

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: 4 • Year: 2014 A.D

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## From the CEO's Desk



Let me congratulate all the market makers who have chosen MEX for market making and thus added value to the Nepalese commodity market. At the

same time we are equally delighted to share with you that we have moved a step further in physical delivery of Silver by adding multiple number of contracts in it.

For MEX Nepal, to educate and train the community of Nepalese commodity market has been a primary objective. To achieve this MEX provides free training at MEX premises. MEX is also continuously organizing SPACE- in various management colleges where the essential topics of commodity derivatives are delivered. Through this effort we are trying to nurture the market participants in terms of commodity knowledge. Till now we have covered most of the business schools inside Kathmandu valley and we are planning to reach graduate and under graduate colleges outside the valley in near future.

Apart from education and training, MEX is providing marketing help to our business associates to explore their business in untouched sectors and thus broaden their prospects. We do believe in growing together by cooperating with each other. Therefore we are always happy to welcome our associates to have common interaction and then build this market towards an integrated dynamism. We hope to maintain enthusiasm, and dedication with constructive efforts of commitment and performance to our clients.

We still have a long journey to travel but our goal is crystalline clear i.e., to lead this market to an esteemed height.

- Jitesh Surendran

## Commodity Portfolio CERTAINTY

Inflation is always a problematic concern for general investors and commodities are highly correlated with inflation. It simply gives an obvious message that it can be used to hedge against inflation as well as to design the risk/return performance of portfolio. Commodity being a diverse kind of asset category is mostly independent of stocks and bonds which makes commodities to draw attention of investors to diversify

their portfolio of stocks and bonds in order to get potential return with calculative risk. Equity and fixed income are considered as conventional mainstays of any portfolio whose value can be managed by adding commodities to make proper balance in the portfolio.

Commodities being tangible assets like gold, silver, cocoa, coffee, wheat etc have tendency to give high returns on investment with calculative risk as we

know \$8 trillions of new commodities are produced worldwide which represent almost 10% of whole world wealth portfolio. This data tells itself that commodity market bears a wide range of opportunities to mitigate risk through different forms of commodities.

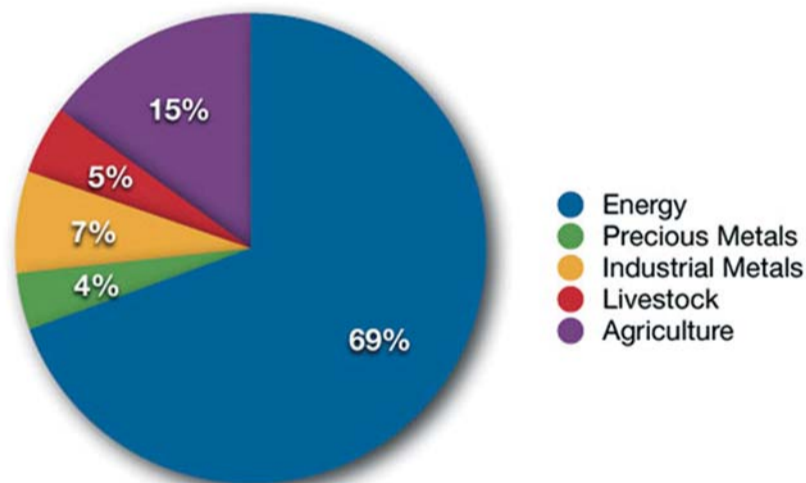
Investor can avail exposure to commodities through various ways like physical commodities, diversified commodity portfolios, natural resources equity, managed funds and commodity indices. Now a days, commodity futures is gaining an imminent edge towards managed portfolios which gives risk adjusted returns through wide range of commodity contracts.

Another beauty of commodity futures investment is that price of two commodities are not highly correlated with each other. the factors affecting the price of cocoa are different from the factors affecting the price of silver or crude oil. Therefore, adding commodity to portfolio is definitely going to give excellent return.

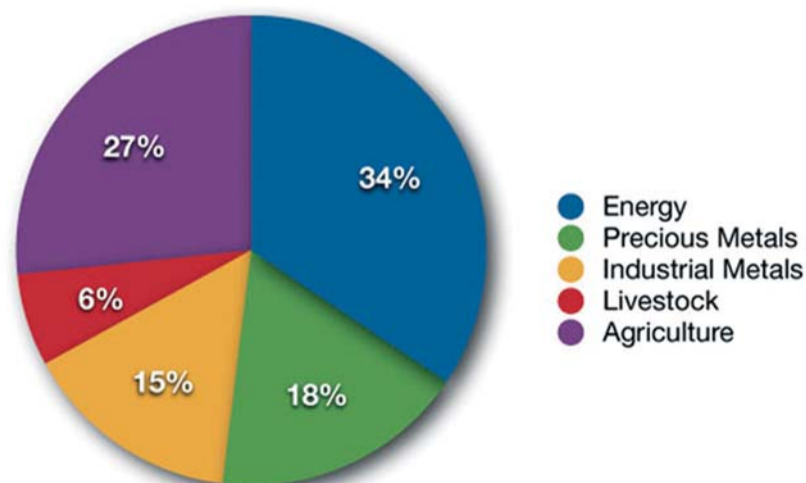
Commodity portfolio managers or AE (Account Executives) make a pool of commodities which is thus used to mitigate risk and have assured return with time. We can see an example of portfolios that have allocated weight to commodities to form portfolios.

Commodity investor can come up with same type of portfolios in Nepalese market too, to take the opportunity of fast growing commodity market, trader may design their own portfolios as per their own requirement so that, loss in one commodity can be recovered by the fund value through other contracts or commodity with the help of long or short positioning. Lastly, all the businesses are having risk but traders/managers need to manage their returns by diversifying the risk while making the portfolio because as safe is better than sorry.

iShares S&P GSCI Commodity-Indexed Trust ETF (GSG)



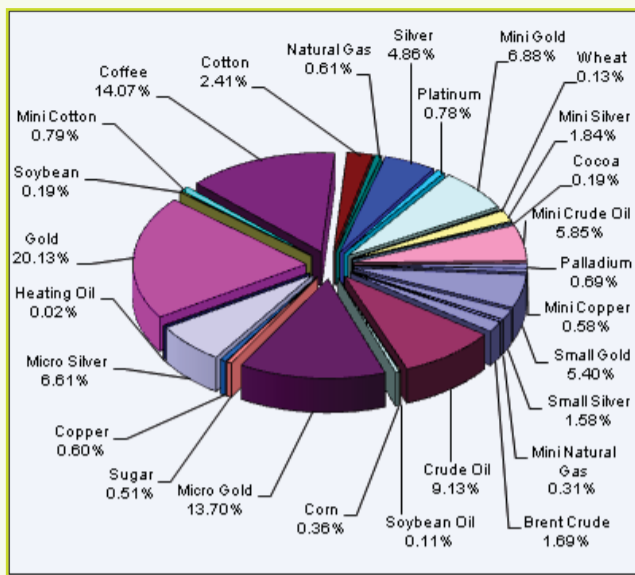
iPath Dow Jones UBS Commodity Index ETN (DJP)



Lakshman Pandit  
Manager  
Business Development  
MEX Nepal

Market Capitalization - Futures Contracts

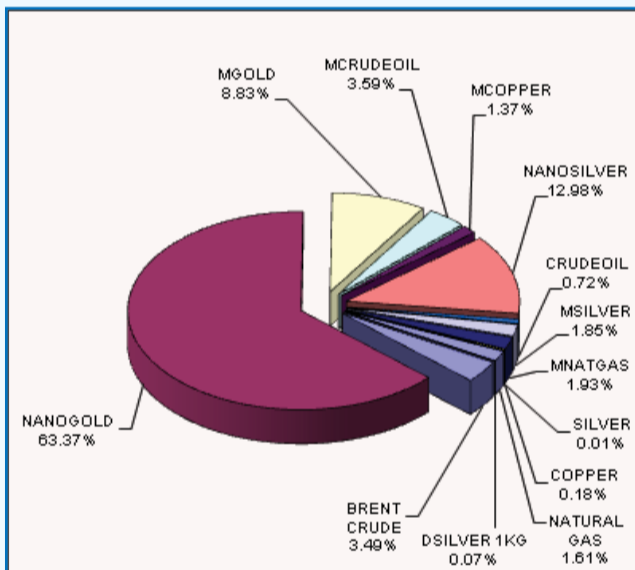
From October 2014 - December 2014 (in%)



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

Market Capitalization - Spot Contracts

From October 2014 - December 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 Mini Gold.

Know Your Commodities

Natural Gas

Introduction

Natural Gas is a prime source of energy and is considered as one of the cleanest, safest and most useful sources of non-renewable resources of energy. It's a gas which contains methane. Before natural gas can be used as a fuel, it must undergo extensive processing to remove almost all materials other than methane. It has its properties and functions similar to oil. Some of the major applications of natural gas are:

- Fuel source for power generation
- Used for cooking
- Industrial uses: fuel source for boilers, ovens, air conditioners etc.
- Production of petrochemicals like methanol etc.
- The other fraction obtained in natural gas processing like butane and propane is used in manufacturing of LPG.

Fundamental Facts

- Fundamental factors that affect natural gas demand and supply, such as seasonality, weather events, storage changes, demand and supply shocks, are all drivers that determine natural gas price dynamics, especially in the short term.
- Fuel switching between natural gas and residual fuel oil makes natural gas prices move closely with crude oil price, but these two energy commodities are not perfect substitutes to each other.
- Politics and the environmental policies of the major producing and consuming countries also alter the price significantly.
- It is found that market fundamentals overall have larger impacts in bullish market than in bearish market for natural gas.

Some Interesting Facts

- Natural gas is thought to have been first discovered in the Middle East between 6000 and 2000 BC when lightning strikes ignited natural gas seeping from the ground.
- If all the natural gas pipelines in the U.S. were connected to each other they would stretch to and from the moon almost three times. In fact, according to the Energy Information Administration, there are 300,000 miles of intrastate and interstate natural gas transmission pipelines in the United States.
- From November to March, consumers get 15-to-20 percent of their natural gas from stored gas, according to the American Gas Association.
- Natural gas serves nearly 66 million homes; 5 million businesses like hotels, restaurants, hospitals, schools and supermarkets; 195,000 factories; and 1,900 electric generating units. On a daily basis, the average U.S. home uses 168

cubic feet of natural gas.

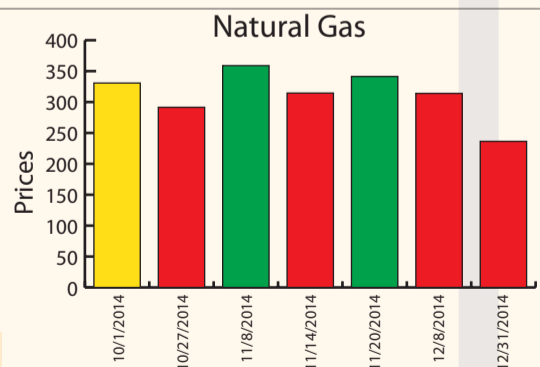
- There are approximately four million Americans employed either directly or indirectly by the natural gas industry - America's 'Blue Jobs.'
- There are over 11 million road vehicles worldwide that run on natural gas as a fuel. The gas is used in a compressed or liquefied state to power cars, buses, taxis, and trucks.
- According to the Energy Information Administration and the Potential Gas Committee, the U.S. estimated future supply of natural gas stood at 2,718 trillion cubic feet (Tcf) at year end 2012 – enough to meet America's energy needs for more than 100 years.

Natural Gas @ MEX

- Natural Gas has been trading initially in the futures platform and later on the spot contracts in the MEX platform.
- Natural Gas is the energy available for trading in the MEX terminal at present with initial margin of Rs. 60000 for 2500 MMBTU.

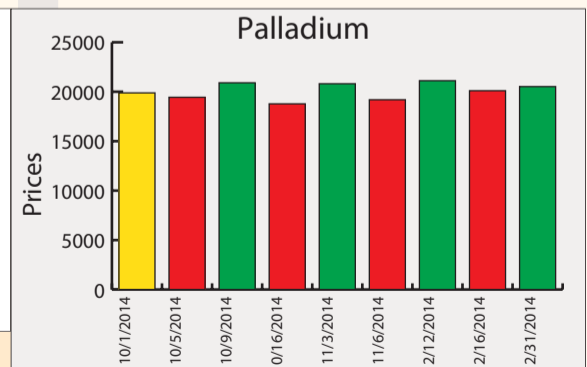
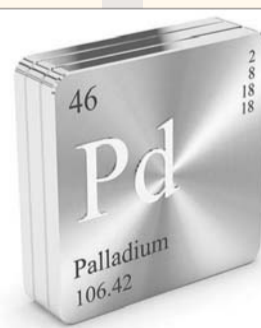


Major Market Movers for Natural Gas & Palladium (1<sup>st</sup> October-31<sup>st</sup> December 2014)



Note:

Date	News
10/1/2014	Opening price as of 1st October 2014
10/27/2014	Record high natural gas production
11/8/2014	Higher demand because of winter
11/14/2014	Storage rose to 3,299 billion cubic feet (Bcf)
11/20/2014	Mid-November cold spell boosts natural gas prices
12/8/2014	Average temperatures in many locations reduced its price
12/31/2014	Closing price as of 31st December 2014



Note:

Date	News
10/1/2014	Opening price as of 1st October 2014
10/5/2014	Low demand from Chinese industries
10/9/2014	Norilsk Nickel's purchase of US\$2 billion palladium
10/16/2014	Slower economic growth in China
11/3/2014	Strong car sales, SA troubles set palladium price up
11/6/2014	US economy stays on track and the dollar remains strong
12/12/2014	Strong demand from US and China auto makers
12/16/2014	GDP and CPI data out across Europe plus US data
12/31/2014	Closing price as of 31st December 2014

## MEX Introduces Decimal Lots

On 16th October 2014, MEX released new decimal lot "0.5" for specific products. Brent Crude, Corn, Soybean, Soybean Oil and Wheat are available for trading in decimal lots in the trading console of MEX.

To enhance the reach of general public towards the commodity market, MEX has added a New Tab in its website –“Looking for a Broker?” since November 2014. For a new customer who wants to join this market can now search for a broker in his nearby locality with the help of our this tab which will allow the prospects to find the brokers as per their choice of location. The Broker will then be receiving the contact details in their authorized e-mail id if any broker has been selected by any of the prospects.

Similarly, a New Sub Tab has also been added in the website for the Market Maker Demo Console. Due to Popular demand, the Demo Console has been made available in the website for free download.

## Updation of MEX Website

## Promotion of our brokers in the Social Media- December 2014

The influence of social media is inevitable in modern times. These sites are being widely used by professionals and also companies to market their goods and services. Thus this source of communication has a large number of prospective clients for all business sectors. To reap the benefits of social media MEX Nepal initiated an ad campaign over social networking site Facebook. Thus to grab the opportunities provided through this media MEX Nepal launched the Facebook advertisement campaign where brokers of the exchange are promoted and thus opportunity of market growth and business is equally shared among the participants of the exchange.

## Introduction of Individual Market Makers [IMM]

MEX Nepal creates one more opportunity of business for the market participants. MEX Nepal now empowers its Brokers by giving them the opportunity & authority to introduce Individual Market Makers [MM], thereby ensuring diversification in the market. This is a great opportunity for brokers to add value to their business and increase Volume & Revenue.

## MEX Annual Award Nominations – December



MEX Nepal celebrates its anniversary with an annual ritual of felicitating its top brokers. Thus on 29th December 2014 MEX announced the different categories and criteria for the 6th MEX Annual Awards – 2014. The various categories were

- |                             |                                  |
|-----------------------------|----------------------------------|
| 1. Broker of the Year       | 2. Most Loyal Broker             |
| 3. Best in Infrastructure   | 4. Best in Customer Focus        |
| 5. Best in Market Expansion | 6. Best in Ethics and Compliance |
| 7. Best Emerging Broker     | 8. Best Startup Broker           |
| 9. Executive of the year    |                                  |

## Organized SPACE



MEX Nepal has been conducting SPACE i.e. Strategic Participation in Commodities Education in various parts of the country. SPACE is a first of its kind training program targeted towards the derivatives/finance students/faculty members of various colleges to furnish in-depth knowledge on the practical aspects of the commodity market and the working modalities from an exchange perspective.

MEX Nepal conducted this program in most of the business schools of the valley like

1. APEX College on 7 November 2014,
2. NOVA International College on 15 December 2014
3. CG Institute of Management on 22 December 2014
4. South Asian Institute of Management on 31 December 2014

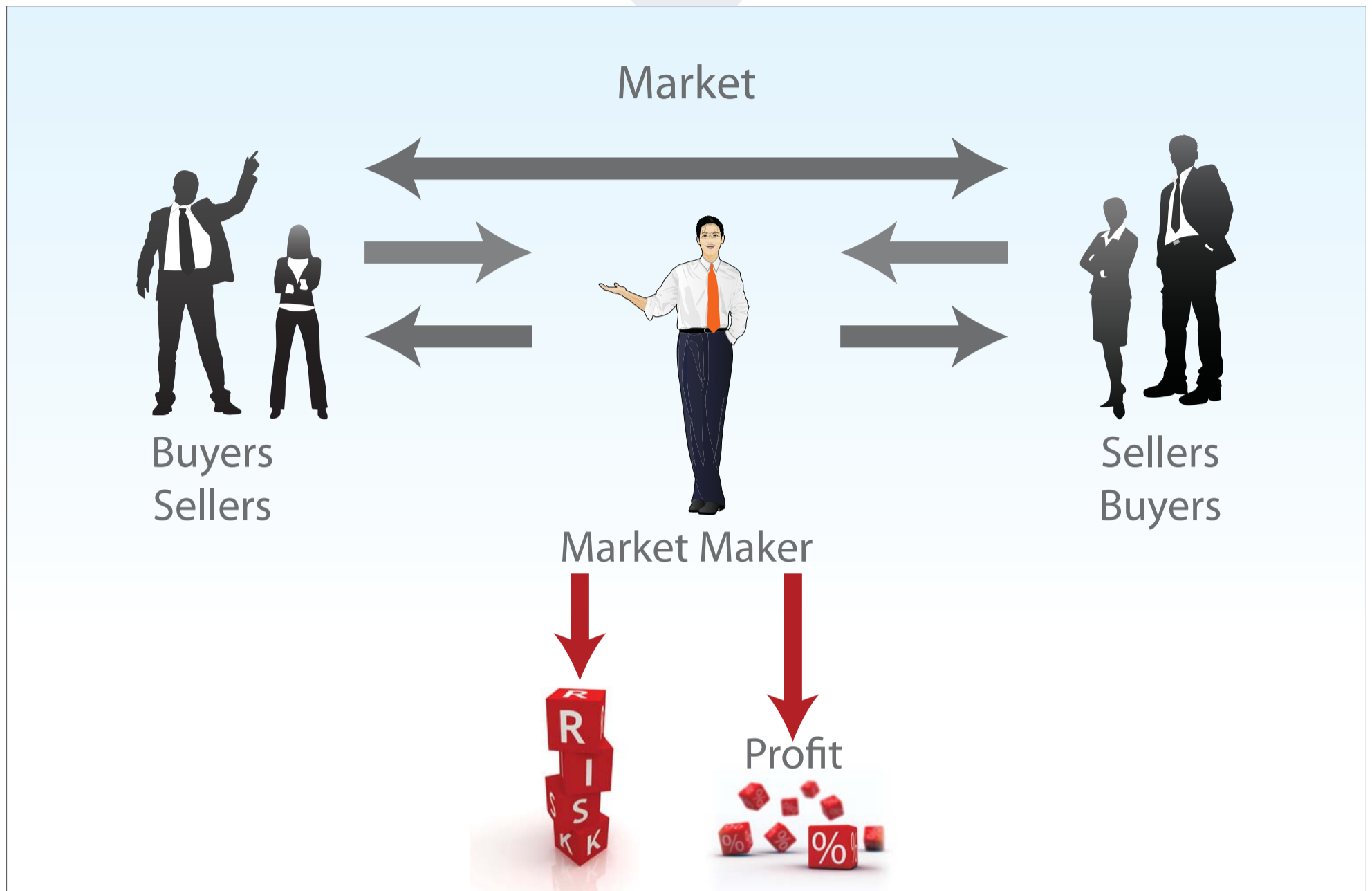
On 20 December 2014, the program was organized specially for derivative faculty lecturers of various colleges. The training included an introduction of the markets with a brief glimpse of the analysis involved and the market mechanism. There was an interactive session at the end of the program which focused on answering queries from the faculty members.

## MEX is Plastic Free



MEX Nepal is always supporting of the go green policy. In this endeavor, MEX Nepal proudly supported the Hamri Bahini initiative of plastic bag free office.

## Role of Market Maker in Commodity Market



In simple language, a market maker is a person or brokerage house that is always prepared to buy and sell securities in order to provide liquidity to the markets. In other words, market maker is an intermediary that is willing and ready to buy and sell securities for a profitable price of instruments listed in the exchange. Market Maker is also a brokerage house or bank that maintains a firm bid and ask price in a given security by standing ready, willing, and able to buy or sell at publicly quoted prices (called making a market). These firms display bid and offer prices for specific number of specific securities, with the reference to External Price Link (EPL) and if these prices are met, they will immediately buy for or sell from their own accounts. A market maker makes a profit by attempting to sell high and buy low. Generally, market makers do not seek to establish directional positions in the market. Instead, market makers are willing to buy or sell an asset, striving to make a profit by collecting some fraction of the difference between its offers to buy and to sell. Market makers establish quotes where the bid price is set slightly lower than listed prices and the ask price is set slightly higher in order to earn a small margin.

The price quoting system in the market making is as follows:

- With the reference to External Price Link (EPL), MM quotes the Bid and Ask price. Here Bid Price is selling price and ask is a

buying price for investor.

- The spread range is depending on the nature of product and quantity chooses of the product by the investor.
- If a MM chooses spread 1 the 1 tick is deducted and added to EPL Bid and Ask price respectively. i.e. if the product is gold then 2.5 is added to Ask price and deducted to Bid price.
- Priority is depending on the quote with least spread and if the quote has same spread then it will depend on time.

Market-makers serve a crucial role in financial markets by providing liquidity to facilitate market efficiency and functioning. Post crisis, several developments suggest that the behavior of these liquidity providers may change. Such changes and their potential impact on fixed income markets are of particular interest to policymakers, given the relevance of these markets to monetary policy and financial stability.

By holding a disproportionately large number of a given security, a market maker is able to satisfy a high volume of market orders in a matter of seconds at competitive prices. If investors are selling, market makers are supposed to keep buying, and vice versa. They are supposed to take the opposite side of whatever trades are being conducted at any given point in time. In this sense, market makers are able to satisfy the market demand for a security and facilitate its circulation. Market makers assume a high level

of risk because of the high number of units they hold (their inventory). Market makers are entrusted with promoting market efficiency by keeping markets liquid. To ensure impartiality for the benefit of their clients, brokerage houses who act as market makers are legally required to separate their market making activities from their brokerage sales operations.

Then what will happen if there are no Market Makers in Derivative Market.

Market makers have given option traders quite a negative impression as people who buy at very low prices and sells at very high prices just when an option trader is desperate to buy or sell a position. Let's see what happens when we remove market makers from the markets.

XYZ stock is an extremely bullish stock who has just announced fantastic earnings. You want to buy XYZ stocks but investors who are already holding XYZ stocks are not selling. In order to attract a seller, you begin to bid higher and higher for XYZ stock until at last, a seller is moved to selling the stock. This price could already be extremely high.

Consider again a sudden bad news released from XYZ Company, creating a rush to sell XYZ stocks. You are queuing to sell but nobody is buying. In order to attract a buyer, you start to push the price lower and lower until at last, the price bottoms out worthless.

As we have seen, in an imbalanced buying and selling situation, market makers play an extremely important role of creating liquidity

for prices in between in order to eradicate huge gap ups and downs and to ensure a liquid market for all.

In reality, Market Makers make up the actual "market". When a stock or option or commodity trader places an order with a broker, that broker fills that order by buying or selling with the Market Makers. A Market Maker supplies a bid and ask price and then let the public decide whether to buy or sell at those prices. As an options trader, Market Makers are master position traders who aim to establish and profit from every low risk and risk free opportunities. However, when a Market Maker is not confident that a stock or option or commodity can be so quickly bought and sold, due to the fact that there are only very few option traders or stock traders trading that security, then there is a risk that a stock or commodity or option which that Market Maker buys can only be sold when the market price is lower than the prevailing price, therefore resulting in a loss. In order to protect against such a risk, Market Makers, widen the bid-ask spread so that the transaction remains risk free to him over a larger price range.



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