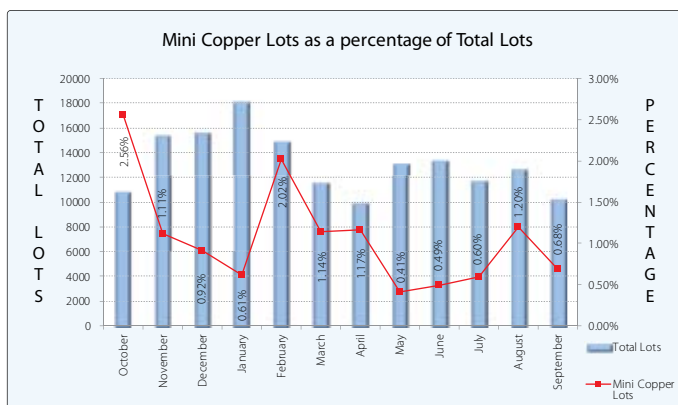
Introduction

Copper is derived from the Greek word “Chalkos”. It possesses a wide range of properties that make it invaluable for many applications. Copper 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 a major producer for much of the 19th century but new mines were opened up in the U.S.A., 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 in industrialization, new important uses were found for copper. Chile is the top producer of copper followed by China, Peru and the United States. Likewise, according to the International Copper Study Group (ICSG), the top importers of copper are China, Japan, India and the Korean Republic.

Fundamental Facts

- The major copper consuming countries include China, the US and Europe. Any major news regarding copper demand from these countries affects copper prices.
- The other key factor affecting copper prices is related to the supply side. Any major news related to the production of copper from major producers also affects the price of copper.
- Weather conditions also contribute to price changes with floods affecting production and transport of copper.



Commodity Insights

- Copper is a commercial metal which is extensively used by the housing, automotive and electrical industries. Hence, data relating to these industries from major consuming countries affects copper prices.

Explanation of Charts

Mini copper lots traded more than the regular sized lots during the review period, mainly owing to the lesser margin and less risk. A total of 281 and 172 lots were traded in the month of October and November respectively. Copper prices got a real boost in the prices following import data from China, the largest consumer which showed that copper imports in China rose to a 16-month high in October. As a result, copper prices increased in the international market, attracting bargain hunters to take positions in the copper. This interest in copper was dented abnormally with the rate cut by ECB (European Central Bank) resulting in a decrease in copper lots in December to 144 lots. This constituted about 0.92% of the total lots traded during the month of December.

January saw the total lots traded to 111 lots, which constituted about 0.61% of the total traded lots in the MEX terminal. The continuing increase in copper prices saw investors flocking to the copper market, supporting the copper lots. With copper prices at 5 month high, in February, investors were attracted towards the base metals resulting in a 172.97% increase in the lot size to reach 303 for the month. March posted a decrease for the review period, with only 133 lots being traded. The slowing of the Chinese economy coupled with persisting euro zone debt woes saw copper prices fall in the international market. The next month saw copper lots decrease further, albeit marginally. In the month of April, a total of 117 copper lots were traded, which was 1.17% of the total lots traded. The investors could not grab the flowing opportunities

which resulted from the continuous fall in copper prices. The fall in copper imports in China was the contributing factor for falling copper prices. Likewise, lingering worries from the euro zone, especially after yields on Spanish bonds inched higher also saw a broad decline in the commodity prices, driving copper prices lower too.

The following month saw a decline in the copper lots, hinting that investors were still unsure about the outcome from the euro zone crisis. Concerns that the U.S. economy is struggling to sustain its positive momentum and that Greece may exit the euro drove copper prices to a 5 month low. As a result, only 55 lots were traded in the month of May-the lowest for the review period. June recorded the second lowest volume in copper for the review period with only 66 lots being traded, which made up a meager 0.49% of total lots traded. While speculation was rife about the third round of quantitative easing in the U.S., which boosted copper prices, however the persisting problems in the euro zone as well as rate cuts in China kept investors away from the copper market.

July saw a mild increase in the total lots with a 6% increase in lots from 66 in June to 70 in July. The decline in copper prices fuelled mainly by disappointing import data from China and EU worries saw bargain hunters step into the market to take advantage of month low prices. August however saw prices reverse and start increasing supported by positive data coming out of the U.S. and a stronger euro. Likewise, hopes of another round of stimulus in the world's largest economy also drove investors to the copper market, pushing prices as well as total lots higher to reach 154 during the month. September saw total lots decline although the prices hit a 4 month high following another round of quantitative easing announced by the Federal Reserve. Investors were seen profit taking following the high prices which decreased total lots to 71 making up 0.68% of total lots traded at the MEX terminal.



Copper 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.



Mercantile Exchange Nepal Limited

Invest - Trade - Earn

AN ISO 9001:2008 CERTIFIED EXCHANGE



Commodity *Insights*

Energies

Brent Crude Oil

“Brent is ideal for production of gasoline and middle distillates”

Introduction

Brent Crude is a light crude oil containing approximately 0.37% of sulfur. It is suitable for the production of petrol and is refined in Northwest Europe, primarily consumed in the U.K., Norway, Denmark, Netherlands and Germany. The API gravity of Brent Crude is 38.03 and specific gravity of 0.8333. Saudi Arabia, Russia, U.S. and Iran are the major producers of this commodity. Being the second largest traded oil in the energy market, it is used to price two-thirds of the world's internationally traded crude oil supplies. Intercontinental Exchange (ICE) is the major trading platform for this commodity.

Fundamental Facts

- Brent accounts for less than 1 percent of the world crude oil production. However, it determines the price of more than 60 percent of internationally-traded crude oil.
- Brent is ideal for production of gasoline and middle distillates.
- Oil production from Europe, Africa and the Middle East flowing west tends to be priced relative to Brent Crude.

- There is generally negative correlation between Brent Crude Oil and the American Dollar. This means that when the USD declines, all other factors remaining constant, the price of Brent Crude Oil generally increases.
- It has positive correlation with WTI crude oil with both WTI and Brent increasing and decreasing at the same time. The degree of volatility however does differ.

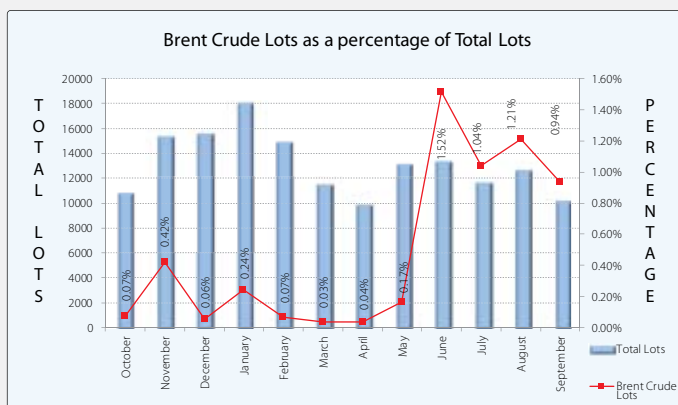
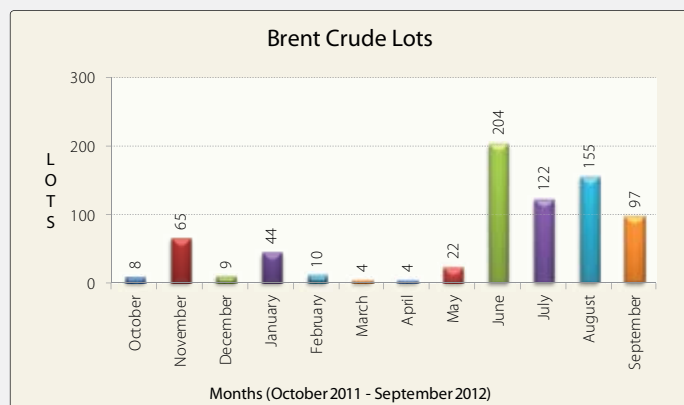
Explanation of Charts

Brent crude is seen as one of the commodities whose trading volume/lots are observed at lower level compared to other related items in the trading platform during ending months of 2011 and initial months of 2012. With the ongoing euro crisis and issues related to Greek-bail out, the contract lots traded for the month of October, 2012 remained at a meager level of 8 lots, representing only 0.07% of total volume of lots. By the end of October as Euro gained over USD upon comments made by French and German leaders regarding a rescue fund-European Financial Stability Facility (EFSF), the trader went bullish over Brent

Crude considering the comments of euro giant leaders and expected positive economic outcome in Euro zone, taking trading lots to 65 for the month of November.

By the end of November, though the economic outlook of euro zone was sought to gain some momentum, the comments made by IEA director Maria Van Der Hoeven by the end of November over ongoing higher oil prices and its impact on growth prospects left the market unpredictable, eventually taking back the lots to a minimal level of 9 for the month of December, 2011. Amid weak European demand of Brent Crude, fall in output of North Sea crude to 1.0 million barrels per day in the month of February from 1.05 million barrels per day in January and euro hitting around a month high by the end of January upon Fed's statement on maintaining interest rates at lower level at the other end, as the market remained unstable, the lots of Brent crude traded from the month of February to April remained at an average of 6 lots for three months.

With the news of US economic recovery in the beginning of the month of June and fall in jobless rate in the US by mid of the month, the investors went bullish over



Commodity Insights

Brent Crude on the expectation of further economic growth in the US. As a result, the Brent Crude lots for the month of June touched the highest point of 204 lots, largest lots for the year representing 1.52 percent of total lots, the highest percent of total lot for the year. By the mid of the month of July, as the import of Brent Crude by China lowered upon Chinese economic slowdown and Norwegian oil strike (production related) came to an end, the price of Brent Crude fell below \$ 100 a barrel at international market. Considering these fundamentals as the market went bearish, the lots traded in the month of July (as selling pressure was not as higher as buying) remained to a lower level of 122 lots compared to the month of June.

At the beginning of the month of August, with weaker-than-expected Chinese export growth and other unhelpful economic indicators, the market went sideways for Brent in line with pledged Chinese monetary stimulus on the other end. The Brent Crude in the month of August traded 155 lots, representing 1.21 percent of total trade volume, before plunging to a lower level of 97 lots in the month of September. Adverse external environment in the Nepalese commodity market due to delay in promulgation of regulation of commodity market and adverse publications by media houses regarding commodity market and practices being prevailed in Nepalese derivative market could be jointly attributed towards fall in trade volume during the month of September.



Crude Oil

“

Crude oil is traded in almost all the exchanges all around the world. However, the major crude oil trading exchanges are New York Mercantile Exchange (NYMEX), International Petroleum Exchange of London (IPE), Tokyo Commodity Exchange (TOCOM) and Mercantile Exchange Nepal Ltd. in Nepal.

”

Introduction

Crude oil is the unprocessed oil that is found beneath the earth's surface in the form of liquid or solid. It is made up of hydrocarbon compounds which consists of Alicyclics, Aliphatics, and Polycyclic Aromatic Hydrocarbons (PAH). It is also known as “Mother of all Commodities” due to its various usages like gasoline, aviation, kerosene, lubricants, fuel, petroleum gas, asphalt, plastics, waxing sulfuric acid, petroleum coke, cosmetics and perfumes, etc. More than 40% of the energy demand is fulfilled by crude oil which is followed by coal (25%) and natural gas (21%). OPEC countries hold around 75% of total oil reserves.

Crude Oil Lots



Crude Oil Lots as a percentage of Total Lots



Commodity Insights

Additional Facts of Crude Oil

- The biggest reserve of crude oil is in Saudi Arabia followed by Venezuela, Canada, Iran and Iraq.
- The major oil producing countries are Saudi Arabia, Russia, United States, Iran and China.
- USA is the world's largest consumer of crude oil followed by China, Japan, India and Saudi Arabia.
- OPEC countries control 40% supply of crude oil globally.
- The prices of crude oil are usually very volatile as there are lots of factors other than demand and supply which impact the price of oil. For example political instability in the Middle East usually impacts the crude oil prices.

The Energy Intelligence Group has classified 161 different types of crude oil on the basis of their characteristics, quality and market penetration. Normally two types of crude oil are traded in the market and the prices of other types of crude oil are determined by these two i.e. West Texas Intermediate (WTI) crude oil (very high quality) and Brent Crude Oil (standard benchmark of crude oil for Europe).

Almost all industries, including agriculture, are directly or indirectly related to crude oil. The price of crude oil is very volatile and is important to the economy; the increase in crude oil prices might even lead to global inflation. Crude oil is traded in almost all the exchanges all around the world. However, the major crude oil trading exchanges are New York Mercantile Exchange (NYMEX), International Petroleum Exchange of London (IPE), Tokyo Commodity Exchange (TOCOM) and Mercantile Exchange Nepal Ltd. in Nepal.

Fundamental Facts

- OPEC decisions regarding the production and supply of crude oil.
- Price forecast (Global speculations & market sentiments).
- Anticipated oil market (Growth in newly industrialized countries is a key factor driving physical oil prices)
- Demand of crude oil from major oil consuming countries like China, Brazil and India.
- Value of crude oil: it becomes more expensive as the dollar loses value and vice versa
- Domestic taxation policies in major oil producing countries

- Fluctuation in supply due to climatic or political tensions like weather/storms, war, terrorism, or any geopolitical factors.
- Identification of new sources of crude oil.

Explanation of Charts

Crude Oil is the third most traded major futures contract in the MEX platform with an aggregate of 7117 traded lots during the review period. Only 369 lots of crude oil were traded in October. Due to the worsening condition of European debt crisis and the possibility of Greece default during the beginning of the month defined the bearish trend. However, after the release of news to provide liquidity to Greece by European Central Bank and Bank of England to Greece, it raised the investors' confidence. As a result, the traded lots of crude oil increased by more than double and reached 779 lots during November. The crude oil price reached the three month high on 4th November after the release of US unemployment rate to 9%. This created an interest among local investors to trade in crude oil. Similarly, in December, traded lots for crude oil reached 848 lots and in terms of percentage it showed upward trend i.e. from 5.05% in November to 5.41% in December. The price of crude oil showed bearish trend on 4th week of December due to threat of mass downgrade in France along with other European nations.

There was a short term correction in crude oil prices but investor's hesitancy to invest in it, resulted in the traded lots for January to decrease to 741. Even through the price of crude oil surged up after mid-February, the investing pattern in crude oil did not change much as a result there was 431 lots traded. The

crude oil prices remained volatile throughout the month of March. With worries of supply disturbances from Iran and fall in US dollar due to weaker than expected US consumer inflation report, speculators drove up the prices of crude oil during March whereas the price raised slightly after the release of IEA monthly report stating that global demand for crude oil is up by 0.9% in 2012. Due to this volatile situation only 294 lots of crude oil were traded from MEX platform which is the lowest traded lots per months for the review period.

Likewise, the prices of crude oil continued to dwindle in an unclear trend during April as well. The pressure between Iran & West and increase in OPEC's oil production due to growth in Libya's oil production were the major factors behind it. However in MEX platform the traded lots increased and reached 382. The sharp fall in crude oil prices during May, hitting the seven months low resulted in the decline in the lots of crude oil for the month. The larger fear of recession in Europe due to economic troubles in Spain, Greece, Portugal and Italy has resulted to euro plundering further to a two-year low which had acted as jackhammer on crude oil prices. The lower economic growth rate in USA, Europe & China had also resulted in the decrease in demand and subsequently in the prices of crude oil. But after the decision of EU leaders to bail out EU banks (including Spain) by the EU rescue, the prices of crude oil enhanced. Due to these reasons, the traded lots for June had increased to 684, following the same pattern in July and resulted to 840 lots.

The crude oil price started to rally up during July due to the increase in OPEC oil production and the disappointing China's GDP growth during Q2 which had raised the speculation that China will stimulate its economy. The number of traded lots had increased drastically during the months of August i.e. to 1010 lots which is the highest traded lots throughout the review period. During mid of August, crude oil prices reached its highest level since due to the ECB announcement of unlimited bond purchase program, Chinese government infrastructure development plans and US federal reserve decision to buy \$40 billion mortgage backed securities each month. However, after release of increased production report of Saudi Arabia, slower economic growth in china and concern over European debt crisis, the crude oil prices pulled back. The volatile price of crude oil declined the interest among local investors due to which only 409 lots were traded during the month of September.

Heating Oil

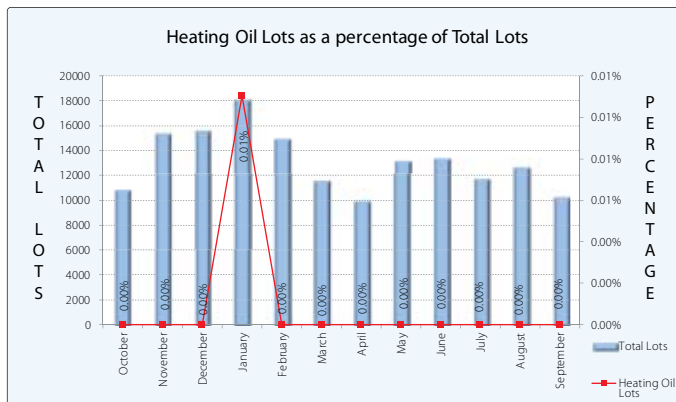
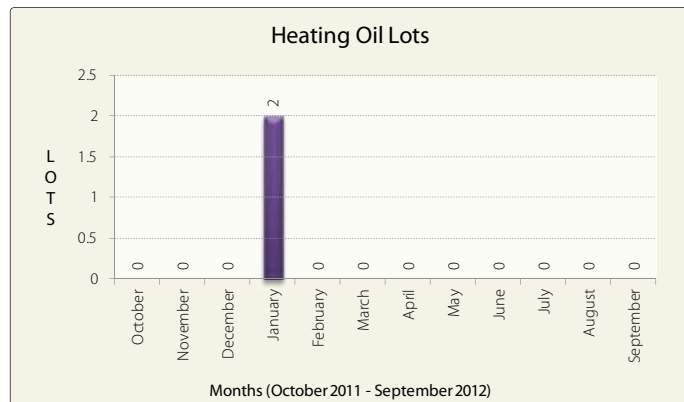
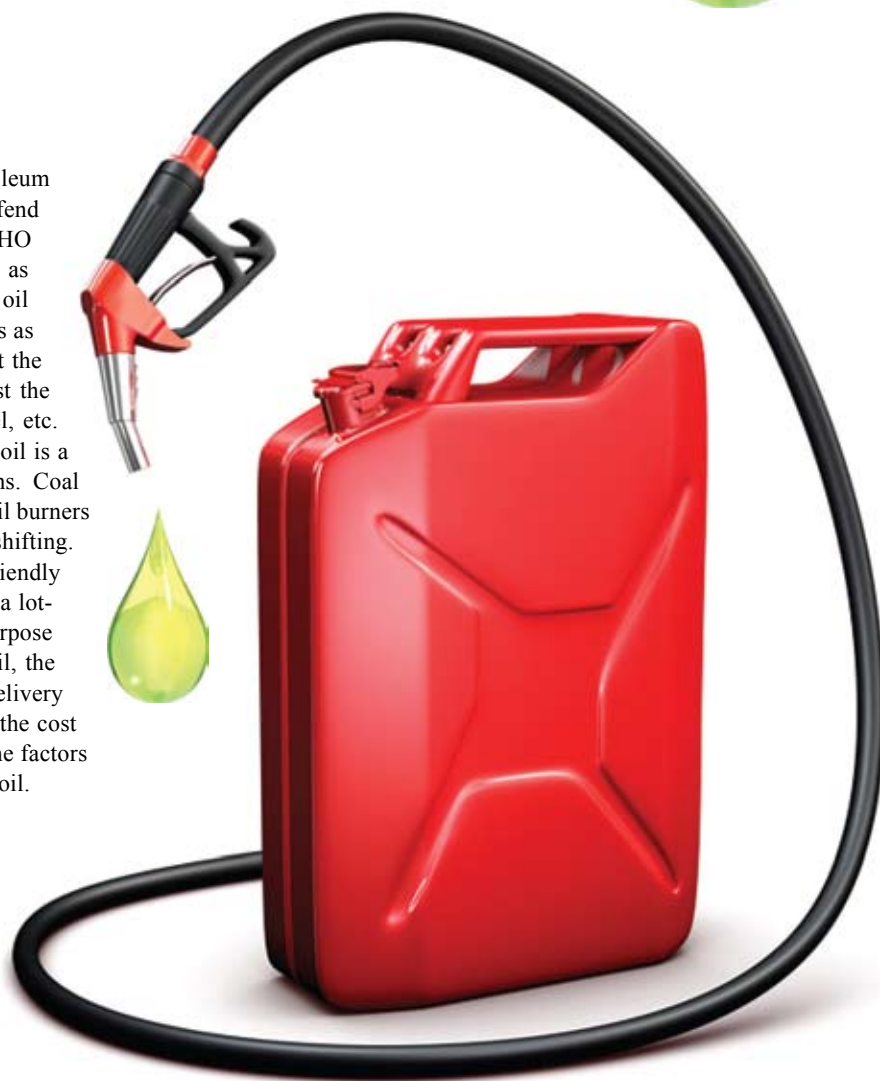


Introduction

Heating Oil (HO), a less viscous liquid petroleum product, is generally used in furnaces and to defend winter through the pipes in the buildings. Like diesel, HO is also a distillate of the crude oil, so it is also known as No. 2 fuel oil. People usually happen to take heating oil not as an independent commodity due to obvious reasons as mentioned above. Generally, the global trend shows that the contracts of the heating oil are used for hedging against the price deviation of other oil products like jet fuel, diesel, etc. but it is very essential for us to understand that heating oil is a different product and have their own quality specifications. Coal served as a source of heat for so long but as the heating oil burners were invented in 1920s, the pattern of people started shifting. Burning heating oil in the homes is efficient, health-friendly and eco-friendly too. The trend of the use has increased a lot-1.5 million people in Great Britain use heating for the purpose currently. Taking into account the cost of the heating oil, the cost of the crude oil, the cost of distillation, the cost of delivery and storages are also added up. Thus, we conclude that the cost of heating oil is derived from the cost of crude oil and the factors affecting the crude oil prices affect the prices of heating oil.

Fundamental Facts

- Weather in the Northeast area of US seems to affect the price of heating oil. In severe winter conditions, the demand will be higher thus leading to price increase whereas if the winter is mild, due to the surplus heating oil, price may decrease.



Commodity Insights

- In the last 25 years, no new refineries have been established so the production of heating oil is influenced by the refineries also. The satisfactory production by the refineries will not be an issue but since they have to produce other oil products like gasoline, etc. lower production of heating oil can hike the price.
- Currency fluctuations affect the price of heating oil as the imports are to be done from OPEC. Higher exchange rate will increase the price of heating oil.
- Vulnerability of the Gulf Coast region in the US, where 47% of the refineries are located, also affects the price of heating oil. Any news of hurricane or storm in the region can alter the price of heating oil.
- Increase in the crude oil price increases the price of heating oil. Though, people have been trying on alternatives like wood furnaces, corn pellets and biodiesel from vegetable oil, etc.

Explanation of Charts

The chart of the heating oil below shows the optimum disinterest of the traders regarding the trade of the commodity in Nepal. No trade in any months except January evidently confirms the above mentioned fact. As this commodity falls under the category of energy, it usually follows the price trend of the crude oil. In January, the trading may have been undertaken due to some reasons like: winter was extremely harsh that time, crude oil prices rose due to the strikes in



the production companies in Europe and uneven distribution of money, shutdown of the crucial refineries in the Northeast and Europe due to highly decreasing profit margins, political instability in the Middle East and rising demand of crude from the developing and emerging countries drove the crude prices higher thus hiking the heating oil prices, the projection done by the US

government talking about the crisis of the heating oil and the government providing incentives to switch from the heating oil to the natural gas.

Other times of the year clearly show the backlash of the heating oil. Several factors affect the interest lapse of the public from the heating oil. It must have been clear from the above discussion that most of the population in the world now is trying to switch from the heating oil to other alternative energy sources. Many people also fell in the expenditure trap. Expenditure trap can be defined as the state when previous expenditure does not provide positive effect rather attract more expenditure. The situation of the client gets pathetic as previous expenditure is not providing the return and they are not in a position to add up the expenditure due to which they are compelled to bear loss furthermore. To look into the data, in USA, the number of households using heating oil dropped from 20% to 7% in the current scenario which ultimately created the surplus supply state in the market thus decreasing the price and disinterest for the investment in the public. The incentives given by the government for installation of the insulation also cut the consumption of the heating oil. Oil, though the part of the portfolio is found expensive, less cost-effective and unsustainable in comparison to natural gas. Moreover, switching to natural gas was felt beneficial for the public as the cost of an individual fell by up to 93.33% which is very much encouraging.



Mini Crude Oil

Introduction

Crude oil is the unprocessed oil that is found beneath the earth's surface in the form of liquid or solid. It is made up of hydrocarbon compounds which consists of Alicyclics, Aliphatics, and Polycyclic Aromatic Hydrocarbons (PAH). It is also known as "Mother of all Commodities" due to its various usages like gasoline, aviation, kerosene, lubricants, fuel, petroleum gas, asphalt, plastics, waxing sulfuric acid, petroleum coke, cosmetics and perfumes, etc. More than 40% of the energy demand is fulfilled by crude oil which is followed by coal (25%) and natural gas (21%). OPEC countries hold around 75% of total oil reserves.

The Energy Intelligence Group has classified 161 different types of crude oil on the basis of their characteristics, quality and market penetration. Normally two types of crude oil are traded in the market and the

prices of other types of crude oil are determined by these two i.e. West Texas Intermediate (WTI) crude oil (very high quality) and Brent Crude Oil (standard benchmark of crude oil for Europe).

Almost all industries, including agriculture, are directly or indirectly related to crude oil. The price of crude oil is very volatile and is important to the economy; the increase in crude oil prices might even lead to global inflation. Crude oil is traded in almost all the exchanges all around the world. However, the major crude oil trading exchanges are New York Mercantile Exchange (NYMEX), International Petroleum Exchange of London (IPE), Tokyo Commodity Exchange (TOCOM) and Mercantile Exchange Nepal Ltd. in Nepal.

Fundamental Facts

- OPEC decisions regarding the production and supply of crude oil.
- Price forecast (Global speculations & market sentiments).
- Anticipated oil market (Growth in newly industrialized countries is a key factor driving physical oil prices)
- Demand of crude oil from major oil consuming countries like China, Brazil and India.
- Value of crude oil: it becomes more expensive as the dollar loses value and vice versa
- Domestic taxation policies in major oil producing countries
- Fluctuation in supply due to climatic or political tensions like weather/storms, war, terrorism, or any geopolitical factors.
- Identification of new sources of crude oil.



Commodity Insights

Additional Facts of Crude Oil

- The biggest reserve of crude oil is in Saudi Arabia followed by Venezuela, Canada, Iran and Iraq.
- The major oil producing countries are Saudi Arabia, Russia, United States, Iran and China.
- USA is the world's largest consumer of crude oil followed by China, Japan, India and Saudi Arabia.
- OPEC countries control 40% supply of crude oil globally.
- The prices of crude oil are usually very volatile as there are lots of factors other than demand and supply which impact the price of oil. For example, political instability in the Middle East usually impacts the crude oil prices.

Explanation of Charts

Mini crude oil contract is also one of the highly traded futures contract in MEX platform which occupied about 7.77% of the total traded lots during the review period i.e. from 1st October, 2011 to 30th September, 2012. During October, 1140 lots of mini crude oil were traded through its platform. The European Sovereign debt crisis and an unexpected drop in U.S. inventories were the major reasons for increase in price of crude oil. The continuous rise in prices of crude oil increased the interest of local investors which was also shown in their trading lots that had increased to 1384 lots during November. The price rise in international market was based upon the increased in U.S. consumer sentiment to the highest level in November, decrease in U.S. jobless claims, increase in import of China by 29.6% in October as compared to last year and the probability of disruptions in Iranian crude oil supply. After few weeks of bullish

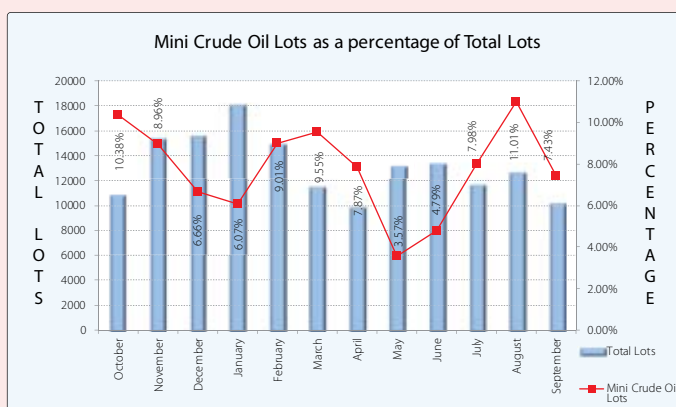
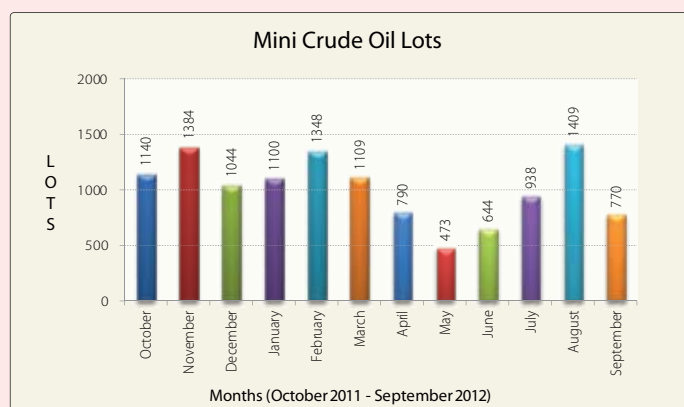
trend in crude oil prices, it finally declined during the second week of December due to the OPEC members' decisions to keep the same production level in 2012 and release of EIA crude oil petroleum stockpiles report. However, the threats of mass downgrade in France including other European nations, improvement in US housing market and rise in core durable goods supported the recovery of the price during the third and fourth week. This volatility in crude oil prices reduced volume of mini crude oil to 1044 lots during December.

With the beginning of the New Year, crude oil showed sideways pattern during the month of January with 1100 lots of trade in this period. The revived geopolitical tensions in Middle East and better than expected US economic data enhanced the risk premium on crude oil prices. Weakening of dollar against the Euro had provided some level of support for it, yet the fears of Europe's economy & its credit downgrades and weakening demand could not decrease its prices. Crude oil showed upward trend after mid-February by which many investors increased their investment in it thereby reaching a total of 1348 lots during the month. The upward trend of its prices was supported by increasing geopolitical tension with fears of supply interruption inflated by upwelling speculative activities, positive sign of Greek financial bailout and bullish US economic data. The volatility in the price of crude oil was the major reason behind the disinterest of local investors due to which there had been only 1109 lots of trade during March.

In the month of April there was the drastic change in number of lots as it had declined by around 40% and reached 790 lots. This extreme change in interest among investors was due to the bearish trend in its prices and investors perception to wait and watch

the market trend. Following the same trend, May also showed downfall in the traded lots and reached 473 which was the lowest in the review period, contributing only 3.57% of total lots traded through MEX platform. During this period, the prices of crude oil showed bearish trend due to the reports of the highest reserves in the US since 1990, weak economic data from US and European countries and huge speculative sell off and higher supply of crude oil. The month of June was full of positive sentiments for crude oil markets and the volume increased and reached 644 lots but the gloomy economic data from China, US and Europe caused the bearish trend in the market.

With the increasing price trend of crude oil in July, the number of traded lots of mini crude oil had drastically increased and reached 938 lots due to the possibility of geopolitical tensions, problem in production at North Sea and with the hope that the worlds' major economies will ease their monetary policy to support their economies. The upward movement with bullish sentiment in global crude oil market for the consecutive second month increased the confidence of local investors with 1409 number of traded lots, the highest throughout the review period. Crude oil prices reached its highest level since May during mid-September due to the decision of European Central Bank of Unlimited bond buying programme and the US Federal Reserve decision to implement another round of quantitative easing. However, it's prices declined and were lower at the end of month which was caused by the increasing concerns about global economy and growth in the oil demand. Due to volatility in the crude oil, only 770 lots of crude oil were traded through MEX platform for the month of September.



Mini Natural Gas

“

Natural Gas is a naturally occurring mixture of hydrocarbon gas consisting methane in the highest proportion along with other hydrocarbons, carbon dioxide, nitrogen and hydrogen sulfide.

”

Introduction

Natural Gas is a naturally occurring mixture of hydrocarbon gas consisting methane in the highest proportion along with other hydrocarbons, carbon dioxide, nitrogen and hydrogen sulfide. It is very similar to the oil; most of the times both with the properties and the functions but natural gas have been successful to prove itself more efficient- per unit energy as its combustion produce 30% less carbon dioxide than oil and 45% less than coal. Much of the processing is needed to be done before it is developed as final product. In the purest form, it is almost 100% methane. As it is an odorless gas, using it as a fuel in the houses can get risky sometimes; therefore mercaptan is added to natural gas before its supplies as the leaks could be known and rectified.

Fundamental Facts

- The changing demand dynamics affects the price of the natural gas to the most. In the current scenario, when people have understood that it is the safest form of fuel, most of the countries like USA, Britain are shifting from heating oil to the natural gas. This shift to the substitute product definitely shifts the demand curve and ultimately the prices alter.
- Earlier, the production pattern of the natural gas used to be conventional and in small quantities but now the domain has grown wider.
- Overall production has increased less than the demand, thus leading to the price and demand in-equilibrium.
- Politics and the environmental policies of the major producing and consuming countries also alter the price significantly.

Commodity Insights

Explanation of Charts

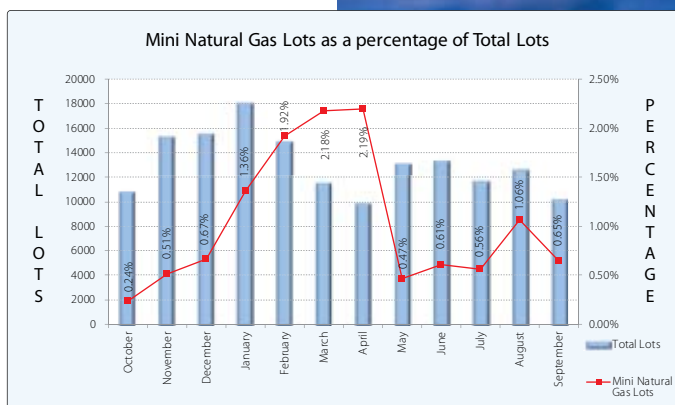
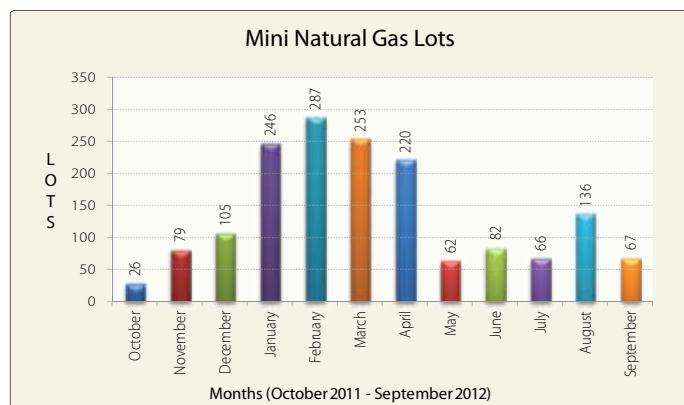
Mini Natural Gas is only differed by the contract size and the volume of money involved or else the product is same as the Natural Gas. After the fall the commodity had in September 2011, the trading of the commodity started with 26 lots in the MEX terminal. The trend seemed declining as it seemed following the trend of Crude Oil, which is not a substitute though but is a complement sometimes. Fed's chairman announcement of a limited stimulus plan but it came less than the expectation so could only help trade a 26 lots. A slight increased trend was seen in November when the trade lots increased to 79 lots. The major reason why the prices rose in November was the decrease in temperature throughout the American belt. This increase in price increased the demand of the product and the trade lots of the commodity. In December, trade lots further increased to 105 lots, the major incident being the high demand from the US East Coast and of course the seasonal change.

The demand kept on rising, prices kept on hiking in January too. The trade lots in January reached 246. The cold increased along with the crude oil, coincidentally, thus increasing the trade lots. Winter increased to its peak and trade lots in February recorded its highest of 287 lots. The speculative positions increased for the commodity and thus achieved the highest trade lots of the review period. Lots decreased to 253 in March. Storage was almost full and there was no space for additional supply. This led to an oversupply situation thus bringing the prices down along with the trade lots.

The decreasing trend continued and the trade lots further decreased to 220 in April.

The reverse trend was seen as the production was entering a long term irreversible decline and the production of natural gas kept on increasing. A sharp decrease in the trade lots was seen coming to May when the trade lots decreased from 220 to 62. This occurred due to the market controversies that arose about the production process. In the meantime, there were high imports from the Middle East which also demotivated the regular small investors. In June, the lots slightly increased to 82 but the confidence of the investors' was yet not met. New rules were introduced which made the producers skeptic about the earlier productions, thus decreasing the price and ultimately the trade lots.

Coming to July, the reasons still persisted and there were only slight changes seen in the trade lots. There were news of failure of the Carbon based economy whereas the deliveries were not executed timely which made investors' lose their confidence and thus the trade lots slightly decreased to 66. August came up with small hope as the lots showed a slight increment reaching 136 lots. The environmental relationships were positive about the production process and the political viability was also seen for the production efficiency and sufficiency. Russian government was also seen encouraging the investors as its policy came strongly for the benefit of the market of the Natural Gas. In September, the trade lots again decreased and reached 67 lots. The market turmoil seen in the Nepalese financial market was supported by the news of higher supplies made the US government keeping into consideration their higher stock stimulated the decrease in the trade lots in MEX terminal.



Natural Gas

“

Natural gas have been successful to prove itself more efficient- per unit energy as its combustion produce 30% less carbon dioxide than oil and 45% less than coal.

”

Introduction

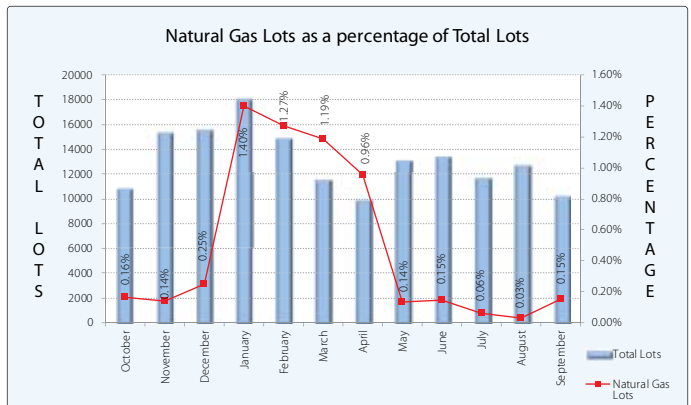
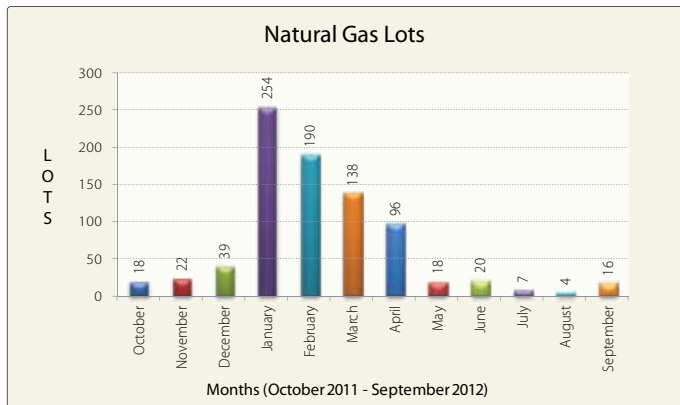
Natural Gas is a naturally occurring mixture of hydrocarbon gas consisting methane in the highest proportion along with other hydrocarbons, carbon dioxide, nitrogen and hydrogen sulfide. It is very similar to the oil; most of the times both with the properties and the functions but natural gas have been successful to prove itself more efficient- per unit energy as its combustion produce 30% less carbon dioxide than oil and 45% less than coal. Much of the processing is needed to be done before it is developed as final product. In the purest form, it is almost 100% methane. As it is an odorless gas, using it as a fuel in the houses can get risky sometimes; therefore mercaptan is added to natural gas before its supplies as the leaks could be known and rectified.

Fundamental Facts

- The changing demand dynamics affects the price of the natural gas to the most. In the current scenario, when people have understood that it is the safest form of fuel, most of the countries like USA, Britain are shifting from heating oil to the natural gas. This shift to the substitute product definitely shifts the demand curve and ultimately the prices alter.
- Earlier, the production pattern of the natural gas used to be conventional and in small quantities but now the domain has grown wider.
- Overall production has increased less than the demand, thus leading to the price and demand in-equilibrium.
- Politics and the environmental policies of the major producing and consuming countries also alter the price significantly



Commodity Insights



Explanation of Charts

The price trend for the Natural Gas did not follow the usual trend it actually used to follow earlier. In earlier days, the emerging winter used to be more significant reason for the trade lots of natural gas but this time, the same impact during those months were not seen. To start up with the trade, the trade kicked off with the trade of 18 lots in October 2011 in the MEX terminal. The trend continued to fall corresponding to the fall from September 2011. Moreover, the production and consumption of natural gas remained declining but robust for the month of October. Coming to the November, the trend did not show a clear path with very quick shifts from falls to rises with the traded lots of just 22. This small change was only the result of the volatile ups and downs. In December, the traded lots increased to 39. Though the expectation was a very high rise in the price due to the seasonal effect but it did not go as per the expectation.

The trade lots finally jumped to 254 in January 2012. The major reasons for this price rise were the seasonal effect, i.e. the winter coming up and the production not going equivalent to the rising demand. Higher crude oil prices also drove the

natural gas prices. In February, the trade lots went down to 190 but the overall trade scenario remained positive. Buyers started stepping up in the product, the volatility of the product increased leading to profitable positions. The speculative positions had also begun to pare. Trading lots further decreased to 138 in the month of March. Storage was too full and there was very little space for the additional supply which discouraged the investors. New demands also did not come up as expected.

In April, the trend continued and the trade lots decreased to 96 lots. The production was entering a long-term irreversible decline due to which many investors developed a negative impression about investing in this energy commodity. Besides that, all major natural gas producing areas were peaking their rate of production which also made investors anticipate of higher supplies compared to demand. May, June, July and August did not go well in the MEX terminal with the decreased trade lots of 18, 20, 7 and 4 respectively. The major news that frustrated the investors in these months was mostly related to the USA and Russia. The controversies about the production process

and the demand of the technical report by the authorities heated the market in May. This really did not show a good sign to the overall market of natural gas. China came up strongly in the market of natural gas by June. There were new rules brought up in China to encourage the private investment to the energy industry but people remained skeptic about the strategy of the strongest communist country of the world.

July and August did not go good in the MEX terminal with only 7 and 4 lots. The reason for the decreased lots was the in-competitive price war between China and USA. China was an emerging market with its amended policies whereas USA already was a country with a significant demand but alternates for natural gas became cheaper during that time. A slight increment in the trade lots was seen in September when it increased to 16 lots. There were news on environment-friendliness and the political viability of the product which gradually increased some confidence among the investors and thus small increment in confidence was seen as small hike in the trade lots.





Mercantile Exchange Nepal Limited

Invest - Trade - Earn

AN ISO 9001:2008 CERTIFIED EXCHANGE



Commodity **Insights**

Precious Metals

Gold

Introduction

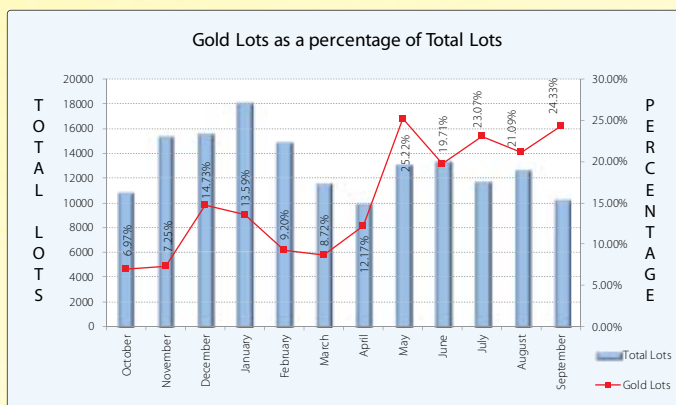
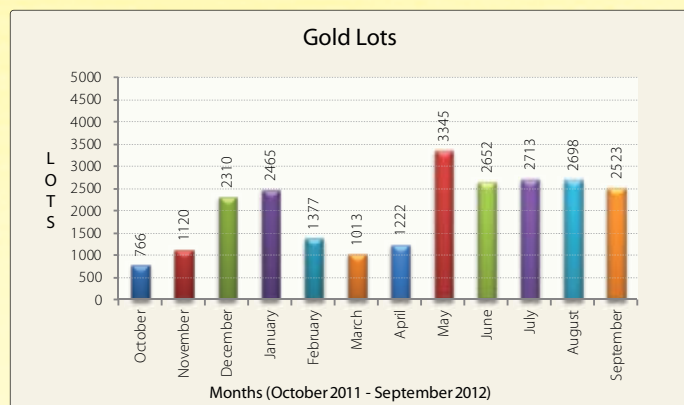
Gold, recognized as 'Yellow Metal', is an element which is quite resistant to corrosion. Also known as precious metal, it is one of the most expensive elements of this form. Gold is mainly used for jewelry and is also regarded as an inflationary tool. China and Australia are major gold producers in the world, whereas India and China are the top consumers of this metal. Generally gold has negative correlation with USD, the American dollar is considered as the most influencing factor for gold's price.

Fundamental Facts

- Gold is primarily used for making jewelry and trading purpose, followed by industrial, electronics and dentistry use.
- Out of total consumption, jewelry and investment stands around 50% and 40% respectively with remaining 10% in other sectors.
- World's largest gold producing countries are China, Australia, United States, Russia and South Africa. Also, it is estimated that about 50% of all the gold ever produced has come from South Africa.
- The major receptacles of physical gold are Euro zone, US and IMF, holding 10,792.6 tons, 8133.5 tons and 2846.7 tons of gold respectively.
- Traditionally, investors and traders would preserve their assets during hard economic times by investing in precious metal such as gold. Thus, gold can be also recognized as a hedging tool during inflation.



Commodity Insights



Explanation of Charts

Amidst ongoing Euro zone debt crisis and with the rise in prices of gold at international market, the trading of 'yellow metal' in the month of October 2011 at Nepalese market increased to 766 lots, a rise of more than 90 percent from the month of September 2011. With the continuing pressure as of Euro debt crisis on gold and market expectation on gold to cross \$2,000 mark at international market considering the riskiness of euro debt crisis, the lots of gold traded in the month of November continued the momentum and traded 1,120 lots, complementing trending prices of gold.

During the month of December 2011, while the gold market turned from bullish to bearish in line with stabilization of Euro, European stocks and positive U.S economic outlook, the selling pressure significantly surged the trade lots to a whopping 2,310 lots for the month, representing 14.73 percent of total lots. With the dissemination of positive U.S factory data, the prices of gold in the month of January surged as much as 2 percent by the first quarter of the month. Further, the rise in Indian jewelry demand by 15 percent created a bullish pressure in the market. As a result, the trading lots for the month were observed to be 2,465 lots.

Along with the rise in the value of the green back and easing of equity market from the beginning of February amidst positive U.S data including increasing worries over China and Greece, the prices of gold for the month saw a bearish run and the market over growing concerns and fluctuating scenario significantly reduced the lots for the month, taking the total trade volume to a meager level of 1,377 lots which continued to the month of March as well with the total lots of 1,013 lots, a further decline. Benefiting from weaker dollar after China manufacturing data eased fears of a hard landing and U.S. consumer data adding to the hopes of a solid

“Gold is primarily used for making jewelry and trading purpose, followed by industrial, electronics and dentistry use.”

recovery, the prices of gold edged higher in the very first trading day of the second quarter. Considering the ups and downs for the month, as the traders went on wait and watch mode, the total trading lots for the month remained at only 1,222 levels. The international market for gold in the month of May remained bearish. This took a significant effect in Nepalese commodity market and took trading to 3,345 lots for the May, the highest for the year with the proportion of 25.22 percent of total lots.

With U.S equities market adding losses, the gold price surged by 4 percent from the very beginning of the month of June. With increasing speculation on gold accompanied by high conjecture of new round of U.S monetary stimulus on disappointing job data, the price of gold boosted and resulted in increased aggregate long position. The volume for the month of June remained 2,652 lots and the similar pattern with continued market sentiments was seen in the month of July as well with contract lots of 2,713.

With the enduring stimulus hopes in the U.S, as the gold rally gained momentum in the month of August, amid weak performing U.S stock market, the trade volume of gold for the month remained at 2,698 lots. Despite gold prices rallied for the month of September and bullish pressure was observed at international futures market, due to adverse Nepalese commodity market scenario in terms of negative print media publications about commodity market and delay in regulation, trading volume for the month of September remained only at 2,523 lots, a lower than expected level in line with international trade trend.



Mini Silver

Silver is often considered as the “poor man’s gold” as it has been quietly climbing the investment and demand charts since its discovery thousands of years ago.

Introduction

Silver is a white, soft, lustrous transition metal, which has the highest electrical conductivity of any element and the highest thermal conductivity of any metal. Mostly, silver is produced as a by-product of copper, gold, lead and zinc refining. Silver has long been valued as a precious metal, and it is used to make ornaments, jewelry, high value tableware, utensils and currency coins. Silver is often considered as the “poor man’s gold” as it has been quietly climbing the investment and demand charts since its discovery thousands of years ago. Its unique properties make it ideal for thousands of applications used in everyday life. The top three producers in the year 2009 were Peru, India and China. While looking at the consumption side, the largest consumer of silver is the United States followed by India, Japan, and Italy. 75% of silver’s production comes from gold, copper, lead, and zinc mining which is why changes in these other industries have a large impact on the price of silver. On the demand side, silver (like most commodities) benefits from strong world growth, a weaker U.S. dollar, and increasing use in electronic applications. With so much of news available for precious metal, investors are highly interested to trade in this commodity.



Commodity Insights

Silver, like other precious metals, may be used as an investment. For more than four thousand years, silver has been regarded as a form of money and store of value. However, since the end of the silver standard, silver has lost its role as a popular legal tender in many developed countries such as the United States. In 2009, the main demand for silver was for industrial applications (40%), jewelry, bullion coins and exchange-traded products. Millions of Canadian Silver Maple Leaf coins and American Silver Eagle are purchased as investments each year. The silver maple leaf is legal tender, at \$5 per ounce, and there are many other silver coins with higher legal tender values. There are some Canadian silver \$20 dollar coins. Silver is legal tender in Utah, and can be used to pay all debts.

Fundamental Facts

- The major producers of silver are Peru, Mexico, China, Australia and Chile. Any news regarding the production patterns from these countries affects the prices of silver. So an investor should trace such developments to determine the trading strategies.
- United States, India, Japan and Italy are the most silver consuming nations in the world. The demand patterns from these countries are likely to affect the prices of silver.
- US Dollar and Euro are the major currencies affecting the prices of silver.
- Industry, decorative uses, photography and jewelry accounts for 95% of annual silver consumptions.

Explanation of Charts

Mini-Silver was amongst the highly traded commodities at the MEX during the review period i.e., October 2011 to September 2012 as reflected in the percentage chart below. In October, the uncertainty in the financial

markets revolving around the progress of the US economy and the Greek debt crisis pushed the mini-silver prices up. In spite of the festive session enveloping the investors, the clients undertook 2356 lots during the month. Further dampening of the US economy paid rich dividends for silver as investors turned to the metal for inflation hedge purposes in November. As a result, the volume of silver increased to reach 2441 lots. As a result of the disappointment of many investors not issuing a stimulus plan coupled with the ongoing uncertainty in the EU regarding the European debt crisis, the prices of mini-silver were pressured downwards in December. Due to the uncertainty enveloping the global economy, the investors' perplexity was reflected in the volume as it dropped to 2286 lots.

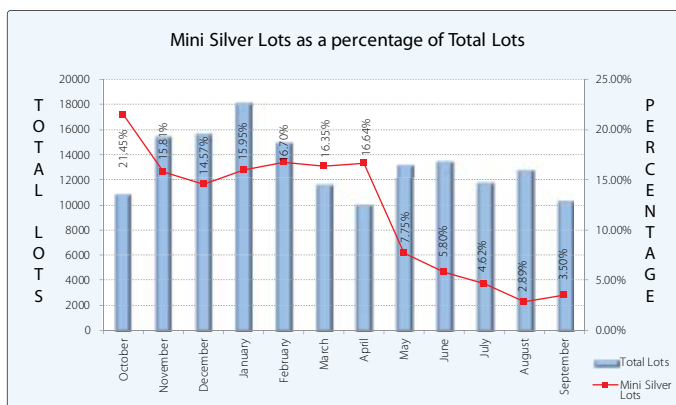
The New Year marked an upsurge in the prices of mini-silver as the pledge of the FOMC to keep the rates low until late 2014 and the "January effect" provided a much needed impetus to the prices. The result was a 26.55% increase in the volume, thereby touching the review high volume of 2893 lots. February marked a further hike in the prices of silver due to the decision of the EU leaders to approve the bailout package for Greece. Subsequently, the volume attained during the month was 2499. After a continuous rise in the prices, silver had a free fall during the month of March due to the FOMC decisions to keep the policy unchanged and the non-implementation of QE3 for the time being. Consequently, the volume for the month of March declined to reach 1899.

The month of April further dented hopes to the rising silver prices as the investors took a cue from the Fed as it did not introduce additional monetary steps to improve the depleting economy and the situation in the Euro zone did not improve. As a result, the month of April further dampened the silver lots to reach 1670. The speculation surrounding the Greece exit from the EU was



one of the factors bringing the silver prices down in May. The investors took a cue from the preceding sentence and consequently the volumes decreased to reach 1028 during the month of May. In June, the FOMC decision to extend operation twist on the one hand and the EU Summit decision to bailout EU banks and to tighten the supervision on them on the other, changed the course of mini-silver prices upwards. The rally of Euro/USD has also played a role in the recovery as investors booked 780 lots by the end of June.

Mini-silver continued to present an unclear trend during the month of July, as the fall and rise in the Euro/USD coincided with the movement of silver. As a result, the volume for the month declined dramatically to reach 543 at the end. Although, the mini-silver prices rallied during the month of August as renewed expectations of another stimulus plan by the Fed reignited the prices, the investors could only book 370 lots during the month of August. Mini-silver prices resumed their upward trend mainly during the first couple of weeks of the September in anticipation of many bullion traders for another intervention of the FOMC. This bet paid off because on September 13th the FOMC announced it will commence QE3 with no time limit. As a result, the volume for mini-silver reached 363 in the month of September.



Mini Gold

“

World's largest gold producing countries are China, Australia, United States, Russia and South Africa. Also, it is estimated that about 50% of all the gold ever produced has come from South Africa

”



Introduction

Gold, recognized as ‘Yellow Metal’, is an element which is quite resistant to corrosion. Also known as precious metal, it is one of the most expensive elements of this form. Gold is mainly used for jewelry and is also regarded as an inflationary tool. China and Australia are major gold producers in the world, whereas India and China are the top consumers of this metal. Generally gold has negative correlation with USD, the American dollar is considered as the most influencing factor for gold's price.

Fundamental Facts

- Gold is primarily used for making jewelry and trading purpose, followed by industrial, electronics and dentistry use.
- Out of total consumption, jewelry and investment stands around 50% and 40% respectively with remaining 10% in other sectors.

- World's largest gold producing countries are China, Australia, United States, Russia and South Africa. Also, it is estimated that about 50% of all the gold ever produced has come from South Africa.
- The major receptacles of physical gold are Euro zone, US and IMF, holding 10,792.6 tons, 8133.5 tons and 2846.7 tons of gold respectively.
- Traditionally, investors and traders would preserve their assets during hard economic times by investing in precious metal such as gold. Thus, gold can be also recognized as a hedging tool during inflation.

Explanation of Charts

After increase in trading lots for four consecutive months from October 2011 to January 2012, the traded lots saw a declining trend from the month of February and the pattern continued till the month of September,

ending month of the review period. With the buoyant market in the month of October, the market traded 1,240 lots for the month, representing 11.29 percent of total lots traded. Amidst ongoing euro debt issues and concerns over Euro economic outlook, the gold rallied for the month of November with trade lots of 1,461. In line with the bullish gold market or significant buying pressure in the market and surged speculations, the gold had rallied in the month of November. With bearish gold market for the month of December amid stabilization of Euro, European stocks and positive U.S economic outlook, the selling pressure gushed the trading lots for the month to a higher level of 2,026 lots.

Rise in international jewelry demand, particularly in India and improving U.S economic indicators, especially U.S factory data and output, the gold rallied in the month of January in double digit. Considering the

Commodity Insights

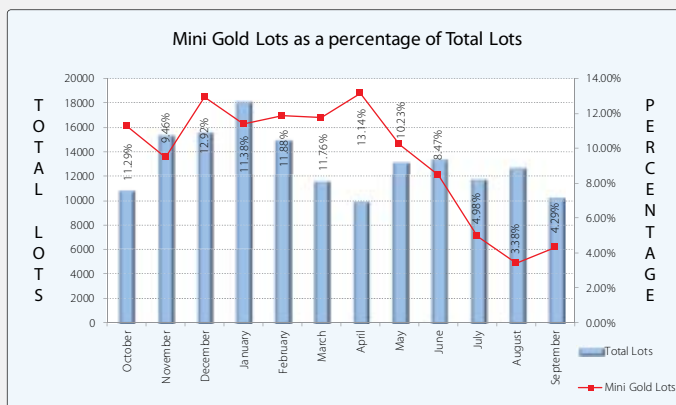
fundamentals, the market exhibited bullish pattern for the month, reversed from the month of December which showed bearish pattern, the market with mixed sentiments presented the trading volume of 2,064 lots, highest level during the review period. Along with the rise in the value of the green back and easing of equity market from the beginning of February amid positive U.S data including increasing worries over China and Greece, the prices of gold for the month saw a bearish run and the market over growing concerns and fluctuating scenario significantly reducing the lots for the month, taking the total trade volume to a lower level of 1,778 lots.

As price of the yellow metal for the month of April remained almost unchanged, stabilized after bearish run of the month of

March, though some gains in the first quarter of the month, the market having mixed sentiments went on a wait and watch mode, which led to fall in transaction volume to 1,319 lots, 13.14 percent of total lots traded, highest percent of total traded lots for the review period. With bearish market for the month, the trading remained at 1,357 lots for the month of May, a slight rise in trading volume from the previous month, i.e., April. With U.S equities market adding losses, the gold price surged by around 4 percent from the very beginning of the month of June. With increasing speculation on gold accompanied by high conjecture of new round of U.S monetary stimulus on disappointing job data, the price of gold enhanced and resulted in increased aggregate long position. Despite rise in prices of gold, the volume for

the month of June declined to reach a level of 1,139 lots, which significantly fell to 585 lots in the month of July.

During the ending months of the review period, i.e., August and September, despite bullish gold market, the trade volume for the months were observed 433 lots and 445 lots respectively. Regardless of favorable gold market at the international market, adverse commodity market circumstances in Nepal and unaccommodating local media publications against commodity market combined with impediment in promulgation of regulation played a significant part in lowering the trading volume in Nepalese market in the ending months of the review period.





Palladium

palladium is mostly responsive to economic supply and demand as other precious metals

Introduction

Discovered by William Hyde Wollaston in 1803, Palladium is a rare and lustrous silvery-white metal. Palladium is one of the constituents of the platinum group metal (PGMs) along with platinum, rhodium, ruthenium, iridium and osmium. These have similar chemical properties but palladium has the lowest melting point and is the least dense in the group. Palladium is used as an auto catalyst in the automotive sectors, industrial applications, jewelry purposes and as an investment tool. The main reference price for palladium is the London Fix which is considered as the international benchmark. The quotation is done twice a day and it is used for most of the deals. The fixing is transmitted by international agencies and it is widely followed by producers and industrialists all around the world.

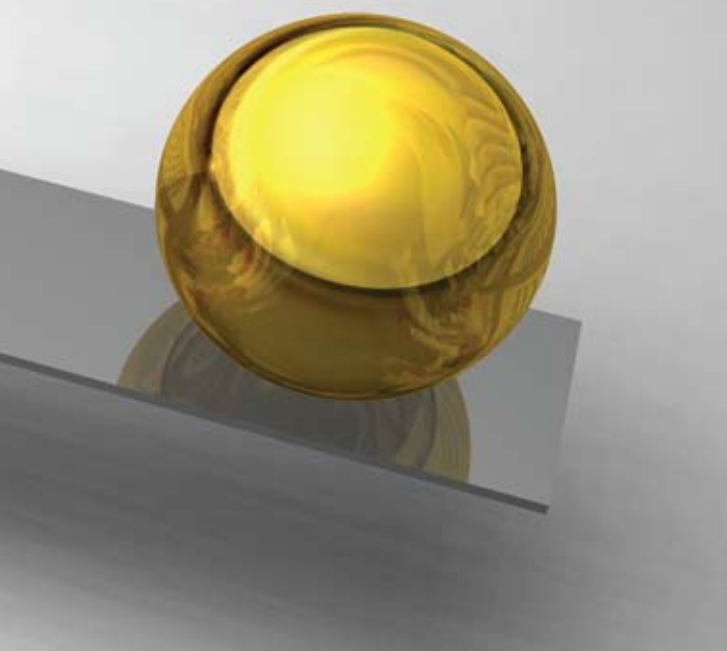
Fundamental Facts

- The price of palladium is mostly responsive to economic supply and demand as other precious metals.
- Since the supply of palladium is very limited, the prices are more volatile than the other industrial metals.
- The exporting policies of the major producing nations including Russia and South Africa affect the prices.
- The size and availability of the Russian palladium stockpiles as well as the economic situation of the main consuming countries including USA, Japan and Europe also affects the prices.
- Prices of the other precious metals may also play an important role since there are some substitution effects among them.

Explanation of Charts

Palladium is one of the less traded commodities in the MEX terminal. In the review period only two months saw the number of lots in double figure whereas four months saw no trade at all. The news regarding palladium is very rarely published at the international media which limits the trader to trade for the commodity. The month of October, 2011 saw only 2 lots being traded as reports from Russia showed that last 9 tones from the state stockpiles of palladium will be shipped in 2012 and 2013. However, there was lesser volatility in the price which saw trader less interested in the trading. On the other hand, the month of November, 2012 saw an eight fold increase in the number of lots to reach 16 which is also the highest lots being traded in the review period. The price of palladium was very volatile in the month of November due

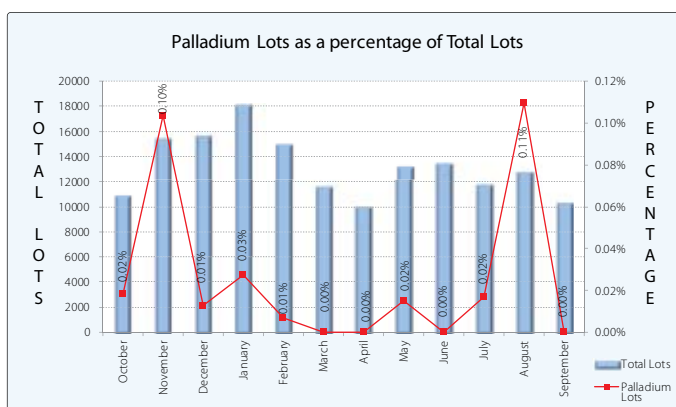
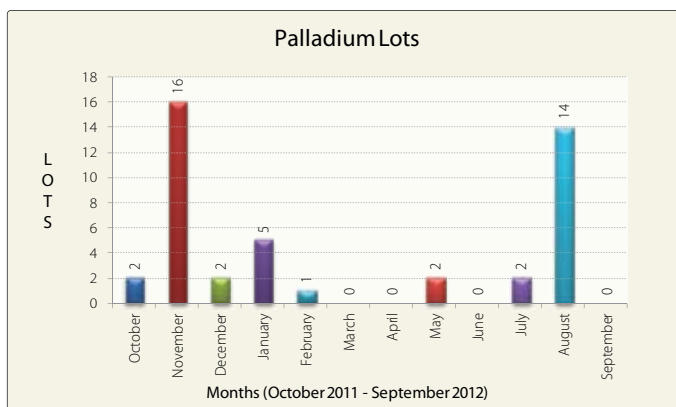
Commodity Insights



to eurozone turmoil. This volatility saw trading at the highest level in the year.

However, the month of December, January and February saw total lots at 2, 5 and 1 respectively. The palladium market saw some positive news in these periods. The auto sales in the world's largest auto market i.e. US was in positive territory which supported the palladium price. However, the local traders could not encash on this opportunity due to lack of news and analysis about palladium. In all these period, palladium lots as a percentage of total lots remained below 0.10 percentages.

Similarly, the number of trade continued to remain at very low levels during March, 2012 to July, 2012 as total lots in combined was only 4 lots. Moreover, the month of March, April and June saw no trade at all. The improvement in the manufacturing sector in the US didn't affect the volume at MEX terminal as traders seem to be unaware about the news and report regarding this. The month of August saw trade at double figures when lots traded reached 14. This rise in the interest among the palladium trader was due to the news regarding the violence in the South African mines. The strikes and violence clash between police and mining worker forced the South African mine to be closed, subsequently spreading the fear of low supply in the international market and price consequently inclined. However, there was not a single trade in the month of September, 2012. This was because the local trader could not find the major international news regarding the commodity.





Platinum

Introduction

Platinum (Pt) is one of the scantest pure metals on earth with an average abundance of approximately $5\mu\text{g/kg}$. It is usually found in limited quantity in some nickel and copper ores. On earth, 80% of the platinum is found in South Africa, 11% in Russia and 6% in North America. It is 30 times rarer than the yellow precious metal i.e. gold and is a least reactive metal. It is one of the members of a group of six chemical elements that are referred to Platinum Group Elements, commonly called as Platinum Group Metals. Other members of the group are: Palladium, Iridium, Osmium, Rhodium and Ruthenium. It is silvery-white, lustrous, malleable and ductile. Its ductility is more than gold, silver and copper, thus making itself the most ductile pure metal whereas the malleability of gold is higher than that of platinum. It is also one of the densest metals known as it is significantly denser than gold. Because it is highly heat-resistant and corrosion-resistant, it is preferred as a tradable metal commodity. The trends up to now show that generally the price of platinum rises during the times of political or economic instability of the major economies in the world.

Fundamental Facts

- Because it is one of the rarest metals on Earth, there are evidences of wild fluctuations in demand and supply of the commodity thus increasing its price volatility and risks for the investors.
- Platinum prices show high correlation with the international prices, especially the global currency dollar, so the strengthening or weakening of the dollar highly affects the price of the platinum.
- As the major uses of the platinum are in the automobile industries and jewelry making, the economic situation of USA, Europe, Japan, China, India, etc. affect the prices of platinum as the demand will be differently placed.



- As a precious metal, the price movement of gold also affects the platinum prices as it will determine the market psychology for the product.
- Periods of sustained economic growth and stability can drive the platinum prices up to double of gold prices but in the recession periods like current time; platinum prices come distinctly below the gold prices.

Explanation of Charts

The decreasing trend of September continued this month too as the trading lots decreased to just 2 lots. The platinum prices saw a slump early due to the decreasing price trend of the overall group of precious metals, especially gold. The investors' sentiment was not overall positive as both the industrial demand and the physical demand were low. Coming to the end of the month, EU's debt crisis management and the rallying gold prices brought it up showing some hope of profit. Likewise, the trading lots increased in the month and reached 18 lots. Both buying and selling positions were beneficial during the month. There were weeks which brought down prices following the turmoil in the Eurozone and there were weeks where changes in the governments in Italy and strong demand in the auto and industrial sectors drove the prices up. Similarly, world's largest central banks announced the coordinated plans to tackle European crisis and China's decision to ease bank's reserve requirements also increased the platinum prices and consequently the lots increased. The trading lots plunged back to 2 lots again in December. In December, the prices of platinum dropped back again replicating the retreating gold prices. The

Commodity Insights



recovery of Eurozone debt crisis seemed doubtful this month also losing investors' confidence and the prices plunged to a 26-year low compared to gold.

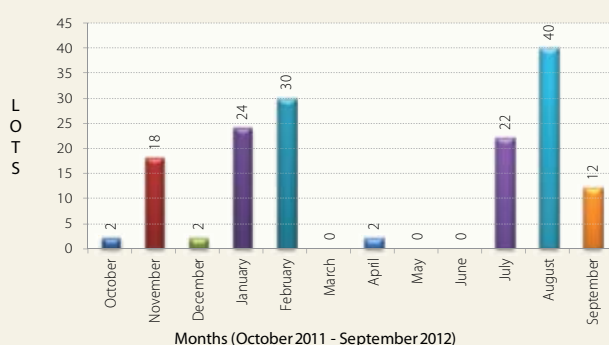
The trading lots increased to 24 lots and showed necessary good signs in the month of January. The reports of the rise in the number of registrations of German new cars by 6.1% worked as much needed catalyst for the platinum price. The speculative and technical buying also encouraged the hike in the prices. There was an unexpected announcement by the US Federal Reserve to hold the interest rates which actually shrunk the dollar and the commodities gained. Then came February, the month with the second highest trade lots, 30. South African government announced a 50% capital gains tax and 50% tax on mining profits which made speculators believe of the decreased output thus increasing the platinum prices. Moreover, loosening Chinese monetary policy, a 130 billion Euro bailout for the Greece and weak dollar helped platinum break the resistance level of \$1700 on 22nd February.

The big drop in the trading lots to 2 lots in April was a result of budget deficit and unemployment in Europe supported by no further quantitative easing by US Federal Reserve. Both gold and platinum plunged in this month. No trades were observed in March, May and June anticipating big losses as gold prices were dipping down. Lots increased to 22 lots in July which remained encouraging. July again showed the increased trade lots due to speculative interest in platinum. The moves by the central banks to increase the liquidity lifted the platinum prices and it was further triggered by the increased purchasing of platinum in Shanghai Gold Exchange. August came up with the highest trade lots of 40 as the geo-political tensions in the Middle East gave support to the gold prices, thus enhancing the platinum prices and increasing the lots. The decrease in the trade lots to 12 in September was not influenced by any international news but the internal news scams of the daily newspapers in the country which significantly brought it down.

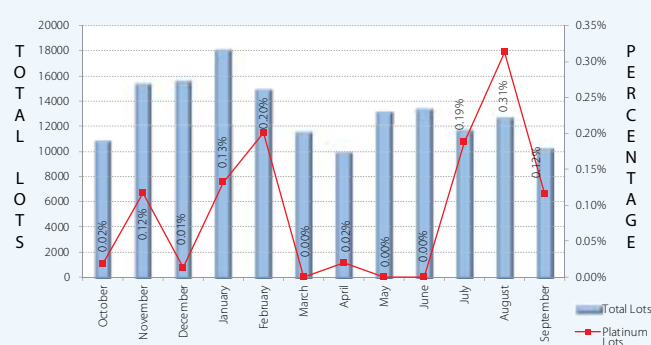
Platinum prices show high correlation with the international prices, especially the global currency dollar.



Platinum Lots



Platinum Lots as a percentage of Total Lots



Commodity Insights



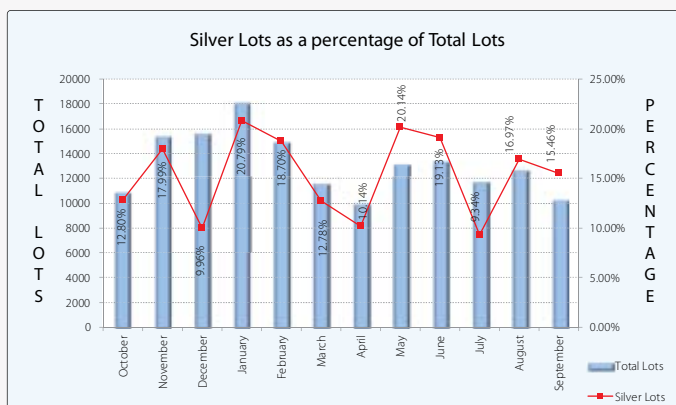
Introduction

Silver is a white, soft, lustrous transition metal, which has the highest electrical conductivity of any element and the highest thermal conductivity of any metal. Mostly, silver is produced as a by-product of copper, gold, lead and zinc refining. Silver has long been valued as a precious metal, and it is used to make ornaments, jewelry, high value tableware, utensils and currency coins. Silver is often considered as the “poor man’s gold” as it has been quietly climbing the investment and demand charts since its discovery thousands of years ago. Its unique properties make it ideal for thousands of applications used in everyday life. The top three producers in the year 2009 were Peru, India and China. While looking at the consumption side, the largest consumer of silver is the United States followed by India, Japan, and Italy. 75% of silver’s production comes from gold, copper, lead, and zinc mining which is why changes in these other industries have a large impact on the price of silver. On the demand side, silver (like most commodities) benefits from strong world growth, a weaker U.S. dollar, and increasing use in electronic applications. With so much of news available for precious metal, investors are highly interested to trade in this commodity.

“

US Dollar and Euro are the major currencies affecting the prices of silver.

”



Commodity Insights

Silver, like other precious metals, may be used as an investment. For more than four thousand years, silver has been regarded as a form of money and store of value. However, since the end of the silver standard, silver has lost its role as a popular legal tender in many developed countries such as the United States. In 2009, the main demand for silver was for industrial applications (40%), jewelry, bullion coins and exchange-traded products. Millions of Canadian Silver Maple Leaf coins and American Silver Eagle are purchased as investments each year. The silver maple leaf is legal tender, at \$5 per ounce, and there are many other silver coins with higher legal tender values. There are some Canadian silver \$20 dollar coins. Silver is legal tender in Utah, and can be used to pay all debts.

Fundamental Facts

- The major producers of silver are Peru, Mexico, China, Australia and Chile. Any news regarding the production patterns from these countries affects the prices of silver. So an investor should trace such developments to determine the trading strategies.
- United States, India, Japan and Italy are the most silver consuming nations in the world. The demand patterns from these countries are likely to affect the prices of silver.
- US Dollar and Euro are the major currencies affecting the prices of silver.
- Industry, decorative uses, photography and jewelry accounts for 95% of annual silver consumptions.

The New Year marked an upsurge in the prices of silver as the pledge of the FOMC to keep the rates low until late 2014 and the "January effect" provided a much needed impetus to the prices. The result was a 141.36% increase in the volume, thereby touching the review high volume of 3770 lots. February marked a further hike in the prices of silver due to the decision of the EU leaders to approve the bailout package for Greece. Subsequently, the volume attained during the month was 2798. After a continuous rise in the prices, silver had a free fall during the month of March due to the FOMC decisions to keep the policy unchanged and the non-implementation of QE3 for the time being. Consequently, the volume for the month of March declined to reach 1485.

The month of April further dented hopes to the rising silver prices as the investors took a cue from the Fed as it did not introduce additional monetary steps to improve the depleting economy and the situation in the Euro zone did not improve. As a result, the month of April further dampened the silver lots to reach 1018. The speculation surrounding the Greece exit from the EU was one of the factors bringing the silver prices down in May. The investors took a cue from the preceding sentence and consequently the volumes increased by 162.38% to reach 2671 during the month of May. In June, the FOMC decision to extend operation twist on the one hand and the EU Summit decision to bailout EU banks and to tighten the supervision on them on the other, changed the course of silver prices upwards. The rally of Euro/USD has also played a role in the recovery as investors booked 2573 lots by the end of June.

Silver continued to present an unclear trend during the month of July, as the fall and rise in the Euro/USD coincided with the movement of silver. As a result, the volume for the month declined dramatically to reach 1098 at the end. Silver prices rallied during the month of August as renewed expectations of another stimulus plan by the Fed reignited the prices. The result was an upsurge in the volume of silver to reach 2171 during the month of August. Silver prices resumed their upward trend mainly during the first couple of weeks of the September in anticipation of many bullion traders for another intervention of the FOMC. This bet paid off because on September 13th the FOMC announced it will commence QE3 with no time limit. As a result, the volume for silver reached 1603 in the month of September.



Explanation of Charts

Silver garnered immense attraction during the review period i.e. October 2011 to September 2012, from investors. The volumes grew substantially from the previous years as investors flocked to silver to enhance profit levels. In October, the uncertainty in the financial markets revolving around the progress of the US economy and the Greek debt crisis pushed the silver prices up. But due to the festive session enveloping the investors, the clients could not muster many lots as it reached 1406 during the month. Further dampening of the US economy paid rich dividends for silver as investors turned to the metal for inflation hedge purposes in November. As a result, the volume of silver increased by 98.58% to reach 2778 lots. As a result of the disappointment of many investors not issuing a stimulus plan coupled with the ongoing uncertainty in the EU regarding the European debt crisis, the prices of silver were pressured downwards in December. Due to the uncertainty enveloping the global economy, the investors' perplexity was reflected in the volume as it dropped to 1562 lots.

Small Gold

Introduction

Gold, recognized as 'Yellow Metal', is an element which is quite resistant to corrosion. Also known as precious metal, it is one of the most expensive elements of this form. Gold is mainly used for jewelry and is also regarded as an inflationary tool. China and Australia are major gold producers in the world, whereas India and China are the top consumers of this metal. Generally gold has negative correlation with USD, the American dollar is considered as the most influencing factor for gold's price.

Fundamental Facts

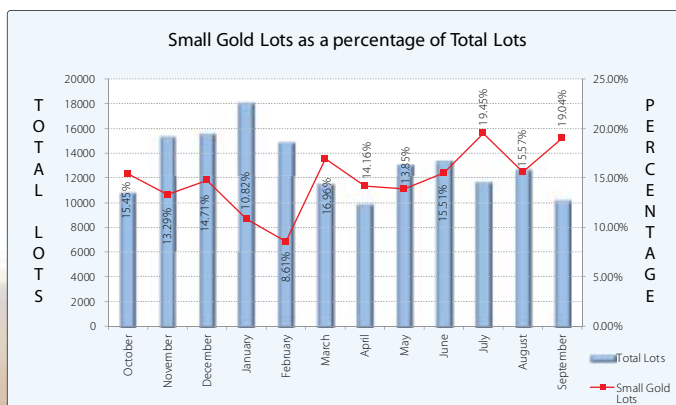
- Gold is primarily used for making jewelry and trading purpose, followed by industrial, electronics and dentistry use.
- Out of total consumption, jewelry and investment stands around 50% and 40% respectively with remaining 10% in other sectors.
- World's largest gold producing countries are China, Australia, United States, Russia and South Africa. Also, it is estimated that about 50% of all the gold ever produced has come from South Africa.
- The major receptacles of physical gold are Euro zone, US and IMF, holding 10,792.6 tons, 8133.5 tons and 2846.7 tons of gold respectively.

- Traditionally, investors and traders would preserve their assets during hard economic times by investing in precious metal such as gold. Thus, gold can be also recognized as a hedging tool during inflation.

Explanation of Charts

The trade lots from October 2011 to September 2012 remained volatile and fluctuating month after month. With the bullish market in the month of October, the market traded 1,697 for the month, representing 15.45 percent of total lots traded. In line with ongoing euro debt issues and concerns over Euro economic outlook, the gold rallied for the month of November with trade lots of 2,052 amidst bullish market or buying pressure in the market and speculations. With bearish market for the month of December amid stabilization of Euro, European stocks and positive U.S economic outlook, the selling pressure surged the trading lots for the month to a peak level of 2,307 lots, highest for the accounted period, i.e., October 2011 to September 2012.

Rise in international jewelry demand, particularly in India and improving U.S economic indicators, especially U.S factory data and output, the gold rallied in the month



Commodity Insights

of January in double digit. Considering the fundamentals, the market exhibited bullish pattern for the month, reversed from the month of December which showed bearish pattern, the market with mixed sentiments presented the trading volume of 1,962 lots. Along with rise in the value of the green back and easing of equity market from the beginning of February amid positive U.S data including increasing worries over China and Greece, the prices of gold for the month saw a bearish run and the market over growing concerns and fluctuating scenario significantly reduced the lots for the month, taking the total trade volume to a meager level of 1,288 lots, lowest for the accounted period. With the continued bearish run in the gold market, the increase in selling pressure gave an increase of around 50 percent lots in the month of March with total lots of 1,970.

As price of the yellow metal for the month of April remained almost unchanged, though some gains in the first quarter for the month, the market having mixed sentiments went on to wait and watch mode, which led to fall in transaction volume to 1,422 lots. With bearish market for the month, the trading remained at 1,837 lots for the month of May. With U.S equities market adding losses, the gold price surged by

4 percent from the very beginning of the month of June. With increasing speculation on gold accompanied by high conjecture of new round of U.S monetary stimulus on disappointing job data, the price of gold boosted and resulted in increased aggregate long position. The volume for the month of June remained 2,086 lots and the similar pattern with continued market sentiments was seen in the month of July as well with contract lots of 2,287.

“
World's largest gold
producing countries are
China, Australia, United
States, Russia and
South Africa. Also, it is
estimated that about
50% of all the gold ever
produced has come
from South Africa
”

During the ending months of the review period, i.e., August and September, with bullish gold market, the trade volume for the months were observed 1,992 lots and 1,974 lots respectively. The major reason for confident gold futures was stimulus packages (buy back of mortgaged backed securities worth \$40 billion a month until the situation improves in U.S, to improve employment situation and overall economic indicators), which encouraged investors to go for gold as a safe investment alternative and eventually prevent themselves from declining green back. Further, downfall of major blue chip companies in U.S can be also deemed responsible for increase in demand for the yellow metal internationally. Despite favorable gold market at international market, adverse commodity market circumstances in Nepal and unsupportive local media publications against commodity market combined with delay in promulgation of regulation played a significant part in lowering the trading volume in Nepalese market, combined with lowered market confidence.



Small Silver



Introduction

Silver is a white, soft, lustrous transition metal, which has the highest electrical conductivity of any element and the highest thermal conductivity of any metal. Mostly, silver is produced as a by-product of copper, gold, lead and zinc refining. Silver has long been valued as a precious metal, and it is used to make ornaments, jewelry, high value tableware, utensils and currency coins. Silver is often considered as the “poor man’s gold” as it has been quietly climbing the investment and demand charts since its discovery thousands of years ago. Its unique properties make it ideal for thousands of applications used in everyday life. The top three producers in the year 2009 were Peru, India and China. While looking at the consumption side, the largest consumer of silver is the United States followed by India,

Japan, and Italy. 75% of silver’s production comes from gold, copper, lead, and zinc mining which is why changes in these other industries have a large impact on the price of silver. On the demand side, silver (like most commodities) benefits from strong world growth, a weaker U.S. dollar, and increasing use in electronic applications. With so much of news available for precious metal, investors are highly interested to trade in this commodity.

Silver, like other precious metals, may be used as an investment. For more than four thousand years, silver has been regarded as a form of money and store of value. However, since the end of the silver standard, silver has lost its role as a popular legal tender in many developed countries such as the United States. In 2009, the main demand for

Small Silver Lots



Small Silver Lots as a percentage of Total Lots



Commodity Insights

silver was for industrial applications (40%), jewelry, bullion coins and exchange-traded products. Millions of Canadian Silver Maple Leaf coins and American Silver Eagle are purchased as investments each year. The silver maple leaf is legal tender, at \$5 per ounce, and there are many other silver coins with higher legal tender values. There are some Canadian silver \$20 coins. Silver is legal tender in Utah, and can be used to pay all debts.

Fundamental Facts

- The major producers of silver are Peru, Mexico, China, Australia and Chile. Any news regarding the production patterns from these countries affects the prices of silver. So an investor should trace such developments to determine the trading strategies.
- United States, India, Japan and Italy are the most silver consuming nations in the world. The demand patterns from these countries are likely to affect the prices of silver.
- US Dollar and Euro are the major currencies affecting the prices of silver.
- Industry, decorative uses, photography and jewelry accounts for 95% of annual silver consumptions.

Explanation of Charts

Small silver was amongst the highly traded commodities at the MEX during the review period i.e. October 2011 to September 2012 as reflected in the percentage chart below. In October, the uncertainty in the financial markets revolving around the progress of the US economy and the Greek debt crisis pushed the small silver prices up. In spite of the festive session enveloping the investors, the clients undertook 1166 lots during the month. Further dampening of the US economy paid rich dividends for small silver as investors turned to the metal for inflation hedge purposes in November. As a result, the volume of small silver increased by 119.30% to reach 2557 lots, the highest for the review period. As a result of the disappointment of many investors not issuing a stimulus plan coupled with the ongoing uncertainty in the EU regarding the European debt crisis, the prices of small silver were pressured downwards in December. Due to the uncertainty enveloping the global economy, the investors' perplexity was reflected in the volume as it dropped to 2401 lots.

The New Year marked an upsurge in the prices of small silver as the pledge of the FOMC to keep the rates low until late 2014

and the "January effect" provided a much needed impetus to the prices. The result was an attainment of 1833 lots during the month of January. February marked a further hike in the prices of small silver due to the decision of the EU leaders to approve the bailout package for Greece. Subsequently, the volume attained during the month was 2013. After a continuous rise in the prices, small silver had a free fall during the month of March due to the FOMC decisions to keep the policy unchanged and the non-implementation of QE3 for the time being. Consequently, the volume for the month of March declined to reach 1666.

The month of April further dented hopes to the rising silver prices as the investors took a cue from the Fed as it did not introduce

additional monetary steps to improve the depleting economy and the situation in the Euro zone did not improve. As a result, the month of April further dampened the silver lots to reach 1401. The speculation surrounding the Greece exit from the EU was one of the factors bringing the small silver prices down in May. The investors took a cue from the preceding sentence and consequently the volumes decreased to reach 1391 during the month of May. In June, the FOMC decision to extend operation twist on the one hand and the EU Summit decision to bailout EU banks and to tighten the supervision on them on the other, changed the course of small silver prices upwards. The rally of Euro/USD has also played a role in the recovery as investors booked 1224 lots by the end of June.

Small silver continued to present an unclear trend during the month of July, as the fall and rise in the Euro/USD coincided with the movement of silver. As a result, the volume for the month inclined dramatically to reach 1574 at the end. Although, the small silver prices rallied during the month of August as renewed expectations of another stimulus plan by the Fed reignited the prices, the investors could only book 1293 lots during the month of August. Small silver prices resumed their upward trend mainly during the first couple of weeks of the September in anticipation of many bullion traders for another intervention of the FOMC. This bet paid off because on September 13th the FOMC announced it will commence QE3 with no time limit. As a result, the volume for mini-silver reached 1202 in the month of September.

“Small silver was amongst the highly traded commodities at the MEX during the review period i.e. Oct. 2011 to Sep. 2012”

