

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

# MEX EXPRESS

A Smart Solution for Online Trading

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## From the CEO's Desk



When I look back into the milestones that MEX has achieved so far, I feel proud and accomplished and at the same time I look forward for a challenging yet promising future. To have established a leading commodity exchange which people

of the country look up to is definitely an accomplishment to be accredited to the continuous efforts of all our clients, brokers and all other stakeholders of the exchange. We are proud, yet humble to have earned the trust of the market that has been a major source of strength to acknowledge our future responsibilities.

I am glad to recall that MEX has achieved another breakthrough in the market in terms of adding delivery product DGOLD. Delivery products are the prized products that MEX offers and to have added gold as deliverable product is definitely rewarding. Yet we have not stopped to push forward our limitations; we are constantly working for more of such endeavors.

This year has certainly been a year of challenges. It takes great courage to have survived the heart rendering calamities of the earthquake and yet stand tall to serve our customers to the best of our capabilities. MEX has always tried to serve the market with new approaches and this quarter we targeted the education sector of the country. MEX Financial Quiz Quest was a huge success well received by not only the education sector but also appraised for a novel approach to explore the potential market by many in the industry. The quiz was a platform for students to perform and for us to add zeal and passion in the young minds of the students to explore new opportunities as well as prioritize practical knowledge over the much prevalent theoretical knowledge in the education sector of the country. This also became a medium to assess the interests of students of the business sector.

Apart from education, MEX is making continuous efforts to provide training and marketing help to our business associates and thus expand their business in unexplored sectors to broaden their prospects. We are always striving to grow together by cooperating with each other. Therefore we are always happy to welcome our associates to work together and then build this market towards a synergetic integration. We hope to ensure innovation, performance and commitment to all our customers.

- Jitesh Surendran

# Agriculture, Commodity Market & Economic Upswing

Agriculture ranks as one of the extraordinary success stories of the past decades. Marking the role of agriculture in economic development and identifying channel in which this role can be enhanced have been classical themes in development economics. More specifically, for countries that want to industrialize, agriculture is commonly the main source of resources that can be captured for investment in the emerging activities. Hence, successful industrialization requires a solution to the problems associated with the generation, transfer, and the use of an agricultural resource surplus.

Roughly one quarter of the Earth's terrestrial surface is now under cultivation with more land converted to crop production in the 30 years after 1950 than in the previous 150. In many regions of the world - including Europe, North America, Australia and recently Brazil, China, India and Nepal - humanity has also become adept at raising yields through using inputs like fertilizers and pesticides. Yet in many poorer countries with low productivity rates and growing populations, agriculture continues to expand into marginal and fragile lands. Agricultural sector plays a strategic role in the process of economic development of a country. It has already made a significant contribution to the economic prosperity of advanced countries and its role in the economic development of less developed countries is of vital importance.

80% of the national population depends upon agriculture for their source of economy, but unfortunately it has been covering the least portion of the national GDP in Nepal, which forces one to think about the competitiveness of Nepalese economy from a negative prospective. Though there are various factors affecting it, the inefficiency in the agriculture business management is the main reason. But still we can say that the agro-economy of our nation is not to be left to remain in dark all the time. An enlightened market mechanism can eliminate the complications of agriculture economy. Technically, commodity market is a right fit to it; it means implementing the principle of commodity market in Agro-sector we can inflate the volume of agro-economy and ultimately the

national economy. Now only the question remains is how commodity market can be regarded of highest importance to the agro based economy of the nation? Well much of the answer remain in the principle and mechanism of the commodity market, basically it works on behalf of the producer, intermediaries and the market itself, it establishes agro-products as a financial instrument or a sector of investment. And to make it a standard financial instruments it needs to have a standard quality, which sought for the standard warehouse to preserve



the product. The positive sentiment of market is enough to encourage the needed investment and entrepreneurship in the warehouse system. Availability of warehouse system certainly mitigates the compulsion of the farmer to have their products sold as soon as possible at a minimum price in order to escape product loss. And this deletion of problem can be put for the farmer's advantage side only. If the farmers are able to control the storage function, they can charge the products as per the co-ordination of efficient market demand and supply. A warehouse receipt, which can also be used against bank loan, contains the standard quantity and the valuation of the stored commodity and can be used as the financial instrument as well. The point is that the availability of the finance through the warehouse receipt for the farmers who were always in short of it can take advantage of it for further

investment in productivity and quality of their farm.

Now when the commodities are being traded in the futures contract, there must be a stipulated delivery date that needs to be maintained, means the market needs an efficient distribution mechanism to meet the required standard, which in turn, emphasizes for proper transportation infrastructure development. This is another thing that this requires a massive investment. Therefore, being involved in this sector enables farmers to take advantages of such distribution mechanism, which is the major complication of current agro economy.

In this way we can say that trait of commodity market can help to establish the agriculture sector into a potential investment sector, securing more and more investment and entrepreneurship opportunities. And most importantly this commodity market mechanism helps the farmers to take a winning side in the whole market process thereby turning traditional agriculture mechanism into a commercial one, which instead boosts the agro economy thereby enhancing the national economy or GDP.

Agricultural evolution makes an unfavorable contribution to overall economic growth in many developing countries. As farmers' income rises, so does their demand both for farm inputs and services, and for non-farm goods. Increased agricultural production also leads to increased demand for processing facilities.

Since agriculture employs many people, it contributes to economic development. As a result, the national income level as well as people's standard of living is improved. The fast rate of development in agriculture sector offers progressive outlook as well as increased motivation for development. Hence, it aids to create good atmosphere for overall economic development of a country. Therefore, it must be said that economic development relies on the agricultural growth rate.

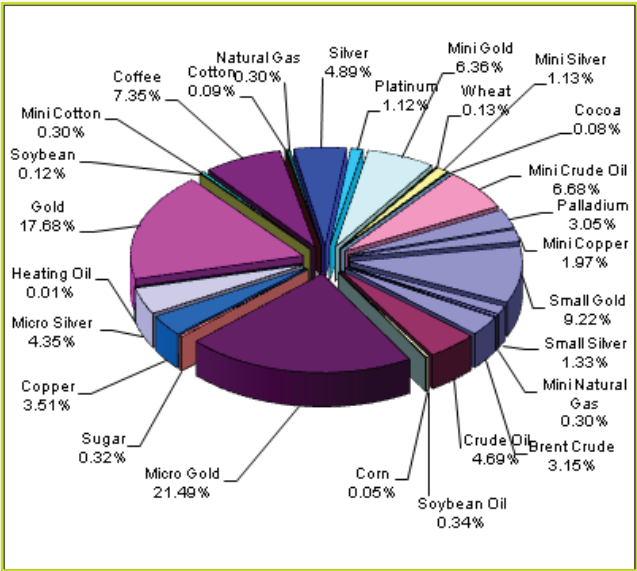


**Avishek Jha**  
Junior Officer  
Business Development  
MEX Nepal



Market Capitalization - Futures Contracts

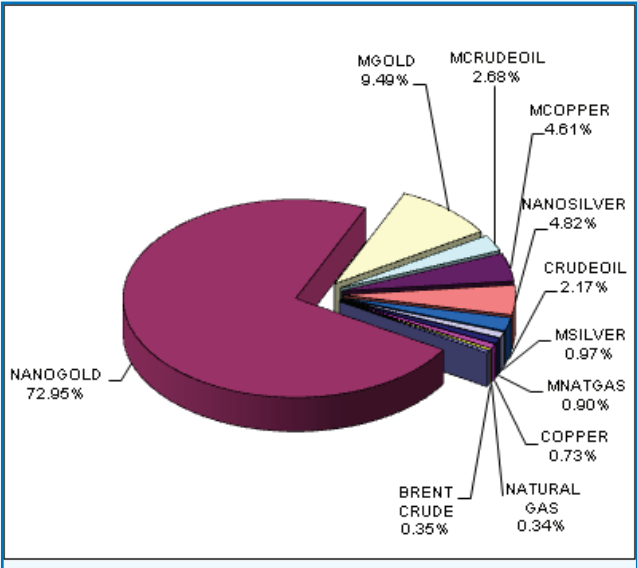
From July 2015 - September 2015 (in%)



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 July 2015 - September 2015 (in%)



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

Know Your Commodities

Heating Oil

Introduction

Heating oil is also known as No. 2 fuel oil as it is also a refined byproduct of crude oil which is separated from crude by the method known as ‘cracking’. Heating Oil (HO) is a less viscous liquid petroleum product, which is generally used in furnaces and boilers in buildings to defend winter through the pipes in the buildings. As seen in the ancient times, it was used for lanterns, stoves for lighting and cooking purposes. The heating oil has two variants: household purposes and industrial usage. Though it is similar to diesel and also called ‘Red diesel’ but the chemical composition varies. Its quality specification is different than other oil products. Since the oil products contract like jet fuel, diesel, kerosene, etc are not traded on any commodity exchanges, the heating oil’s future contracts are used to hedge those oil products.

During the winter its demand is high due to its usage in heating purpose. Considering its environmental and health-friendly nature with efficient usage in houses its popularity has grown replacing the coal and wood since it emanates less carbon dioxide. The factors affecting the crude oil

prices, refining costs, distribution and marketing costs do affect the heating oil prices too. There is high correlation between the crude oil prices and the heating oil prices. Heating oil is traded at the New NYMEX, ICE, MCX and MEX Nepal platform.

Fundamental Facts

- Seasonality plays the major role in the demand for heating oil. During winter demand rises and falls during other seasons.
- The consumption of heating oil is high in the Northern areas of the US. Thus, brutal winter conditions rises demand hence primarily raises its price.
- On account of the changes in the cost of crude oil also changes the price of heating oil. If the cost of refining, distribution and marketing increases for crude oil, definitely the price of heating oil too increases.
- Due to the use of alternative means for heating available locally like wood furnaces, corn pellets and biodiesel from vegetable oil

switches the consumer from heating oil thus reducing its demand.

- The taxation policies implied by different countries and its states do add up cost and accordingly increases the price of heating oil.
- The competition among the suppliers and dealers do affect the price of heating oil similar to that of the gasoline and natural gas as its price is determined by the demand and supply prospects in the marketplace.
- Since the production decision hands on to the refining companies, their decisions to produce heating oil affects its supply.
- The climatic conditions such as hurricane and storm in the Gulf Coast region in the US halt the production; accounting its reduction in production thus decreases the supply. The Gulf Coast region has 47% of the refineries.

Exchange rates fluctuations also affect the price of heating oil. The import of crude from oil producing countries involves currency exchanges after all affecting the price.

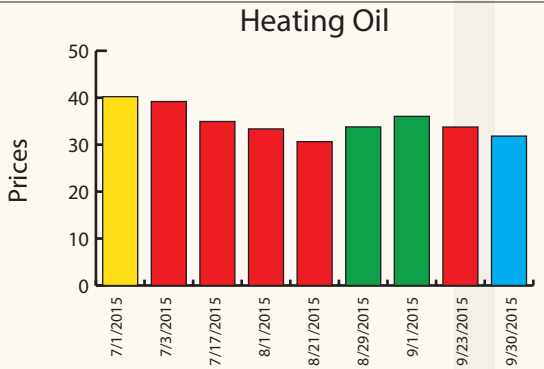


Major Market Movers for Heating Oil & Brent Crude (1<sup>st</sup> July-30<sup>th</sup> September 2015)



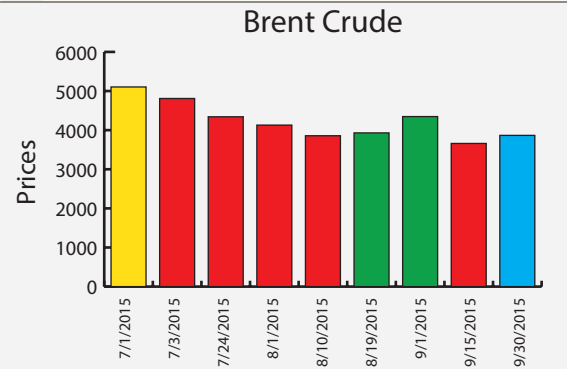
Note:

Date	News
7/1/2015	Opening price as of 1st July 2015
7/3/2015	Oil Prices Hit Two-Month Low on US Inventory Data
7/17/2015	The ongoing crisis in Greece
8/1/2015	Production rises and weak economic data
8/21/2015	Less demand due to weather conditions
8/29/2015	China’s slowing economy has curb demand
9/1/2015	Russian President will meet his counterpart to stabilize oil prices
9/23/2015	U.S. stockpiles of refined products at a record high.
9/30/2015	Closing price as of 30th September 2015



Note:

Date	News
7/1/2015	Opening price as of 1st July 2015
7/3/2015	Concerns over resilient U.S. crude production.
7/24/2015	Contraction in China’s factory sector and the rise of dollar
8/1/2015	Combination of the Chinese stock market rout
8/10/2015	Shaky global growth and higher production
8/19/2015	Lower crude stockpiles in the United States
9/1/2015	U.S. government reduced its crude output estimates
9/15/2015	Asia’s economic weakness persisted
9/30/2015	Closing price as of 30th September 2015









# Macroeconomics: Economic Performance & Growth

Every week dozens of economic survey reports and indicators are released, which have huge impact on the market and economy of the country, therefore it is said that knowing how to interpret and analyze this indicator is critical. Macroeconomic stability can only be ensured by the mutual effort of both the fiscal and the monetary policy. And for the smooth economic development it is very important to achieve higher and sustainable economic growth rate. Both domestic and foreign investment could not expand in the current fiscal year as a consequence of failure to bring improvement in investment environment largely due to prolonged political transition in the country, unhealthy labor relation and many more. A fall in the per capita GDP signifies that the economy has contracted and it tends to translate as a decrease in productivity. Inflation is at the peak which is demonstrated by the consumer price index and the Gross domestic product (GDP) Agriculture sector's contribution in the GDP has not been so impactful. a very little significance can be seen which signifies that it is high time for the government and other entities to think of commercialization of the farming sector and its products. The service sector contribution is just satisfactory, yet we have room for improvement. The burden of debt is increasing every year, where foreign debt has always been more than the domestic debt.

In Nepalese scenario remittance sector is the only sector, where we can see remarkable increments every year. Our policy makers should understand the impact of remittance in the economy as inflow of money can be helpful to contribute in economic development of a country. If properly channeled to the productive sector, it can create employment opportunities, build new infrastructure and services. For

millions of people worldwide where there are no sources of a livelihood in their home countries remittance provide the poor households for the basis of survival. Money sent to the families has not only provided them the basic needs of life but also has helped to empower them economically.



As we can see that despite the billions of dollars flowing into the country annually, directing the remittance to productive investment opportunity has still been a challenge. But the worst part is that about only 4% of the remittance is used in capital formation, and the remitted money is used only to import the non durable consumer goods than being used for the capital formation. Recent data shows that Nepal imports are eight times the export and from this we can clearly see that there is unfavorable balance of trade since a long time. For the improvement of balance of trade export of quality products should be prioritized. And Balance of payment, which is the record of all economic transaction between the residents of the country and the rest of the world in a particular period, is also the main factor of economic growth. Balance of payment has reached a maximum, indicating favorable BOP which means the currency is flowing into the country than flowing out. Balance of payments and international investment position data are critical in formulating national and international economic policy. Certain aspects of the balance of payments data, such as payment imbalances and foreign direct investment are key issues that a nation's economic policies seek to address. And these are the factors that have to be soon resolved by the government for smooth and sustainable economic growth of the country.



**Gem Roka**  
Managing Director  
Add Cash Investment Pvt. Ltd.

## Avenues to Invest in Gold

Investors are always on a hunt to maximize their return while also seeking to minimize potential losses. While there are many opportunities available, gold remains one of the most widely invested assets, especially in Nepal. Investment in gold is considered to be a smart investment due to many factors. It acts as a safe haven asset during times of market and currency turmoil, has appreciation potential, and is a physical store of wealth. It is important to note that gold prices can be very volatile. This quality enables gold to act as a hedge against other main asset classes such as equities, real estate, and currency. For sophisticated investors, investing in gold can be very rewarding.

There are many avenues through which one can invest in gold; this article briefly describes the most widely used ones.

**Physical Metal**  
Gold that is officially recognized as 99.99% pure is typically in the form of bars and coins. Markets in which commodities are bought and sold for cash and delivered immediately are defined as 'physical market'.

**DGOLD**  
Mercantile Exchange in exclusive collaboration with Gahanagriha has recently launched a new product - DGOLD. DGOLD allows people to buy physical gold in real-time international prices directly from their trading console. This is an excellent product for people who believe that the gold price will rise in the future. It also allows the investor to take advantage of the difference in intra-day rate as the local market has a single rate for gold for the day. In other words, people can buy the gold from the software and receive the physical gold later from Gahanagriha with a valid bill of purchase.

**Spot contracts**  
This is a derivative linked to real-time current gold prices. This contract usually expires before any physical delivery and is settled immediately in real time as well. The investor can take both a long (buy) and a short (sell) position. MEX currently offers spot contracts for up to 100 grams per lot.

**Futures**  
Futures is the kind of contract in which one can take buy or sell position up to the contractual period. Futures are an agreement to buy or sell commodity in a specific date in the future at a specific price. Buyers use these to avoid the risks associated with the price fluctuations of the product or raw material, while sellers try to lock in a price for their products.



**ETF**  
Exchange Traded Funds (ETFs) are funds linked to an underlying asset and are traded in the exchange just like public equities or commodity derivative. A commodity ETF is usually focused on a single commodity and may hold it in physical storage or invest in future contracts. ETFs generally have lower costs than others investment products because ETFs are insulated from the costs of having to buy and sell securities to accommodate shareholder purchases and redemptions. One can invest in gold ETFs, where the underlying asset is the physical metal. This product is not currently available in Nepal.

**Gold accumulation**  
Gathering of something overtime is accumulation. Gold accumulation provides the investor with an opportunity to build up an investment in gold bullion over time. It allows private investors a regular saving of gold over a specific period of time .With gold accumulation plan the physical gold is stored securely on behalf of the investor to any vault they

wanted. Each month an investor may invest a fixed amount of money to buy gold. At the end of the investment term, the investor receives all the accumulated gold.

**Conclusion**  
Gold can be a tricky asset to invest in given its volatility and price swings. However, it is a quintessential part of any diversified portfolio and cannot be ignored. There are a wide variety of ways one can invest in gold. Investors are advised to exercise prudence and select the avenue most suitable to their individual strategies.



**Bikal Chaulagain**  
Business Development Manager  
Gahanagriha Investment Company Pvt. Ltd.