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# YEAR BOOK 2010



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Deputy Governor

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## CONGRATULATORY MESSAGE

It is my pleasure to congratulate the Mercantile Exchange Nepal Limited (MEX), as it celebrates its 2nd Anniversary. The immense pride your organization must feel in achieving this milestone is understandable, as many of us are aware of the fact that the initial years of any business are the most challenging. The innovativeness and foresight displayed by the individuals integral to the formation of this organization are impressive.

Statistics reveal that investors are in search for new investment alternatives as country's only one stock exchange is in recession. At this juncture, MEX provided a grand international platform for investors to capitalize their assets through online trading. This therefore highlights the critical need for an organization such as yours. It is heartening to see a new trend emerging, whereby investors are striving for a healthier investment. I implore those of enthusiastic investors who have not caught on to this trend, to do so. I wish for the MEX Nepal continued growth and success in the ensuing years.



**Bir Bikram Rayamajhi**



I am pleased to know that MEX is entering the successful third year of its operation. At this moment, what impresses me is the fact that when the macroeconomic performance is not that satisfactory and the overall economy is increasingly becoming a victim of political myopia, MEX came forward with a new hope by introducing futures market in Nepal. This opened a new vista for aspiring young entrepreneurs and investors. It also contributed in expanding the country's tax base.

I wish that MEX get success in elevating the confidence of our young and talented generation upon the bright prospect and potential of the Nepali economy. Let MEX lead by example in the sphere of corporate good governance and also in the area of discharging corporate social responsibility. I am looking forward for the day when the commodity trading in Nepal is fully integrated with the accelerated development of our agricultural sector.

On the eve of its third year of operation, I urge MEX to take a lead in developing a modern, state of the art, public warehousing system all across Nepal. Finally, I extend my best wishes for further development and expansion of a well functioning, transparent, and accountable futures market in Nepal.

**Keshab Prasad Acharya**  
Senior Economic Advisor  
Ministry of Finance



## **Congratulation!!!**

It is indeed a pleasure to hear that MEX has added one more flourishing year. It really takes a great deal of talent, effort and commitment to reach at the top of commodity market of Nepal in short span of time. We offer the best wishes in the upcoming year for further growth and success in Nepalese financial market.



It is indeed an immense pleasure to congratulate MEX Nepal for their enormous contribution to the Nepalese commodity market. Not only have they proved themselves to be market leaders, but have also been leaders in the field of innovation and service. We would like to thank MEX for giving us the opportunity to work with them and would like to further, congratulate them from the bottom of our heart. Congratulations MEX on a roaring 2nd year and wish you all the best for the future.



It is my pleasure to congratulate Mercantile Exchange Nepal Limited (MEX) on the occasion of second anniversary celebration of its operations. I feel pride that MEX has successfully traversed its journey in futures exchange specializing in commodities trading in Nepal.

It has endeavoured to substantiate its contribution in upgrading MEX currently offers trading in 14 commodities i.e. gold, silver, copper, crude oil, heating oil, natural gas, coffee, cotton, wheat, sugar, corn, cocoa, soybean and soybean oil.

Since its inception MEX has been a market leader by providing the best trading platform for investors and is the one and only ISO certified commodity exchange in Nepal. In a short span of time, MEX has achieved milestones in leaps and bounds and its growing clientele base is proof of that.

I believe that this 2nd Anniversary of MEX could be a memorable milestone as Asian way of management. I wish for a grand success of this celebration event. I am confident that MEX will generously contribute to substantiate in Nepalese economy in the time to come.

**Janak R. Shah, Ph D**  
President  
Management Association of Nepal





“On behalf of the South Asian Federation of Exchanges (SAFE), we would like to present our appreciations and felicitations to Mercantile Exchange Nepal Limited for successfully completing two years of development and rapid progress. This is indeed a worthy achievement and SAFE Secretariat would like to present its warmest compliments to the entire management of MEX Nepal on this landmark occasion. It gives SAFE a great pleasure to announce MEX Nepal’s inclusion in SAFE family as Affiliate Members. MEX Nepal boasts a short yet proud history of growth and advancement in a mere two years by coming up as the only online commodity futures exchange in Nepal. We at SAFE are confident that MEX Nepal shall continue to move forward in the same fashion and achieve many more milestones of success in the coming years.

On this auspicious occasion of your second anniversary, while you take pride in the past and look forward to build the future, we would like to reiterate your significant role towards development and integration of financial markets in South Asia. We are indeed thankful

for your initiative and commitment of joining the platform of SAFE to contribute towards the cause of regional harmonization and mutual cooperation and would like to assure you of our continuous support and dedicated commitment for promoting all and any endeavors for the betterment and progress of development of financial markets in Nepal and South Asia. We would also like to applaud your involvement and participation in SAFE’s activities and continue to look forward to your stronger presence in all our forums.

Once again, on behalf of all SAFE members, Executive Committee, Secretariat and our Secretary General, Mr. Aftab Ahmad Ch., we would like to wish MEX Nepal a Happy Second Anniversary. We feel privileged to share this historic event and hope to continue excellent partnership in the future.”



We would like to congratulate MEX for coming up with “MEX Year Book” upon its completion of 2nd year of successful operation.



On behalf of Laxmi Bank family I extend our warm wishes and congratulations to Mercantile Exchange (MEX) for completing 2 successful years of operation.

Laxmi Bank is privileged to have played a small role in the development of the commodities market in Nepal by way of providing online banking platform to the entire MEX ecosystem including the Clearing Members, Non Clearing Members and Clients.

Despite the prevailing challenges in the commodities market, growing number of investors and increase in trade volumes indicate that this is a high growth industry and requires regulations which will safeguard the interests of all stakeholders. We urge the government to expedite setting up appropriate regulations. Furthermore, Laxmi Bank is committed to supporting MEX and the Investors by providing safe, reliable, user friendly and technology driven banking services that will help improve efficiency and support growing volumes in the commodities market.

Thank you and best wishes for your future endeavors.

**Suman Joshi**  
Chief Executive Officer  
Laxmi Bank



On behalf of the Nepal Chamber of Commerce (NCC) and myself, I would like to congratulate the Mercantile Exchange Nepal Limited (MEX) for its overwhelming success within one year’s short span of time in commodity futures exchange in Nepal and wish to convey warmest greetings for its further success in the days to come.

Agriculture remains Nepal’s principal economic activity, employing 80 percent of the population and contributing about 40 percent in GDP. There is, however, a need to move agriculture to a market system of economy. This requires agriculture to be organized just like the industrial and service sectors of Nepalese economy. Against these backdrops, MEX is doing its best in trading various agricultural and other commodities such as cash crops, food grains, vegetables, spices, oil seeds, metals & bullion in a way how market system of economy operates.

I am very pleased that MEX is applying new approaches of doing business that will enable us to build new Nepal. For instance – a farmer raising corn can sell a future contract on his corn, which will not be harvested for several months, and guarantee the price he will be paid when he delivers; a breakfast cereal producer buys the contract now and guarantees the price will not go up when it is delivered. This protects the farmer from price drops and the buyer from price rises.

As the prime objective of Nepal Chamber of Commerce is to assist in the economic development of the country through the promotion

and protection of commerce and industries, it is a matter of pride for us to support and promote the businesses like yours in different means and ways.

I hope, by the next few years, MEX will be able to expand its product offerings, increase its business volume and place itself as a renowned company in the global map of commodity futures exchange.

Finally, on the occasion of its second anniversary, I wish MEX to be an eminent business not only for itself but also for the nation in order to help achieve its cherished mission of transformation.



**Surendra Bir Malakar**  
President



“Looking at two years of MEX operations, it can be said that MEX along with its member associates should be credited for development of Nepalese online derivative market and setting a new benchmark in it. Journey so far has been undoubtedly challenging but worthwhile and educative as well. Must say it has opened up opportunities and has given new dimension for wide spectrum financial services market in Nepal. I would like to extend my good wishes to MEX in its endeavor to create a transparent and unified commodity market in Nepal.”

Regards,  
**Kanhaiya Ghiraiya**

# Editorial Desk



**I**t is our great pleasure to publish the first limited issue of the MEX Year Book, coinciding with the auspicious occasion of our second anniversary. This year book is an initiation and joint effort of various departments, management teams, academicians, professionals, bankers, clearing members, non clearing members and as well as media. Taking into view the need for addressing various aspect of the commodity market, a serious need was felt to address these issues. As a result, the yearbook was born which not only addressed information on market capitalization and volume, but also contained views of the experts relating to the field. Hence, this yearbook is an appropriate response to the needs of the concerned stakeholders.

Care has been taken to make this yearbook as helpful as possible. For this purpose, a detailed analytical research of all the commodities and the news and events affecting these commodities throughout the year 2010 has been made. It has then been tried to relate these news and events to the prices of the commodities. While the analytical research is one aspect of the yearbook, it definitely

isn't the only one. Expert's views have also been included in which various experts from respective fields have shared their insightful opinion relating to the commodity market. Finally other articles of importance are research papers on the feasibility of including other commodities in the trading terminal, profile of our members, milestones of MEX, etc.

Finally we feel that this editorial would not be complete without mentioning a few words about the company of which this yearbook is a part of. Mercantile Exchange Nepal Limited or MEX Nepal as we lovingly call the organization was established in 14th August 2007. It however started its operation on 5th January 2009. During the short period from 5th January 2009 to present, it has progressed leaps and bounds. As hard as it has been, to aware the public regarding this new area of investment, MEX Nepal has constantly strived to excel in this field. It can boast of being market leader with the largest market capitalization, highest number of clients and the widest market coverage in Nepal. Likewise, MEX Nepal has also been leaders in innovation and technology, creating

milestones after milestones, which has enabled the local investors to enjoy world class commodity trading, all from the comfort of their own homes.

Lastly, we would like to thank Mr. Jitesh Surendran, CEO of MEX Nepal and Mr Dipendra Khatriwada, Managing Director of MEX Nepal for their unparalleled support in helping us make this yearbook a reality. On the same note, we would also like to offer our utmost gratitude to all the experts, our members who have shared their precious time in writing articles for this year book and would also like to thank all other concerned parties who have directly and indirectly helped us.

We have tried our best to make this yearbook as informative as possible and tried to present it in an inclusive way to deliver the proper face of commodity market in Nepal. We would thus be grateful to receive any suggestions of improvement in order to make the coming issues even better.

**from left to right: Bikesh Chitrakar, Preeti Ganeriwal, Saurabh K.C. & Amit Pyakurel**

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## MEX: SIGNIFICANT PRESENCE IN NEPALESE COMMODITY INDUSTRY

It's been 2 years we have started our journey being live in Nepalese market. A small step was taken to integrate market mechanism, with transparency, professionalism and quality service. Nepal, on the eye sight of agro market mechanism is really complex and with vast variations in terms of geography, market culture, production size and style.

Major focus is carried since 2 years as effectiveness of supply chain mechanism. We are continuously talking about warehouse, warehouse receipt, structured finance but we are not yet able to deliver these things due to lack of regulatory arrangement of structured finance, warehouse receipt and over all commodity exchange regulation. Although in this extreme situation we are continuously looking forward to develop and enhance these mechanisms which strengthen capabilities and opportunities for farmers, merchandisers and concerned market players.

Quality of services, products, trading and clearing mechanism is in our focal point always, these are the minimal concern of the market participants. Professionalism in lifestyle, service oriented attitude shall enhance quality more.

We are celebrating 2nd year of live trading with financial settled futures products. Now we are ready to jump in next segment which enables delivery backed settlement system, with adequate preparation in this regards. Although warehouse related mechanism is still not on place, but we have developed

alternative mechanism for that and the new leap is ready to serve nation with more professional attributes.

While keeping delivery backed market segment in mind we have initiated for National Spot Exchange (NSE) to have whole focus in that aspect. And now NSE is ready to serve nation with vast experience of MEX.

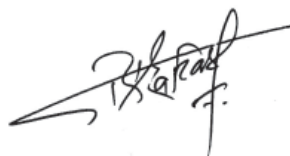
While we are talking about exchange we are talking about market culture, where market response, services to market components, reaction of market always matters. Our success in objectives matters on the response and reaction of market. We believe serving market need and throughout these process to serve the economy of country. Our 2 years achievements also measured on that basis and we are being self analytical on these grounds also. Overall we are receiving warm welcome from market with much more anticipations. At this stage we are admitting our real test is on the way with huge remarks, criticism and welcome. Success doesn't come in smooth manner; it comes with its coincided factors that are known and visible to us.

We have to mention our contribution to draft regulation being an integral part of the regulation draft committee, where we have contributed by providing inputs for well shaped and market oriented commodity exchange, irrespective of individual interest. We are waiting that regulation to be on place which will be milestone for commodity exchange history in Nepal.

Our future plans are focused on product quality, delivery mechanism, and service quality and system enhancement. We believe in innovation for overall functioning as a continual process and also its life of exchange too.

In this global economy we can't be excluded by global impact of economy. Idea and skill sharing is essential in this era where every corner of globe is talking about openness, transparency, market culture and market economy. We are trying to get affiliated on international forum with intention to receive benefits for Nepalese market components. Its exchange based sharing or international forum based participation we are in to these all processes.

Finally we would like to thank all our MEX family as market participants (members, traders), our employee, media, government agencies and authorities to have great support on our journey, and we expect this will be granted to us in coming years too.



**DIPENDRA KHATIWADA**

Managing Director  
MEX Nepal





## SYSTEMATIC DEVELOPMENT OF FINANCIAL MARKETS IN NEPAL

**Dear Patrons,**

I would like to express my sincere and heartfelt appreciation for your continued outstanding support and cooperation.

Over the course of the past two years, MEX has enjoyed sustained liquidity growth driven by the robust link to supply and demand fundamentals.

I take this opportunity to thank our stakeholders for their support and look forward to continued growth in 2011.

As we celebrate our 2nd anniversary, we look forward to working with our clients, members, shareholders and industry stakeholders over the coming year to cement MEX as the most fair and transparent pricing benchmark for the Nepalese markets.

We have been attracting various investments from abroad towards Nepal in the past years, but the lack of regulatory body for this industry has been a major setback in realizing these opportunities. We hope that the years ahead will pave way for making the regulatory body for the commodity market a reality and also protect this industry from unscrupulous tainted entities from entering the sector, and also to ensure that the current operators are giving a fair and transparent

market place for the participants and also in abiding the tax policies of the government, uniformly, which has been a matter of concern for quite some time.

MEX has been continuously strategizing the development of the exchange in line with its philosophy of "Systematic Development of Financial Markets in Nepal through Information, Innovation, Education and Research."

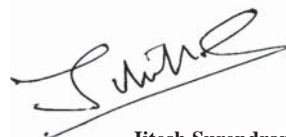
We have been continuously researching on the establishment of warehousing, warehouse receipts and to enable deliverable products in the Nepal Spot Exchange trading platform (for the very purpose MEX has promoted NSE). Though this remains a very big challenge for us and also for the nation itself, we are in no way letting this pass off easily, without achieving these challenges. In the coming year we will be more closely working with the Govt bodies to make everyone understand the need of a centralized warehouse system across the country to ultimately benefit the farmer community of the nation.

In the course of time, we have learned that many of the market participants need to be continuously educated about our systems, in the coming year we will be making use of all modes of information dissemination to educate the mid user and end user.

More products are being researched for being added for trading, which will ultimately help the end user to diversify their risk portfolio.

We appreciate the continued support we had been getting from various government bodies of the nation for helping us to make this a very fair and transparent market place. The revenue contribution made in the fiscal year has been the highest superseding any industry within this short period of growth.

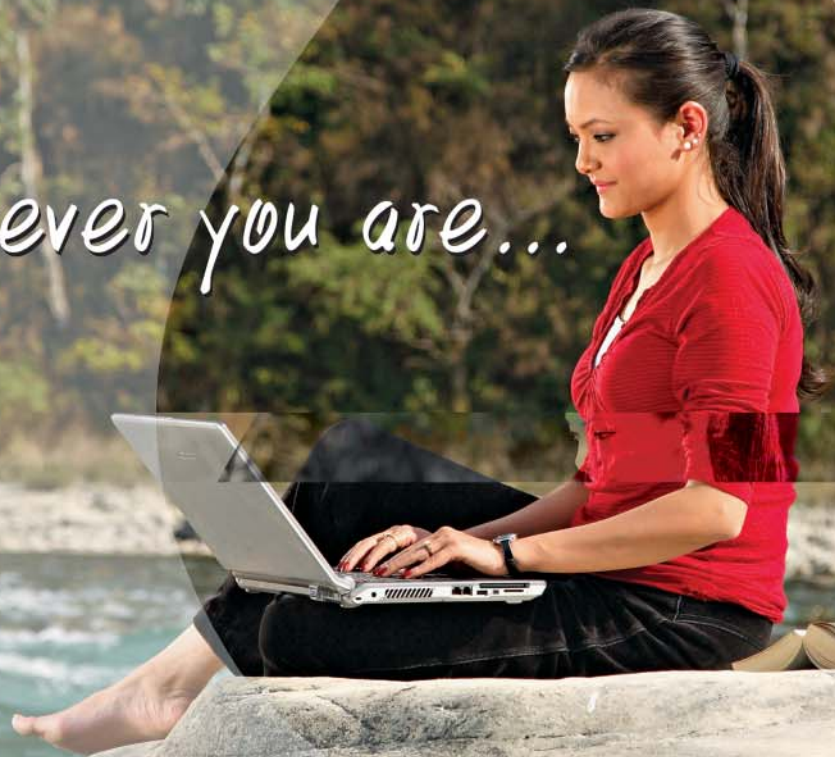
Thank you,



**Jitesh Surendran**  
CEO



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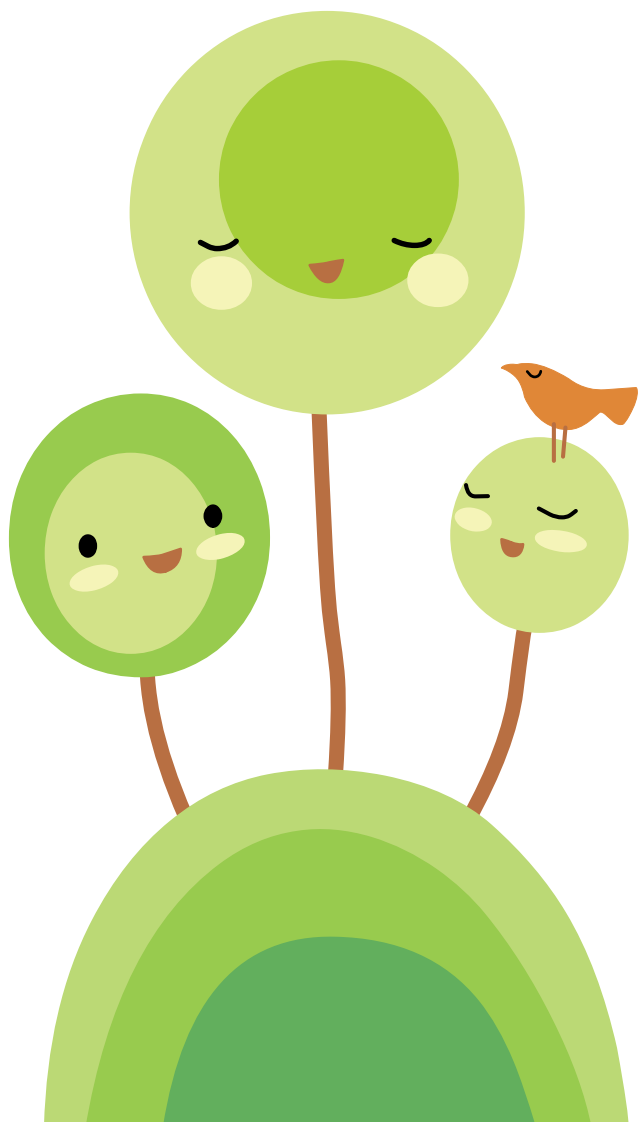
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## ROLE OF FUTURES IN REGULATING COMMODITY PRICES

Derivative securities are contracts that derive their value from the level of an underlying interest rate, foreign exchange rate, or price. Derivatives include futures, forwards, options and swaps. In the last thirty to thirty five years' financial derivatives have been an important, and controversial, product. These securities are powerful instruments for transferring and hedging risk. However, they also allow agents to quickly and cheaply take speculative risk.

The primary function of the futures market is the hedging function which is also known as price insurance, risk shifting or risk transference function. Futures markets provide a vehicle through which the traders or participants can hedge their risks or protect themselves from the adverse price movements in the underlying assets in which they deal.

In short span of time, Nepal has also witnessed the development of derivative instruments in commodities market. The private sector initiative in this market provided Nepalese investors to hedge and speculate the price risk in commodities market. Government of Nepal (GoN) also has committed to introduce rules and regulation for this market and also has included in tax network.

Developments of the futures market in commodities provide many benefits to the

investor, society and government. Firstly, futures market enhances price discovery mechanism. In futures market contract, a trader agrees to receive or deliver a given commodity or asset at a certain futures time for a price which is determined now. Thus futures market creates a relationship between the futures price and the price that people will expect to see in Nepal. People will get rid of from current artificial pricing mechanism of commodities and services with manifestation of well-developed futures market. Secondly,

also be the good instruments for bank financing. Thus, the bank credit might flow toward the agricultural sector—the backbone of Nepalese economy. Ultimately, the market helps to boost the employment opportunities in the country in agricultural, trading and business and financial sector.

Along with the benefits there are some risks of the commodities futures market as well. Moreover, these markets are also blamed for Global Financial Crisis-2008. In the absence of high-tech people and well-developed regulatory and supervisory framework, these markets are only threats in the economy rather than opportunities. The need of the time is to support, develop and enhance the well-functioning and regulated futures market in Nepal.

### THE WELL-DEVELOPED COMMODITIES MARKET ALSO SUPPORTS TO GROW FINANCIAL MARKET IN THE COUNTRY

investors will get risk hedging and speculating opportunities from this market. Accordingly, this market will provide backward and forward linkages in Nepalese financial markets. The trading of standardized and graded commodities will help to introduce quality products in the market that protects consumer's right.

The well-developed commodities market also supports to grow financial market in the country. The godowns and warehouses are required to store the commodities for future trading. This arrangement also helps to maintain the buffer stock of commodities in the market. The warehouse receipts might



**Dr. GOPAL PRASAD BHATTA**  
Chief Manager, Janakpur  
Nepal Rastra Bank



# MERCANTILE EXCHANGE NEPAL LTD. AND COMMODITY MARKET EFFICIENCY



Recently, I have found 1st publication of the educational program series published for their traders by this company. I'm glad to get opportunities of reading this. Now, Nepalese people will also take interest on it and will be considered on investment. The history of commodity market in Nepal isn't long. It came in operation just before 2 years. This company has not long experience and Nepalese people are not also well aware regarding how to trade in this market in such condition various problems can arise on the trading in this market.

Information and services provided by this company to the investors will be beneficial for the producers, intermediaries and consumers. The existing situation for not getting relevant price by the producers of their products, cheating with consumers and the way of getting benefits only by the intermediaries will be no longer. The role of agriculture in Nepalese economy is extremely significant. Millions of farmers are dependent in this profession and they are just cropping for their own livelihood. This market will play key role to develop commercial and market oriented agriculture profession. Thereby

the investment in agriculture, production, employment will be increased and consumer can be able to buy commodities in less prices, this market will help to create such atmosphere.

Futures market helps in realizing instant profit for investors once they settle their contracts. This eliminates the risk that an organization may have to bear should they transact in credit.

The development of this market helps give a new ray of hope to the rural farmers who are under constant threat of poor yield. Thus this company helps in developing the agriculture sector, minimizing rural indebtedness and helping to eliminate poverty in the real sector. It is also expected to contribute to the "Haat market" the main market in rural area.

The establishment of Chicago Board of trade in the US in 1848 helped to bring together the producers and business man in one place. It helped to raise productivity as well as find market for the products. This company now deals in commodities derivatives and help to mitigate exchange rate risk as well as risk of price fluctuation. As a result, it believed that they have helped in social welfare of producers, intermediaries as well as consumers. Even in Nepal, it is expected to foster such sorts of services.

By trading through MEX Nepal, Nepalese commodity market will get integrated with international commodity market. This will foster to make Nepalese commodity competitive in international

market. This will help the import and export sector of Nepal and import and export can take advantage of such benefits. This will lead to further integration of Nepalese and international commodity market.

## Regulation:

Commodity market is proposed to be regulated by Securities Exchange Board of Nepal (SEBON). SEBON should implement the policy frame for the commodity market and should establish different act for smooth operation of commodity market. Nepal need extra research for formulating completely different act for commodity market as it is very important this market

Similarly in order to foster competition in the commodity market through the proper functioning of such exchanges, proper monitoring and supervision has become a compulsion.

## Tax Provision:

To encourage the transaction done through this exchange and to spread the services throughout the country it is necessary to relax the tax provision implied in commodity market. if the tax provision are relaxed then transaction in commodity market will be increased, that is why government is supposed to put special emphasis on commodity market. To encourage the transactions through MEX, the government should also provide necessary monetary and financial support.

## Research and Development

The development of commodity market in Nepal is in an infant stage. As a result, there is an acute shortage of required human resources and infrastructure in this field which needs to be addressed by the government. The development of commodity market will must definitely help in the development of agricultural sector of Nepal. So it is highly imperative that the policy makers start making policies for the sustained development of this market.

It is important that a country with an open market economy has developed institutionalized market place. The development of such market place will enable development and consumption of natural resources. This will further push the economy of a country toward self-sustained. Due to this it is important that all the stakeholders participate actively for the development of this sector.



**TRILOCHAN PANGENI**  
Executive Director  
Internal Audit Department  
Nepal Rastra Bank

# COMMODITY MARKET AND EARNING MANIPULATION

## Background

Originally, commodity markets started off as a way for farmers to sell their goods at a guaranteed price in the future. Because farmers had no way of knowing whether the harvest would turn out good or bad, it provided a way for them to lock in some profits before going to market. Commodity markets also provided a way for buyers to get a price they thought was fair.



Commodities market provides a place for buyers and sellers to trade in raw products and natural resources. The marketplace used to be only physical however, the internet has allowed for a virtual electronic exchange nowadays in the world. The four major types of commodities traded in the international commodity market are energy (including crude oil, heating oil, natural gas and gasoline), metals (including gold, silver, platinum and copper), livestock and meat (including lean hogs, pork bellies, live cattle and feeder cattle) and agricultural commodities (including corn, soybeans, wheat, rice, cocoa, coffee, cotton and sugar) but the Nepalese market is moving bare of regulation provisions and fixed structure as prescribed by government or any regulating agencies.

These markets bring together two types of investors like hedgers and speculators in the international market. Hedgers, those affected by the changing price of the commodity, are generally users of the raw product or companies associated to the use of it. For example, the price of oil has a major impact on both the airline industry and the motor manufacturers. Both groups have people who trade in oil to reduce its impact on their business. Speculators attempt to make money by predicting the direction of the commodity price. However, they don't necessarily have any other practical use for the raw goods.

The history of the commodity market as a structured form started from the U.S.

commodity market. The market began from the 19th century with the trading of staples such as cattle, wheat, corn and pigs. Later on, the list of food products included products such as soybeans, sugar, coffee and cocoa. Eventually, the list of commodities evolved to include natural resources such as timber and metals. The very first commodities markets began in Sumer, dealing with sheep and goats.

## As risky as stock market

Given the unpredictable nature of the world, with floods, wars, hurricanes, earthquakes and droughts, predicting the price of a given commodity can pose a challenge. Although we have plenty of factors to study such as trends, economic and agricultural reports, unexpected natural catastrophes can cause prices to spike or drop suddenly. A small percentage of speculators can make a substantial amount of money trading commodities, but the majority loses money. Thus, the real value in the commodities market comes from the ability of users and producers to hedge their profits through the use of commodity exchanges.

## Commodity pricing and earning manipulation

Commodity market price is also determined as a reflection of fundamentals of the market. Given the pattern of cash flow, combined with an appropriate discount rate, the commodity market will decide the price. Theories also suggest that commodity prices can also affect fundamentals. A high commodity price can be good for both hedgers and

speculators. A higher commodity price may signal that the farmers and such companies has a good product and induce consumers to adopt its product to start a positive feedback (Subrahmanyam and Titman, 2001).

A higher commodity price can also make the term of equity-related transactions more favorable. For example, it can increase the proceeds received from seasoned equity offerings or it can increase personal wealth. Given its benefits, a higher commodity price will certainly bring its cost. But trying to maintain a higher valuation of commodities in the market, market regulator can take actions that will reduce long-term firm value. That type of action is called earnings manipulation (Barth et. al, 2007)

One question naturally arises is the purpose of the earnings manipulation on two types of transactions related to commodity: seasoned commodity offerings by companies and commodities selling by investors (Black, 1973). Evidences have been found that high valuation companies that issue commodities are especially aggressive in accounting enlargements. On the other hand, there is no evidence that investors use enlargements to make personal gains by selling their own commodities in the market.

## Conclusion

The popular beliefs on the earning manipulation state that high valued commodities have stronger incentives

to manipulate future earnings from its transaction in the market and production in the industry in comparison to low valued commodities but few studies found the beliefs is only half true. A positive relationship between valuation and future discretionary accruals only exists for commodities receiving limited attention in the market.

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**GOPAL KRISHNA ACHARYA**  
Officer, Planning and Development  
SEBON





# GOLD PRICES: IS SKY THE LIMIT?

As we all know that gold is not just a commodity but is also an investment instrument. In the world of big money, gold is always considered as a safe haven't for investment and an investment against inflation and rising consumer prices.

In the month of October & November 2010 gold has continued to make all time new High. The spot price of gold at COMEX made a historic life time high of 1425\$ per ounce and is still hovering around it at 1404\$ down 21\$ from its all time high. But now we are observing gold December futures contract's Open Interest is less compared to October. What conclusion can be made from the data of the various Commodities Exchange?

The biggest bull driver of the gold prices has been the US Federal Reserve as the USD has declined a lot and they are injecting more money into the financial

cycle which means that they are printing more money, and a lot of it. If currencies get devalued, it means higher prices for gold and other precious metals. It means gold will move further up, but what is the upside limit of gold? Is sky the limit for gold?

When we invest in a stock we determine the fundamental value of the stock, which means we look at the company financial details and make an estimate of its future earnings and based upon that we translate that estimate into present price. Based upon that value and the current market price if we find huge discrepancy then we take a decision to BUY or SELL. But how

to determine the fundamental value of gold?? How much return can we expect when we invest in gold?

Around the world, most of the gold is stored in vaults which never generate any cash flows. Infact, investment in gold is unproductive from an economic point of view. This principle might have also triggered NRB also to put a ban on bullion import and led to the auctioning of bullions stored in their vaults. When we inject equity in a company, the company uses that equity to employ people and make finished and unfinished products. Even when we deposit our

money in banks, financial institutions or a cooperative savings account, that money is lent out to people who want to start their own businesses, buy a home, etc. But when we buy gold, it just lies there in the vaults and doesn't do anything productive.

The above statement puts us in a dilemma as to how to place a value on something that doesn't generate any value for itself? Is there any alternative that can be used to determine the fundamental value of gold? When we look at the historical data – it gives us a clear picture of how gold is different from stocks and other form of investments. So how can we determine the value of gold relative to other variables based on historical data? Valuing gold through other assets is helpful, but still it does not provide us the fundamental value of gold. It still doesn't tell us how much value is it worth if we consider it as an asset on its own.

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**SO WE CAN SAY THAT THE SKY IS THE  
LIMIT FOR GOLD AS LONG AS PEOPLE ARE  
WILLING TO PAY HIGHER PRICES FOR IT.  
BUT THIS PRINCIPLE WORKS BOTH WAYS  
WHEN WE SAY SKY IS THE LIMIT FOR GOLD.**

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When we try to answer what the upside limit of gold prices are, the clear answer is that it does not have a limit at all because there is a in deriving its fundamental value. It is impossible to say whether it is overvalued or undervalued at the moment. Therefore, there is no limit to how high it can go. So we can say that the sky is the limit for gold as long as people are willing to pay higher prices for it. But this principle works both ways when we say sky is the limit for gold. There may be no upper limit and at the same time there is no lower limit as well. One has to recollect that limit works in both ways, when we are unable to determine its fundamental value.

The conclusion is that though gold has yielded high returns to its investors, it could be a risky investment in the coming days. It can also provide high returns but at the same time can crash down easily.



**DEEPAK SHAH THAKURI**  
GM  
Axis Broking Solution Pvt. Ltd.



# COMMODITY MARKETS AND BANKS

Commodities, like other asset classes whose prices are determined by all the various information that flow into the markets about their fundamentals, inherently carry price volatility. Globally, banks participate in the equity and commodity futures markets to mitigate risks or exploit business opportunities by establishing trading desks. They do actively participate in various derivatives markets such as OTC (over-the-counter), forwards, futures, and swaps to mitigate various systemic risks to a certain extent. Further activity in commodity derivatives is rapidly growing and is increasingly being looked as an investment opportunity by many of international financial services providers including banks and their investment arms.

In our country, where agriculture has been providing the livelihood of more than half of the total national workforce, commercial banks are traditionally mandated to maintain an adequate credit flow to the agriculture sector. Even then, banks' lending to the priority sector has remained low leading to low value realization in adhering to the norms set by the central bank. There are several reasons like: banks' poor penetration in rural areas, lack of effective collaterals among farmers, perception of risk due to uncertainty over agricultural yield, market related factors. From farmers' standpoint, on the one hand, low prices are limiting their incomes and, therefore, the necessary investment in the overall farming process. On the other hand, price volatility is making it difficult for them to plan their production activities, allocate resources efficiently and obtain credit from organized sector. Also, risk perception of banks can partially be mitigated if they are

allowed to participate in the organised commodity futures market to hedge their exposure to agricultural lending arising out of price fluctuations that their debtors would face in their incomes. So, this produces a win-win situation for both producers and lenders/banks. This win-win situation can be a reality only after a full fledged regulation is brought into practice with liberalizing the markets regularly ensuring appropriate opportunities to both public and private players, including banks, in the price discovery and price risk management mechanism that an organised platform of commodity futures exchanges provides.

## Commodities a global perspective

The rebound in commodity prices that started at the beginning of 2009 continued into 2010 as the global economy recovered. Increased demand from China, significant production cuts (metals and oil), and some weather-related factors (agriculture) also contributed to higher prices. As a result, energy prices increased by 60 percent in the first quarter of the year 2010 while metals and agricultural prices increased by 62 percent and 19 percent, respectively, when compared to a year earlier. Energy prices are projected to increase 25.1 percent in 2010. After five consecutive quarters of decline, world oil demand rose in the final quarter of 2009-led by strong demand in emerging economies. China has been the primary driver of metal prices this decade, as Chinese consumption of the main base metals (aluminum, copper, lead, nickel, tin and zinc) rose by 17 percent per year.

During the year 2009, Goldman Sachs had generated revenue of USD 3 billion from commodities followed by Morgan Stanley USD 3 billion, Barclays Capital USD 2 billion and JP Morgan USD 1.5 billion.

## Nepalese Context

Nepalese banks have limited exposure towards commodities. Although commercial banks have been importing precious metals, but trading activity has been negligible. At present context, where there are adequate financial institutions in market catering limited customer segments, trading in commodities would be a new segment where Nepalese banks could hedge themselves with exposure within the sectors and can also be a medium to generate revenue. However, considerable awareness is required before exposing towards this sector which is regarded as one of the most volatile and riskier than other sectors.



**NIROY SINGH THAPA**  
Treasury Head  
Bank of Kathmandu Ltd.



# TDS ON COMMODITY TRADES, A THORN IN THE FLESH

The present system of Tax Deduction at Source (TDS) in Commodity trades has become a great threat to the future of Commodity Traders in Nepal. This system when announced in Finance budget 2066/67 was welcomed by all commodity traders. It was a great green signal from the government which said Commodity Market is also a part of Nepal economy. But since then the traders are paying more money as

Tax and ending with less profits. It has made a psychological impact on Nepal commodity bourses as well as those trading on them.

According to the budget 2066/67 Tax deduction at source (TDS) 10% should be deducted from each profit earned on commodity trades. But the loss on trades is not being considered. The present tax system is untenable because it has the

potential to drive commodity futures business overseas.

It must be noted that the top 100 commodity derivative exchanges in the world are not subject to TDS on transactions. TDS will certainly have an adverse bearing on Nepal's commodity exchanges that are struggling to grow. Profits gained by commodity trades are treated as capital gain Tax in almost all countries worldwide. And these profits

are calculated on net. Imagine if a trader makes 100 trades in a year, and he gained 10 Millions profits in 50 trades and he lost 6 Millions in other 50 trades. Here he/she need to pay tax only for the net, i.e. 4 Millions, at the end of the fiscal year. Here in Nepal, traders need to pay on each profit earned trades, but losses are not taken into account. Simply if 10 trades make a loss of 10 Millions, and next 1 trade made a profit of 1 Million, TDS is deducted on this profit earned trade, simply trader needs to pay 10,000 as Tax. Here the first incurred losses are not considered.

Immediately after the Budget 2066/67, there was a hue and cry over the implemented new tax

system. Mercantile Exchange Nepal Limited, Himalayan Commodity Brokers and all other members of MEX, pitched for withdrawal of the proposal. The talks are going on with higher officials still. The coming budget will be the last opportunity for modifying the relevant provision from the Finance Act.

As per our request, financial advisors has come up with helping hands to guide us how these extra tax can be returned back to the traders. As per them, all traders should get registered under PAN. At the end of the year traders can file their income tax. These profit/loss trades can be added in the income tax return file. The profit earned the whole year will be calculated on net. If any trader has paid extra tax, they can carry forward it till next 7 years or can request for reimburse (but the time limit for this is still a question mark). This is certainly a relief for the traders.

What's needed at this juncture is to allow futures markets to play a more meaningful role in helping Nepalese

farmers to realize higher prices for their produce. Market participants, especially the farmers need to be encouraged to make additional investments in marketing infrastructure such as price dissemination networks, warehousing, storage facilities and testing laboratories. Strong futures and spot markets are essential for creating the conditions conducive for such investments, for which Nepal Government should re-think very seriously about the Tax implementations on Commodity Markets.



**MEHABOOB MOHAMMED**  
General Manager  
HCB Nepal

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**ACCORDING TO INCOME TAX ACT  
2058, SECTION 88 (1)(6)  
“ANY ENTITY OR INDIVIDUAL  
TRADING ON COMMODITY FUTURES  
MARKET, 10% TAX WILL BE LEVIED  
ON THEIR PROFIT OR INCOME”**

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# CHALLENGES OF NEPALESE COMMODITY MARKET

Commodity market, one of the oldest markets of the world, is in practice since the civilization of human being. For centuries, it remained as the core business of the society, physically transferring both the goods and ownership of them. Over time, the commodity market turned virtual one, as it is at present. The goods are traded very frequently by transferring the ownership but moved from one place to another is much less often. They are bought and sold through standardized contracts in organized commodity exchanges.

Although, CFD (contract for difference) of different commodities, FOREX and other financial instruments are traded by the selected parties in unorganised ways for centuries, the organized commodity market is very recent development for Nepal. The trading in the commodity futures formally started in Nepal since December 2006 with the establishment of the Commodities and Metal Exchange Nepal Ltd. (COMEN). Mercantile exchange Nepal limited (MEX) started its operations from January 2009. Though it is the second commodity exchange of Nepal, it is the first to provide the electronic trading platform. Recently, another commodity exchange named Nepal Derivative Exchange Ltd. (NDEX) has started operation.

The trading of commodity CFD has been growing rapidly with a number of commodities listed in the three commodity exchanges. The turnover of these futures exchanges is much higher now than that of the Nepal's Stock Exchange while the stock exchange is decades old whereas



1,663	65	5,045
1,717	69	5,028
1,846	64	5,174
1,935	67	5,272
2,126	75	5,558
2,158	77	5,647
2,307	82	5,947
2,376	90	



the futures exchanges have not completed even a decade.

It is a well known fact that a structured and efficient commodity market plays a complimentary role in the overall development of a country's economy. To realize such positive outcomes, it is essential to ensure growth and sustainability of such market. The Nepali commodity market is facing the following challenges which need to be addressed for the country to derive benefit from this market.

**First**, as per the evidences of the last four years, the growth of Nepal's commodity market was good. But the challenge is to maintain the positive momentum by generating a viable and sustainable spot market with the mechanism of physical delivery of the traded commodities. For this, the market is facing some structural as well as institutional bottlenecks such as weak and poor infrastructures including roads,

power, irrigation and warehouses; lack of skilled man power; lack of suitable government policy etc.

**Second**, in order to rationalize the expansion of any sector the stakeholders of the sector concerned should benefit by one or another way. This is likely only through the vigorous involvement of such stakeholders to maximize their own interests. In the context of Nepal, the stakeholders of an organized commodity market such as farmers, wholesalers, manufacturers, processors, consumers etc. are not fully aware of the benefits they can derive from such market. So, they are not confident about the operation of the market and its favorable impact to them. Therefore, creating, retaining and accelerating the public awareness and confidence to the market is more challenging.

**Third**, the commodity market should play the role of the facilitator to the growth of the so-called 'real' sectors

of the economy rather than just being a platform for speculators. Because of this reason, the commodity market should be mainly be based on the domestic products of the country and should be guided to raise the wellbeing of the producers as well as end users of such products. But the Nepal's commodity exchanges are highly concentrated in trading of foreign market-based metals, fuels and agro-products. Based on this bitter truth, another challenge of Nepal's commodity market is to discourage the speculation on commodities grown and traded in distant lands and simultaneously encourage the trading of domestic products by providing price discovery mechanism and developing physical delivery system.

**Fourth**, the prices in the commodity market change very fast as the goods are not delivered, the purchases are made in document only and the rumour plays a very important role to drive the price up or down. When a rumor causes serious and

unfounded rise in prices of basic goods such as petroleum and food grains, the final users will be adversely affected. This has led the governments in some countries, including India, to ban trading in the futures contracts of some daily essential commodities. Another point to be kept in mind is that the commodity market is not totally risk free, it carries considerable amount of risk that must be minimized. Currently, the market participants or more specifically the speculative investors are benefiting due to the persistent bull phase in the market in general and in metals in particular. It is not necessary that this Bull Run will continue for long. The moment it starts falling down, it will hurt the small investors very badly.

**Fifth**, in order to avoid such shocks and protect the small investors, there is need for a regulator of the commodity market of Nepal with clear rules and full autonomy.



**MADAN LAMSAL**  
Chairman  
New Business Age



# COMMODITY TRADE AND ITS BENEFITS IN CONTEXT OF NEPAL

In today's unstable global financial market, traders and investors are seeking for innovative investment alternatives for diversifying their portfolio. Commodity derivative market provides such novel platform as it provides wide range of investment alternatives for Nepalese investors. As from the global prospective, commodity derivative market is growing by 500% annually.

Many people have capitalized the benefits of the commodity market and have earned huge amount of profits. It is one of a few investment areas where an individual with limited capital can make extraordinary profits in a relatively short period of time. Nevertheless most of the people lose money, indicating bad reputation of commodity trading as it is too risky for a normal individual. However, the truth is that commodity trading is only as risky as you want to make it.

Commodity market in Nepal is in very early stages. It is an emerging market, with a vast growth potential and can become one of the prominent markets in Nepal. Introduction of commodity trade in Nepal has provided a new level of investment opportunity to the traders. In recent years commodity trading has shown substantial growth. People from the various fields have started investing in the commodity trade. It has created employment opportunities to the general public and the government as well, by paying huge amount of tax.

Though commodity market in Nepal is growing at a rapid pace, the major hurdle in its expansion is the absence of regulatory body for its proper regulation. However,

Security Board of Nepal (SEBON) is taking initiatives to regulate this market with the help of existing exchanges. But, the situation in other countries is different, because a separate entity is set up for regulating and monitoring the commodity market. As for Nepal, commodity market is like an orphan, which seriously needs a Guardian to look after. Traders, Investors, and Exchanges are eagerly waiting for a proper regulatory body to be established, so that commodity market can become a major contributing sector in Nepalese economy.

In current point of time, where investors have second thoughts on the stock market and other investment alternatives, commodity market is emerging as a trustable investment platform for the investors. Investor invests their knowledge to collect information about market and trade only by investing 3 to 4% of face value in any commodity and enjoys huge leverage. This means, investors are not required to invest the whole face value of the contract. So, we can say that investors having sound knowledge about the market will be able to make profit with their small investment rather than the other investor having large amount of money.

The real benefit of commodity market is that it will assist the country to improve and upgrade its economic condition without any help from other countries. And it is possible through introducing wide range of agro products in commodity market, in which Nepal has potential to meet the global demand. For e.g. Ginger, it can be introduced in a trading list, as

Nepal has potential to meet the global demand as for being 4th largest ginger producing country. Inclusion of such agro product in commodity trading platforms will help producers to hedge against the price risk. And if the government seriously invests some of its time and gives a clear picture to commodity exchanges, it can justify the most prominent sector of the country, which is non-other than the "Agriculture". If this happens it will not only benefit the government through tax revenue, but also to the traders, as it provides new investment opportunities which will further generate huge opportunities for the improvement of Nepalese economy. On the same hand, Farmers can capitalize their agricultural investments by defining correct price for their product in the commodity derivative market as it will provide them a platform to hedge their price risk.



**PRAKASH SAPKOTA**

Lecturer  
Prime College



## DERIVATIVES - WHO NEED TO STUDY?

"Initial Public Offering (IPO) has over-subscribed by 85 times." "NEPSE index increased by 26 points and then transactions have been closed before the time of closing of market." "XX bank has declared 20 percent bonus and 3:1 right shares." Nowadays, we can hear such talk everywhere in cities. This shows that the awareness among Nepalese people toward financial investment has been increasing whether they have sufficient investment knowledge or just following the rumors. However, less people speak about derivatives market.

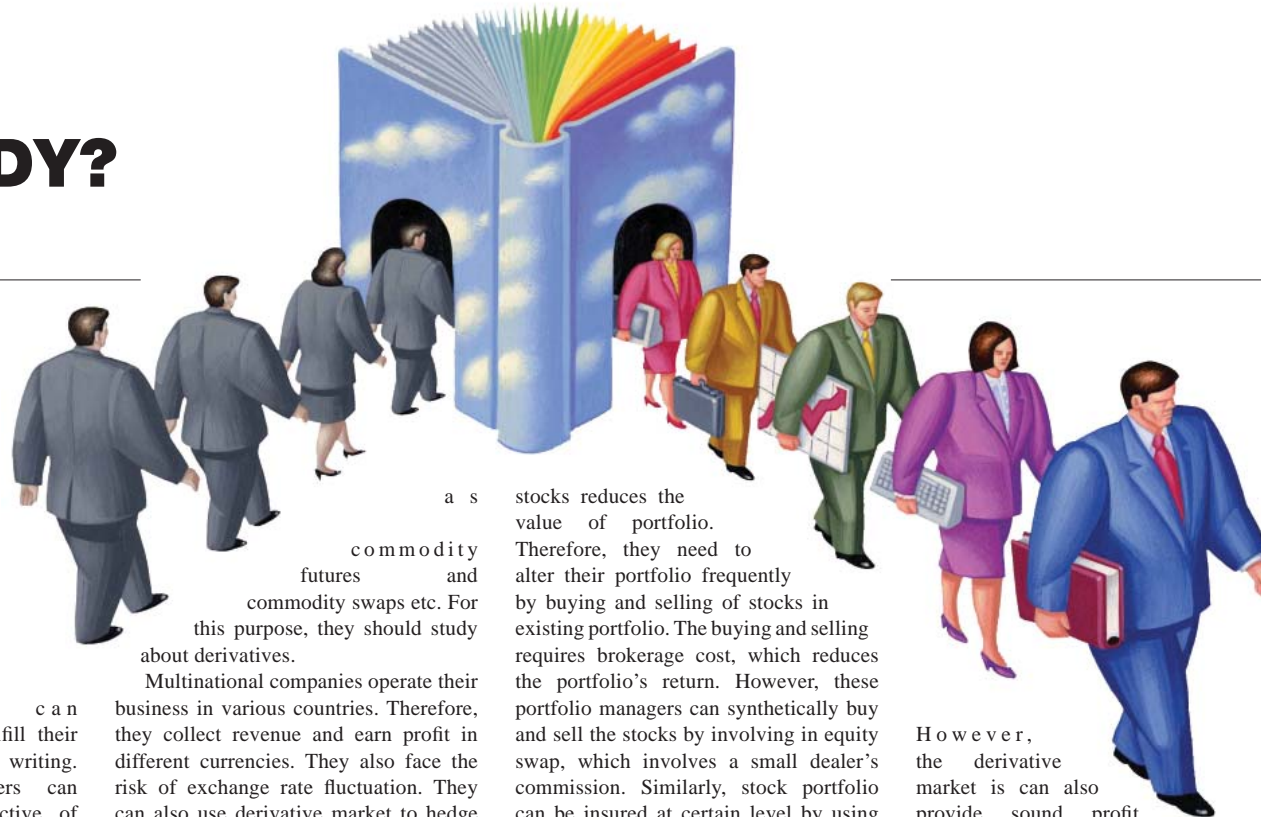
Formally started in 1848 from America with the establishment of Chicago Board of Exchange as futures exchange, derivatives market have gained popularity in very short period and is growing very fast. It is a 24-hour market and trade takes place worldwide. Developed and developing countries have futures and option exchanges. Various assets have been listed in the menus of the exchanges. These include agriculture commodities (such as wheat, cattle, soybean, egg, rice, lumber etc), natural resources (such as crude oil, coal, copper, weather etc), precious metal (such as gold, silver etc.), financial assets (such as treasury security futures, stock index futures, stock options etc.) and more other assets.

Even though, derivative market is a recent development, most universities in the world offering courses in finance and economics are also offering derivatives courses. In Nepal, some universities have recently included derivative course in bachelor and master levels. However, the course is in specialization under finance category. Thus, most of the MBA

graduates do not have the knowledge about derivatives and their functioning. The basic level of derivative course should be included in core study so that all students could have basic knowledge about it.

Derivative market in the world has been changing and making various innovations. Financial engineers have been developing new instruments day by day. Since the derivative market in Nepal is now available, researchers can study about this market to fulfill their degree requirement of thesis writing. Other independent researchers can also research on the prospective of development (new area of trade, new instruments development, applicability of tools and techniques of trade that are being used in foreign country etc.) of derivatives market.

Farmers can get various benefits from derivatives instruments. They can hedge against the price risk of their productions. By managing risk with derivatives, they can get better value of their productions. However, most of the farmers in Nepal are illiterate and they do not have any knowledge of derivatives and their advantages. They should also study about derivatives. Derivatives exchanges with the help of government should make farmers aware about these instruments. Similarly, the merchants can also use derivatives market to hedge their risk. The possible loss on their inventory can be hedged by using various derivative instruments such



as commodity futures and commodity swaps etc. For this purpose, they should study about derivatives.

Multinational companies operate their business in various countries. Therefore, they collect revenue and earn profit in different currencies. They also face the risk of exchange rate fluctuation. They can also use derivative market to hedge against this risk. Banks and financial institutions hold liabilities and assets in the form of deposits and loans respectively. Generally, the maturity period of liabilities is less than that of the asset or loans they provide. This sort of maturity mismatch is risky in a market where the interest rates are volatile. Such type of interest rate risk can be managed by using interest rate swap. By using swaps, an institution can transform floating-rate asset or liability into fixed-rate and vice versa. On the other hand, banks also hold the foreign currency in their treasury. For managing the risk of currency fluctuation, they can use derivative market. Hence, bankers should also study about derivatives.

Stock traders, bond traders, portfolio managers, investment companies and insurance companies hold stock portfolios. The decrease in the price of

stocks reduces the value of portfolio. Therefore, they need to alter their portfolio frequently by buying and selling of stocks in existing portfolio. The buying and selling requires brokerage cost, which reduces the portfolio's return. However, these portfolio managers can synthetically buy and sell the stocks by involving in equity swap, which involves a small dealer's commission. Similarly, stock portfolio can be insured at certain level by using option market. This protects portfolio from loss in bear market but allows gain in bull market. Thus, they should study about derivatives.

The government can also use derivative market. The central bank that holds foreign currency reserve can use foreign currency market forward/futures and foreign currency options to hedge against exchange rate fluctuation. The government has also the responsibility of regulating the derivative market. To make policies, rules and to issue instructions to the market participants including exchanges, the government should have knowledge more than the participants have. Therefore, the government should continuously study about the derivatives market.

The paragraphs mentioned above focused only on the risk management part.

However, the derivative market is can also provide sound profit opportunities. The investor who can speculate on price can earn handsome profit. The arbitrageurs can also get benefits from short-term market inefficiencies. Thus, they need to continuously study the market and the movement in market variables.



**JHABINDRA POKHAREL**  
Lecturer, Nepal Commerce Campus



## MEMBERSHIP CERTIFICATE



### **SOUTH ASIAN FEDERATION OF EXCHANGES**

*It is hereby certified that*

**Mercantile Exchange Nepal Limited**

*has been designated as "Affiliate Member" of the  
South Asian Federation of Exchanges (SAFE)  
under Article 2.2 of the SAFE Charter*



*Given under hands and the seal of SAFE Secretariat  
Islamabad (Pakistan)*

*Aftab Ahmad Ch.  
Secretary General SAFE*

# Gold

## Introduction

Gold is a metallic element which is yellow in color. It is the most malleable and ductile pure metal and is quite resistant to corrosion. It is one of the most expensive materials on the planet due to which it is also referred to as “precious metal”. It is believed that gold was used as early as 6000B.C. Although gold is mostly used as jewelry, it is also used for industrial purposes such as for dentistry and electronics.

Despite its predominant role as jewelry, gold is also used in the financial world. It is used as a hedge against inflation. Likewise, gold is also used for investment purposes. Currently, gold futures are one of the most highly traded commodities in the world today. China and Australia are the two top ranking gold producers in the world. Likewise, China and India are the two top ranking gold consumers. One

of the major factors influencing the price of gold is demand and supply. Likewise, the strength or weakness of the USD also affects the price of gold since generally, these two moves in opposite directions. Likewise, considering its status as a store of value, political and financial turmoil in the world also play a factor in determining gold prices. An example of this can be the recent financial crisis.

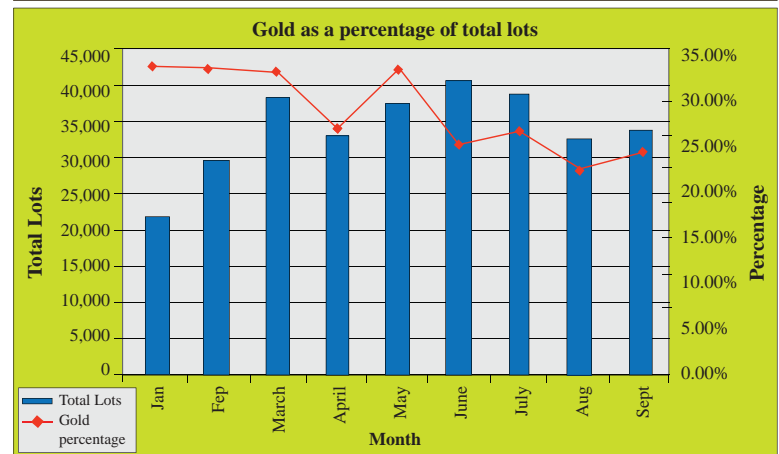
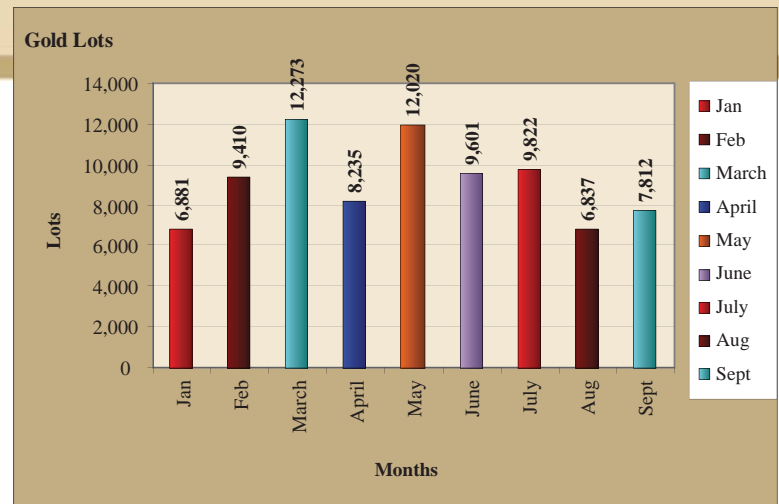
## Explanation of Charts

One of the highly traded commodities in the MEX terminal, Gold had a very volatile 9 months of trading. At the start of the year, only 6,881 lots were traded, making up 32.94 % of the total lots traded. This volume increased by 36% and reached 9,410 lots in February. Sovereign debt fears in Europe prompted investors to dump the gold and stock up on the USD As a result; the precious metal reached a 3 month low. With gold at low prices, investors were seen taking up gold contracts contributing to this increase. Gold lots further accelerated on March and reached 12,273 lots, a contribution of 32.46%

to the total lots traded. With troubles in Europe spreading and with the downgrade of Portugal’s debt, investors were seen favoring the precious metal which saw its prices as well as its lot sizes increase in March. However after 3 months of continuous increase, the number of gold lots traded decreased in April to 8,235 lots. This can mainly be attributed to the fact that traders who had been stocking up on gold contracts the past 2 months were offsetting their positions following the high gold prices. Widening euro zone sovereign debt crisis saw the precious metal reach the 2010 highs which resulted in a massive wave of settling their contracts. But this decrease in lot sizes ended soon as gold futures hit new record in May. As news of Europe’s rescue package of nearly \$1 trillion spread,

investors feared about the consequences of such a huge package and this saw gold reach it’s highest. The effect was also seen in the MEX terminal with investors taking up more gold positions. As a result, a total of 12,020 lots were traded in May, a 32.48% of total lots traded during that month. June again saw a decrease in lot size with about 3000 less lots being traded, a 23.81 % of the total lots traded. July however had different stories to tell with gold lots increasing yet again

by only 221 lots. With volatility in gold futures increasing, thanks mainly to the European crisis and volatility in the dollar, it seemed that investors were looking for



“Despite its predominant role as jewelry, gold is also used in the financial world. It is used as a hedge against inflation. Likewise, gold is also used for investment purposes.”

a safer alternative to the previous metal. This decreasing trend continued on August too with gold making a mere 21.12% of total lots traded during that period. This decrease in percentage proved that interest in gold was on a decline and investors were investing in either safer asset. But interest in the precious metal soon caught on and the lots size in gold increased by 14% to 7,812 lots in September. With the world economy at doldrums and the American economy still fragile, the lure of the precious metal soon had investors taking up positions with the expectation that gold still had a long way journey to the upside.

## Contract Specification

Name	Gold
Symbol	GOL
Cont. size	1000
Unit	Gms
I. Margin	99,000
Price Quoted	NPR/10 Gms
Trading Hrs	3:45 – 2:45
Quality	.995 fineness
Contract Months	G(Feb), J(Apr), M(Jun), Q(Aug), Z(Dec)



Minimize risk

and **maximize** returns...



# Silver

### Introduction

Silver is a white, soft, lustrous transition metal, which has the highest electrical conductivity of any element and the highest thermal conductivity of any metal. Mostly, silver is produced as a by product of copper, gold, lead and zinc refining. Silver has long been valued as a precious metal, and it is used to make ornaments, jewelry, high-value tableware, utensils and currency coins. Silver is often considered as the “poor man’s gold” as it has been quietly climbing the investment and demand charts since its discovery thousands of years ago. Its unique properties make it ideal for thousands of applications used in every day life. The top three producers in the year 2009 were Peru, India and China. While looking at the consumption side, the largest consumer of silver is the United States followed by India, Japan, and Italy. 75% of silver’s production comes from gold, copper, lead, and zinc mining which is why changes in these other industries have a large impact on the price of silver. On the demand side, silver (like most commodities) benefits from strong world growth, a weaker U.S. dollar, and increasing use in electronic applications. With so much of news available for precious metal, investors are highly interested to trade in this commodity.

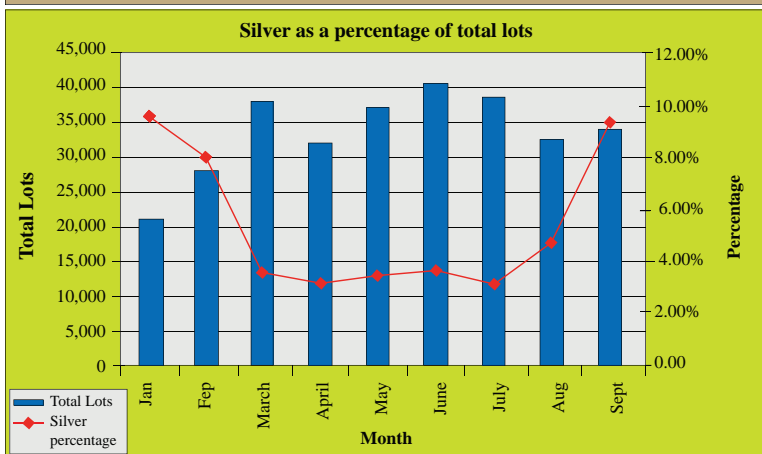
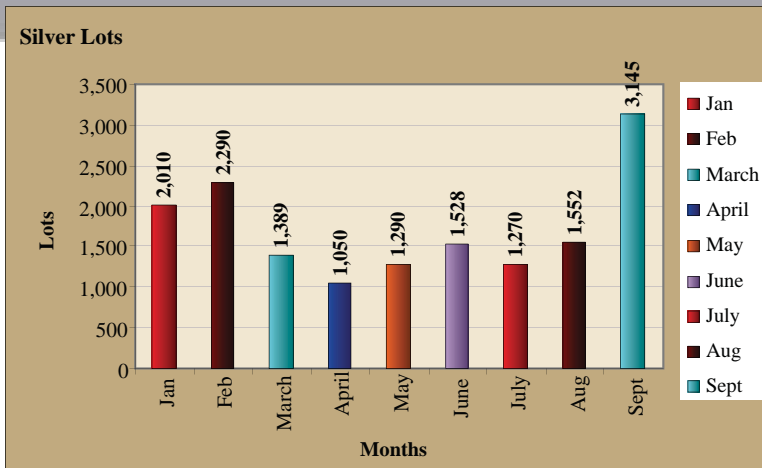
### Explanation of Charts

In the beginning of the year, the volume of silver looks quite attracting with the lot size of 2010. The major reason was the increase in the price of silver due to the dollar decline and also due to investors increased buying after the U.S. futures regulator said it would review possible position limits on gold and silver. The month of Feb was no different than January. The weakness in dollar, strength in US economy, a strong manufacturing report, a rise in auto sales and the number of people with contracts to buy homes provided a better analysis to the investors

### Contract Specification

Name	Silver
Symbol	SIL
Cont. size	30,000
Unit	Gms
I. Margin	70,000
Price Quoted	NPR/10 Gms
Trading Hrs	3:45 – 2:45
Quality	.999 fineness
Contract Months	Mar(H), May(K), Jul(N), Sep(U) and Dec(Z)





to invest in silver. This boosted the trade of silver contracts in MEX terminal and 2290 lots were traded in February. The month of March saw silver lose its appeal among investors following a fall in the price of silver due to rise in the dollar. This rise in the USD was primary the result of the Greece crisis that affected the Euro. As a result, only 1,389 lots were traded which was a decrease of 39% from the previous month. This decrease continued in April too following volatility in the price of silver. Only 1,050 lots were traded during the month. However, May recorded a slight increase in the number of lots with

1,290 lots being traded, an increase of 22%. This increase sustained in June with 1,528 lots being traded. The slumping U.S. consumer confidence, signs of slowing economic growth in China, strength in equity market boosted demand for the precious metal as a store of value thereby contributing to this increase. But amid this disappointing news, it emerged that Europe's financial industry was better than previously expected. The stress test results that came out in July showed that only 7 of the 91 banks failed the test eroding silver's appeal as a store of value. As a result, only 1,270

lots were recorded during July. However, following better than expected jobs report from the largest economy in the world, the U.S., silver prices fell in August creating an opportunity for investors to buy at a lower price. Investors were quick to take advantage of this opportunity, thereby increasing the total lots traded to 1,552. September was the best month for silver following weakness in dollar. As the dollar weakened, the appeal of silver as an alternative investment rose and hence, September saw 3,145 lots being traded. This was a staggering 102% increase in comparison to the previous month.



# Crude Oil

“Crude oil is extracted from the ground and then it is sent for refinement which finally gives some useful products used in daily life, especially gasoline, heating oil, diesel, kerosene, coke, lubricants etc.”

## Introduction

Crude oil is naturally occurring oil, composed of various organic chemicals. It is found in large quantities below the surface of earth and is used as a fuel and as a raw material in the chemical industries. The crude oil is extracted from the ground and then it is sent for refinement which finally gives some useful products used in daily life, especially gasoline, heating oil, diesel, kerosene, coke, lubricants etc.

It is the world's largest and most actively traded commodity accounting around 10 % of the total trade and three-fourth of the world's energy consumption comes from it. The price of the crude oil is determined by the OPEC countries and recently China became the largest consumer of Crude Oil. The change in oil price plays a major role in the development of the major countries. The fall in crude oil price creates problem to the oil exporting countries

like Iran since more than 70% of their budget depends on crude oil export. When the price of the Crude Oil rises then it affects the economic growth and inflation of oil importing countries. Currently Saudi Arabia is the largest producer of crude oil, followed by Russia and United States. Likewise, on the consumption side, China recently overtook the U.S. as the top consumer of crude oil, followed by U.S.A and then Japan.

## Explanation of Charts

In the beginning of this year, the price of Crude Oil fell as inventory report declared that there were larger-than-expected increases in U.S. crude and gasoline supplies. The Energy Information Administration (EIA) reported a drop in U.S. crude inventories of 3.9 million barrels while gasoline stockpiles rose by 2 million barrels. Oil prices dropped 12 percent since January 11th on concerns about the growth of economies for the U.S. and China. This provided an opportunity to the traders to take more and more positions in MEX terminal and as a result the total of 3,975 lots was traded in this month. This accounted for 18.16% of total lots traded during that period. The lot size of Crude Oil increased by a staggering 80% to reach 6,834 lots in the month of February. The major reasons were decrease in US Crude Oil inventories, movement of the Euro and news hinting a U.S. economic recovery. This positive sentiment in crude persisted in March too with 12,263 lots being traded. This was actually the best month for crude in 2010 and was a 79.44% increase from the previous month. The fall in inventory as reported by the EIA contributed to rise in crude prices which saw more and more positions being taken by investors.

Looking at the month of April and May, there is small decline in the lot size compared to the month of March as the month was crucially affected due to the

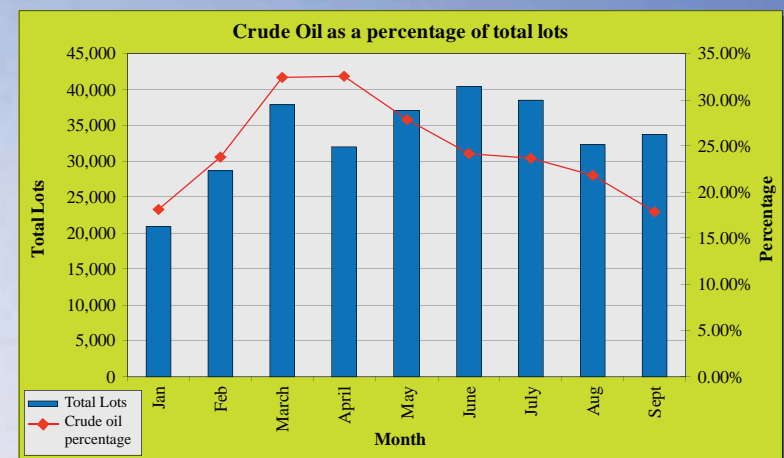
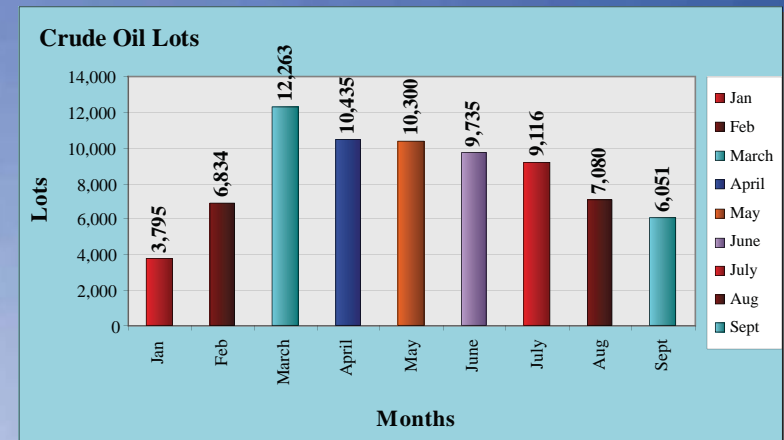
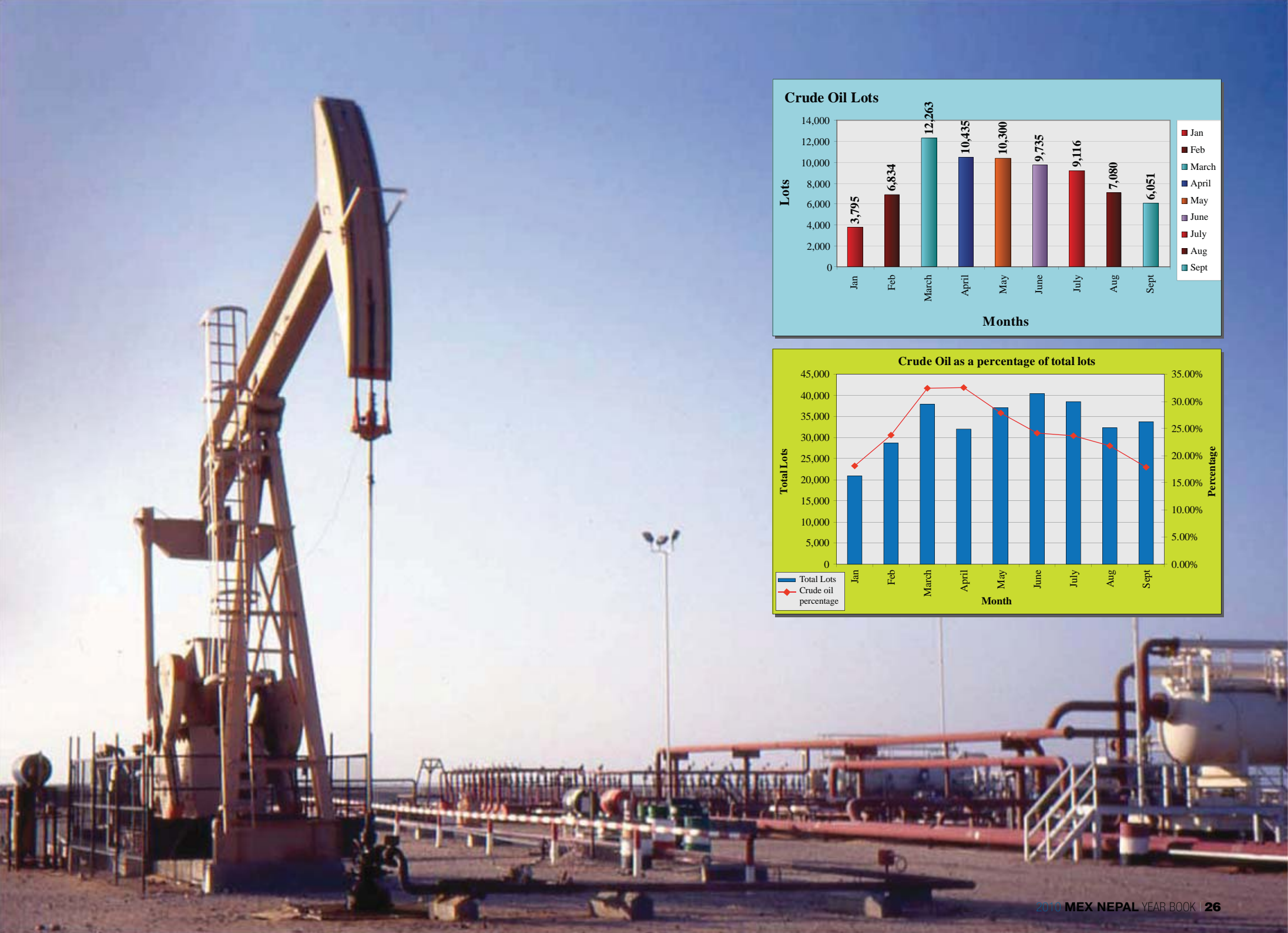
## Contract Specification

Name	Crude Oil
Symbol	CRU
Cont. size	250
Unit	US Barrels
I. Margin	80,000
Price Quoted	NPR / Barrel
Trading Hrs	03:45 - 02:45
Quality	Light Sweet Crude Oil
Contract Months	All Months

BP oil spill. Even in the month of June and July, the lot size has decreased again affected by BP oil spill, which confused about the movement in price of crude oil. But in the month of August, there was slight increase in the inventories which showed decline in the price of crude oil through out the month. The volatility in the price created confusion in the markets as a result of which investors refrained from entering the crude market. Due to this, august saw only 7,080 lots being traded. With the mix reaction of increasing inventory and BP oil spill, the confusion still existed and was carried over even in the month of September. When the investors couldn't find any good price for an entry and exit, they invested less in it. This saw a drastic decline in the volume of crude oil reaching to 6051 lots in the month of September.







# Cotton

“

This news again built confidence among the investors and Cotton lots increased by 86% to reach 1,169 lots. ”



## Introduction

Cotton is the most important natural fiber known. It is regarded as the best fabric worldwide and it is also considered to be the one of the oldest crops in the world. The top three producers of cotton are China, India and America. Cotton producers are especially dependent on foreign demand as roughly 86% of U.S. cotton production is sold for export. While looking at the consumption side, China is the world's largest consumer of cotton, with an average consumption of 4,501 TMT (Thousand Metric Tons). As this

commodity is volatile, investors all over the world prefer to trade in it and timely knowledge about this commodity is vital for those who are engaged in its trading.

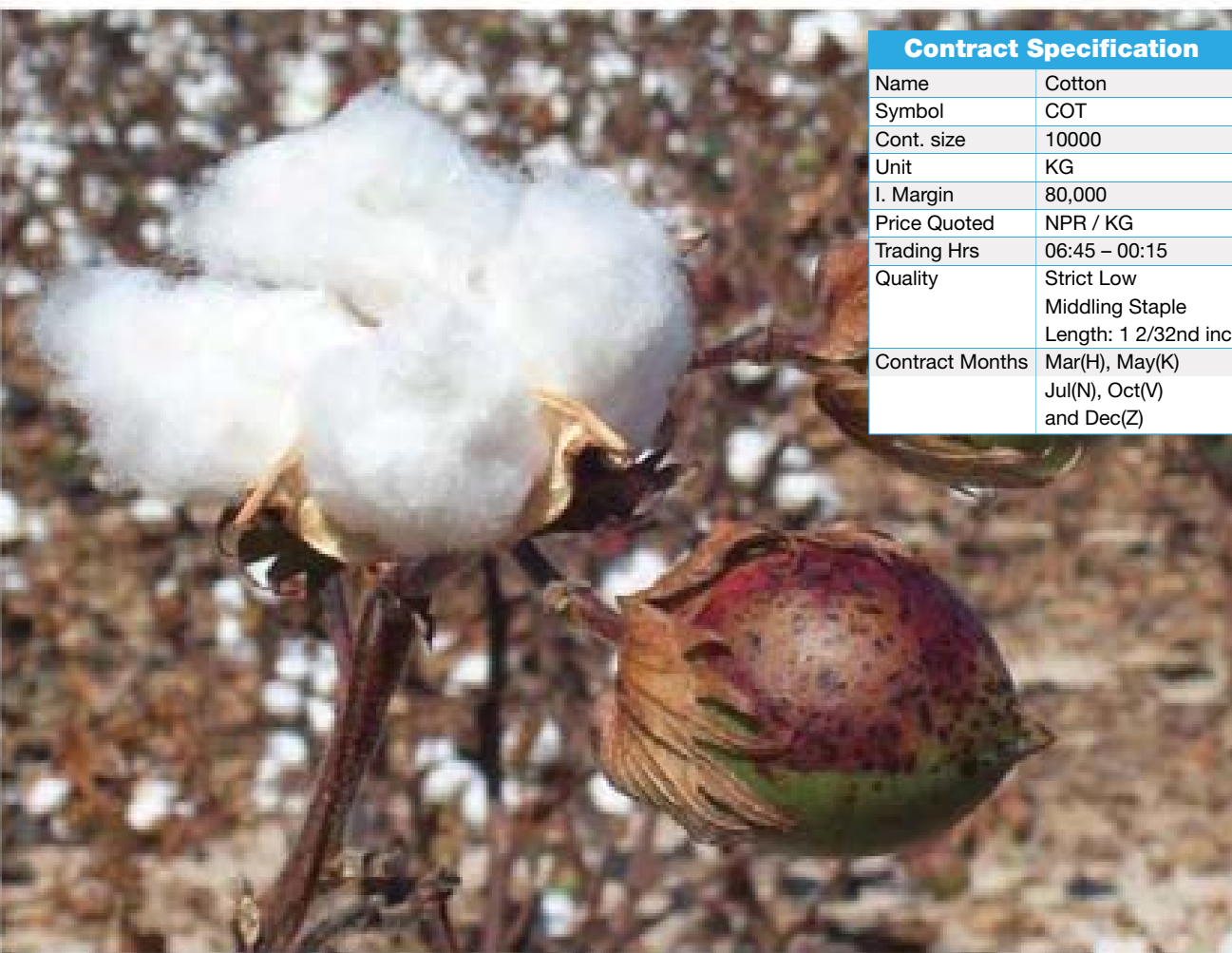
### Explanation of Charts

The volume of cotton in the month of January was 1108 lots as the price of cotton increased on expectation that the demand will climb. This was mainly due to a report that showed that the U.S. economy expanded at the fastest pace in six years. Looking at the month of February, though the volumes decreased, however it was marginal. February recorded 989 lots, a decrease of 10%. March showed slight

improvement in the lot size as the price of the cotton jumped to the highest in almost 20 months after China, the world's biggest user, said output fell in 2009. March saw 1,073 lots being traded which was 84 lots more than the previous month. The month of April saw the price of Cotton post the biggest weekly gain in 2 months, on signs of increasing demand amid a halt in exports by India. This had a direct effect on Cotton lots and saw the lots reach 1,288. However, May saw the lots decrease marginally as Cotton prices started decreasing hinting that investors were settling their positions to lock in their profits. In May, 1,187 lots were traded, a decrease of 101 lots from

the previous month. June saw signs of increased demand from China which saw Cotton prices increase again. As a result, Cotton lots increased too and posted 1,480 lots, an increase of 24% from the previous month. This encouraging trend ended as soon as it began and in July, there were only 627 lots traded which was a 57% decrease. Poor retail sales and a weak economic outlook in the U.S. signaled less demand for the coming harvest. As a result, Cotton prices dropped to their lowest levels in 20 weeks and saw investors shying away from investing in crude. But again in the month of August, the price of cotton managed to

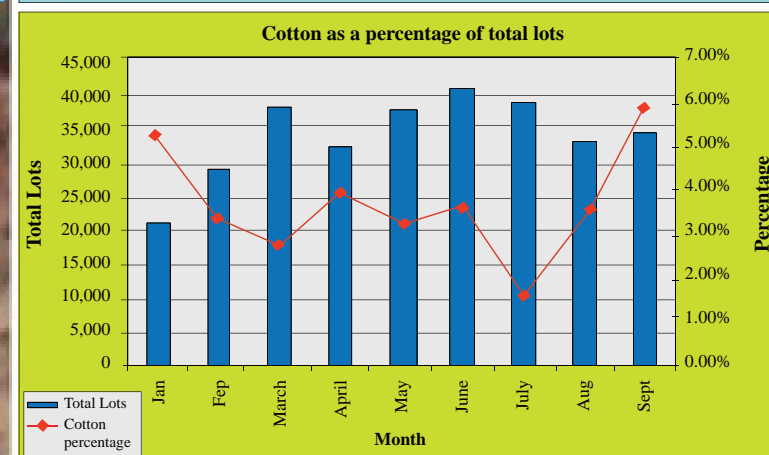
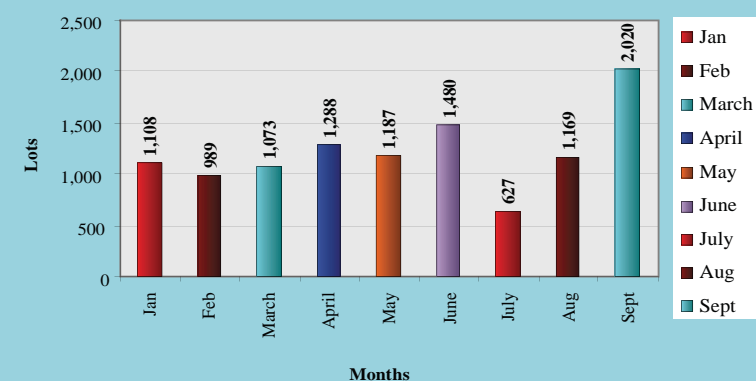
rise on concern that supplies in the U.S., the world's largest exporter, will be tight until the autumn harvest. This news again built confidence among the investors and Cotton lots increased by 86% to reach 1,169 lots. September was the best month for Cotton as it marked the highest volume as compared to the previous 8 months. This was mainly because Cotton futures extended a rally to a 15- year high on escalating concern that global supplies will trail demand. The building confidence among investors encouraged them to invest in Cotton, contributing to the 2,020 lots posted during the period.



### Contract Specification

Name	Cotton
Symbol	COT
Cont. size	10000
Unit	KG
I. Margin	80,000
Price Quoted	NPR / KG
Trading Hrs	06:45 – 00:15
Quality	Strict Low Middling Staple Length: 1 2/32nd inc
Contract Months	Mar(H), May(K) Jul(N), Oct(V) and Dec(Z)

Cotton Lots



# Wheat

### Introduction

Wheat is grown all over the world for its highly nutritious and useful grain. It is one of the top three most produced crops in the world. Wheat has been cultivated for over 10,000 years, which started from Middle East and Southwestern Asia. There are several types of wheat, but they fall in two main categories, which are grouped based on growing seasons. These two categories are spring wheat and winter wheat. China is the world's leader in the production of wheat followed by India and United States. Wheat is a good source of energy. Foods made with wheat are a major part of every diet. In fact, wheat can be found in almost every meal. Breads, cookies, cakes, macaroni, and pasta are made from wheat flour. During 1900's scientists came

up with many new kinds of wheat that can produce large amount of grains that can resist cold, disease, insects and other crop threat. As a result, wheat production around the world has risen dramatically. During past few years, price of wheat has increased drastically as natural calamities reduced wheat production. In 2009/2010 world produced 677 million tons of wheat.

### Explanation of charts

Wheat comprised of around 0.90% share, which is moderate share during the start of the year. The United States Department of Agriculture (USDA) announced global wheat production to reach 673.9 million tons in January. Similarly Canada's production was also expected to increase to 26.5 million and India witnessed 17 % increase in wheat

production. These factors stimulated the investors to invest in wheat for the month of January. The scenario reversed during the second month and lot share declined by more than 50% to 82 lots, as USDA reported that export demand for U.S. wheat was sluggish and farmers were facing weak price and planting delay. Moreover, Australia was also pessimistic for its wheat production and reported that production declined by 0.30 million tons. During the month of March optimism spread throughout the wheat market and 144 lots of wheat contract was traded. Iraq which is a major importer of U.S. wheat showed no interest in U.S. wheat and imported from Russia and Canada, due to which, wheat price fluctuated dramatically in the international market. While in U.S., Department of Agriculture raised its stock from 0.981 to 1.001 billion bushels, due to



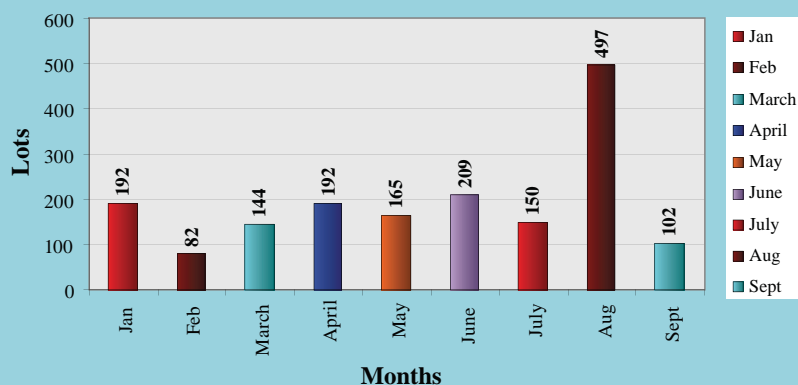
### Contract Specification

Name	WHEAT
Symbol	WHT
Cont. size	20,000
Unit	KG
I. Margin	35,000
Price Quoted	NPR / KG
Trading Hrs	04:45 – 18:00 20:15 – 00:00
Quality	No. 2 soft/hard/ red/white
Contract Months	Mar(H), May(K), Jul(N), Sep(U) and Dec(Z)

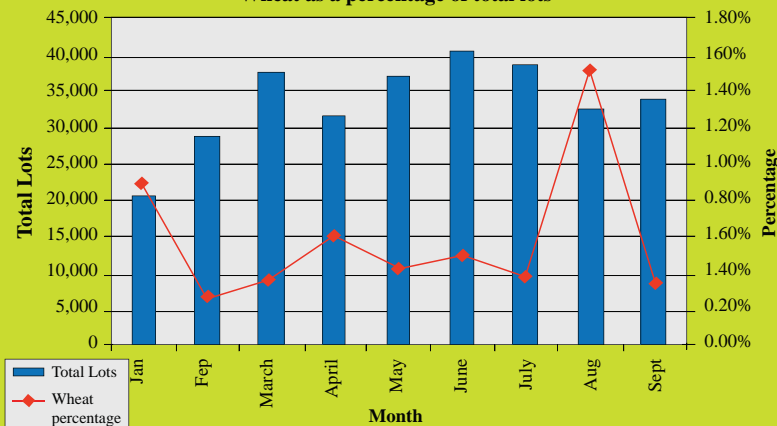
which supply was expected to increase. In April, India reported a reduction in wheat production as crops were affected by the heat waves, which seemed to decrease wheat supply. On the same hand USDA decreased the stock by 51 million bushels, and Chinese Ministry of Agriculture also announced that it has been facing extremely unfavorable conditions for the final harvest of the wheat, which also reduced the supply. The impact was also seen in MEX trading platform as lot size increased to reach 192 lots as investors expected rise in wheat price. During the month of May investors were pessimistic toward the wheat market and lot size declined to reach 165 lots as greenback gained strength causing decline in prices of commodities including wheat. The wheat market experienced minor volatility for the next two months with the total lots traded being 209 in June and 150 lots in July. August was the best month for

wheat as it recorded a staggering 497 lots traded. This was an increase of 231% in comparison to the previous month. The major reason for this huge interest in wheat was due to the negative news coming out of the major wheat producers such as Russia. In August, Russia saw its worst draught which affected wheat production, reducing the supply. This eventually led to Russia banning export of wheat which led to the investors taking up wheat positions. September saw wheat lots down to 102 lots as there seemed to be confusion in the wheat market. While on one hand, Egypt purchased 225,000 tones of US wheat and Germany was also seen purchasing US spring wheat. On the other hand, it was reported that there would be an increase in wheat supply from Australia. Due to this, uncertainty in the market caused investors to shy away from the market.

### Wheat Lots



### Wheat as a percentage of total lots



# Coffee

### Contract Specification

Name	COFFEE
Symbol	COF
Cont. size	5000
Unit	KG
I. Margin	45,000
Price Quoted	NPR / KG
Trading Hrs	13:15 – 23:45
Quality	Arabica Coffee
Contract Months	Mar(H), May(K), Jul(N), Sep(U) and Dec(Z)



## Introduction

Coffee is a beverage that is enjoyed by millions every day around the world. It was first discovered in the 7th century. There are basically two types of Coffee i.e. Arabica and Robusta. Of the two main species grown, Arabica is highly regarded than Robusta coffee as Robusta tends to be bitter and has less flavor. For this reason, about three-quarters of coffee cultivated worldwide is Arabica. Brazil is the world leader in production of green coffee, followed by Vietnam, Indonesia and Colombia and USA is the largest coffee consumer importing 16 to 20 million bags annually. Coffee is the second most traded product in the world after petroleum. World wide coffee production tips the scales at about 6 million metric tonnes. The average yield from one tree is the equivalent of one roasted pound of coffee.

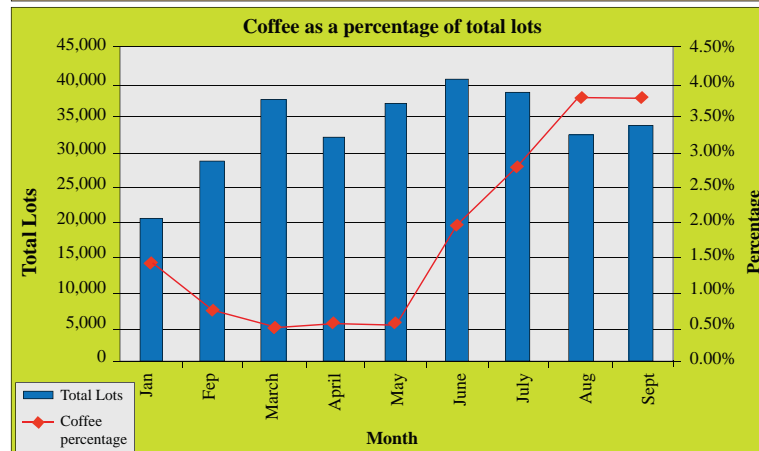
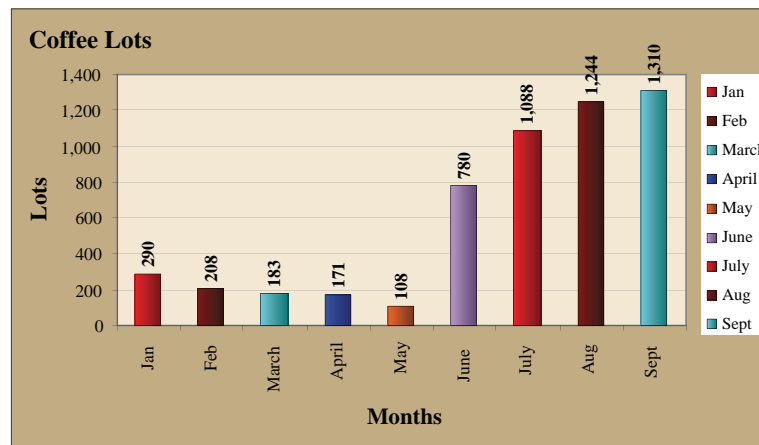
Coffee is mostly sold by roasters, investors and price speculators as a tradable commodity. The movement of the price of this item looks quite volatile that is why this commodity is among those commodities which are highly traded.

## Explanation of Chart

The first few months of 2010 saw coffee being traded marginally and was on a declining trend from January to May. January and February saw 290 and 208 lots being traded respectively as heavy rainfall disrupted production leading to high prices. Likewise, March, April and May also saw decreasing trend with 183, 171 and 108 lots being traded. March saw coffee inventories reach its lowest in seven years. Uncertainty regarding the production of coffee and its supply took its toll on the market and hence investors stayed away from the coffee market. However, June had a different story to tell. June saw an increase of 622% in the number of lots traded and recorded 780 lots in June. This

was primarily the result of expectations that reduced global production will tighten inventories and hence prices will increase. The profit making opportunity this provided lured investors into investing in coffee during this period. July saw further improvement in coffee trend. As the price of coffee started to decrease resulting mainly from increase in supply, investors viewed this as a buying opportunity. This resulted in 1,088 lots being traded in July. As coffee prices started increasing in August,

more and more investors participated in coffee trade owing to its 14% increase in comparison to the previous month. Coffee lots increased to 1,244 lots in August. September saw the price of coffee surge to a 13 year high on speculation that supplies will lag behind demand, again attracting more and more investors, the net result of which was 1,310 lots being traded. September proved to be the best month for coffee in 2010



# Copper

## Introduction

The name copper is derived from the Greek word 'chalkos'. Copper possess a wide range of properties that make them invaluable for many application. Copper has a remarkable combination of properties. It is a good electrical and thermal conductor. Copper metal have been in use for thousands of years. The early decades of the 19th Century saw the foundation of the Electrical Age and thereafter the demand for copper increased tremendously. Britain was the major producer for much of the 19th Century but new mines were opened up in U.S.A., Chile, and later in Africa, until in 1911 the world's output of copper for the first time exceeded a million tons per annum. With the increase of industrialization, new important uses were found for copper. Most copper ore is mined or extracted as copper sulfides from large open mines. Chile is the top mine producer of copper followed by the USA, Indonesia, Peru and china. Total world production of copper stands at 15,900,000 MT in 2009. World's copper production is expected to remain in deficit in coming year due to high demand from major consuming countries like china, US and Europe.

## Major factor that affect the price of copper can be listed as follows:

- Price fluctuations of copper in London Metal Exchange
- Production level of copper in the world
- Growth prospects of the major copper consuming countries of the world
- Growth prospects of the various consuming sectors in the market

## Explanation of the Charts

Copper is one of the most traded metals in the base metals complex. Copper is mainly used for manufacturing purposes and investors mainly look into manufacturing data from the biggest economies in the world to trade copper.

Copper comprised of 4% of total lots traded during the start of the year, in the MEX terminal, when copper reached 16 month highs boosted by strong manufacturing data from the US and China. This 16 month high prices saw investors take up copper positions resulting in 839 lots being traded on January in the MEX terminal. February saw the number of lots increase more than double to 1,907 lots. Positive employment data from the US

and announcement by China, the world's largest consumer of copper that bank loans increased during the month of January saw copper prices increase in the international market. As a result of this increase in prices, copper lots went up too in the MEX terminal. The interest in copper trading did not wane on March with 3,444 lots being traded, an increase of 80.5%. The earthquake in Chile which is the biggest producer of copper saw demand for copper increase in the international market and this led to increase in copper prices. As a result, copper trading accounted for more than 10% of total trading in the MEX terminal. Likewise, stronger manufacturing in China and the U.S., the world's largest consumers of the metal also led to this



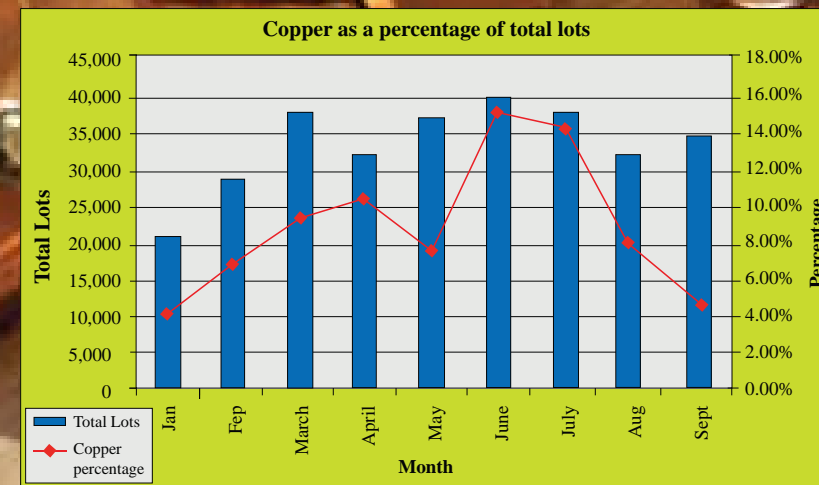
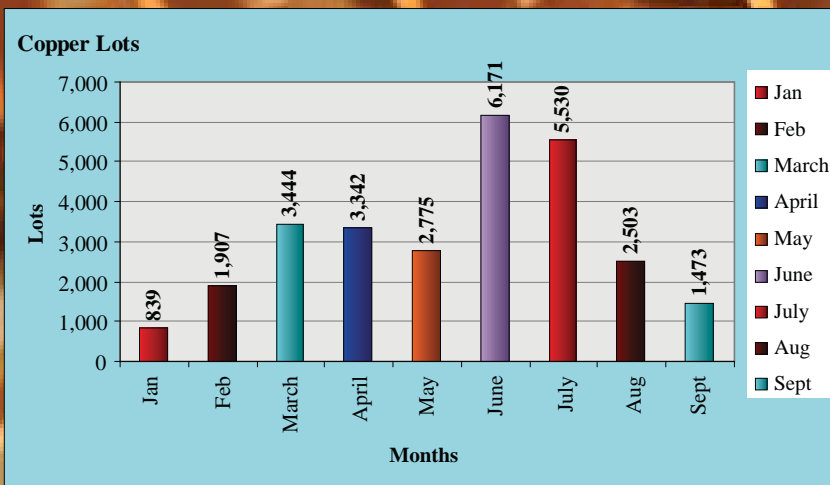
increase in prices. But concerns stemming from Europe regarding the widening debt crisis saw copper prices fall. As a result, investors were seen taking only 3,342 copper positions in April, a decrease of mere 2% from the previous month. The negative sentiment in the copper market persisted in May too with the total number of copper lots amounting to only 2,775 lots, a mere 8% of total lots traded at the terminal. However, in June, concerns regarding the pace of the economic growth increased with growing debt contagion fears in the euro zone and disappointing monthly employment data in the U.S. Likewise, news that China is trimming its stimulus measures raised fears that the demand for copper will decrease, resulting in copper prices reaching its lowest levels since October 2009. This continuous decrease in copper prices soon caught the interest of copper traders, resulting in the

highest number of copper lots being traded since the start of the year. In June, 6,171 copper lots were traded, a near 16% of total lots traded at the MEX terminal. As copper prices continued increasing, so did the interest in copper trading. While copper trading decreased slightly to 5,530 lots in July, it still made up about 14% of the total lots traded, a mere 2% decrease from the previous month. However, the next 2 months saw trading in copper decrease by 50%. Continued confusion in the international market saw traders hesitate to trade in copper. On one hand, the situation in the euro seemed to be getting worse and on the other hand, the American economy seemed to be showing weak improvements. September saw copper comprise of only 4% of total trades in the MEX terminal.



### Contract Specification

Name	Copper
Symbol	COP
Cont. size	1000
Unit	KG
I. Margin	35000
Price Quoted	NPR / KG
Trading Hrs	03:45 - 02:45
Quality	ASTM B 115, Grade 1 Electrolytic Copper
Contract Months	Mar(H), May(K) Jul(N), Sep(U) and Dec(Z)



# Heating Oil

## Introduction

Heating oil is a flammable, liquid petroleum fuel most often used to heat homes and buildings especially in cold climates. Heating oil which is commonly referred as No. 2 heating oil in US is similar to diesel fuel (both are created by separating mixtures in the petroleum through process known as distillation). The main component of heating oil is composed of 25% of the yield of crude oil, with gasoline/petrol using a greater percentage. In western world petroleum industry began in 1859 and heating oil grew slowly in the 1800s but became real national concern only on 20th century. Heating oil is less popular in industrial usage and more commonly used for household space heating. The major consumers of heating oil are USA, Canada and European countries.

The major factor affecting heating oil prices include:

- Strong demand
- Weather condition
- Geopolitical uncertainties
- Inventory levels

## Explanation of Charts

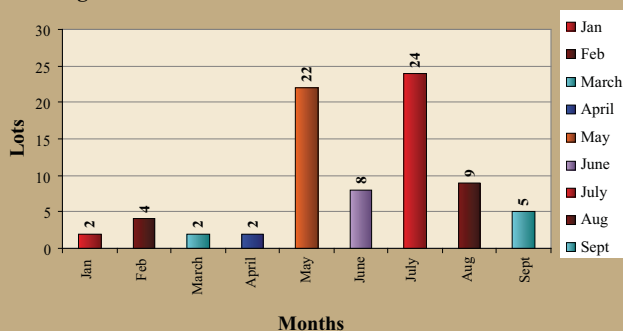
Heating oil trading was limited to few contracts in the start of the year. In the month of January 2 lots were traded and the trend continued for February, March and April at 4, 2 and 2 lots respectively. Investors were less interested to invest in heating oil due to the gloomy economic condition in the US. Likewise, the heating oil inventories in the US didn't change significantly which saw reduced volatility in the prices. These reasons contributed to low volume in the heating oil volume. But the scenario in May was quite contrasting as compared to previous month, as the volume reached to 22 lots. This sudden increase of investment in heating

oil was due to the better economic data released in the US. Moreover volatility in the heating oil market attracted investors to take advantage of the price movement. But in the month of June, volume traded again declined to 8 lots as decline in price forced the investors to shy away from investing. The volume in the month of July, again bounced back to 24 lots which was the highest in 2010. A declining price encouraged investors to take up heating oil contracts at low prices contributing to these many lots being traded. But the next 2 months saw total lots of heating oil decrease to 9 and 5 respectively. While the interest in heating oil has yet to grow as in other commodities, the interest in the commodity has certainly picked up and once investors are comfortable with the idea of investing in heating oil, it is hoped that this commodity will be a major area of investment for investors.

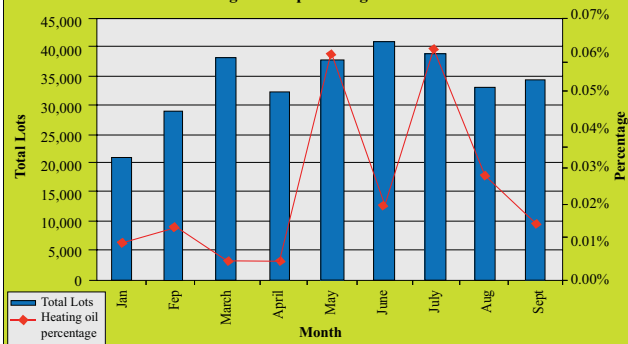
## Contract Specification

Name	Heating Oil
Symbol	HEA
Cont. size	10,000
Unit	Liters
I. Margin	60,000
Price Quoted	NPR / Ltr
Trading Hrs	03:45 – 02:45
Quality	Generally conforms to industry standards
Contract Months	All Months

Heating Oil Lots



Heating oil as a percentage of total lots







“ When the price of the Crude Oil rises then it affects the economic growth and inflation of oil importing countries ”

## Introduction

Crude oil is naturally occurring oil, composed of various organic chemicals. It is found in large quantities below the surface of earth and is used as a fuel and as a raw material in the chemical industries. The crude oil is extracted from the ground and then it is sent for refinement which finally gives some useful products used in daily life, especially gasoline, heating oil, diesel, kerosene, coke, lubricants etc.

It is the world's largest and most actively traded commodity accounting around 10 % of the total trade and three-

forth of the world's energy consumption comes from it. The price of the crude oil is determined by the OPEC countries and recently China became the largest consumer of Crude Oil. The change in oil price plays a major role in the development of the major countries. The fall in crude oil price creates problem to the oil exporting countries like Iran since more than 70% of their budget depends on crude oil export. When the price of the Crude Oil rises then it affects the economic growth and inflation of oil importing countries. Currently Saudi Arabia is the largest producer of crude oil, followed by Russia and United States. Likewise, on the consumption side, China

recently overtook the U.S. as the top consumer of crude oil, followed by U.S.A and then Japan.

## Explanation of Charts

In the beginning of this year, the price of Crude Oil fell as inventory report declared that there larger-than-expected increases in U.S. crude and gasoline supplies. The energy Information Administration (EIA) reported a drop in U.S. crude inventories of 3.9 million barrels while gasoline stockpiles rose by 2 million barrels. Oil prices dropped 12 percent since January 11th on concerns about the growth of economies for the U.S. and China. The low prices attracted investors to take up crude oil lots and thus, 1,299 lots were traded in the month of January. February saw the lots increase marginally to 1,345 lots. While the price of crude oil increased, the pace of the American economic recovery

as well as news from the euro zone created fear in the market as a result of which the lot size increased only marginally. This marginal increase also continued on March with only 1,498 lots being traded. Looking at the month of April and May, the lot size increased compared to previous months. These two months were severely affected by the BP oil spill and the fall in crude oil inventory. As a result, crude prices increased and investors who took advantage of this in the regular crude contract also took the same advantage in the mini contract. Due to this, 1,680 and 2,002 lots were traded in April and May respectively. Like its regular counterpart, the lot sizes decreased in June and July. Confusion in the markets following the BP oil spill persisted and in June and July, 1,760 and 1,663 lots were traded respectively.

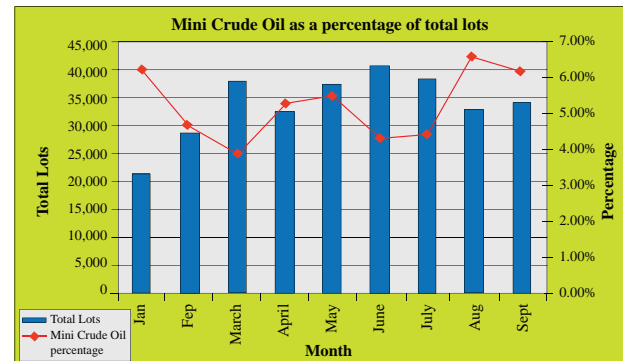
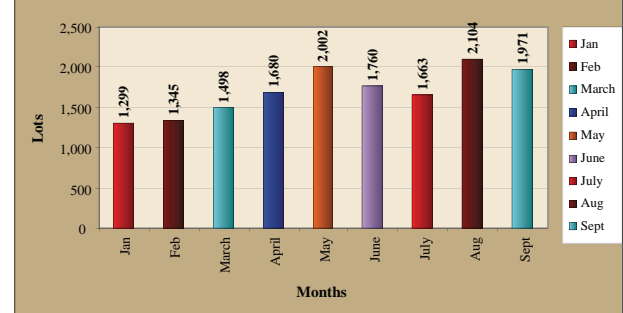
But unlike its regular counterpart, crude oil lots increased to its highest in 2010 in the month of August. While investors refrained from taking position in the regular lots of crude due to price volatility, however the mini contract seemed to attract them. With lesser initial margin and less risk, mini crude offered a perfect solution to investors seeking to trade in the volatility. Hence, August recorded an increase of 26% in comparison to the previous month and saw 2,104 lots being traded. September saw a marginal decrease in the number of crude

lots traded and saw 1,971 lots. While this was a decrease from the previous month, it still hinted that investors were growing more and more confident in investing in crude oil.

## Contract Specification

Name	Mini Crude Oil
Symbol	MCRU
Cont. size	50
Unit	US Barrels
I. Margin	25,000
Price Quoted	NPR / Barrel
Trading Hrs	03:45 - 02:45
Quality	Light Sweet Crude Oil
Contract Months	All Months

Mini Crude Oil Lots



# Soybean

## Introduction

Soybean is one of the most important food plants of the world. It is an annual crop, fairly easy to grow, that produces more protein and oil per unit of land than almost any other crop. It is a versatile food plan that is used in various forms. It contains supply of most nutrients, which is a close substitute for meat. Soybean is grown especially in temperate zone. It originated in China where it has been grown as a food crop for centuries. The United States is the largest producer of soybeans in the world followed by Brazil, Argentina and China. Soybean is mostly used for extracting soybean oil. It is also used to feed cattle as it is a great source of protein and also used for biodiesel production for industrial use. Soybeans are one of the most active and popular commodities to trade in commodity exchanges.

## Explanation of Charts

At the start of the year soybean market was bullish and 78 lots were traded in MEX trading platform. The Chinese government continued to purchase U.S. soybeans to meet the demand of growing economy, which increased the export demand of soybeans, stimulating its price. Similarly United States Department of Agriculture (USDA) reported soybean

production 13% larger than previous year. Moreover, the declining value of dollar also contributed to the stronger exports of soybean. In February, Soybean prices dropped below the cost of production due to currency movements and high freight rates in Brazil. Likewise, good rainfall boosted Soybean yields in South America, increasing the export supply which lowered Soybean price. As a result, investors were reluctant to participate in Soybean trade due to which February

Soybeans are one of the most active and popular commodities to trade in commodity exchanges

was the worst month for the commodity with only 14 lots being traded. But with Soybean at low prices, investors were soon attracted and this led to the increase of Soybean lots in March, recording 67 lots being traded. While February was the worst month, April was the best month for Soybean. In April, 192 lots were traded, an increase of a staggering 186%. Traders showed optimism as soybean rose after U.S. government reported increase in its exports sales, tightening supplies available for domestic processors.

Meanwhile China also came up with

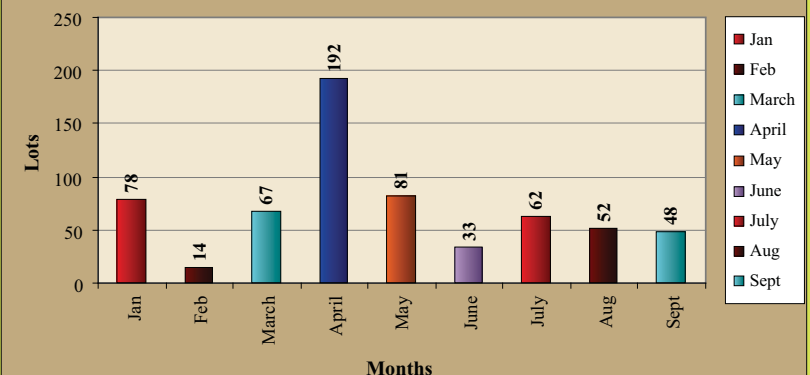
restrictions in imports from Argentina, in a bid to save the domestic Soybean industry. After a major jump in the previous month, lot share of Soybean dropped down to 81 lots and 33 lots during the month of May and June. This was mainly due to pessimism in the soybean market resulting from a stronger dollar on the back of nervousness about the European economy, thereby downsizing the commodity market. Moreover US export demand also declined as China decided to resume

soybean oil import from Argentina. After continuous decline in lot share, Soybean saw increment in trade by almost 95% during July in comparison to previous month and 62 lots were traded. Soybean price moved up by almost 30% as production risk increased

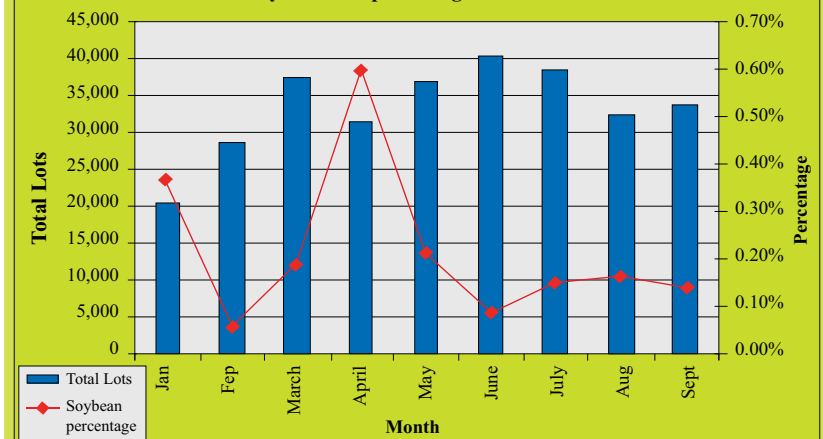
due to hot weather during the month in the U.S.A., which boosted investment in soybean. However during the following two months, less investor were attracted to Soybean and lot size continued to decline to 52 lots and 48 lots during the month of August and September respectively. During August, Argentina declared to reduce its export taxes from 35% to 30% in Soybean which reduced its price. Meanwhile U.S. declared increase in its production by 1.5%, which was more than forecasted, which again reduced the price discouraging investors to take positions.



Soybean Lots



Soybean as a percentage of total lots







Contract Specification	
Name	Soybean
Symbol	SOY
Cont. size	20000
Unit	KG
I. Margin	35000
Price Quoted	NPR / KG
Trading Hrs	04:45 - 18:00 20:15 - 00:00
Quality	No.2 Yellow
Contract Months	Jan(F), Mar(H), May(K), Jul(N), Aug(Q), Sep(U), Nov(X)

# Natural Gas

Natural gas is mostly produced by big companies and is traded as commodity in commodity market. The price movement in natural gas is quite volatile due to its use in daily activities.





## Introduction

Natural gas is a fossil fuel i.e. the remains of plants and animals and microorganism that lived million and millions of years ago. Natural Gas is one of the main sources of energy for our daily needs and activities. It is also one of the major component of the world's energy supply. The main feature of natural gas is that it is one of the cleanest, safest, and most useful of all energy sources. Natural gas itself isn't a new discovery instead it is brought out from under the ground, which was formed by natural process, taking millions of years. But the commercialization of natural gas use was started by Britain in 1785. Natural gas produced from coal was used to light houses and street light in Britain. Natural gas is non renewable source of energy and its reserve is limited to certain part of the world. The major reserve of natural gas lies in the Middle East which account for 34%. Europe and Russia accounts for 42% of reserve and one of the world largest consumers of natural gas, the U.S. possess 3% of the world's total natural gas reserves. Natural gas is mostly produced by big companies and is traded as commodity in

commodity market. The price movement in natural gas is quite volatile due to its use in daily activities.

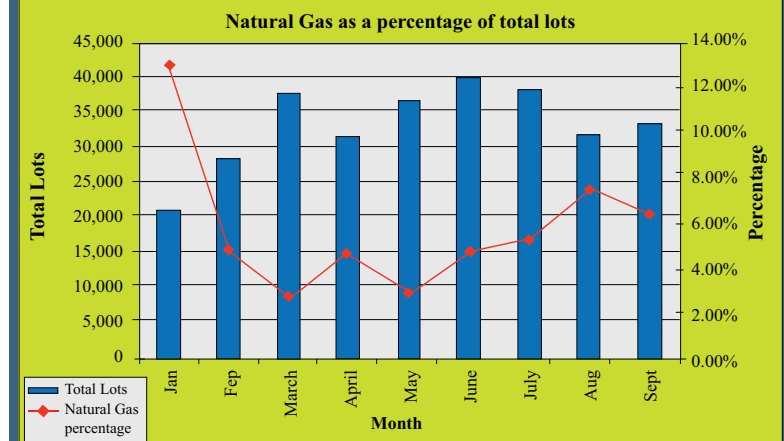
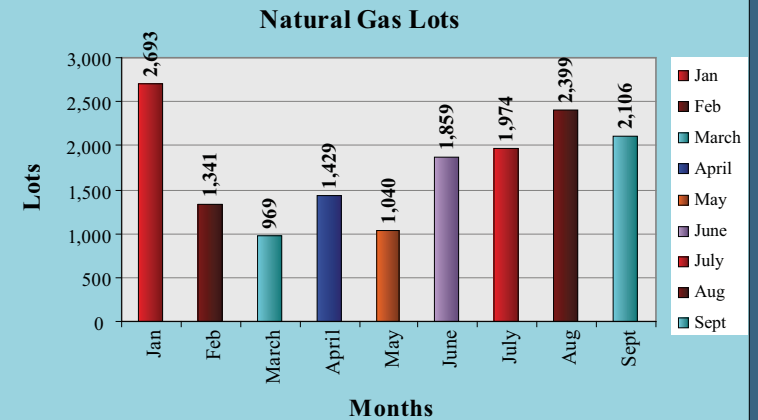
### Explanation of Charts

January saw the highest number of lots traded for natural gas at 2,693 lots. This was mainly due to the adequate supply of natural gas in the U.S., which saw natural gas prices decrease. Investors were seen taking advantage of these cheap prices and taking up positions in natural gas, thus contributing to this high lot volume. But the number of lots traded decreased from February to May with 1,341, 969, 1,429, and 1,040 lots traded respectively. Normal weather in the U.S., one of the biggest consumers of natural gas saw less volatility in the market which led investors to shy away from the market. Likewise, ample supplies in the storage of the U.S. also contributed to this decline. However, the number of lots increased drastically to 1,859 lots in June which was an increase of 78.75% from previous month. Speculation regarding an active hurricane in the Gulf of Mexico potentially disrupting production saw natural gas prices increase. Investors saw possibility of profit due to which the lots increased. July saw a marginal increase

in the lots with 1,974 lots being traded. However, August saw the lots increase by 21% to 2,399 lots. The growth in volume mainly resulted from expectations that the hotter than normal temperature in the U.S. would boost air conditioning thus increase demand for natural gas. September saw a decrease in the total number of lots traded to 2,106. This decrease was attributed to the US government report that there was a smaller-than-expected increase in natural gas inventories. However, although the lots decreased from the previous month, September was still the third best month for natural gas.

### Contract Specification

Name	Natural Gas
Symbol	NAG
Cont. size	2500
Unit	MMBTU
I. Margin	60,000
Price Quoted	NPR/MMBTU
Trading Hrs	03:45 - 02:45
Quality	Standard pipeline quality
Contract Months	All Months



## MINI

# Copper

### Introduction

The name copper is derived from the Greek word 'chalkos'. Copper possess a wide range of properties that make them invaluable for many application. Copper has a remarkable combination of properties. It is a good electrical and thermal conductor. Copper metal have been in use for thousands of years. The early decades of the 19th Century saw the foundation of the Electrical Age and thereafter the demand for copper increased tremendously. Britain was the major producer for much of the 19th Century but new mines were opened up in U.S.A., Chile, and later in Africa, until in 1911 the world's output of copper for the first time exceeded a million tons per annum. With the increase of industrialization, new important uses were found for copper. Most copper ore is mined or extracted as copper sulfides from large open mines. Chile is the top mine producer of copper followed by the USA, Indonesia, Peru and china. Total world production of copper stands at 15,900,000 MT in 2009. World's copper production is expected to remain in deficit in coming year due to high demand from major consuming countries like china, US and Europe.

### Major factor that affect the price of copper can be listed as follows:

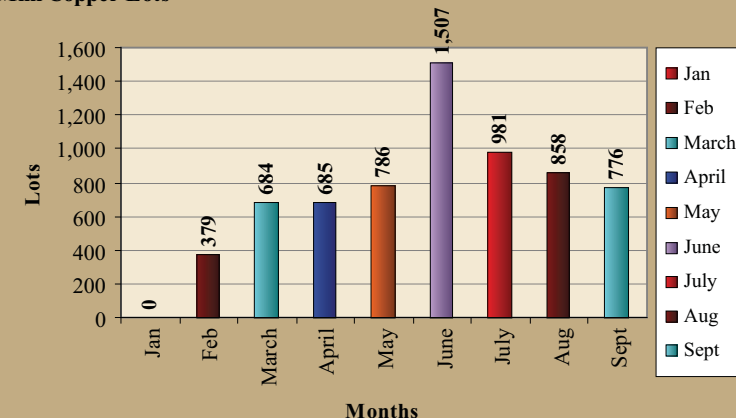
- Price fluctuations of copper in London Metal Exchange
- Production level of copper in the world
- Growth prospects of the major copper consuming countries of the world
- Growth prospects of the various consuming sectors in the market

### Explanation of the Charts

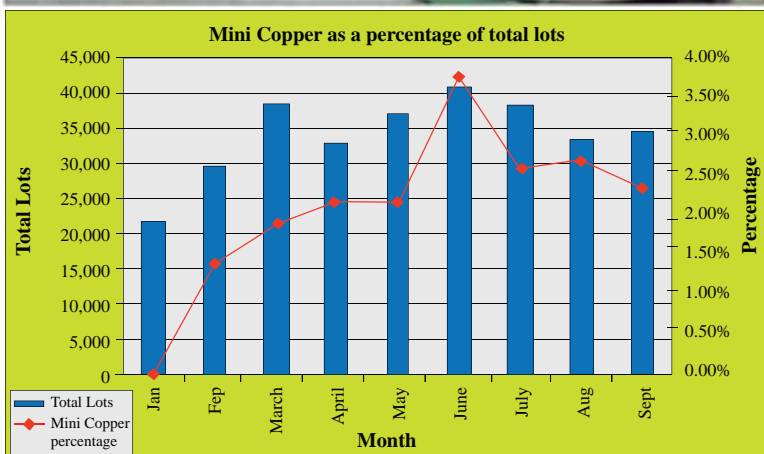
Mini Copper is one of the least traded of the mini contracts. This can probably be attributed to the fact that the mini copper contract was introduced in February of 2010. As a result, investors have been slow in incorporating mini copper as a means to diversify their investment. However, as the chart suggests, trading in mini copper has increased over the months. As with any other commodity, lot size of mini copper has also seen its share of ups and downs, thanks mainly to the market sentiment and the various news and events that have

affected these sentiments. Mini copper was introduced on 15th Feb 2010. The month of its introduction, it captured a mere 1.32% of the total transaction volume at the MEX terminal. However, the lots increased to almost double in March as investors seemed to get comfortable with the relatively cheaper Initial Margin and the less risky nature of the contract in comparison to its regular contract. As with the Regular copper contract, trading in mini contracts was also influenced by the various news and events and the earthquake in Chile and the subsequent expectation that demand for Copper will increase led to investors trading in mini copper contracts. This interest in mini copper stayed strong in April too and mini copper comprised of 2.14% of total lots traded during that period in the MEX terminal. Surprisingly, unlike the regular counterpart which saw a decrease in lots in May, mini copper contracts saw its lots increase in May. As a result, mini copper comprised of 2.12% of total lots traded during the period. June was the most favorable month for mini

Mini Copper Lots







copper. Like its regular counterpart, trading in mini copper contracts was the highest in June. Infact, the mini contract saw a 92% jump in its lots during June and also made up for 3.74% of the total traded lots in the terminal. As in the case of Regular copper, decreasing prices saw investors jump on the mini copper bandwagon, taking short positions which resulted in this 92% jump. July saw interest in mini copper decrease and only 981 lots were traded in that period. Likewise, only 858 lots were traded in August. While the lots decreased in comparison to the previous month, in percentage terms, 2.65% of the total lots traded in August were in mini copper, slight increase from 2.55% in July. The decrease continued on September as well and mini copper accounted for only 2.30% of the total lots traded during that period. Continuing confusion regarding the economic recovery with hints of improvement here and there saw traders hesitate to trade in mini copper resulting to its decreased lots.

#### Contract Specification

Name	Mini Copper
Symbol	MCOP
Cont. size	500
Unit	KG
I. Margin	15000
Price Quoted	NPR / KG
Trading Hrs	03:45 - 02:45
Quality	ASTM B 115, Grade 1, Electrolytic Copper
Contract Months	Mar(H), May(K), Jul(N), Sep(U), Dec(Z)



# MINI Silver



## Introduction

Silver is a white, soft, lustrous transition metal, which has the highest electrical conductivity of any element and the highest thermal conductivity of any metal. Mostly, silver is produced as a by product of copper, gold, lead and zinc refining. Silver has long been valued as a precious metal, and it is used to make ornaments, jewelry, high-value tableware, utensils and currency coins. Silver is often considered as the “poor man’s gold” as it has been quietly climbing the investment and demand charts since its discovery thousands of years ago. Its unique properties make it ideal for thousands of applications used in every day life. The top three producers in the year 2009 were Peru, India and China. While looking at the consumption side, the largest consumer of silver is the United States followed by India, Japan, and Italy. 75% of silver’s production comes from gold, copper, lead, and zinc mining which is why changes in these other industries have a large impact on the price of silver. On the demand side, silver (like most commodities) benefits from strong world growth, a weaker U.S. dollar, and increasing use in electronic applications. With so much of news available for precious metal, investors are highly interested to trade in this commodity.

## Explanation of Charts

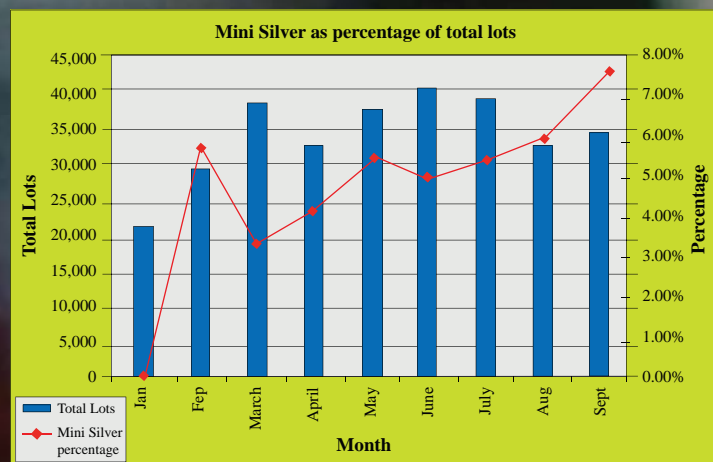
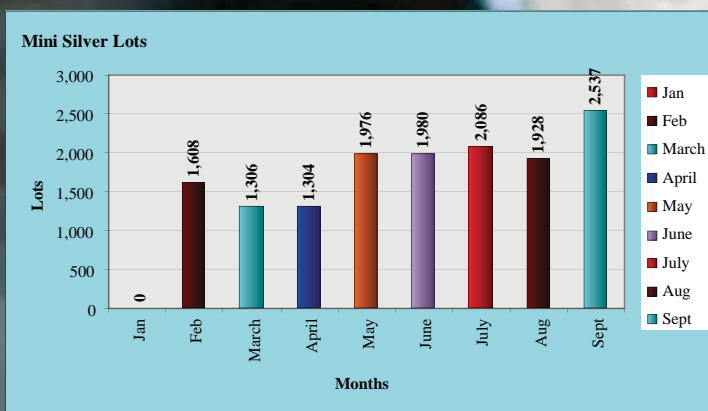
The chart above shows that mini silver has 0 lots in the month of January as this item was introduced only from the month of February for trading in MEX Nepal. The very motive to introduce mini silver was to provide our investors with an opportunity to trade silver in smaller size. Upon introduction in February, mini silver contracts made an impressive start with 1,608 lots being traded. However like its

regular counterpart, mini silver contracts declined in the following 2 months. A stronger dollar as well as the continuing Greek crisis led to fall in silver prices which contributed to this decline. But the decline was smaller in comparison to the decline in lot size of regular silver. As a result, only 1,306 and 1,304 lots were traded in March and April respectively. The month of May saw an increase in lots with 1,976 lots being traded in mini silver. This was an increase of 50% in comparison to the previous month. June saw similar improvement with 1,980 lots being traded. Amid worsening economic conditions of some of the super powers, investors were seen rushing to the precious metals, generally considered a store of value. As a result, the total number of lots increased in June and this increase was recorded in July too with 2,086 lots being traded. August however saw a decrease in lot sizes with 1,928 lots being traded. However, like its regular counterpart, September proved to be the best month for mini silver as there was an increase of 31% in lots traded. The slumping dollar increased the appeal of silver as an alternative investment thereby contributing to a record 2,537 lots being traded.

## Contract Specification

Name	Mini Silver
Symbol	MSIL
Cont. size	10,000
Unit	Gms
I. Margin	24,000
Price Quoted	NPR/10 Gms
Trading Hrs	3:45 – 2:45
Quality	.999 fineness
Contract Months	Mar(H), May(K), Jul(N), Sep(U) Dec(Z)





“

Silver is often considered as the “Poor man’s gold” as it has been quietly climbing the investment and demand charts since its discovery thousands of years ago. Its unique properties make it ideal for thousands of applications used in every day life.

”

## MINI Gold

### Introduction

Gold is a metallic element which is yellow in color. It is the most malleable and ductile pure metal and is quite resistant to corrosion. It is one of the most expensive materials on the planet due to which it is also referred to as “precious metal”. It is believed that gold was used as early as 6000B.C. Although gold is mostly used as jewelry, it is also used for industrial purposes such as for dentistry and electronics.

Despite its predominant role as jewelry, gold is also used in the financial world. It is used as a hedge against inflation. Likewise, gold is also used for investment purposes. Currently, gold futures are one of the most highly traded commodities in the world today. China and Australia are the two top ranking gold producers in

the world. Likewise, China and India are the two top ranking gold consumers. One of the major factors influencing the price of gold is demand and supply. Likewise, the strength or weakness of the USD also affects the price of gold since generally, these two moves in opposite directions. Likewise, considering its status as a store of value, political and financial turmoil in the world also play a factor in determining gold prices. An example of this can be the recent financial crisis.

### Explanation of Charts

Just like its counterpart, mini gold is the most traded commodity in the mini contract category. With a market composition of 8%, the mini contract is the fourth most traded commodity in the MEX terminal. In January, 1,696 lots of the mini contract was traded, making up 8.12% of the total lots traded during that period. Following in the

“ gold is also used for investment purposes. Currently, gold futures are one of the most highly traded commodities in the world today. ”

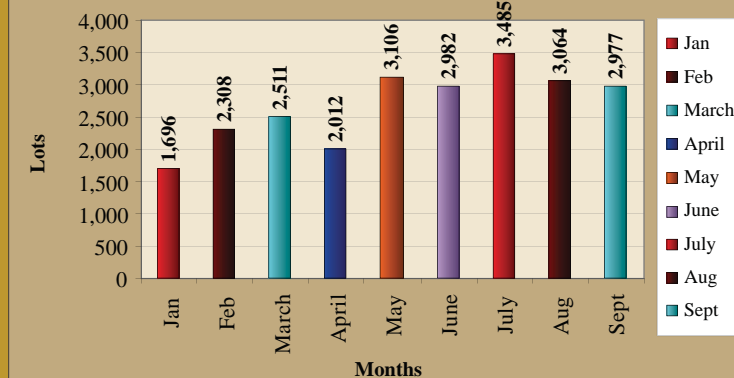
footsteps of the regular contract, the lots increased to 2,308 lots in February. This too was a 36% increase from the previous month, just like its regular contract. But the mini contract could not match up to its regular contract in March and the total lots traded in mini gold during March were just a mere 8% increase to 2,511 lots. The European crisis and the subsequent downgrade of Portugal’s debt contributed to this increase. But the interest in the mini contract decreased in April with mini gold lots contributing to only 6.28% of the total lots traded in that period. May however saw this interest in the mini contract rise again with a 54% increase in lots in comparison to the previous month. The massive European rescue package and the subsequent fears among investors regarding the effects of such a huge package saw investors taking up positions in the mini contract. While June again saw a marginal decrease in mini gold lots, July seemed to be the highlight of the year for this mini contract. On July, 3,485 lots were traded, the highest in 2010. Likewise, this made up 9.06 % of the total lots traded in the terminal during that period. With investors shying away from the regular contract which was very volatile during this period, the mini contract benefited

as it was less volatile in nature. The subsequent 2 months saw lots decrease in Mini gold. In August, only 3,064 lots were traded which was 9.46% of the total lots traded in that period. Likewise, September saw 2,977 lots being traded which was again 8.82% of the total lots traded at the MEX terminal. Being one of the first mini contracts to be introduced, the mini gold contract has certainly managed to gather enough support from the investors which can be surmised looking at the lots chart.

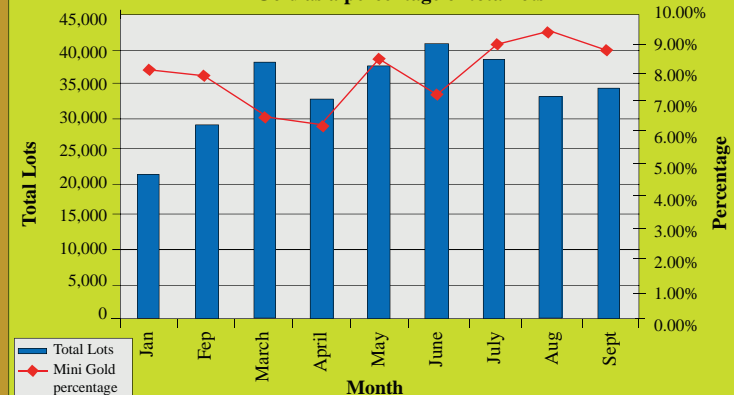
### Contract Specification

Name	Mini Gold
Symbol	MGOL
Cont. size	200
Unit	Gms
I. Margin	25,000
Price Quoted	NPR/10 Gms
Trading Hrs	3:45 – 2:45
Quality	.995 fineness
Contract Months	Feb(G), Apr(J), Jun(M), Aug(Q), Dec(z)

Mini Gold Lots



Mini Gold as a percentage of total lots





# Sugar

## Introduction

Sugar belongs to a class of edible crystalline carbohydrates and sugar mainly produced of sucrose or sugar beet. More than 100 countries produce sugar around the world using either sucrose or sugar beet. Around 79% of total production is made from sugar cane, grown primarily in the tropical and sub-tropical zones of the southern hemisphere, and the balance of sugar beet is mainly grown in the temperate zones of the northern hemisphere. The largest producer and the consumer of the sugar is Brazil. The world's sugar price continued to keep up its reputation to be highly volatile by trading to record high of \$ 30 cents per pound early in the first quarter of 2010. This volatility in price was the reason that this commodity was introduced for trading.

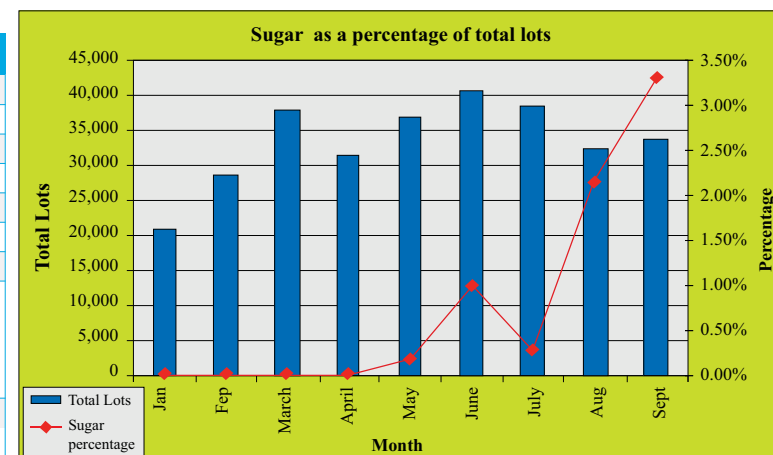
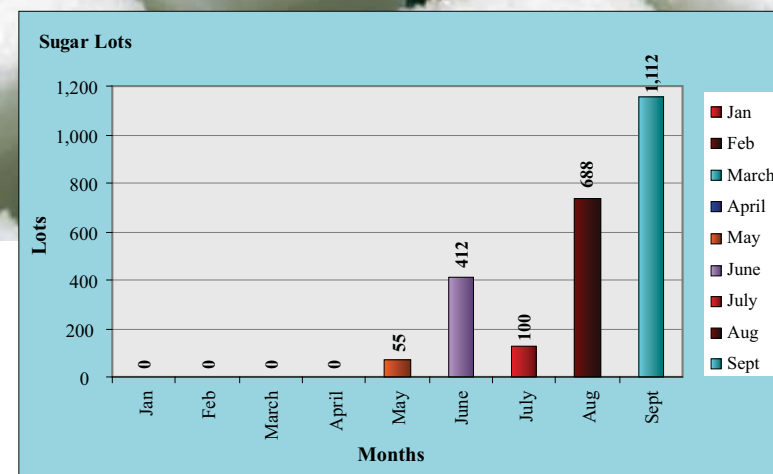
## Explanation of Charts:

The chart above shows that sugar has 0 lots from January to April as this item was introduced only from the month of May for trading in the MEX terminal. As a result, only 55 lots of sugar are traded in May. The following month, investors started investing in Sugar as a stronger dollar threatened to curb the import demand. Also, increasing supply from India and Brazil saw Sugar prices fall due to which investors were seen taking up Sugar positions. As a result, June saw an impressive 412 lots being traded. July however saw a decline in Sugar trade to only 100 lots, a decrease of 75%. This was mainly attributed to news that bad weather may decrease production which in turn would affect prices. August however saw Sugar lots increasing to 688. This was an increase of 588%. Sugar rose in August on concerns that adverse weather in countries like Russia, Pakistan and South Africa would cut production. Investors saw this

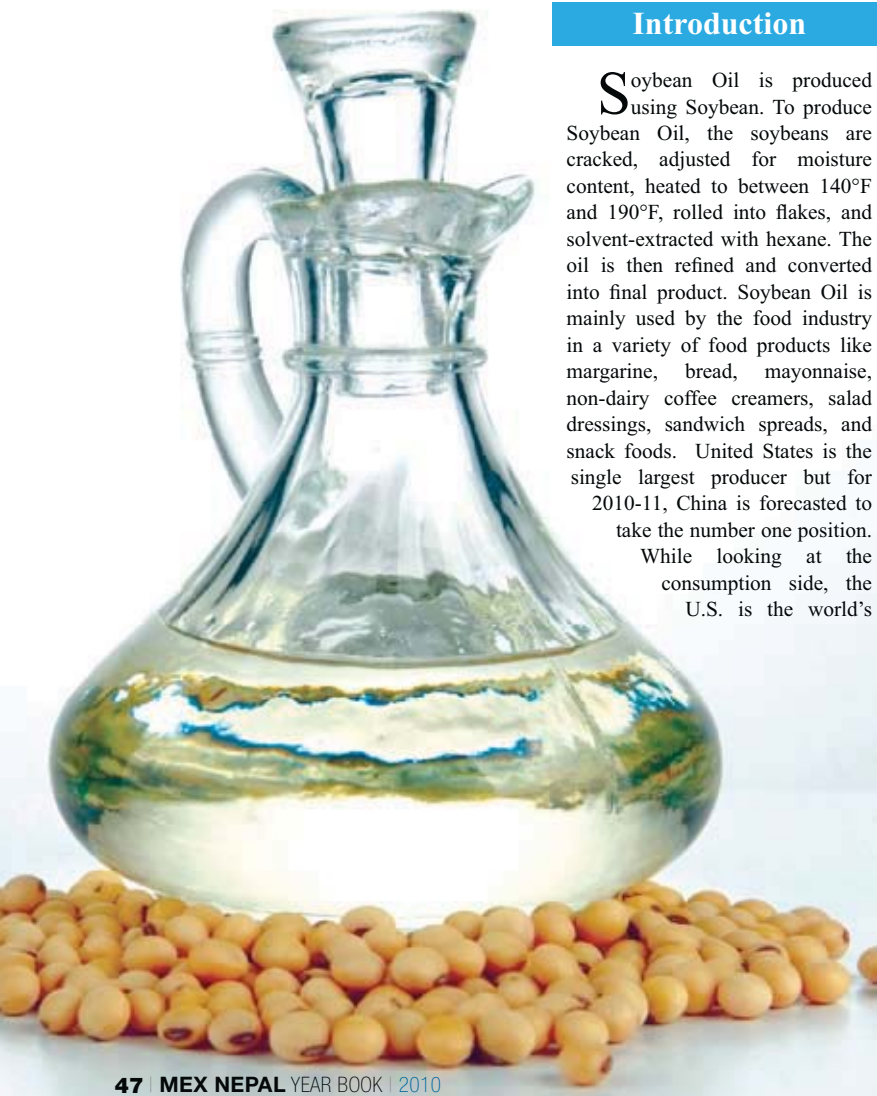
as a profit making opportunity due to which the lots increased. With Sugar prices increasing, investors started taking up more Sugar positions and September recorded the highest lots taken in the commodity in 2010. 1,112 lots were taken in September which was an increase of 61%.

## Contract Specification

Name	SUGAR
Symbol	SUG
Cont. size	20000
Unit	KG
I. Margin	35,000
Price Quoted	NPR / KG
Trading Hrs	13:15 - 23:45
Quality	Sugar No.11, Raw centrifugal cane Sugar based on 96 degrees average polarization
Contract Months	Mar(H), May(K), Jul (N) and Oct(V)



# Soybean Oil



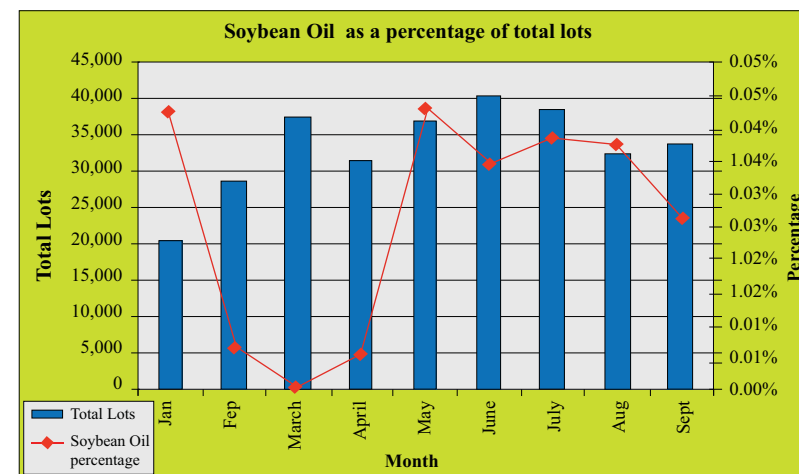
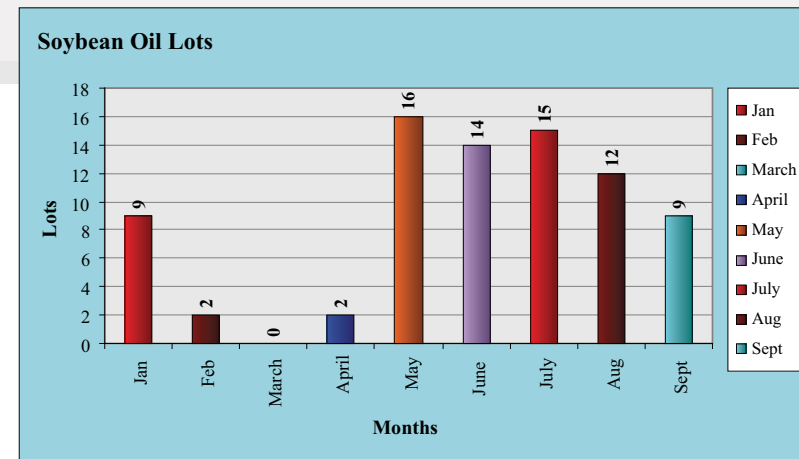
## Introduction

Soybean Oil is produced using Soybean. To produce Soybean Oil, the soybeans are cracked, adjusted for moisture content, heated to between 140°F and 190°F, rolled into flakes, and solvent-extracted with hexane. The oil is then refined and converted into final product. Soybean Oil is mainly used by the food industry in a variety of food products like margarine, bread, mayonnaise, non-dairy coffee creamers, salad dressings, sandwich spreads, and snack foods. United States is the single largest producer but for 2010-11, China is forecasted to take the number one position. While looking at the consumption side, the U.S. is the world's

largest consumer with about a third of the total followed by China. Soybean Oil in its crude form is the most traded oil in international market after palm oil. Chicago Board of Trade is the biggest exchange for soybean and Soybean Oil.

## Explanation of charts

Soybean Oil is among those commodities that are traded less than 1% in the MEX terminal. The chart itself explains the volume of this commodity. The volume trading of Soybean Oil in the initial phase of this year was low. In January total lots traded were 9 which gradually declined in February and March to remain at 2 and 0 lots respectively. Volume traded in April was just 2 lots. This was mainly due to the bullish price cycle of Soybean Oil. The huge stock of edible oil and declining demand in retail level wasn't encouraging for investor, which caused investor to shy away from Soybean Oil. But the volume traded was on the higher side from the month of May. In May, 16 lots of Soybean oil was traded. This was caused as a result of China's (biggest cooking oil consumer) decision to support Brazil and US for the supply which was a big boost for the commodity. In the month of June, July and August total volume traded were 14, 15 and 12 lots respectively. This interest of investor was due to the declining premium of Soybean Oil over palm oil (palm oil and Soybean Oil are substitute product). The expectation that the price of Soybean Oil will remain lower as a result of lower trade in international market and ample



availability of edible oil also attracted investors to invest at lower price. On September, the volume declined slightly to remain at 9 lots which was 0.03% of total lots traded in MEX. This decline in investment by investor was due to the possible dryness in Brazil and US which ultimately caused investors to trade less in Soybean Oil.

## Contract Specification

Name	Soybean Oil
Symbol	SBO
Cont. size	22,000
Unit	KG
I. Margin	70,000
Price Quoted	NPR / KG
Trading Hrs	04:45 – 18:00 20:15 – 00:00
Quality	Crude Soybean Oil
Contract Months	Jan(F), Mar(H), May(K), Jul(N), Aug(Q), Sep(U), Oct(V) and Dec(Z)





# Cocoa

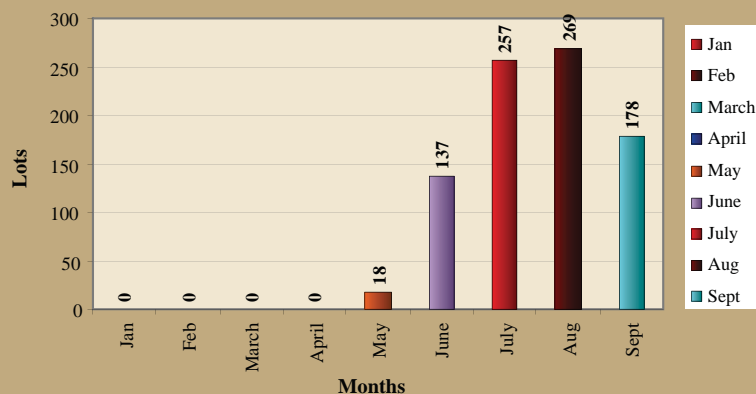
## Introduction

Cocoa is used for making chocolates or bakery products of chocolates. This is sold in the form of powder for making chocolates and cakes. It's beans are the seeds of the fruit or 'pod' of the cocoa tree. The cocoa tree grows in the warmest regions on earth within 20 degrees north and south of the Equator. Approximately 60% of world production originates from Africa, but origin of cocoa was depicted from the South American culture. They used to prepare a beverage with it which was used during the rituals and ceremonies of wedding. Today people around the world are consuming more than 3 million tons of cocoa beans annually and it has been found that Brazil is the largest producer and Europe is the largest consumer of cocoa. The ICCO (International Cocoa Organization) is an organization that provides daily price for cocoa beans. Since this commodity is used more in bakery products the bakery products manufacturers are mostly interested to trade in this commodity.

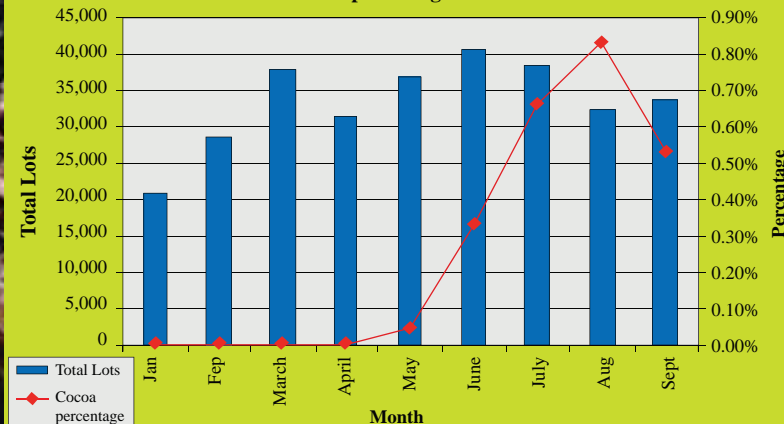
## Explanation of chart

The chart above shows that cocoa has 0 lots from January to April as this item was introduced only from the month of May for trading at the MEX terminal. During the first month of trading, only 18 lots were registered which hinted that investors were testing the commodity. June saw fall in the inventory of cocoa due to which the price of cocoa increased in comparison to the previous month. As a result, investors traded 137 lots in this newly introduced commodity which was an increase of a staggering 660% from previous month. This interest in cocoa wasn't lost in July either with 257 lots being traded in that period. This was an encouraging increase of 87%. This was mainly due to the price of cocoa reaching a near 33 year high in the month of July following better than expected demand for bean. August saw the lots increase yet again by 12 lots in comparison to the previous month and this was mainly due to expectation that the prices will fall. As a result, 269 lots were traded. September however saw only 178 lots being traded on a note of mix reaction of the production of cocoa.

Cocoa Lots



Cocoa as a percentage of total lots



## Contract Specification

Name	COCOA
Symbol	CCO
Cont. size	5000
Unit	KG
I. Margin	35,000
Price Quoted	NPR / KG
Trading Hrs	13:45- 23:45
Quality	Quoted growth, Group-C
Contract Months	Mar(H), May(K), Jul(N), Sep(U) and Dec(Z)



# Corn

## Introduction

Corn is a tall plant grass which grows in rows on the larger ears and is eaten as a vegetable. Corn is grown as food for both human and animals. It is a plant whose food value and wide variety of uses make it the most important crop grown in the United States and one of the most important in the world. In order of world grain production, corn ranks second after wheat and is followed by third-ranking rice. The top three producers of corn are the USA, China and Europe producing 41%, 19% and 7% respectively and around 16% of U.S. Corn production is sold for export. While looking at consumer side, the largest consumer of corn is United States is also the largest with average consumption of 183,119 TMT. Due this

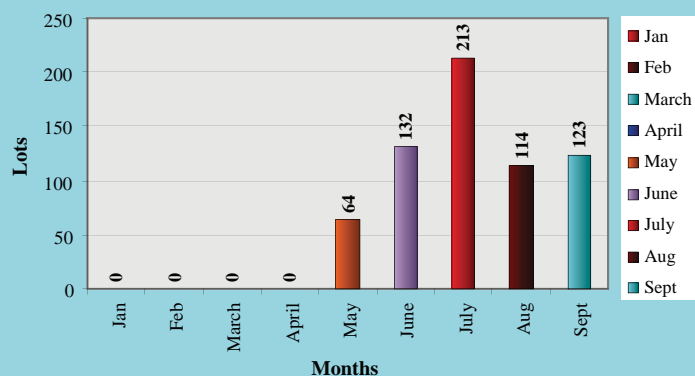
huge demand of corn, it is introduced for trading in derivatives market in order to reduce the risk associated with price and exchange rate.

## Explanation of Charts

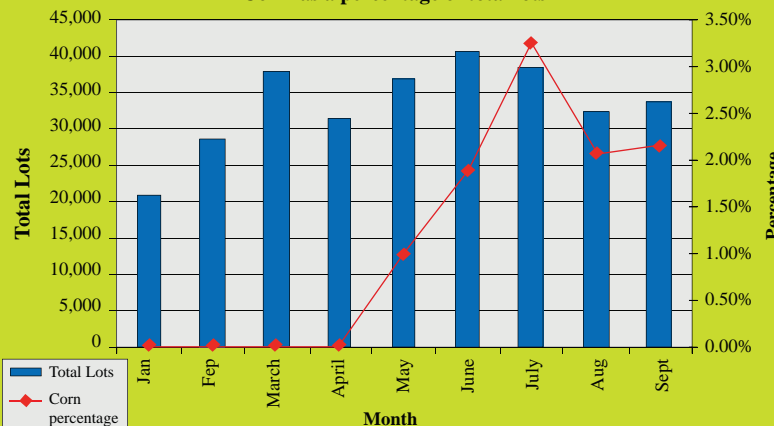
The chart above shows that Corn has 0 lots from January to April as this item was introduced only from the month of May for trading in MEX Nepal. In the first month of its introduction, Corn posted 64 lots. The following month the price of the Corn increased the most in six weeks after the U.S. government said that its reserves before this year's harvest will be the smallest since 2007. The increase in price motivated the investors to capitalize on the advantage of investing in corn. Due to this the volume of Corn increased by 106.25% as compared to the month

of May, posting 132 lots. The following month the volume increased by 61.36% as the price of corn fell. This was mainly due to the improved crop condition in the U.S., boosting yield potential in the world's largest grower and exporter. However, in the month of August, the volume of Corn declined as investor's speculative analysis predicted that the Midwest heat wave in the US in the month of August will result in smaller production than predicted by the government. Due to this reason there was fall in the lot size by 46.47% compared to the month of July. September saw the lot size improve marginally to 123 lots. This was mainly because the price of Corn increased, extending its rally to the highest price since October 2008, on speculation that the U.S. crop will be smaller than the government forecast.

Corn Lots



Corn as a percentage of total lots



## Contract Specification

Name	CORN
Symbol	CON
Cont. size	40000
Unit	KG
I. Margin	25,000
Price Quoted	NPR / KG
Trading Hrs	04:45 – 18:00 20:15 – 00:00
Quality	#2 Yellow. Free from moulds, fungus and from any added coloring agent
Contract Months	Mar(H), May(K), Jul(N), Sep(U) and Dec(Z)



Commodities market, contrary to the beliefs of many people, has been in existence in the world through the ages. However the recent attempt by the Mercantile Exchange Nepal Limited, a national level exchange has indeed given us a presence in the Commodities Derivatives, which resulted in formation of Axis Broking Solution Pvt. Limited.

Axis Broking Solution Pvt. Limited is a major Market maker in the Commodities Derivatives Market since Inception we have cleared and settled more than 2,50,000 Contracts in commodities futures Market. We also happened to be the Highest Tax Paying Company in this Business Segment for the fiscal year 2065-66 & 2066-67. Apart from business we are also committed towards the society. In May 2010 we also organized the Axis Corporate Award 2009-10 in order to motivate the Corporate Leaders associated in this business segment. Apart from this we have our well established presence in the multifarious facets of the modern financial services. With the high quality infrastructure already in place and a committed Government providing continuous impetus, it is the responsibility of us, the intermediaries to deliver these benefits at the door-steps of our esteemed customers. With our expertise in financial services and an enviable technological edge, we are all set to bring to you, the pleasure of investing, Trading, Hedging and arbitrage in this burgeoning market, which can touch upon the lives of a vast majority of the population from the farmer to the corporate alike. We are confident that the commodity futures can be a good value addition to your portfolio.



Himalayan Commodity Brokers Pvt. Ltd. (Clearing member of MEX and NSE) has been in operation since 5th Jan, 2009, established in 24th Oct, 2008 is situated at Kathmandu Business Park, Teku, Kathmandu. HCB has been in its identical status among members of MEX. Currently working with 24 non-clearing members with a transaction volume of above Rs.300 million per day, quality service has been assured to all the transaction cleared and settled. Having members awarded in three category out of four as: best emerging, compliance, and quality service, HCB ensures quality performance to its pool of clients, sharing hands of effective manpower working for the general motive to excel.



Edge Investment Pvt. Ltd. started its operations as the non clearing member of Mercantile Exchange Nepal Ltd. from 15th September 2009. Within a period of one year, we have been able to establish ourselves as one of the leading non clearing members. We have a blend of young entrepreneurs who provide innovative ideas by which we have been able to provide efficient service to our valued customers. Within a short span of time, we have been able to pool a team of professionals that provide us with a competitive edge over our competitors.



Futures Fortune is established to provide service in the areas of investment such as commodity trading, capacity development on investment instruments and consulting services in other financial investment areas either directly or through its subsidiaries. The

promoters of this company consist of a group of entrepreneurs involved in different areas of investment such as real estate, stock and securities, financial institutions, hydro power and other trading business. We believe in fair competition and open market operation. We value ethical business practice and professionalism in our business operation. With this regard Futures Fortune has been honored with "Recognition of Outstanding Performance, Dedication and Excellence in Compliance" with MEX.



ESTD date 2010  
operation date:- April

Teamed up with Mercantile Exchange Nepal and Axis Broking, LGI is a non-clearing member creating a winning combination of trust and signature in its service which offers specialized futures trading platform for specialized needs that's fast, efficient and user-friendly in the period of few months of operational date able to deserve a name with distinction and cutting-edge trading technology, professional trading assistance and a variety of educational resources where our client experience superior investment scheme with premier return. with technical and fundamental analysis



Founded in November 2008, Morningstar Investment Services has risen as an exceptional investment company with a huge existing client base and incredible number of Account Executives covering institutions, corporate, high net-worth individuals and retail/small investors. Morningstar has

been awarded as the Best NCM performer of the year 2009 in terms of Client Base and Infrastructure, Best Corporate Leader Award, Best NCM of the year in Business Development by Axis Broking Solution and Best NCM of the year based on dedication and Excellence 2010 by Mercantile Exchange Nepal. Morningstar unbelievably has succeeded even in meeting the highest possible trade volume in Mercantile Exchange. Being such a leading provider of online trading and investment consulting, Morningstar thrives to excel hence by delivering dedicated and quality customized service by providing several advanced yet easy to use trading tools, risk minimizing trading offerings, long term Managed Futures Accounts and unrestricted expert advice through emails, own dedicated SMS engine, trainings and seminars. Morningstar had conducted workshop inviting international expert from United Bank of Switzerland, Mr. Frank Reuidi. Morningstar has also proudly been socially indulged by officially sponsoring Morningstar Second Dathulan Club Badminton League and remarkably contributing and Supporting for the Rota year 2010/11.



Oracle Investment intends to be one of the top advisory and brokerage firm in futures trading. Run by very enthusiastic group of MBA's and engineers, the directors have years of experience in share market. Futures being a high risk high reward investment, we at Oracle always try to work very closely with each of our clients so as maximize the profit potential and minimize the risk. Oracle has a very well furnished office at Thapathali with dedicated client service area for discussion and trading.



Quest Commodities and Investment Pvt. Ltd is one of the leading financial service provider in commodity market. We are authorized agent of Mercantile Exchange Nepal called N.C.M. (Non clearing member). Quest Commodities has been established with mission to maximize client's asset and capitalize client's value. We are dedicated to this business since 2008 A.D. when the commodity market stepped in Nepal.

Our vision is to be the trustworthy company in commodity trading business. We proved to be the No. 1 service provider to clients and other stakeholders.

With the objective to support our valuable clients we commit ourselves to dedicate in this business as long as the market sustains. We believe in building mutual trust and our capital is confidence on professional trading system.

QRD- Quest Research desk provides detail information on all general products which are traded on futures market.

Quest institute – Quest Institute located at Gabahal, Patan provides different levels of classes on commodity market. Classes like General (1day), Basic (1week) and Advance(1 month) are available.

Participated in Capital Expo 2009 - Organised by SRCS @ WTC where more than 1000 interested people visited our stalls and registered to learn about commodity market. Seminar @ Lalitpur with MEX- For enthusiastic people who are willing to learn about commodity market one day seminar was held associated with MEX's business development representatives.

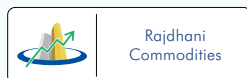
Regular Orientation class on demand – For awareness on commodity market Saturday orientation classes are continuously running and we also provide classed on demand at anytime, anyplace. Estd. of New road branch – launched its 1st branch at pako Newroad on 1st Aug



2010 and providing services since then to Kathmandu's clients. Business tour to Trisuli, Nuwakot - Where interaction programme with Nepal Sunchandi Association Nuwakot branch is held.

Publishment of Article – Different articles associated with commodity market are published in papers like New Business age, Abhiyan, Share bazaar, MEX Express and other magazines.

SMS - Daily market prediction on prices of commodities are kept in web where anyone can get information on dialing qci space commodities code send messages to 432 .



**R**ajdhani Commodities pvt. Ltd. Is the fully automated future broking of Nepal. It is established as company register office at 2066 with company Act. The company are leading highly qualified, energetic, academic persons. The company motto is think investment think Rajdhani .

Rajdhani Commodities with its wide array of personalized services from market making, Heading, Arbitrage, Clearing and settlement of trade Execution done by our clients.



**S**imrik investment is entirely accredited with the company register and all the obligatory body of the Nepal government. It has been promoted by team of qualified young and energetic people with an intent of providing world class financial solution and advisory service for the would be Investors. With our brand promise, "YOUR DREAMS OUR COMMITMENT" deeply embedded in our work ethos. With the core knowledge

and appearance in the financial market, we, Simrik investments provide error free advisory service. As a commodity trading company our mission is to keep our clients up to date on all facts of the futures and commodities markets. To ensure this, we give our clients access to news and geo political events from all corners of the globe.. Simrik promises to do its best to keep our clients educated and informed enough to make sound intelligent trading decision and streak to help them achieve all their financial goals.



**S**MART Investment Company Pvt. Ltd. is engaged in the business of commodities brokering and investment consulting services in Nepal since 2008. It has concurrently endeavored to enlarge its areas and now provides a ready platform to the traders to electronically trade in commodities, like Wheat, Soya bean, Coffee, Cotton, Sugar, Cotton, Gold, Silver, Copper, CrudeOil, NaturalGas, HeatingOil etc. It stimulates trader to hedge against the price risk to avoid distress selling of commodities in the market much lower than the prevailing market price across the country. Emphasizing the motto of "MANAGING YOUR FINANCIAL DREAMS".



**S**onata Investment Pvt. Limited is one of the financial services companies in Nepal. We provide a gamut of products and services including commodities broking, investment planning and wealth management to a substantial and diversified clientele that includes individuals, corporations and financial institutions.

We are committed to giving our customers the best services and holding to our core values which always place our client's interests first. These values are reflected in our Business Principles, which emphasize integrity, commitment to excellence, innovation and teamwork.

Clients turn to Sonata Investment for its complete platform of financial services combined with excellent execution.

Sonata Investment culture is characterized by five key qualities: commitment to clients, integrity, excellence, strive for profitability and innovation. Integral to our corporate culture is our total dedication to superior client service, reliability and transparency in all our transactions. At Sonata Investment we believe our client's success is our success.



**S**UJIT & BROTHERS "S&B" was established under Department of Commerce and has office located in Kupondole, and branch office in Bargachi, Biratnagar-6.

#### OUR APPROACH AND ACHIEVEMENTS

Value for Investors trust: S&B values the trust reposed by the clients and is committed to uphold it at any cost.

Integrity and Honesty: Integrity, honesty and transparency are the underlying principals in all our dealings.

Research Based advisory Services: S&B offers proactive and timely world class research based advice and guidance to its clients. Due to which our clients have been successful in taking calculative and methodological approach in trading.

CONTACT ADDRESS: SUJIT & BROTHERS, Kupondole, Phone: +97715011680, Email: sujitbros@vianet.com.np, Web: www.sujitandbrothers.com



**V**ISTA INVESTMENT P. LTD is established in 19th may 2010. It has been promoted by the team of bankers, Professional people. It is located in the heart of the Kathmandu's newroad.

Since established it is giving huge opportunity to its clients for taking global commodity market's fluctuation. We found from our working, taking client's opportunity further ,that's return on relationships.

Global financial markets from vista to your desktop ,laptop or mobile phone, use real market conditions to learn how client can enter the market by buying and selling. Customize the platform with personalize layouts and charting tools to accommodate your preferences. we access live customer and technical support 24 hours a day, 5 days a week.



**W**ise Investment Pvt. Ltd. is a Nepal based company engaged in investment activities (Commodity Future Trading) and other financial services. Wise investment provides a broad range of financial services, which include commodity future trading, advisory services, fund management and other more financial services.

Founded in September, 2010, wise Investment Company is very emerging and leading company in Nepal, over the years, guided by a devoted management team & dedicated and highly skilled staff members having derivative experience of 3 years. Wise Investment empowers clients, franchise and other business associates to increase the profitability of their derivatives business, capital market, and other financial instruments through a rich offering that includes independent post-trade strategy monitoring, wide asset

coverage, consistent methodology, and unrivalled risk management tools. We have long-term investment horizon and focus on value creation. Our Vision is to strive for excellence, while making all the efforts to maximize client and franchise satisfaction, thereby establishing long term relationships for mutual benefits.

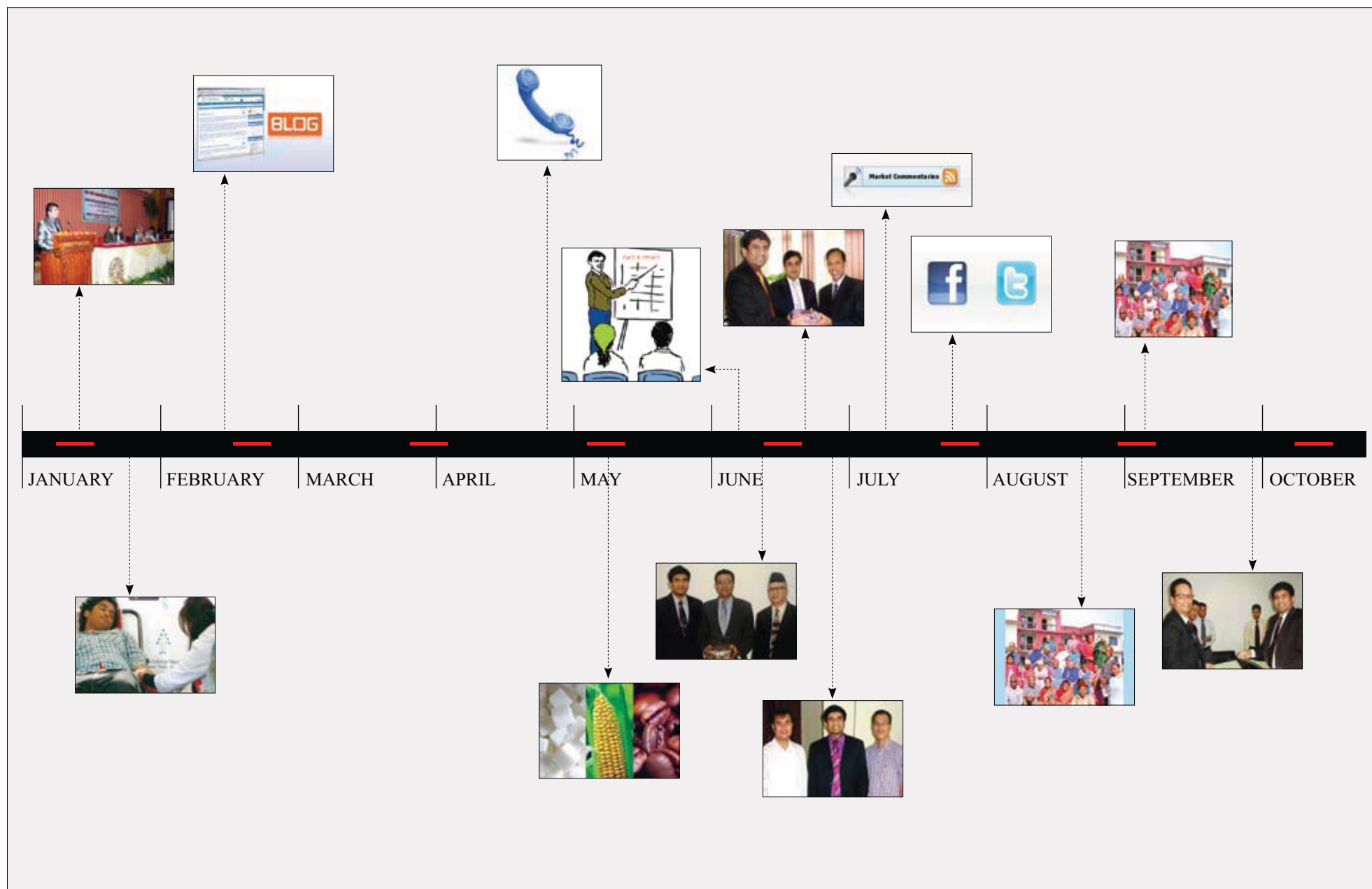
**Objective:** Our objective at Wise Investment Pvt. Ltd. is to act as the advisor of choice for clients by offering a full spectrum of financial services. Wise Investment aims to be the premier investment company in Nepal, through the development of innovative strategies and the timely execution of transactions, in order for clients to achieve their business and financial goals.

**Mission:** At Wise Investment, we are always in pursuit of quality and professionalism; the key factors in our mission to:

- Provide added value for our clients
- Optimize returns for our valuable clients
- Attract, motivate and retain top caliber staff
- Maintain the highest standard of corporate governance
- Innovate in our approach to business
- Perform with the utmost integrity and honesty
- Give priority to the interests of our clients
- Works as a united team with our clients.

Wise Investment Pvt. Ltd  
Bagbazar, Kathmandu-31, Nepal  
Ph: 01-4218339  
Email: info@wiseinvestment.com.np  
URL: www.wiseinvestment.com.np

# MEX Timeline





**Jan 5th, 2010**

MEX celebrated its first anniversary and awarded the NCMs for their best performance in the field of compliance, Business development, Service and also as an Emerging NCM



**Feb 11, 2010**

MEX started its own blog on different topics related to the commodities market.



**May 17th, 2010**

MEX introduce 3 new commodities along with 2 mini contracts to provide new flavor and flexibility to the Client. The newly introduced commodities were sugar, coco and corn whereas two new mini contracts were Mini –Silver and Mini-Copper.



**June 18, 2010**

Activities: Sec Gen, SAFE visit to MEX in connection with the MEX membership application to SAFE, Islamabad, Pakistan.



**June 29, 2010**

Activities: MEX C.E.O with Mr. Kao Thach, Deputy Dir Gen (with equal rank to under sec of state) SEC, Cambodia and Mr. Chan Narith, Director SEC, Cambodia



**July 18, 2010**

MEX made its presence online with the launch of its facebook ([www.facebook.com/mexhome](http://www.facebook.com/mexhome)) and twitter ([twitter.com/mexnepal](http://twitter.com/mexnepal)) pages.



**September 17th, 2010**

MEX provided cash worth Rs.31500 to Nisahaya Sewa Sadan, an old age home in Shantinagar, Kathmandu, Nepal for 1 week food.



**Jan, 2010**

MEX organized a Blood Donation Program in co-ordination with Red Cross Society of Nepal for helping the society.



**April 30th, 2010**

MEX started offline support to its Client. By doing this MEX become the first exchange in Nepal to provide such services. This facility will enable clients to get assistant during emergencies such as internet down, electricity down or no connectivity to MEX Nepal server.



**June 2nd-7th, 2010**

Activities: Provided training related to commodity market to Media of Nepal.



**June 22, 2010**

Activities: Honorable Deputy Minister Mr. M.L.A.M Hizbullah, for Child Development & Women's affairs, Sri Lanka, visited MEX to learn the working milieu of a successful commodity exchange like MEX



**July 3, 2010**

MEX started its own market commentary section on the website on news relating to the commodity market.



**August 27th, 2010**

MEX provided cash worth Rs.31500 to Nisahaya Sewa Sadan, an old age home in Shantinagar, Kathmandu, Nepal for 1 week food.



**30th September 2010**

Activities: MEX announces Bank of Kathmandu as its clearing bank.



Discovering the soul of trading



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online trading platform  
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[www.kappsoft.com](http://www.kappsoft.com)





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

## Quality Policy of MEX

*"Mercantile Exchange Nepal Limited (MEX) is committed to provide a world class commodity exchange platform for market participants to trade in a wide spectrum of commodity derivatives driven by best global practices, technology, professionalism and transparency."*

*"We shall achieve our quality goals by maintaining a Quality Management System that focuses on continual improvement through teamwork, individual responsibility, personnel development, and open communication with all our stakeholders involved while providing transparency in transactions and customer satisfaction."*

## A New Portfolio in Agro Commodity: Ginger

Ginger farming is one of the main sources of cash income for the small farmers of the mid-hills in Nepal. The net income of farmers involved in ginger cultivation is significantly higher than that of competing crops (paddy, maize, wheat and fresh vegetables). The value of ginger export has been increasing over the years and doubled in the last decade. Nepal is a significant producer of ginger ranks within the top 15 world exporters. Ginger in Nepal is traded in three forms – fresh, dry and processed. Ginger is cultivated in 66 districts of Nepal. Ilam, Paanchthar, Terhathum, Kavre Palanchowk, Palpa, Nawalparasi, Tanahu, Kaski, Dang, Salina, and Pythons are the top districts in ginger production in the country. Nawalparasi is one of the most important district of Western Development Region; covering 14.34 per cent (1285 Ha.) and producing 14.21 per cent (12017.2 Mt) respectively of the total area and production of the country.

There are basically two types of ginger that are being currently cultivated in Nepal. They are:

**Nase: Rhizome that contains fibers.**

**Bose: Rhizome which is fibreless or with negligible fibers.**

All the ginger producers cleaned ginger immediately after harvest. Farmers clean this product by removing dirt as per the preference of buyers and consumers. In Bhairavsthan area of Palpa, the system of grading ginger as whole ginger and piece-ginger was developed by majority of farmers to cater the demand of India's markets. Once harvested, ginger is sold immediately and rarely kept for storage. The ones that are stored are stored by two methods; storing inside house/ godown in jute bag and storing in the pits.

The area and the production of ginger in the country have been found noticeably increasing each year. The area under ginger cultivation in 1999/2000 was 8314 hectares. As compared to 1999/2000 statistics, the area under ginger increased by 70 percent in 2004/05 and reached 11,930 hectares. Similarly, the ginger production in 1999/2000 was 74,994 metric tons that increased by 50 percent in 2004/05 reaching at the level of 152,704 metric tons. Most of the ginger produced in Nepal is exported in India. In the Year 2006/2007 ginger was produced 160576 MT in Nepal and exported of Rs 541300,000 to India.

Birtamod, Palpa, Pokhara and Kalimati are the major ginger market of Nepal.

Different market possess different price of ginger. In Birtamod market price remained at normal level from June to April and rose in the month of May. All the ginger seen in the Birtamod market is old stocked gingers. Demand of ginger is met with locally produced ginger in Birtamod market. In Palpa market price of ginger is found lower as compared to other market. This is due to the fact that Palpa is major ginger producing area in Nepal. In Palpa, market price generally remained lower most of the time but in the month of May it goes high due to the off season. This trend indicate that the ginger being stocked during the period of peak season, the actors involved in the ginger market will have certainly get a good price during off season. The ginger at Palpa is locally harvested once and exported in higher volume in India. Whereas in Pokhara market, local production of ginger isn't enough to meet the demand. Therefore Pokhara market imports ginger to meet its demand. Price of ginger in Pokhara market remains relatively higher as compared to other market. Similarly Kalimati market also depends upon imports from different part of country to meet their demands. Most of the ginger demand of Kalimati market is supplied from Dhading and Makawanpur district. Price is relatively

high in Kalimati as compared to all the other markets. Price gets even higher in the month of May because of the lower arrival of ginger in Kalimati market.

In a commodity market, for the development of a product, the main work is benchmarking of the price of the commodity that is to be introduced. In case of ginger, the price can be collected from the above four regions of Nepal i.e. Birtamod, Palpa, Pokhara and Kalimati for a particular quantity and then the price collected from these regions can be summed to take an average for benchmarking. Once the price is collected from the four regions, that price can be used as benchmarked price.

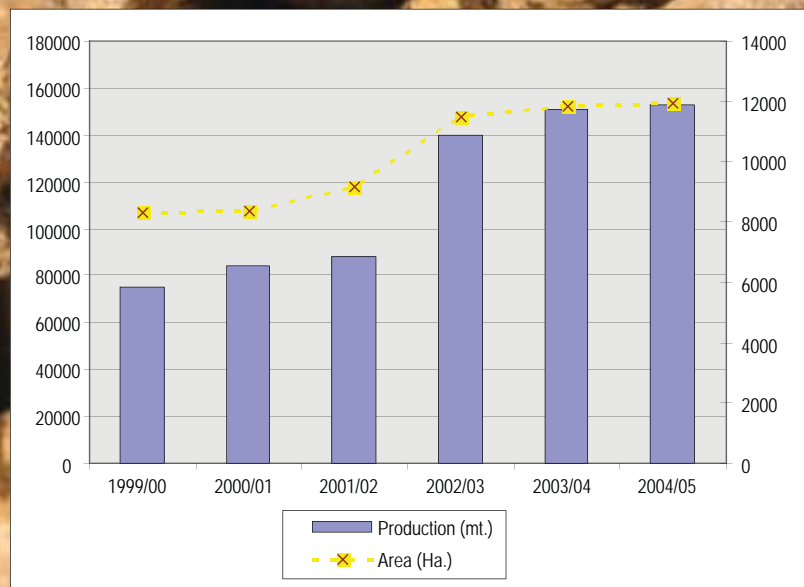
Though this commodity can yield exponential benefits, however, there are pressing constraints that needs to be addressed to contribute to the chronic poverty that persists in the region. Farmers and traders in East Nepal are prone to extremely lower margins due to presence of soft rot/rhizome rot disease (loss up to 30% in the field), lack of domestic facilities for industrial extraction and distillation, traditional drying and processing techniques (loss of oil content by 20%) and dominance of a single trade

outlet in Naxalbari, India. Despite proven potential for increased income through semi and fully processed ginger that has yielded good results in the west, 75% of ginger from Nepal is traded as fresh. In the Eastern region, processing of any form (even simple washing and packaging) is yet to be institutionalized. This has limited the bargaining power of farmers and traders of Nepal in comparison to their counterparts across the border. Under prevailing production and marketing conditions, the poverty reduction impact is high as most of the farmers producing ginger in the East are small farmers, for whom it is their main source of cash income, while the rest of the supply chain creates income for poor agricultural laborers.

In order to provide relief to the farmers from these problems, an exchange can establish a warehouse in a place where ginger can be stored from all the four places. In addition, the storage and processing mechanism used in abroad can be learned and the same can be taught to the farmers as well as to the warehouse manager. Such type of educational program can bring much more awareness among the producers; can deliver best quality ginger to the producers of such products that involve the use of ginger. The proper storage mechanisms will enable all the farmers to trade ginger thorough commodity exchange by depositing it in warehouse and they can gain fair profit through futures trading.

**R&D Team  
MEX Nepal**







# WEATHER DERIVATIVE

## A NEW INVESTMENT ALTERNATIVES

### Introduction:

Weather derivatives are financial instruments that can be used by organizations or individuals as part of a risk management strategy to reduce risk associated with adverse or unexpected weather conditions. The difference from other derivatives is that the underlying asset has no direct value to price the weather derivative. Weather derivative are generally measured at weather station over the contract period in some way. The underlying assets can be rain, temperature, snow, frost, snowfall etc.

This is one of the newest financial tools that arrive only in July 1997 when Aquila energy entered into weather derivative contract with consolidated Edison co. The transaction involved ConEd's purchase of electric power from Aquila for the month of august. In this contract, the price of power was agreed to the level of temperature for the month of August. If the August turned out to be cooler than expected than Aquila would pay ConEd a rebate.

This concept was later modified for developing the contracts for weather derivatives. As a result, weather derivatives slowly began trading over-the-counter in

1997 and as the market for these products grew, the Chicago Mercantile Exchange (CME) introduced the first exchange traded weather futures contracts, in 1999.

### User of Weather Derivatives:

There can be different set of users who can be benefitted from the weather derivative such as farmer, different organization, speculator etc. Some of the examples of usage of weather derivatives are:

- Farmer can be benefitted by using weather derivatives to hedge against poor harvest caught by sudden change in

temperature and amount of rain.

- Any sports event managing company can hedge the loss by entering into weather derivative contract because due to rain the day of the sporting event can have less ticket sold.

- A construction company which experience delays when its cold or raining because laborers cannot work outside can hedge using weather derivative.

- A hydroelectricity power generation company, which generates less electricity when rainfall is reduced, can hedge using weather derivative.

- A cloth retailing company, which

would sell fewer clothes in the season can choose weather derivative as per their requirement.

### Types of Weather Derivatives

Basically there are two types of weather derivatives popularly traded and are tied to an index of Heating Degree Days (HDD) and Cooling Degree Days (CDD).

- Heating Degree Days (HDD) is quantitative indices designed to reflect the demand for energy needed to heat home or business during the time of cooler days. These indices are derived from daily temperature observation and heating requirement for a given structure at a specific location. The calculation of HDD is done by taking the average of a day's high and low temperatures and subtract from base temperature (generally 65oF). For example, if the day's average temperature is 50o F and its base temperature is 65oF then its HDD is 15. If every day in a 30-day month had an average temperature of 50o F, the month's HDD value would be 450 (15 x 30). The nominal settlement value for this month's weather derivative contract would therefore be settled with associated monetary value or a multiplier. The formula for calculating heating degree days in CME is as follows:

$$\text{Daily HDD} = \text{Max} [65 - (T_{\text{max}} + T_{\text{min}})/2, 0]$$

- Cooling Degree Day (CDD) reflects the amount of energy used to cool a home or business during the time of hotter days. The numbers of degrees that a day's average temperature is above the base temperature are cooling degree days. For example if the day's average temperature is 80oF, its CDD is 15. If every day in 30-day month had an average temperature of 80oF, the months CDD value would be 450(15 x 30). The nominal settlement value for its month's





weather derivative would therefore be settled with associated monetary value. The formula for calculating cooling degree days (CDD) in CME is as follows:

$$\text{Daily CDD} = \text{Max} [0, (T_{\text{max}} + T_{\text{min}})/2 - 65^{\circ}]$$

### Some Key Areas of Weather Derivatives

1. The contract period: This refers to the start date and an end date. Generally for HDD contract the time between October and April are suitable for the contract whereas for CDD contract the time between April and October are suitable for the contract.

2. A measurement station: This is the place at which measurement is done and authorizes institution that measure weather and updated it regularly. Normally government agency is entitled to do this task. And in Nepal the weather data is updated by metrological forecasting division situated in airport Kathmandu. Also the back up station is to be used in case the main station fails needs to be determined.

3. An index: This is the aggregate weather variable over the contract period in some way. Generally, each day deviation from the base temperature would be cumulatively added as per the kind of contract (CDD or HDD).

4. A pay-off function: This converts the index into cash flow that settles the derivative shortly after the end of the contract period. The cumulative temperature would be associated with the monetary unit and final settlement is done.

### Research Work for Weather Derivatives in Nepal

For the purpose of introducing Weather derivatives or futures contract on weather for trading, a detailed research was conducted. The research incorporated the

daily data of maximum and minimum temperature from the year 2008-2010 of Kathmandu. Apart from that, the average data of last ten years was used in order to determine the mean temperature. Taking the example of the indices used in CME, an index was created for cooling and heating as per the requirement.

### Let's have a look at the difference between the CDD and HDD between USA and Nepal:

USA	Nepal
Daily CDD = $\text{Max} [0, (T_{\text{max}} + T_{\text{min}})/2 - 65^{\circ}]$	Daily CDD = $[0, (T_{\text{max}} + T_{\text{min}})/2 - 24^{\circ}]$
Daily HDD = $\text{Max} [65 - (T_{\text{max}} + T_{\text{min}})/2, 0]$	Daily HDD = $[0, 24^{\circ} - (T_{\text{max}} + T_{\text{min}})/2]$

- The base temperature for the indices used in USA is in Fahrenheit
- The base temperature for the indices used in USA is in Celsius

The base temperature for the indices used in USA is in 65° Fahrenheit was determined based on the requirement of cooling and heating the room. Based on the same concept, the base temperature in Nepal for both the indices was determined. At first the data collected for last ten years monthly average temperature was taken and then the frequency of a particular temperature was sum up to determine the base temperature. The So as result, it was concluded that for Heating Degree Day index, the base temperature should be 12° and for Cooling Degree Day index, the base temperature should be 24°.

Temperature	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25
Frequency of falling within this level of temperature	5	11	4	2	5	8	6	0	1	11	5	10	12	24	2

So as result, it was concluded that for Heating Degree Day index, the base temperature should be 12° as during the winter season the temperature will start falling and for Cooling Degree Day index, the base temperature should be 24° as during the summer season the temperature will start rising.

Again the daily data of last three years was used for in order to determine the daily fluctuation in the maximum and minimum temperature of Kathmandu.

Based on the frequency total, it was found that the index fluctuated by 0.35 frequently both upwards and downwards. By looking at the above table it can be seen that the frequency of the index in the upward is the maximum but alone frequency of maximum temperature will

These data can be used to construct derivative index. The index will be used to calculate the daily profit and loss based on the difference between the indexes of two days. Those differences will be multiplied with associated monetary value or a multiplier to calculate profit and loss. The profit or loss earned though out the month will be summed up to calculate Net Profit, which will be paid to the investor at the end of the month.

Change in temperature	Total Frequency of change in temperature upwards from the year 2008-2009	Total Frequency of change in temperature downwards from the year 2008-2009
0.05	2	2
0.15	2	1
0.65	2	0
0.85	2	4
0.95	2	2
1.25	2	3
1.35	2	2
1.45	2	0
1.65	2	0
2.25	2	0
0.45	3	5
1.55	3	0
0.55	4	1
1.05	4	3
0.10	5	0
0.75	6	6
0.35	8	6
0.25	9	5

Though there are many other factors to be researched for the construction of index but the main one are already shown above. With the help of the data used, it is clear that even in Nepal, weather derivatives can be introduced and to initially start with it only Kathmandu can be taken for the starting purpose. In order to give a brief idea about success of weather derivative apart from the commodities, MEX Nepal has come up with this. In future MEX will be coming up with more of such commodities to provide investment opportunities to the investors in diversified items.

### Challenges

Apart from many advantages of the Weather Derivatives, there are few challenges that are faced all over the world providing trade in weather derivatives, they are

1. Communicating and marketing the advantages of weather derivative.

2. Making Weather Derivatives easy to understand for the investor and traders.

3. The forecasting in any country is not reliable and metrological forecasting division is not well equipped for better forecasting.

4. It's not easy to get and analyze the data.

5. Lack of a legal and economic framework

6. Training of qualified specialists for working with these instruments

7. Attracting companies interested in hedging their profits

8. The change of location of weather station due to various reasons.

### Conclusion

Weather derivative is one of the newest developments in the field of derivative and hedging which is slowly gaining its popularity. Its use is not only limited to the speculator and traders but also give its appeal to different corporate, social and business organization. With proper marketing, communication and structural framework it can be successful to attract large portion of economic activity that are directly and indirectly related to the weather. Although there are some major and minor challenges that can be mitigated with systematic setup and planning, and also with the use of proper data and consultant one can easily come up with Weather Derivatives in Nepal

**R&D Team  
MEX Nepal**



# E-BANKING IN COMMODITY MARKET

As of today's context commodity market has become very burning issue for the investors. In a very short duration an investor can earn lot according to the market and their position which they take. This trade is only possible through online trading software using internet. Investor get the work station after opening an account on exchange called as TWS

(Trading Work Station) through which they can be able to take different position and settle it. They can be able to watch the current market situation, different news related to the commodity market as well regarding the factors influencing this market.

I-banking (internet banking) has become very popular and very useful

to the traders of commodity market. In Nepal, commodity traders can transfer fund online through their own account to segregate account in bank. Online account of the client is protected by the username and password. After the transaction in the accounts, Clearing Member (CM) transfers that fund to the clients Trading Work Station (TWS). After all the above transactions, clients can also withdraw the fund from TWS to their own account.

Below the figure depict the broad picture how i-banking transfer of fund to segregate then to TWS is shown.

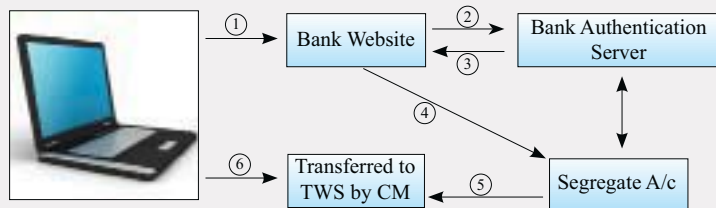


Figure 1(a): Fund Transferred to TWS

1. Trader (clients) opens the respective banks website and enters his/her username and password.
2. The username and password sent to the respected bank authentication server.
3. If rejected then client can't transfer the fund but if username and password is accepted then from his/her bank account, client can transfer the fund.
4. Traders now can transfer the fund to the segregate account of NCM (Non Clearing Member).
5. Now the fund in segregate account is then transfer to TWS of the respective traders By CM (Clearing Member).
6. Then the trader (clients) can trade on TWS.

Below the figure depict the broad picture how online withdrawal of fund takes place.

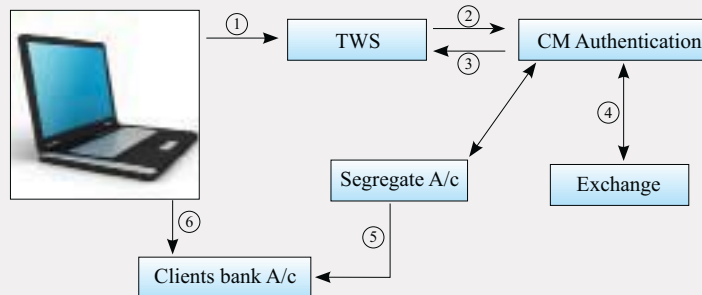


Figure 1(a): Fund Transferred to TWS

1. Trader (client) from his/her TWS place withdrawal request.
2. The request sent to the respective Clearing Member authentication.
3. If rejected then client can't withdraw the fund but if accepted then from his/her own TWS, client can withdrawal the fund.
4. CM provides the information to exchange regarding the withdrawal request put by client.
5. CM now transfers the fund from the segregate account of NCM to the respective client's bank a/c.
6. Then the trader (clients) can withdraw the fund from his/her bank account.



**BALRAM BUDHATHOKI**  
Client Service Officer  
Axis Broking Solution





# COMMODITY EXCHANGES

## An Emerging Career in Nepal

Most of us are well aware that commodity exchanges in Nepal have grown enormously over the last few years. Apart from being a major contributor to the Nepalese economy, this relatively new field has also created massive employment opportunities to the general people with finance students benefitting the most. The market grew exponentially only after Mercantile Exchange Nepal Ltd (MEX Nepal) came into the future. In a short span of time, commodity market is now not only limited to futures trading but has also spread its faction to spot trading and Nepal Spot Exchange Ltd (NSE), promoted by MEX Nepal, is the first spot exchange in the country.

This increasing number of commodity exchanges in the country shows two

things. Firstly, the local investors have welcomed this new area of investment with open arms. Consequently, more and more investors are participating in this market on a regular basis. Secondly, the setting up of a regulatory body and the soon to be introduced regulations by the government further shows that this market has a huge potential in the country. Likewise, participation of different sectors such as banks further drives home the point that commodity market is here to stay.

With the achievement of manifold interest in commodity market increasing day by day, the biggest beneficiary has been the students. Now the students no more have their choices of career development limited to the banking sectors only, but they

also have the option of choosing new field i.e Commodity Exchanges. This market gives a new platform to the professionals for developing their career. "Derivatives" as a subject is mandatorily covered in the

**"Right Man, in Right Place",  
the challenge is to get the right  
resources in the right place.**

course content in all academic institutions as one of the major subject for finance students. The students have been very receptive of the new course as commodity exchanges have provided the right platform

for graduates to start their career with an added benefit of an immediate practical exposure.

However, this huge influx of interest in commodities has made the work of Human Resource Department all the more challenging. As the saying goes "Right Man, in Right Place", the challenge is to get the right resources in the right place. On one hand we have the banking sector which has been well established in the country for over 25 years and on the other hand, we have commodity exchanges in its infancy phase. Over the years, the general public has had this predetermined mindset of picturizing themselves to be successful bankers. Converting this traditional outlook and making them realize the existence of a relatively new field and convincing them about the potentiality of the market is a challenge in itself.

While it is hard to find the right people in the job market to work in commodity exchanges, we at Mercantile Exchange Nepal Limited have been conducting various talk shows, seminars and career development programs in different academic institutions as an awareness program. We give training to the candidates about the general Know-How of this market prior to the placement. Continuous effort has been put to make our employees full-fledged by providing them relevant trainings related to Technical/Fundamental aspect of the trading system and other entailed mentoring from time to time. In order to make the system more systematic and effective, we have adapted to the widely accepted ISO standards. Our employees

are groomed to work as a team, adhering to all the Rules, Byelaws and procedures required with all the professional approach and etiquette.

In spite of the purview of an affluent future of this market, it faces another hurdle of security for both the investors as well as professionals in the field. This is primarily due to the non-existence of a regulatory body and governing laws as mentioned previously. However, by appointing SEBON (Securities Board of Nepal) as the regulatory body, the government has shown positive response towards this market. Once the laws come in place, it is anticipated that this market will gain more acceptance and as a result, there will be more and more professionals involved in this sector leaps and bounds.



**AMRITA KARKI KUNWAR**  
Human Resource Manager  
MEX Nepal



## **Axis Broking Solution Pvt. Ltd.**

The No.1 Clearing Member of MEXNepal

*Welcome to the Jungle of Multi Billion Commodities Market*

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502/503 , 4th floor, JDA Complex (Adjacent to China Town)

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AN ISO 9001:2008 CERTIFIED EXCHANGE

# Market Coverage

## KATHMANDU

Option Derivative Commodities Markets Pvt. Ltd  
Expedient Securities Pvt. Ltd  
Kasthamandap Commodity Broker and Investment Company Pvt. Ltd  
Speculators & Hedgers Investment Pvt. Ltd  
Universal Commodities Pvt. Ltd  
Futures Fortunes Pvt. Ltd  
Rateria Trading Concern Pvt. Ltd  
Synergy Derivatives Pvt. Ltd  
Oracle Investment Pvt. Ltd  
Edge Investment Pvt. Ltd.  
Friends e-Trading Pvt. Ltd.  
South Asia Commodities & Brokerage Pvt. Ltd.  
Trade And Assets Management Pvt. Ltd.  
Day Night Investment Pvt. Ltd.  
Morning Star Investment Service Pvt. Ltd  
Smart investment company Pvt. Ltd  
Money Plus & Securities Pvt. Ltd  
Standard Commodities Pvt. Ltd  
Simrik Investment Pvt. Ltd  
Initiative Trade Pvt. Ltd  
Synergy Investment Pvt. Ltd  
Standard & Poor Investment Pvt. Ltd  
Shree Om Investment & Organizer Pvt. Ltd  
Cosmos Investment & Service Pvt. Ltd  
People's Commodities & Metal Service Pvt. Ltd

Gorkha's Company Of Sirchour Pvt. Ltd  
ABC Commodities & Porfolio mgmt Pvt. Ltd  
Rajdhani Commodities Pvt. Ltd  
Fortune Commodities & Brokers Pvt. Ltd  
Safe Investment Pvt. Ltd Sonata Investment Pvt. Ltd  
Growth Investment & Service Pvt. Ltd  
Common Wealth Investment Pvt. Ltd  
Vista Investment Pvt. Ltd  
Wise Investment Pvt. Ltd  
Nepal Sunchandi Company Pvt. Ltd  
Gorkhas Company of Sirchour Pvt. Ltd.  
Growth Investment & Services Pvt. Ltd.

## LALITPUR

Quest Commodities and Investment Pvt. Ltd  
Sujit and Brothers  
Zeal Commodities Investment Pvt. Ltd  
Jambhala Investment Pvt. Ltd  
Mero Co-operative Ltd  
Explore International Pvt. Ltd

## SUNSARI

Shubham Sweety Commodities Pvt. Ltd.

## MORANG

Birat Commodity Market Pvt. Ltd.  
NYMEX Pvt. Ltd.

## BANKE

Vision Investment Pvt. Ltd

## JHAPA

Unicorn Investment Pvt. Ltd

## KAVRE

Friends E-Trading Pvt. Ltd.

## KASKI

Capital Market Solution Nepal Pvt. Ltd.  
Fewa Trade and Investment Pvt. Ltd  
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Vision Investment



Cosmos Investment &  
Services Pvt. Ltd



Third Eye Investment



People's Commodities &  
Metal Services Pvt. Ltd.



Gorkhas Company of  
Sirchour Pvt. Ltd.



ABC Commodities



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South Asia Commodities  
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Birat Commodity  
Market



DayNight  
INVESTMENT P. LTD.



Bhairab Investment  
Company Pvt. Ltd



### **Go Green with MEX**

Environmental degradation has become a burning issue with each passing day. Everyday we see, hear and feel the effects of environmental degradation ranging from flooding and landslides to heat waves and acid rain. Much of the global community has started to respond to these changes and we at MEX have started a new initiative to respond to these climatic changes.

At MEX Nepal we care about our impact on the environment, so in honor of Earth Day 2010, we're announcing some new and exciting green initiatives that we're undertaking as a company. As one of the nation's fastest growing exchange, we believe in the importance of letting our clients understand our commitment to eco-friendly policies.





MEX FAMILY



# YEAR BOOK

[www.mexnepal.com](http://www.mexnepal.com)

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