

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

MEX EXPRESS

A Smart Solution for Online Trading

www.mexnepal.com

Volume: 6 • Issue: 1 • Year: 2014 A.D

KYC: Crude Oil

PAGE 2



MEX News Portal

PAGE 3



Market Perspective

PAGE 4



From the CEO's Desk



Looking at the pages of our glorious past, I am extremely proud of what we have achieved and even more eager about our outlook for an equally promising future. As we step into the 6th year of our operations,

we have successfully transformed from a start-up to becoming, without any exaggeration, the leading commodity exchange in the country. This accomplishment has been the concentrated effort of all the stakeholders involved and has placed the organization on a pedestal, building our clients trusts along the way while garnering business across the nation. While conveying the success story of MEX, I always fall back on three guiding principles- each of which has helped define who we are today.

Transparent Perspective: As we continue to tread on a given path, each new day offers new chance for us to grow together, pursue opportunities and improve upon the past. We have always maintained in-depth relationship with our clients by studying their environments, challenges and goals, so that we can offer tangible solutions with a candid perspective. We have and will always manage our business around the evolving requirements of our clients thereby being at the forefront of change and value - since value is what our clients demand.

Impeccable Mechanism: In an evolving marketplace, the mechanism has been constantly developed with due diligence keeping in mind the needs of the market participants. With the introduction of Market Makers, the market has received a thrust and the liquidity has enhanced significantly. The exchange is also constantly reviewing policies and procedures, and upgrading it to the best of our times. I must admit that no mechanism is perfect and there will always be loopholes which can be addressed and rectified yet the mechanism which we are currently following is nearing perfection and we plan to keep the ball rolling to attain it in the ensuing days.

Competent Employees: The most important assets which have brought the exchange through all the hurdles thrown have been the competent employees. With the extensive knowledge base, deep-rooted professionalism and unwavering commitment of our highly-qualified staff, the exchange has always stood the test of time and moved ahead with dignity and a sense of enthusiasm unmatched in many ways. Our team is always committed to delivering highest products to our clients and unparalleled services too.

As I conclude this message, I am taken aback by the past accomplishments but a sudden realization dawns on me-to accomplish further, we cannot remain stagnant! The best is surely yet to come!

- Jitesh Surendran

Metal: Trendish in 2014

Metals are one of the major commodities that are traded in the exchanges all around the globe. In the commodity markets, metals are very luring for the investors. The reasons for the higher demand of the metal commodities are the higher values of the commodities and comparatively easier analytical forecast. Usually, metals can be divided into: Precious Metals and Base Metals (Industrial Metals). The examples of Precious Metals are Gold, Silver, Platinum, Palladium, etc. whereas the examples of base metals are copper, zinc, nickel, aluminum, etc.

When the world came across the global financial crisis during 2008/09, the prices of not only metals, but many others collapsed. By now, most of the prices have revived already and few are very close to doing the same. It was already in February of 2011 when the World Bank metals price index increased by 164 percent to reach the value of 126 in comparison to the low of December 2008. There were several increases as such with major commodities before the complete revival from the financial crisis. Investments already increased and there was strong supply response of the commodities which justified that the increment observed was sustainable. The decline was very worrisome upto the start of 2011 but the institutions and the countries had already started the counter measures by then which demystified the effects of financial crisis. The major portion of the increased supply of the metal was for the massively growing China whose consumption share reached to 45 percent. Upto last year, the share was only around 42 percent whereas upto two decades back, the consumption share was only 5 percent.

From the above discussion, we can see that the decline in the price level halted after a certain time but it was very unfortunate that the halt did not last long and the coming to 2014, the decline in the World Bank metals price index came down by 3 percent. During the first quarter of 2014, when the price declined, it was obvious that Chinese imports slowed down significantly. Besides that, the lowering of investment activity trying to cash-in the booming property market also posed a serious threat to the price level. For example, development of Chinese imports of aluminum, zinc, copper and iron ore has braked to zero or turned destructive in three months to February after facing growth rates in excess of 50 percent in three months to November. The Commodity Outlook Report shows that prices for lead, tin, copper, aluminum and iron ore declined 0.6, 1, 2, 3 and 11 percent respectively. Exceptions to this trend were nickel and zinc whose prices increased (up 6 percent each).

Figure 14 Precious metal prices



Source: World Bank.

It would be interesting to know that the recent data show Nickel as the most traded metal commodity in the world. How did it happen that Nickel emerged being so special for the commodity market overtaking Gold or Platinum? The major reason why Nickel emerged up in the market was the Indonesia's imposition of an export ban on unprocessed ore which was adopted in January 2014 also being escalated by the concerns over Russian supply activities. These two countries hold around 40 percent of the mined nickel in the world which is the most important ingredient for the steel-making. Commodity Market Outlook in April states "China relies heavily on Indonesian nickel ore to produce nickel pig iron, a less expensive alternative to refined nickel. If the Indonesian ore supply is permanently removed from the market, China will be forced to substitute with higher-grade metal, which could dramatically change the market which has been plagued with chronic stocks and over-supply since the financial crisis in 2008."

Presently, the stockpiles of the metals have gone down in major exchanges, only by 0.5 percent though, but if the historical standards are seen, the levels can be interpreted as going up. For example, nickel stocks are up 72 percent at end-2014Q1 (y/y). Aluminum stocks, which have been rising since end-2008, increased just 0.2 percent during the same

period, but they remain near their 10-year peaks. Stocks of copper, lead, tin and zinc are all down (approximately 30 percent each) over a year ago, but nonetheless remain well above their 10-year averages.

Though metal prices went down by almost 5 percent in 2013, which was the result of supply concerns and weaker demand; the results might show difference in 2014. Though silver prices showed a decline of 1.5 percent, the increment in gold and platinum prices have covered it up. Gold prices, though being volatile look to show some bullish signals according to the report. Similarly, never ending labor strikes in South Africa look to escalate the Platinum prices in the market.

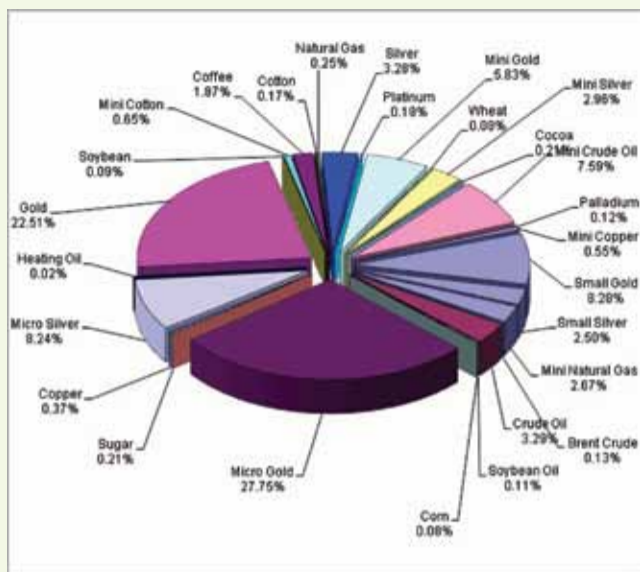
Besides that, resolution of India's limits on gold imports to check its current account shortage and China's efforts to adjust its "shadow banking" system might put extra sliding pressure on prices, given that gold has been used as a security in financing deals.



Chittaranjan Pandey
Assistant Manager
Research & Development
MEX Nepal

Market Capitalization - Futures Contracts

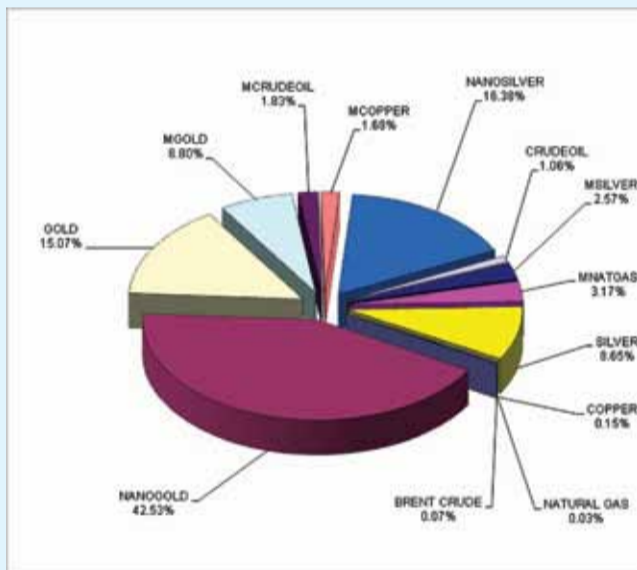
From January 2014 - March 2014 (in%)



Market Capitalization of all the future contracts listed in the MEX terminal. Micro Gold has the maximum capitalization followed by Gold & Small Gold.

Market Capitalization - Spot Contracts

From January 2014 - March 2014 (in%)



Market Capitalization of all the spot contracts listed in the MEX terminal. Nano Gold continues to have the maximum capitalization followed by Nano Silver and Gold.

Know Your Commodities

Crude Oil

Introduction

It is often known as ‘black gold’ or ‘Texas Tea’. Crude oil is the unprocessed oil that is found beneath the earth’s surface differing in color and viscosity and found in the form of liquid or solid. It is made up of hydrocarbon compounds which consists of Paraffins, Aromatics, Napthenes or Cycloalkanes, Alkanes. It is also known as ‘Mother of all Commodities’ because of its use in the manufacturing of numerous products, including gasoline, synthetic fabrics, plastics and pharmaceuticals. It accounts for 40% of the world’s primary energy consumption followed by coal (23%) and natural gas (22%). OPEC countries hold around 81% of total oil reserves with 66% located in the Middle East alone. It is a non-renewable source of energy and has high economic value.

• USA is the world’s largest consumer of crude oil followed by China, Japan, India and Saudi Arabia.

• OPEC countries control 44% of the world’s daily production thus making control over oil prices.

• The prices of crude oil are usually very volatile and depend on the demand and supply of oil. Amid from the demand and supply, political instability in the Middle East usually impacts the crude oil prices.

• World oil prices move together due to arbitrage.

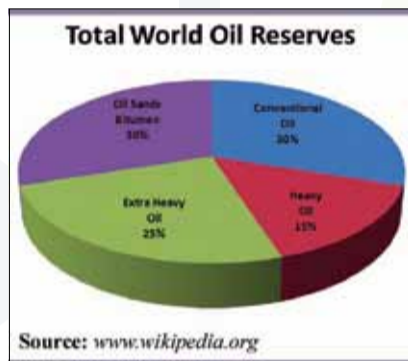
• It may cause inflation and affects the pricing of almost everything.

• Seasonal demand and demand spikes For example: During the second quarter of the year the refineries in Europe and North America undergo maintenance.

• Cost of oil production and refining along with technological progress. New technological process in extraction of oil is used known as hydraulic fracturing or

CRUDE OIL CONTRACT SPECIFICATION	
Name	Crude Oil
Symbol	CRU
Contract Size	200
Unit	US Barrels
Price Quoted	NPR / Barrel
Trading Hours	00:00 - 02:45
Quality	Light Sweet Crude API Gravity: 37-42 degree, Sulfur content: less than or equal to 0.42%
Contract Months	All Months

fracking.
 • Shipping availability, freight rates, market trading activities and strategies.
 • Short term decisions of oil producing countries, changes in economic conditions or sentiment in both the short and longer term, investment in new oil production/ refining capacity.



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.

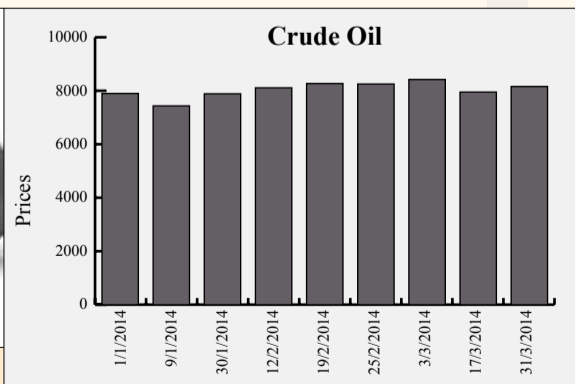
Some facts about Crude Oil

• The biggest reserve of crude oil is in Venezuela, Saudi Arabia, Canada, Iran and Iraq respectively.

• The major oil producing countries are Russia, Saudi Arabia, United States, Iran and China.

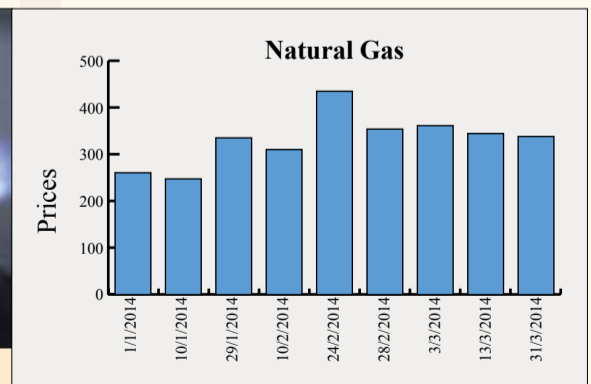


Major Market Movers for Crude Oil & Natural Gas(1st January-31st March 2014)



Note:

Date	News
1/1/2014	Opening Price as of 1st January 2014
9/1/2014	Weaker job data in USA
30/1/2014	Strong demand of oil
12/2/2014	Strong technical buying
19/2/2014	Optimism in the market
25/2/2014	Market Interaction for the positions
3/3/2014	Highly felt demand pressure
17/3/2014	Rise in the oil inventory
31/3/2014	Closing Price as of 31 March 2014



Note:

Date	News
1/1/2014	Opening Price as of 1st January 2014
10/1/2014	Pessimism spread throughout the energy market
29/1/2014	Higher Demand as winter control measure
10/2/2014	Higher stockpiles of the product
24/2/2014	Weather towards the end of winter
28/2/2014	Decrease in the demand of the natural gas
3/3/2014	US Federal Reserve Policy Meeting
13/3/2014	Rise in the inventory level
31/3/2014	Closing Price as of 31 March 2014



MEX Awards the Best Performers

Mercantile Exchange Nepal Limited (MEX Nepal), a leading commodity exchange in NEPAL, has completed its 5th year of successful business and has continued its "Annual Award Winners" series since 2010 to motivate our valuable brokers.

As we enter our sixth year of operations, we would like to take this opportunity to thank all our valued Stakeholders, Brokers and Well wishers for their continuous allegiance and cooperation.

- | | | |
|--------------------------------|---|--|
| 1. Best Service | - | Money Plus and Securities Pvt. Ltd. |
| 2. Best Compliance | - | Deeplaxmi Commodities Services Pvt. Ltd. |
| 3. Best Business Development | - | Norex Pvt. Ltd. |
| 4. Best Emerging Broker | - | Lima Investment Pvt. Ltd. |
| 5. Most Promising Broker | - | Expedient Securities Pvt. Ltd. |
| 6. Most Consistent Broker | - | Jambhala Investment Pvt. Ltd. |
| 7. MEX Legend of the Year 2013 | - | Jambhala Investment Pvt. Ltd. |



MEX Nepal signed MOU with Pioneer Academy

MEX Nepal is proud to introduce MCDB [MEX Certified Derivative Basics] in joint initiation with Pioneer Professional Academy. Along with the development of the understanding and expertise of the market participants and also keeping in mind the exponential growth of the Nepali commodity market in the preceding years, dissemination as well as enhancement of knowledge is indispensable. The main purpose of this program is to cater the needs of the evolving dynamics of commodity market.

Pioneer Professional Academy is the designated training institute for the program. This is a course introduced for all the interested individuals who want to enhance their knowledge in the field of Commodity Market.



Star Grading of Brokers - 2014

MEX Nepal has evaluated its Brokers for Star Grading-2014 on the basis of "Overall business operation and management and Good infrastructure". This time 17 Brokers have topped the chart as Three Star Brokers, 10 Brokers have secured Two Star, 17 brokers have secured One Star while 6 Brokers have entered as New Brokers.

New Corporate Identity of MEX

As an addition to its corporate identity, MEX Nepal has come up with its official "SCREENSAVER". To incorporate all the market participants, business associates and well wishers, the screensaver is available in the website for free download.

Launch of Mini Contracts of Agro Products

Committed to develop Nepalese Commodity Market, MEX Nepal is always in focus to the fulfillment of our market demand. With respect to this, we are pleased to announce the release of new contract size for **Cocoa, Coffee and Sugar** as 'Mini contracts' for practice in demo accounts.

Traders shall choose quantity as "0.5" in the major contracts itself [i.e. CCO, COF and SUG], in order to avail the option to trade in these mini contracts. The contract specification for these mini contracts shall be half of the major contracts in terms of Contract Size, Regular Margin, Intraday Margin, Tick Value and Commission.

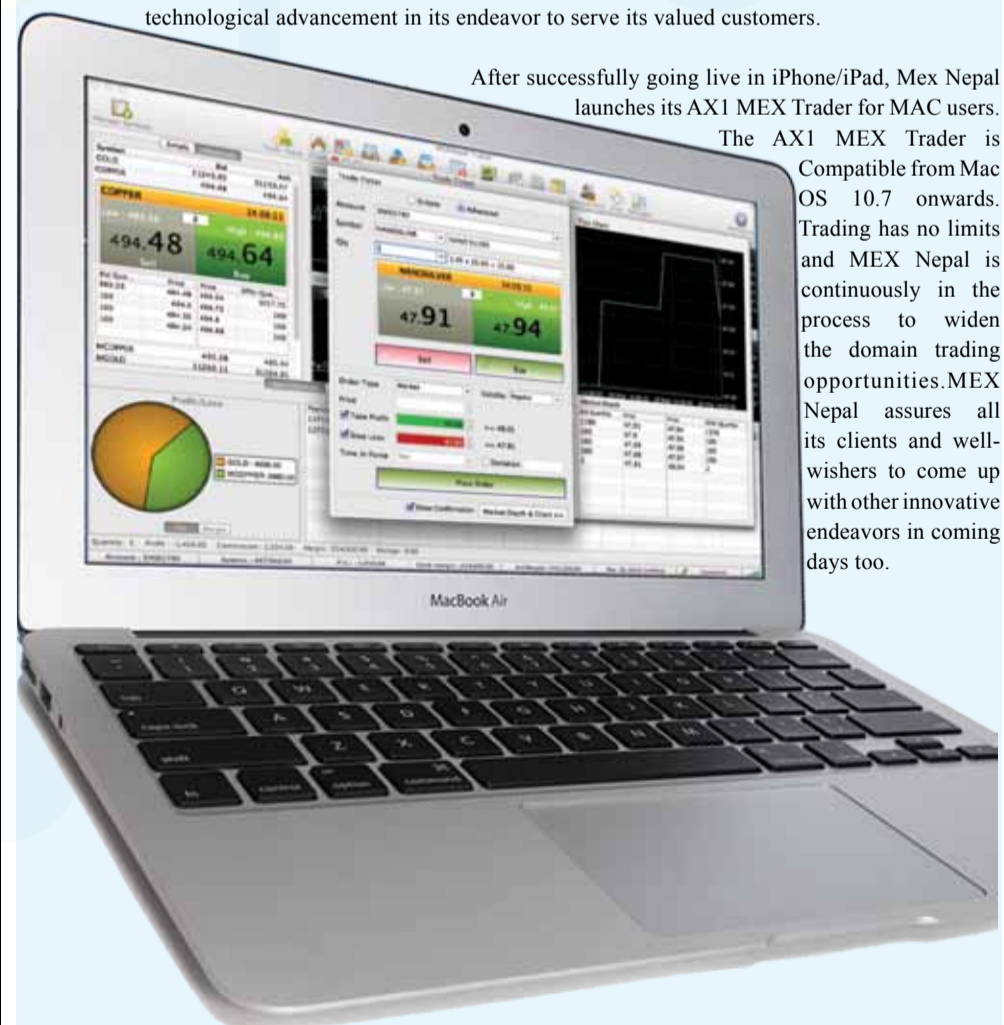


Welcome to the MEX Trader in MAC

With the ever increasing demand for accessible trade platforms, MEX Nepal adds yet another technological advancement in its endeavor to serve its valued customers.

After successfully going live in iPhone/iPad, MEX Nepal launches its AX1 MEX Trader for MAC users.

The AX1 MEX Trader is Compatible from Mac OS 10.7 onwards. Trading has no limits and MEX Nepal is continuously in the process to widen the domain trading opportunities. MEX Nepal assures all its clients and well-wishers to come up with other innovative endeavors in coming days too.



Climate Smart Agriculture - Need or Compulsion!

Climate Change has emerged up a big challenge to the global environment and the economy. Nepal has also identified climate change as a cross-cutting issue by virtue of its nature and impacts. Despite nominal greenhouse gas emission of about 0.025% (NAPA/MOE, 2010), Nepal is listed as country at extreme risk to the impacts of climate change (CCVI, 2014). The underlying fact which makes Nepal fall in the vulnerable category is its geographical position sharing several climatic zones. The other factor attributing to Nepal's vulnerability is its socio-economic status. Lack of livelihood diversification opportunities due to poor resilience and low adaptive capacity exacerbates Nepal's vulnerability and puts majority of its population under the risk of climate change impacts.

Nepal is home to predominantly rural population. Agriculture is the mainstay of Nepali economy. Almost a large majority of 65 percent of Nepali population depend on agriculture for their livelihoods (GoN, 2012). 25 years back, the contribution of agriculture alone to the GDP of Nepal was above 50 percent, but over the years the agricultural share in the country's GDP has declined significantly but on the contrary, the percentage population involved has come down miserly. However, agriculture still represents the dominant sector employing two third of the country's labor force and contributing over one-third of Nepal's GDP. Although, agriculture contributes around 32 percent of the GDP, the contribution is much less than the participation. More than 70 percent of households in Nepal have less than 1 hectare of land and many depend on agricultural lands that are too small to meet their subsistence requirements (GoN, 2011). Despite engaging heavy chunk of population, the agriculture sector fails to yield as per the potential. The major reason for this inefficiency is the heavy dependence on

conventional farming practices and lack of extension services. Moreover, the impacts of climate change also impose heavy challenges to the traditional subsistence farming, making it highly vulnerable.

Any impact on agriculture has direct implications on the livelihood and the economy of an agrarian country like ours. Alteration in temperature and precipitation as a result of global warming has direct impacts on crop yield and food security. Small farmers are the ones who are highly vulnerable to changing climate variability. The limited land ownership and constrained adaptive capacity of the small holder farmers exposes them to bear the adverse impacts of climate change. In addition to this, lack of awareness, lack of prior knowledge and inefficient skills to develop contingent adaptation plans further intensifies their susceptibility.

The impacts of climate change on the small holder farmers are localized and differ as per the region. The farmers in the tarai region are at greater risks of floods and droughts whereas the farmers in hill and mountain are more vulnerable to risks of landslides. Besides the physical factor, the social factor also contributes to farmer's vulnerability.



The higher class people mainly Brahmin/Chhetri with maximum land-holdings (zamindaars/landlords) are dominant factor devolving the welfare of deprived small farmers.

When it comes to climate change related issues, the high dependence of small farmers on monsoon have increased their vulnerability to rainfall variation. At many places, the erratic rainfall has resulted into decline in crop production. There are also evidences of shifting agricultural pattern in the country, due to water scarcity. The shifting from paddy to sugarcane cultivation in the tarai

regions is the contemporary example. Even after the switching of crops, has it been sufficiently able to feed the smallholder farmers' families is yet to find an answer. Similarly, the consequences of untimely and severe hailstones, pre and post-seasonal frost and dews have damaged variety of crops in many part of the country. The higher surface temperatures have led to the emergence of new weeds and pests which has posted new challenges to the entire farming system by increasing farm expenses. The challenges do not end here. The low productivity further adds debt burden of already suffering farmers and forces them to take informal credits from local landlords.

Climate change is not just a distant threat; its impact is already being felt both in the economy as well as environment. The adverse impacts of climate change are taking a toll in country's subsistence farming based economy. These impacts have to be addressed in order to secure the livelihoods of majority of population and combat food insecurity in the country. For this purpose, the attention has to be drawn towards climate smart agriculture. It is high time we adhere climate resilient agriculture practices. For this, there is a sheer need for endorsing agro-extension programs, diversifying crops varieties, intensifying crop developments, and promoting the cultivation of highly adaptive crop types. Beside this, trainings on better farming practices to improve farmer's technical efficiency is equally important. In nutshell, all these measures are to be implemented as a part of adaptation strategy for enhancing productivity and farm profits and to combat vulnerability of small scale farmers.



Upasna Acharya
Masters in International
Co-operation & Development,
Mid-Western University.
upasna.acharya77@gmail.com

El Niño- A Threat to Most Commodities!

El Niño is a band of extraordinarily warm ocean water that periodically evolves off the Pacific coast of South America and can cause climatic changes over the Pacific Ocean. This warming of Pacific Ocean surface temperatures which occurs every few years is capable to trigger drought in some parts of the world and cause floods in some other parts.

El Niño is part of a bigger picture namely 'El Niño-Southern Oscillation' or in short known as ENSO. Southern oscillation follows a vacillate pattern of interchanging surface air pressure between the eastern and western tropical Pacific, which means when the surface pressure is high in the eastern tropical Pacific it is low in the western tropical Pacific and the contrariwise. The warm phase of ENSO is considered as El Niño and the cold phase as La Nina. The simultaneous reversal of the pressure and ocean warming is one reason why scientist called this phenomenon El Niño/Southern Oscillation. However, the causes which ignite oscillation still remain under study.

Looking back in history, El Niño event which happened during the year 1997-98 killed more than 20,000 people and caused around \$97 billion of damage. Climate researchers had warned in January 2014, that intense El Niño events are likely to occur and become more common as earth warms. Many scientists suggested that the impending El Niño may possess many identical characters to the one which happened in 1997, considering the similarity in magnitude. It is said that, the more heat in the Pacific, the bigger the El Niño will be.

A third time official warning, which came in March 2014, regarding the possibility of El Niño weather occurrence alerted farmers and commodity investors as the weather could affect energy and food markets which is already upset from extreme

weather conditions in many parts of the world.

Forecasters seem to be a bit conservative while coming to their prediction about El Niño, mainly because forecasting a big El Niño event would cause a spike in food prices. But researchers consider it may be better to have this price response at an earlier stage where farmers can still adapt, rather than later.

Nevertheless, El Niño events do not have to be a disaster always. They can be turned into benefits if people are prepared for it. For instance, impacts like shifting fish stocks and handling changes in rainfall, except people are informed about the bigger event which is going to take place.

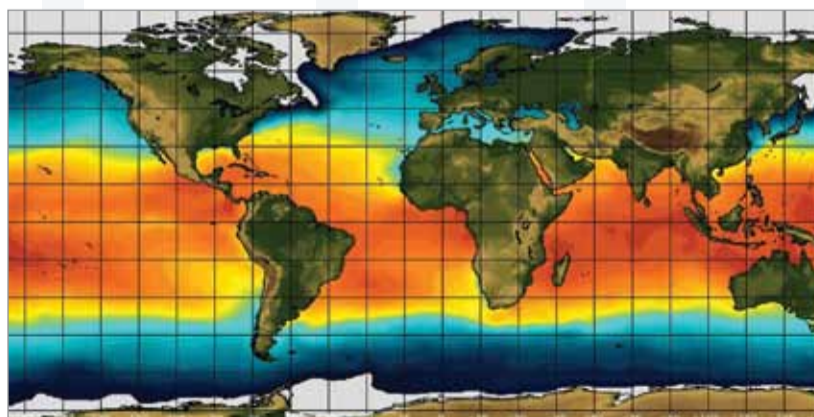
According to reports from Australia's Bureau of Meteorology, the tropical Pacific subsurface had been warmed extensively over the past few weeks, which means temperatures are likely to rise in coming months. A recent rush of westerly winds over the far western Pacific was also seen to be the strongest since 2009. According to Australia's national research agency, a ball of warm water is seen crossing the ocean 150 meters below the surface.

During May 2014, the US National Oceanic and Atmospheric Administration said the odds of an El Niño would exceed 50 percent this year. Its impact

on various harvests and the earth varies; it may pass through unnoticeably like the one that happened in 2010, but it can be intense and felt worldwide as well.

After the U.S. forecaster's prediction, that there is a chance for El Niño to develop this summer, consecutively came Japan's weather forecast of such an event. The last El Niño happened in 1997-98, caused agricultural damage worth billions of dollars in U.S. alone. Everyone from farmers to commodities analysts is watching on as it could cause large harm to products.

Shortage of rainfall caused by El Niño in



Southeast Asia and Australia will slash production of agricultural commodities in countries such as Vietnam, Indonesia and Thailand.

Poorer countries will be most affected from any damage to crops and rise in food prices, although some commodities have already got the effect priced anticipating the possible weather impact. The prospects of potential El Niño have provided some weather risk support to cocoa and palm oil.

Cocoa, mainly produced in West Africa, followed by Ivory Coast and Ghana, rallied 8 percent from the start of the year 2014, which is the highest increase since September 2011. Meanwhile, palm oil which is mainly grown in Malaysia and Indonesia, gained more than 9 percent in 2014.

Commodities such as rubber, wheat, cotton and sugar are also at risk, as both West Africa and Southeast Asia face the hazard of drought caused by El Niño, as do India and Australia. Similarly, temperature rise in the Pacific Ocean would also affect the fishing in Peru, the world's biggest fishmeal exporter. Demand from aquaculture and livestock industries have already dragged fishmeal prices to its historical heights.

US officials said about the categorization of El Niño, namely, weak to moderate, moderate to strong. Episodes during the past, most recently in 2009-10 did not see many increases in global temperatures. However there were very strong events too, like the one in 1997-98, which made a record warm in that year. US climate prediction center predicts the probability of such an event likely in 2015. El Niño in 2015 could influence the prices to attain staggering heights but an investor should wait for the unfolding of the events in order to reap the benefits.

Till then, Adios!



Syed Ahamed Aseel Ali Shihab
Masters in Business Administration
International Islamic University
Malaysia.