

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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PAGE 2



MEX News Portal

PAGE 3



Member's Perspective

PAGE 4



From the CEO's Desk

The only constant in life is change!



The preceding popular adage states the need of constant change to adapt and adjust to the ever-evolving requirements of the market. Keeping this in mind, MEX is proud and privileged to announce the launch of the new business model to cater to the growing demands

of the investors. Let's exude the benefits of the new business model.

- Liquidity is an important terminology in financial markets. In commodity market, liquidity is defined as the ease of which a participant can enter and consequently exit the market. With the new business model in place, the market will enhance its liquidity to greater folds as more participants will inject the additional liquidity. Consequently, the liquidity will also contribute to the depth and the stability of the market.

- Price discovery is the very essence of the commodity market. Price discovery is a method in which the products can determine its prices by utilizing the economic theory of the law of demand and supply. Keeping the long run aspects in mind, the local domestic products can be incorporated which in turn will identify the prices by local mediums.

- The markets have seen moments of trials and tribulations in the recent memory in the absence of a regulatory body. Keeping the proposed regulatory framework in mind, the recommended software is aligned with the stated regulatory parameters.

- We are witness to the mushrooming of the exchanges in the recent memory. So the proposed market model thwarts the influx of further exchanges by providing a platform at decreased costs and the promise of the desired results.

- With the implementation of the proposed business model, the exchange will put into action the internationally practiced clearing and settlement mechanism thereby leading to further transparency in the operations.

We hope the market participants will embrace the new business model and helps to take the commodity market onto greater heights. MEX Nepal has weathered the storm of the recent times and has managed to stand tall despite the numerous rumors and speculations doing the rounds in the market. We hope to further strengthen the ties between our invaluable patrons and ourselves which has been built on years of perpetual trust and confidence. And with years aging on, together, we can achieve what we have set our sights on.

"The sky looks lovely from down here. Let not the rains dampen our spirits!"

- Jitesh Surendran
CEO
MEX Nepal

Regulating Nepalese Commodity Market: Need of the Moment!

Nepalese commodity market, going through lots of peaks and troughs, is on the verge of completing almost a decade of operation. Genuinely speaking, the market has already witnessed the introduction phase in the Nepalese market and currently on growth stage, i.e., in terms of business operation and market awareness. Now, it's up to the relevant stakeholders, including government (regulatory body), investors, and traders, to shape the Nepalese commodity market and give it a rigid direction towards sustainability.

What is the need of the moment for Nepalese commodity market? How can the responsible stakeholders streamline the entire commodity sector in Nepal? What initiatives are required to sustainably operate this form of market in Nepalese financial industry and establish the market as one of the major components of Nepalese financial regime? All these queries are being discussed and thought of in Nepalese financial sector these days. In an attempt to identify the major catalysts required to streamline the Nepalese commodity market, at the moment, this article shall endeavor to scrupulously assess the major associated variables in the following sections.

In fact, since the inception of commodity market in Nepal, as all the market participants are aware, the commodity market has been solely operated only under the law of the land and other governing guidelines/policies, for instance, Anti-Money Laundering (AML) guidelines. Undersuchinstance, the regulation, undoubtedly, is the life-blood for commodity market. With the lack of regulation, as many market operation modules and mechanisms are left unattended, the commodity market has not been able to par itself in line with international standards. Significant issues to be addressed, like, capital requirement, software standardization or uniformity in all the operating exchanges et cetera, are the key factors not being attended as a result of non-availability of regulation. So, considering all these factors and looking forward for the future of commodity market, regulation is desperately and urgently required.

Beyond regulation, a strong regulatory and supervisory body, in terms of equipments support, sound human resource capabilities including sector experts and technicians with the presence of overall required infrastructure is indispensable. Despite, the Securities Exchange Board of Nepal (SEBON), being proposed as the regulatory body for Nepalese commodity market, the aforementioned body, in the absence of regulation, has not been able to monitor the market.

If we minutely assess the current practices in the Nepalese commodity market in terms of commonality of business operation module, discrepancies could be easily observed from one exchange to the other. Be it in the form of pricing of commodities,



fees and commissions regime or software standards, the market has not been witnessing a common ground for all these factors. Thus, what we need to promote for a healthy and competitive market is standardization and uniformity in all these criteria.

'There is lot to be achieved in Nepalese commodity sector.' Every market participants are strongly arguing in favor of this statement. If we look at the range of services and products being offered by the market, we could find speculation as the major business product or investment alternative being facilitated to the investors or traders. To realize the true sensation and experience of commodity market, the system urgently needs to address warehousing mechanism, eventually promoting delivery of commodities. Once the warehousing mechanism comes into effect, the market would be able to facilitate storage facilities for various commodities being traded in the exchange platform, initiating warehouse receipt based transactions, which in turn could promote participation of banking and financial intermediaries in the system. It shall not only broaden the scope of commodity market, but will also invite investors from financial sectors promoting hedging, financing and deliveries. Issues concerning the operationalization of local commodities and price discovery for local products (agro-based commodities) are also correlated with warehouse mechanism, i.e., warehouse mechanism could eventually promote active trading and delivery of local/domestic commodities with an appropriate platform facilitating price discovery and risk management regimes.

Once all afore-discussed indispensable pre-requisites are met, the next important issue in the Nepalese commodity market shall be corporate governance, more specifically, transparency and disclosure components of corporate governance. It is evident to all that transparency and disclosure issues have been a major bottleneck for commodity market in Nepal. Due to deficiency of regulation in the Nepalese commodity market, as exchanges are not obligated to practice international standards of transparency and disclosures

mechanisms, the market or the stakeholders are still skeptic over the Nepalese commodity market. No matter how prudently exchanges operate and provide their full-fledged services, until and unless the standard resolution for transparency of market mechanisms and disclosures parameters are met, of course via promulgation of regulation, the incompatible and harsh side of the market shall always remain for exchanges.

For any sector within the financial industry, especially in a fast-paced sector like commodity or derivative market, the need of regulator, supervisor and controller is immensely mandatory. Once the regulation is in place, other factors could be streamlined without extensive endeavors, as regulation shall set parameters for every aspect of business operation or module.

At this current junction, as all the stakeholders of commodity market from exchanges themselves, brokerage houses to traders, have been patiently waiting for the regulation to be in place, it is only time that will tell, when the regulation shall be finally promulgated, providing a sigh of relief to all the market participants. The much sought regulation will not only provide a legitimate framework for Nepalese commodity market, but will also incorporate the association or partnership of many related stakeholders ranging from banking and financial institutions, units facilitating warehousing, dealers and merchandisers to farmers and co-operatives (for agro-based products). Now, with the sought regulation on commodity market, which is expected to come into practice very soon, we can only hope for a well-defined commodity market in Nepal, satisfying and serving the needs of all the stakeholders, generating a synergy effect and taking the market towards greener pastures.



Sandip Nepal
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Limited

Most Popular Blog

Oil Moving Up: Optimism for Investors!

Oil has its price increased and being traded at a two month high expecting the good news from the United States of America, United Arab Emirates and China. The lawmakers in the USA are in the process to resume the budget talks. A terror cell had evolved planning the attacks on the crude-exporter nations and United Arab Emirates came up with news that they have been successful enough to arrest members of the terror cell which was very encouraging for the oil exporters first and then the investors. Moreover, the demand for the oil has also rose in China which is also stimulating the price rise of the oil.

For the full version of the blog, please follow the link: <http://www.mexnepal.com/blog/Oil-Moving-Up-Optimism-for-Investors/>

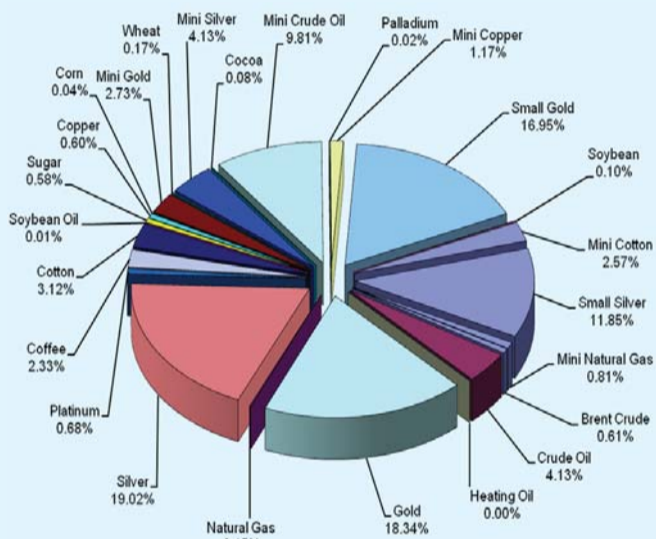
Posted on: 27th December, 2012
Total Views: 4

Start Blogging-Say it loud

MEX encourages its valued members to come up with blogs and articles related to futures market which would be posted in our website, accompanied with the member's advertisements as well. Mail your contents to media@mexnepal.com
So start blogging and learn to market your company

Market Capitalization

From October 2012 - December 2012 (in %)



Reminiscing Chisapani: A Test of Endurance!



When a journey amongst friends begins, it is usually a statement that defines the journey. A test of endurance- is an apt statement which defined the journey undertaken by a group of enthusiasts for a hike to a place nestled in the heart of the majestic grandeur of the Himalayan regions. The journey was surely not defined by the ultimate destination but by the small steps which lead us to the final destination. Chisapani was the destination and we had a group of 14 to undertake the rigorous journey.

The trekkers were asked to converge to Chabahil, from where we took a bus to Sundarijal. We landed at the latter at around 8 am, after which we had our breakfast. After that, we embarked on our trek

towards Chisapani. To our utmost delight, there was a trekkers' path, made by the ardent trekkers, which had to be followed by the corresponding trekkers thereafter. The time had come and we started the long journey towards the destination. As we walked higher and higher, the air became thinner and thinner, and the times got a little tough for a few of us. But as the saying goes-when the going gets tough, the tough gets going- we strolled along slowly with the breadth-taking envelop of the mountains around us. We stopped at Mulkharka for lunch with local cuisines awaiting our arrival. After a much-deserved break of an hour or so, we resumed the journey towards Chisapani. Our budding photographers also snapped photographs of individuals, group

and the scenery alike which absolutely took our breadth away. After 27 kms of immense endurance, we finally reached the said destination.

Chisapani, as we found out-is a trekkers' delight since it is nestled in the heart of the majestic Himalayan Mountains. The evening was aptly defined by the bonfire, which was made by the hotel authorities, to escape the harsh cold of the winter days. After relinquishing the local cuisines of the place, we finally made it into the warmth of the beds of the hotel.

We woke up in the morning to experience the splendor of the sunrise. It was a breathtaking sight as the sun finally rose to mark the beginning of the day. After having breakfast, we undertook the strenuous

task of returning back to the hustle and bustle of mainland Kathmandu. But as we undertook the return trip, some of us found out that the walk down was bit difficult than the walk up. After 27 kms, we finally made it to Sundarijal.

As we bid everyone goodbye and made our way back to our respective homes, a thought crossed my mind which summarized the trip-it was indeed a test of endurance for all of us. Whatever happened in this trip-from moments of laughter to the moments of despair- will certainly be etched in our memories for the rest of our lives. We had achieved the impossible and proved that through collective wisdom and strength-anything is indeed possible.

MEX for iPhone / iPad

MEX Nepal had added another feature in its triumph by allowing our members to trade also from their iPhone and iPad. MEX Nepal now offers the superior performance of the MEX Nepal Trading Platform in your palm.



Reward's Galore

Mercantile Exchange Nepal Limited (MEX Nepal), a leading commodity exchange in NEPAL, holding its firm ground by completing its 4th year of successful business, has continued its "Rewards Galore" series since January 2011 to reward its members for their continuous efforts and dedication.

The Winners of Rewards Galore for the month of:

October, 2012	November, 2012	December, 2012
Zeal Commodity and Investment Pvt. Ltd.	Jambhala Investment Pvt. Ltd.	Money Plus and Securities Pvt. Ltd.



MEX does it again

MEX has been able to successfully renew its ISO certificate. The ISO 9001:2008 certificate is related to quality management systems and hence it ensures that MEX meet the needs of customers and other stakeholders.

The certificate clearly defines that we are able to follow all the set of policies, procedures and requirements as per ISO 9001:2008

Commodity Markets: Its impact on the Food Price Stability

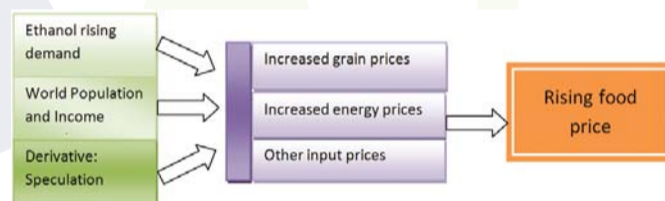
Before entering into the proper impact and the stability issues of the commodity markets, an individual has to be clear about the commodity markets and the workspace of the commodity markets. The futures markets in the commodities happen to be an exclusive form of market place where different kinds of market participants can transact simultaneously. Stock market is a one-sided market, where people can earn money only when price rises but commodity markets are the places where people can earn both ways. Physical hedgers in the market usually work on reducing the price risk of their underlying physical commodity transactions whereas speculators are in the market to maximize their profits. There is different market pattern driven by the type of market dominance by either hedgers or the speculators. Hedgers' domination reflect the demand and supply realities whereas speculators' domination, if not controlled, can take the prices to animated heights.

There are many factors beyond the volatility of food prices. Commodity market has provided platform for different producer/traders to get the actual price for their product but excessive speculation in agriculture commodity has always been the topic for discussion. Economists from different countries have different view with respect to speculation in commodity market. Some counter

that it is good for the healthy discovery of price some counter that speculation are raising the prices without actual market demand.

Traders and processors has been traditionally using speculation in agriculture commodities to protect against short-term price volatility, acting as a sort of price insurance while helping to set a benchmark price in the cash market. But speculators with intension to make huge "bets" destabilized the structure of agriculture commodity markets. The unhealthy speculation from large financial services has played a major role in the rapid rise and fall of food prices in global market, resulting to a massive increase in undernourished people.

I feel both are true, but if there are certain guidelines for speculation than we could control unnecessary volatility in prices that we observe. There are many other factors that have been influencing the rise in food price. The figure below shows different influencing factors for the rising food price.



Increase in food prices basically depends on change in demand and supply. The rapid population growth along with economic growth increase demand for food. This rising demand is coming up against supply constraints due to bad weather (a severe drought in Australia, for example) and increased production of crops for biofuel. Moreover, the high cost of oil is increasing investment in ethanol production. Additional causes of the food crisis, often mentioned by the media, are export bans.

Commodity market speculative purchasing can create inflationary pressure, causing particular prices to rise above their actual value by artificially increasing demand. Speculation can cause further

rise of price in hope that price will continue to rise. Moreover, most of the recent increase in buying food derivatives has come from large investors who invest mostly for speculation.

Food price stability is an inevitable part for stable economy as its volatility may lead to frustrated public sector confidence, therefore mutual cooperation between the public and private entities are essential to maintain food price stability and commodity markets have a big role to play in the intermediation.



Suraj Sapkota
Deeplaxmi Commodities
Services P. L.

Sentiment Analysis in Commodity Markets

"The power of mind over money"

Investing to balance one's portfolio whether it may be equity market, FOREX market or commodity market is a big thing for achieving targeted return. Investors should consider and understand different facets of factors like risk-return relationship, fundamental & technical analysis, sentiment analysis and other factors that influence prices of commodities in the market. While investing, Sentiment analysis is one of the next big things in investing. Sentiment analysis in the investment and trading sector is still leading-edge stuff.

Sentiment is a thought, view, or attitude about what investors feel and especially what driving force impels them to make their investing decision. Market practitioners use sentiment indicators to quantify the levels of optimism or pessimism in the commodity market. High sentiment spurs speculative behaviour regarding both, the number of investors and the average investment magnitude. Thus, the importance of sentiment analysis in commodity market enables large-scale understanding and clarity regarding the feelings of a group of people on investment decisions which cannot be underestimated.

Commodity market is an excellent example of a measurable system that is almost entirely sentiment-driven. Investors know that the market isn't just about speculation, hedging or profit wearing cap. It is also the unstructured chat, the gossip, the rumour, the opinion, and the gut feelings that shape the market. The sentiments are driven through forums, blogs, documents, tweets, niche media, websites, speeches, reports, technical and fundamental analysis. This ultimately offers investors an effective method to mine insights from analysts, media, social media, and company announcements granting them a clearer understanding of the effect of sentiment on

commodity values, and delivering a competitive investing edge.

Market Sentiment Influences

As we know, financial markets consists large gathering of people making decisions to buy, sell or hold an asset. The human mind takes into account thousands of different information and then processes this into a "feeling" or "sentiment". People who are feeling positive or bullish are more likely to hold or buy into a position versus those who are nervous, anxious or bearish who panic and sell. It's this buying and selling activity which affects the price an asset is quoted at on an order book. The markets are driven by greed and fear, the concept which investors around the world have accepted for many years - 'Investor sentiment'. The focus of sentiment indicators is therefore on investor expectations. Usually, highly optimistic (bullish) readings indicate market tops while highly pessimistic (bearish) readings indicate market bottoms. When market conditions generate extreme levels of optimism or pessimism, behavioural market timing mistakes are usually bigger. In the investment world, the standard compliance tagline is "Past performance may not be indicative of future results", yet past performance continues to drive investor behaviour. Investor confidence tends to rise after commodity prices are favourable, reinforcing the behaviour to buy/sell the contract according to market sentiments. If behavioural forces work in the other direction, investors are averse to experience losses.

In the current period of great economic uncertainty, news about the evolution of the world economy and political announcements has a huge impact on the activities of herds of financial investors whose position-taking in commodity derivatives markets follows market sentiments or expectations, and much less so the fundamentals.

Looking at the present context, after briefly rebounding in early 2012, commodity investments turned negative in the second quarter. According to Barclays Capital (2012), investors withdrew \$8.2 billion from commodity investments in May 2012 in what was described as "something approaching a dash ... evoking memories of 2008". But more than any rumours of war preparation here or better-than-expected macroeconomic news there, the evolution of oil prices has coincided with that of the European stock markets and the evolution of political decisions and rumours in the euro zone. Thus, sentiment has huge effects on overall global derivative market.

Possible Market sentiment extremes

In general, investors want to stick with trading on the same side as market sentiment - "trading with the herd". Nobody wants to trade against the trends unless he/she is an expert and have developed a proven method for trading. In this situation, market sentiment will eventually come to a point where the entire market is "on the train". This means that the majority of traders are done trying to pick the turning point and they decide to finally trade with the trend. This is not an exact science, but there is reasoning fact.

Once all traders get in line and trade in the same direction, there comes a point of exhaustion when there are literally not much traders left to continue the trend because everyone is all in. This is the point where the commodity price will start to flip and reverse directions. Once the commodity price flips directions, traders will once again try to enter more trades trying to trade that same trend that is now changed and they will continue to try to trade that original trend. Most traders will get deeper and deeper into the red until they finally decide that the trend is changed and flip directions. No matter what your strategy, it's important to have a handle on what the current market sentiment is while you're placing your trades. Going against market sentiment at the wrong time could be very costly to anyone's trading account.

There are number of commercial uses of sentiment analysis tools like: consumer confidence tool, Investors' intelligence sentiment index and market sentiment as a whole. There have been various research conducted about finding the relationship between global sentiment and corresponding asset price of commodities. Findings

from the past research shows that mood of the investors also predicts the market. Many other papers have also been published showing similar correlations highlighting the potential value in this sentiment information. It has been especially effective in sorting through and making sense of reams of data like past price trends, seasonal trading volume, market return, inventory check of energies, fundamental news of commodities, global economic news, sentiment scores and so on which plays significant role in sentiment analysis of investors.

Clients use the sentiment scores in a variety of ways. The most common are:

- **As a circuit breaker** - If any big news comes out in the market for any commodity, the client will stop trading on it till a human can evaluate whether it should continue buying or selling -- it changes one's investment hypothesis. For e.g. Federal Open Market Committee (FOMC) Reports.
- **To change trading patterns** - The rate at which news flows can be a predictor of future volume and volatility spikes. So, one might trade faster when news comes out to get a better price on the market before it runs away. For e.g. Crude oil inventory time, every Wednesday evening.
- **To generate alpha (risk adjusted measure)** - This is the staple which means buy the good news, sell the bad news.

Eventually, sentiment will be a signal everybody has to have in their models. Taking all this into consideration, it would be fantastic if one can properly monitor their sentiment along with commodity real-time movement and its actual relationship. When there is realisation of the potential value within sentiment data one will be easily able to derive it, acknowledge it and implement it on investment decisions. As a traders or investor, one should be able to quickly interpret real-time sentiment information so that they can be used to act quickly and make fast, efficient investing decisions and make it worthwhile.



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