

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

# MEX EXPRESS

A Smart Solution for Online Trading

www.mexnepal.com

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## From the CEO's Desk



‘Sow an act, you reap a habit; sow a habit, you reap a character; sow a character you reap a destiny’-a phrase which aptly describes the accomplishments of MEX Nepal from the incubation of the company to become the market leader today. However, change is inevitable so MEX has not been

resting on its laurels and incorporating changes in its various systems. MEX Nepal will always be grateful to its valuable patrons for their invaluable suggestions without which the company would not have scaled such great heights and wish for their perpetual support in the forthcoming years.

The need for a regulating body has been a subject of much discussion in the recent Nepalese commodities market scenario. The pros and cons of such establishment have been critically evaluated and some esteemed individuals have also voiced their opinions in this regard. The feasibility studies shows that such regulating body will reflect the enhanced confidence level of the investors and bridge the gap between prospective investors and trading platform.

Undoubtedly, the regulating body will provide ample scope for the development of the Nepalese derivative market. More importantly; the establishment of the body will garner immense trust from the general public which will be beneficial to all the concerned parties and to further assure them on the various aspects of derivative market perspective in the country. The coming days will be challenging to the concerned authorities to draft a proposal keeping in mind the interests of all the parties and to establish a set of rules for trade mechanism to be adhered by all the exchanges in the country. However, MEX Nepal will be looking forward to embrace the development of the institution for the further enhancement of the niche market.

We look forward in anticipation that the government will gear up soon to support the market and its participants by ensuring further the commitment to create a legal domain and to regulate it. As I conclude this message, the monsoon season has begun with the rains splashing its grey sheets of anger upon us. But when I look outside the window I realize that MEX Nepal has come a long way and the rains will not dampen our spirits as we move onto higher grounds.

- Jitesh Surendran

## Understanding Spread Trading

A spread trading is the purchase of one or more contract and simultaneously selling the contract of same commodity of different expiry date with anticipation that profit will be made when the position is offset. It tracks the price fluctuation of both long and short positions and provides the resulting profit/loss. Spread trading allows traders to speculate as well as hedge as they can take both the positions concurrently for the same product. The savvy traders use this kind of strategy because when futures contracts approach maturity, prices of different contracts for same commodity will often change differently over time, which provides them an opportunity to profit. Some traders use this strategy to reduce their overall market risk as losses from long position are offset by profits of short position and vice versa.

Assume you have two contracts for gold: June at Rs. 36700 and August for Rs.36690. Assume that in your opening position, you've bought (long) 10 lots from the June contract, and sold (short) 10 lots of the August contract. The spread is now Rs. 10. Let's say that the June contract goes up to Rs. 36710 while the August contract goes up to Rs. 36695. The spread is now Rs.15. You could sell the spread position (short the June contract and long the August contract) and make Rs. 5. In other words, you've made a net gain of Rs.100 i.e. Rs 10\* 10 lots, from buying and then selling the June contracts, while you've made a net loss of Rs.50 i.e. Rs 5\*10 lots from selling and then buying the August contracts. Thus, you have made a net profit of Rs. 50 altogether.

Contracts	Beginning Price/10 gram	Ending Price/10gram	Profit/Loss per 10 gram	Total Profit/Loss (10 lots)
GOLJUN (Long)	36,700	36710	10	100
GOLAUG (Short)	36,690	36995	-5	-50
Spread	10	15	-	-
Net Profit	-	-	5	50

\*The face value of GOLD contract is 100, so total profit would be 50\*100 = 50000  
Note: Values above are calculated on the basis of price per 10 grams of Gold

Spread trading provide opportunities to make profits for a number of reasons like seasonality of the commodity, backwardation theory, and other factors that lead the market to assume that preceding contract will be more affected than following contract for the same commodity. For example in the agricultural commodities bracket, contracts during harvest months tend to have more supply on the market, which pressures price to move south. Similarly, contracts during off-seasons tend to have less supply than demand, which pressures price to move up. There are following advantages of spread trading:



### Lower Risk

The exchanges recognize that spread trades have lower volatility and usually present less risk than a straight futures trade. In straight futures trade you cannot avoid your losses but with spread trading, losses are minimized by the opposite position.

### Increased Trading Opportunities

Spread trading allows you to trade on as many combinations as are offered by the number of contract months available for trading. This provides you more trading opportunities than are available in the normal condition.

### Consistency

As in the normal trade, spread trading also responds to seasonal and other trends. So it will be easy to maintain and manage the trading positions following those patterns.

### Hedging

Spread trading is a hedging tool also. Trader can take long position and short position for same commodity with different expiry month.

In normal future trading, traders can make profit in only one way i.e. for long position if the market goes up and for short position, if the market goes down. But with spread trading, traders can make profit in five different ways i.e.

- if the long side goes higher than the short side,
- if the long side goes up and short side remains constant,
- if the long side remains constant and short side goes down,
- if the short side goes relatively higher than the long side.

- if the long side remains constant and short side goes down,
- if the short side goes relatively higher than the long side.

However, the most profitable position would be when the long side goes higher and short side goes down. Spread Trading are also attractive to the brokerage firms because by off-setting the positions, the brokers can add extra commissions for additional positions in the market.

It should be noted that reversal of the above explained scenarios would incur substantial loss. Similarly, another added disadvantage of spread trading is "stop" cannot be used as you will have long in one market and short in another. Moreover, stop does not have any significance in spread trading. If you set stop, either of your contract will be offset if stop price and market price is matched and there won't be any meaning in spread trading. Likewise, limit also does not have any implication. If you place two opposite limit orders, there are chances that only one order gets executed while other remains pending and it might not go with your intention of spread trading.

Every trader looks out for a competitive edge. Most non-professional speculators don't utilize spread trading because it is not the glamorous of strategies. However, if an investor wants to learn to earn steady, consistent returns trading with his or her hard earned money with a lower level of risk and volatility, then spread trading may be the answer.



**Bikesh Chitrakar**  
Assistant Manager  
Research and Development  
MEX Nepal

Most Popular Blog

Will the Commodities Market have a breakout?

The recent weeks in the commodities market have witnessed a sharp hike in the prices of Gold, Silver and Crude Oil with geopolitical crisis mounting. The equity market on the other hand have been trending on confusing lines as US investors cannot exactly deliberate on the direction of the market. The S&P 500 for example has been in a sideways trend for the past couple of weeks. This sideways trend has been attributed to the continuing mixed results of a probable US economic recovery. For example, the US unemployment claims, the major indicator of the economic status, have been showing mixed results in the past few weeks. A recognized interpretation is that when the data is less than 400000, the economy is in an improving trend whereas the data more than 400000 shows that the economy is in a worsening situation.

For the full version of the blog, please follow the link: [http://www.mexnepal.com/blog/topic\\_details.asp?topicid=260&cudate=](http://www.mexnepal.com/blog/topic_details.asp?topicid=260&cudate=)

Posted on: April 25th, 2011

Total Views: 15

Start Blogging- Say it Loud

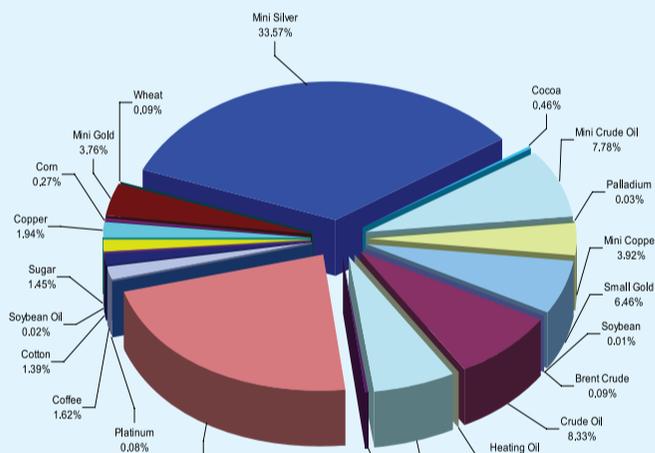
MEX encourages its valued members to come up with blogs and articles related to futures market which would be posted in our website, accompanied with the member's advertisement as well.

Mail your contents to [media@mexnepal.com](mailto:media@mexnepal.com)

So start blogging and learn to market your company

Market Capitalization

from April 2011 - June 2011 (in%)



Market capitalization of all the commodities listed in the MEX terminal. Mini-silver continues to have the maximum capitalization followed by silver and crude-oil.

Know Your Commodities

Platinum

Platinum is a chemical element which is a precious metal and an industrial metal at the same time. Platinum exists naturally in the alluvial sands of various rivers, though there is little evidence of its use by the ancient people. However, the metal was used by pre-Columbian Americans near modern-day Esmeralda's, Equador to produce artifacts of a white gold-platinum alloy. The first European reference to platinum appears in 1557 in the writings of the Italian humanist Julius Caesar Scalinger as a description of an unknown noble metal found between Darien and Mexico.

Platinum is used for vehicle emission controls, jewelry, electronics, as a catalyst in the chemical industry, electrodes, anticancer drugs, oxygen sensors, spark plugs and turbine engines. Platinum prices are mostly responsive to economic supply and demand factors as other non-precious metals.

The London Fix is the main reference price for platinum as it is considered the international benchmark. The quotation is done twice a day and most of the deals are based on it. The prices are transmitted by international press agencies and it is used as a benchmark by industrialists and producers all around the world.

PLATINUM Contract Specification at MEX	
Name	Platinum
Symbol	PLT
Contract Size	1000
Unit	Gms
Price Quoted	NPR/10 Gms
Trading Hours	03:45 - 02:45
Quality	99.95% pure
Contract Months	Jan (F), Apr (J), Jul (N) & Oct (V)

Some Facts about Platinum

1. Platinum is integral part of the production for 20% of all consumer goods. Moreover, it's mainly used to make jewelry, manufacturing laboratory equipment, electrical contacts, dentistry equipment and other devices.



- Major platinum producing countries are South Africa and Russia which hold more than 90% of global supplies.
- Platinum deposit in its original form are concentrated in two areas on earth i.e. South Africa and Russia. However, in other places of the earth, it is produced as a by-product during production of other metals.
- Japan consumes 85% of the platinum jewelry that is produced in the world. Similarly, some of the major consumers of this precious metal are U.S, European Union and China.
- There is small quantity of platinum on the earth and demand for this precious metal is ever increasing, which makes the price of this metal very volatile.
- London physical market for platinum provides the basic reference price and is considered international benchmark.

Supply and Demand

The supply and demand of platinum are the major factors affecting the prices. The factors driving the supply and demand side are price, income, input costs, socio-political disruptions, availability of substitutes and complimentary substitutes, consumer preference, technological changes and governmental activities.

Ratio between US Dollar and South African Rand (ZAR) Rates

The prices for platinum are highly sensitive to the ratio between USD and ZAR. The main reason for the weakening of the greenback has been the widening current account deficit. The fact that most of the South African platinum miners cost are mainly in ZAR while their revenues are wholly in USD, makes this ratio extremely important to the platinum mining industry. Another implication of the strong ZAR is its impact on the supply of platinum to the market. The strengthening ZAR will see a continued supply shortfall in the market. In short-the platinum is heading towards a new era where the ZAR will set the prices.

Market Cyclicity

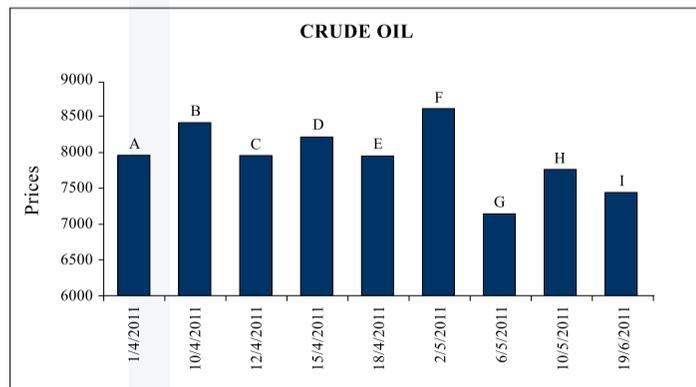
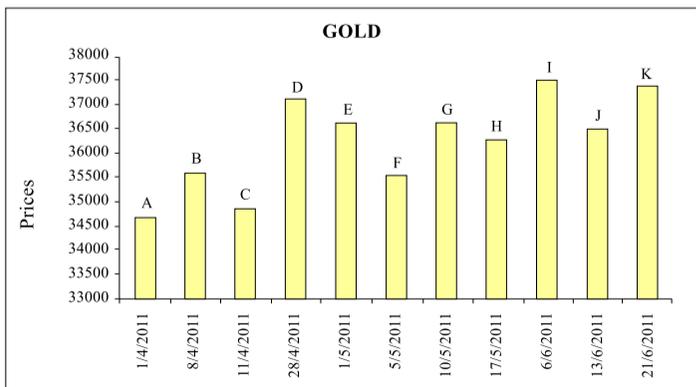
The market research have proven that most precious metal commodities can be described as having some degree of cyclicity-there is a duration dependence on the length of phases. These phases or cycles are either contradictions or expansions in market prices and are clearly seen in platinum prices over a period of time. The term phases are defined as the period of prices occurring between a price peak and price trough.

TOP TEN PLATINUM PRODUCERS - 2009 (in Kgs)	
South Africa	140819
Russia	21000
Zimbabwe	7230
Canada	6400
United States of America	3830
Colombia	1500
Finland	800
Japan	780
Botswana	600
Australia	200

Factors affecting prices of Platinum

The major factors affecting the prices of platinum are:

Major Market Movers for Gold and Crude Oil



- Note:**
- |  |   |
|--|---|
| A. Opening prices as on 1st April 2011                               | G. Trade Balances of both Australia and China decreases                 |
| B. ECB increases borrowing costs by 25 basis points                  | H. Portugal Bailout   |
| C. Cease fire in Libya   | I. Unemployment Rate increases and Non-Farm Employment Change decreases |
| D. Unemployment Claims decreases by 25000                            | J. GBP Manufacturing Production & PPI Input decreases                   |
| E. Death of Osama bin Laden  | K. US Existing Home Sales decreases to 4.81M                            |
| F. Trichet downplays any suggestions of an increase in interest rate |   |

- Note:**
- |  |  |
|--|--|
| A. Opening Prices as on 1st April 2011                       | E. Over-supply concerns from Saudi Arabia, S&P downgrades US Debt rating from stable to negative |
| B. Libya Clashes   | F. Death of Osama Bin Laden  |
| C. IMF declared slower growth rate in US and Japan           | G. Slowdown in economic growth   |
| D. Empire State Mfg. Index & Industrial Production increases | H. Mississippi Flooding-Supply Concern   |
|  | I. Existing Home Sales & Philly Fed Manufacturing Index decreases                                |

## OUT AND ABOUT



### MEX acquires AFM membership

Adding yet another milestone to its already glorious history, MEX Nepal has become yet again, the first exchange in Nepal to acquire Full Membership of Association of Futures Markets (AFM), Buenos Aires, Argentina.



AFM is a not-for-profit association with its office in Buenos Aires, Argentina. It was founded in 1998 with 10 members drawn mainly from emerging markets; Budapest Commodity Exchange, the Romanian Commodities Exchange, the Warsaw Commodity Exchange, the Malaysian Derivatives Exchange, the Central Clearing House and Depository Ltd. of Budapest, the Buenos Aires Futures Exchange, the Amsterdam Commodity Exchange and the South African Futures Exchange.

AFM focuses mainly to promote and encourage the establishment of new derivative and related markets.

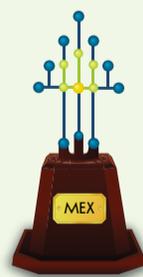
MEX's affiliation with AFM, once again shows our services, commitment and parameters are equal to global standards.

The link to MEX profile in AFM page is:

[http://www.afmorg.net/members/directory/MEX\\_Nepal](http://www.afmorg.net/members/directory/MEX_Nepal)

### Reward's Galore 2011

MEX Nepal Ltd, the leading Exchange in Nepal, holding its firm ground by completing its 2nd year of successful business, has introduced a "Rewards Galore 2011" since January 2011, to reward its members for their continuous efforts and dedication.



The reward is based on the following criteria;

- Top Number of lots
- Top Number of clients introduced
- Top Number of AE/ Registered Users introduced

The Reward Galore for April, 2011 was awarded to **NCM No: 64 Bhairab Investment Company Pvt. Ltd** on the basis of above mentioned criteria.



ABC Commodities



Bhairab Investment Company Pvt Ltd

For the month of May, 2011 and June, 2011, the reward was given to **NCM No: 54 ABC Commodities & Portfolio Management Pvt. Ltd and No: 64 Bhairab Investment respectively.**

### Client's Handbook

MEX Nepal has yet again introduced an escort to assist all the clients of commodity market in the form of "Clients' Handbook". The client's handbook is designed with a motive to educate and inform existing as well as prospective clients about their rights, requirements for registering as a client and procedure for trade initiation. It also includes key information on technical terms, order types, withdrawals and deposits, recommendation, Do's and Don'ts related to commodity market and all required information for a client in a precise form of handbook. MEX believes the "Client Handbook" would be of immense help to create awareness among the clients.



### Added one more commodity in MEX trading platform

MEX has launched one more product, i.e., Brent Crude, providing new flavor and more trading options for traders, effective from 16th May, 2011 thereby totaling to 17 commodities and 22 contracts all together in the MEX platform.



### MEX CSR

MEX Nepal as a part of its Corporate Social Responsibility believes in contributing in whatsoever manner possible for the needy section of the society. MEX Nepal has made supportive charity to a bunch of organization during the month of April and May of 2011.

MEX has extended its helping hands to Volunteer Association of Nepal - a nongovernmental organization committed to look after orphanage children. MEX Nepal contributed a charity worth Rs 31,250. Moreover, MEX Nepal donated Rs 53,870 for books and Rs 64,000 for payment of school fees for four months in House for Rescue of Afflicted Children (HORAC). HORAC is a nongovernmental and nonprofit organization actively involved in the rescue of helpless and orphan children in Nepal. MEX also donated grocery items worth Rs 15,000 to HORAC.



### Evaluation Program held in Shankar Dev College

On 7th May, 2011 representative from BD department of MEX had participated in Shankar Dev College's BBA 8th semester "Internship Report presentation" related to the commodity market in Nepal. The objective of this participation was to adjudicate the presentation subjected to Nepalese commodity market.

Yet another charity during the month of April, 2011 was made to Dhumrabaraha Secondary School- a governmental school which is actively involved in providing quality education to the needy section of the society. The charity includes admission fees worth Rs 27,100 and uniform cost worth Rs 30,000 for 20 needy students. Besides, Nepal Children's Organization (Bal Mandir) was provided baby food worth Rs 103,345.50 for infants during the month of May, 2011. Another contribution was made to Rasuwa Langtang Liring Anath Sanstha-a social organization in Sanothimi, Bhaktapur by providing grocery items worth Rs 29,020 including admission fee of 23 school children to this social organization.

## Don't let the trade ruin!

True to the fact, Commodity Market is a very novel concept in our circumstances. With the number of exchanges mushrooming in the Nepalese financial platform, the market and the general public have been equally aware but at the same time the consequences of negativity associated with this market is also accelerating on its own pace. No doubt, the activities of MEX Nepal have been proving the milestone for the development of the country's financial markets. However, the sense of ownership and the responsibility to expand and explore this market must be built among all the parties involved in the commodity market, which is rarely seen nowadays. People always blame without considering their own fault. This activity of blaming others to redeem themselves is not acceptable. All the stakeholders of MEX Nepal are competent enough to fight against the market abuse. They have collectively voiced opinions against the wash Sales Jobbing, bucketing and even Churning. All these activities ruin the market and make people snivel who invests on it. The ambition of earning more without considering the business ethics may harm the market. Churning is one of the activities which could ruin the Nepalese commodity market.

Involving in the cynical overtrading of customers' accounts for the purpose of generating commission is called churning. This unethical practice by the representatives of the account's holders to accumulate the excessive transactions in an account is not acceptable in the world of derivatives. This personal account dealing undertaken by the representatives of the account may create conflict between the firm and the customer. Churning crops up when a representative opens the trade more frequently than necessary without any market logic, with the intention of generating undue commission. They always try to



generate more commission without harming the principle amount on the trade, but this can't be necessarily guaranteed. In this situation, the end loser will be the clients who have invested their capital, and not the representative; consequently affecting the prospective commodity market of Nepal. We, the Nepalese people are very fast and efficient on copying the activities without bothering about the implication of it. So, these representatives of the commodity market always try to cash in on this behavior of Nepalese traders. With the hope of earning enormous easy money, they invest their hard-earned funds in this sector without any knowledge. They totally believe their representatives who verbally guarantee the percentage of return out of their investment. The question is can any one guarantee the return? Now it's time for traders to wake up to the main fact that they should not invest on the mere promises of the representative's only with the further realization

that the market is after all equal for everyone. Commodity exchanges, brokers and other concerned authorities should groom the traders accordingly and create market awareness to limit their losses and maximize the gains.

Discipline trading is one of the main aspects of commodity trading without which people will lose money. Traders need to build the habit of closing the deal in profit. With the hope of generating more profit, people always wait when it's loss and book when it's profit. Without maintaining the discipline in trading, profits seems like a fantasy. What traders do is that they always study the technical and fundamental factors after they open a position, which is absolutely wrong. Instead, they should study all the factors before they initiate the trade which comes under discipline trading. Contingent trading practice is one of the best ways to be a successful trader which most of the traders

don't follow. But, it should be strictly followed and the representative needs to guide the clients. Taking money home is the best way to build up the confidence of the individual traders, so the representative always needs to motivate their clients to withdraw some part of their profit and not to invest the earned money immediately. Of course, this activity of the traders may decrease the trading lots, which eventually decreases the commission amount, but representatives need to think of the client before the commission which is rarely seen in our practice. Likewise, there are various factors to be considered before initiating the trade. Firstly, the representative needs to perform their duty of explaining all these factors and other technicalities to the traders. Secondly, the traders on the other hand should read the market information carefully, do's and don'ts related to commodity trading before initiating the live trade, not entering into any assured returns arrangement with any representatives, not being carried away by luring advertisements, explicit/implicit promise of returns and ultimately not letting trade get ruined.

Therefore, the responsibility of taking the commodity market in positive and right direction should be borne in mind by each and every individual related to commodity market and its dimension, which will not only ensure discipline trading on part of the traders but also explains the immense potentiality of this market among the general public.



**Neerab Pudasaini**  
General Manager  
Premier Clearing Services  
Pvt Ltd

## Futures Market Vs Stock Market

The futures markets have prevailed in the Nepalese scenario for the past few years ushering investors to participate in this dynamic market opportunity. Investors have been slowly but surely inclining towards the futures market as an instrument of portfolio diversification from the normal equity and bond markets which was not the picture a few years back due to the absence of commodity exchanges in the Nepalese financial platform. Futures markets have actually offered immense potential to become a separate asset class for market-savvy investors. Investors who claim to understand the stock markets may find commodities market a whole different proposition due to the width and depth of the market. But

the fact is commodities are easy to understand as far as fundamentals of demand and supply are concerned. Investors should comprehend the risks and advantages of trading in commodities futures before taking the leap.

Commodity futures have several unique characteristics compared with stocks. The power of leverage is one. Besides that, what makes futures so attractive to many traders is that they are a pure price play on the underlying commodity. To be more precise, investing in commodity is a pure supply-and-demand play, i.e., the price movement in commodities is solely a function of supply and demand. One just needs an opinion on the market

direction without the need to calculate P/E ratios, relying on ratings services or be concerned with corporate filings. On the other hand, investing in shares or bond is less about supply and demand and more about the financial performance of the company issuing those securities.

Let's say you have an idea that crude oil supplies are not sufficient to meet the driving season demand, and believe crude oil prices will increase. You can buy a share in an oil drilling company, for example, and hope it rises. However, corporate misrepresentation or a poor earnings report might cause your particular share to decline, while others in the sector benefit from the positive fundamentals. It implies you were actually right about the market's direction—but picked the wrong share. The question is, "Why not just buy crude oil futures instead?" The data that moves a particular futures market often comes from government reports that are in the public domain and accessible to everyone, like reports release of Energy Information Administration (EIA) and American Petroleum Institute (API). The impact of any such release would be immediately reflected in crude oil's price.

Most share investors pursue a buy-and-hold approach, waiting for their share to appreciate. With futures, you can easily take the opposite strategy too, i.e. "sell-and-hold strategy." If you think a market is priced too high and is likely to drop, it's just as easy to sell (go short) as it is to buy (go long). There are no special forms to fill out, no special rules and no higher financial requirements to meet. The money required to take a short, or bearish position, is exactly the same as to buy long, or take a bullish position. A strategy of "sell high and buy low" is just as reasonable and

easy to execute as "buy low and sell high."

During the financial crisis of 2008, short selling was actually prohibited for a time in the equity market which was not the case in futures. Futures speculators benefited from the price drops in major equity indexes as well as physical commodity products such as crude oil and grains. In fact, this ability to speculate on falling prices as well as rising prices makes futures essential for many market participants as a both hedging and speculative vehicle.

As a matter of fact, the opportunity that exists in this market moves in parallel direction along with the volatility of the market trend. So is the case with return and risk. Of course, the previously mentioned benefits of futures would be useless if it's difficult to grasp opportunities. Futures are known for experiencing considerable price movement, and that's another key benefit. We can just take an example of dramatic fluctuations in the price of crude oil in the last three years to see that in action. Volatility can work for you or against you, but most speculators want markets that move. Not only that, one can trade global futures markets nearly 24 hours a day in an electronic marketplace. Futures market offers diverse portfolio opportunities which will hold the investors in good stead in the long run.



**Ashok Kumar Shah**  
CEO  
Farwest Futures Pvt. Ltd

