

Commodity Insights

Cocoa

Introduction

Cocoa is a highly demanded agricultural commodity, which is used to make chocolates and bakery products. It is grown especially in the warmest regions on earth within 20 degrees north and south of the equator. Most of the cocoa comes from African nations but origin of cocoa was depicted from the South American culture. Annually more than 3 million tons of cocoa is consumed around the world. The International Cocoa Organization (ICCO) provides the daily price for cocoa beans.

Some Fundamentals

- World largest producer of cocoa, Ivory Coast and Ghana are unstable countries. The political, social and labor issue regularly threatens to decrease and disrupt the supply of cocoa. Following news from these countries would help track the cocoa market
- Black pod disease is the main threat to cocoa. A major outbreak regarding this disease can move the price of cocoa to higher level.
- Cocoa is strongly co-related to the British pound than the Dollar index because Britain has dominated West African cocoa industry.
- Global cocoa and confectionery industries are the key players which drives the price of cocoa.

Explanation of Charts

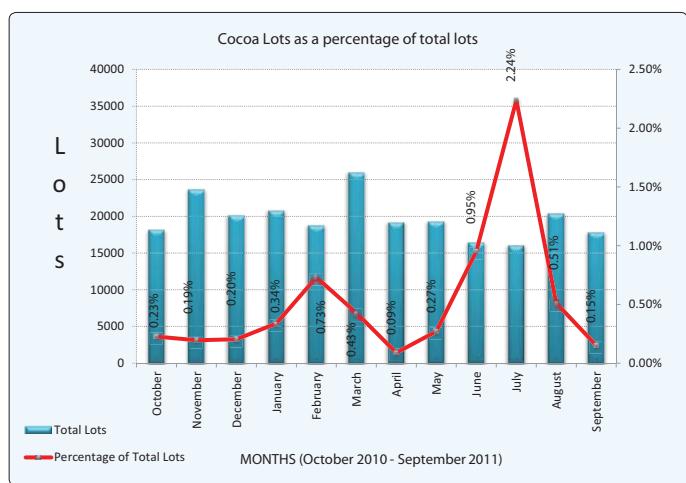
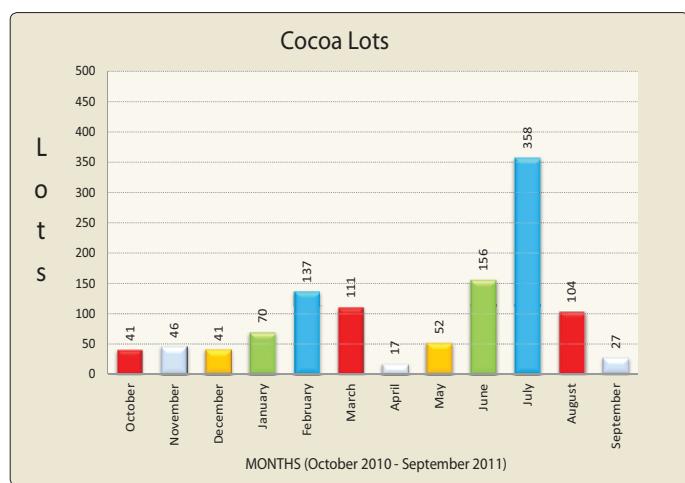
A strong dollar pressured cocoa prices to decline during the first week of October, which rebounded as production was expected to decline in largest producer Cote d'Ivoire due to increase in filings of black pod disease in the producing areas. Similarly, supply also plunged by 74,000 tons, which further increased the price. In November, the price of cocoa continued to incline on the concern over elections in Cote d'Ivoire, which indicated political disruption in the largest producer. It created a fear of shortage in supply of the commodity. Investors showed positive sentiment over the commodity, as a result of which total trade volume increased by almost 13% to 46 lots from previous months lots size of 41 lots. Cocoa futures rallied during the beginning of December, as attention was more focused on potential risks in Cote d'Ivoire arising from the uncertain political situation in the country. However, the market witnessed a downward correction, by the middle of the month. As a result, total number of trade dropped to 41 lots in MEX terminal. The northern rally of

price continued during the month of January despite short-lived southern rally during start of month. The cocoa futures markets showed

GLOBAL COCOA AND CONFECTIONERY INDUSTRIES ARE THE KEY PLAYERS WHICH DRIVES THE PRICE OF COCOA.

no signs of weakness during the month as news on the Ivorian political impasse continued to dominate cocoa prices despite sufficient supply from West Africa. As a result, investors started to speculate

over the rising prices, which increased trade volume by 41% to 70 lots. Cocoa price still continued to make its rally in February after a small downward correction. The cocoa made such correction due to strong arrival of cocoa bean from Cote d'Ivoire and Ghana. However, the political crisis in Cote d'Ivoire continued, which increased speculation on cocoa. Total of 137 lots of cocoa futures contract was traded during this month. The longest rally finally came to an end in March, as a result of bearish macroeconomic news and confirmation of larger than envisaged global cocoa surplus. Cocoa future price fell almost 15% during this month, despite deteriorated political conditions in Cote d'Ivoire. With the fall in prices, number of lots traded in MEX terminal also fell by 19%



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to 111 lots. The volatility in cocoa prices was experienced during the month of April under nervousness of market participants as political situation in Cote d'Ivoire together with global macroeconomic developments played a substantial role in cocoa futures. The anticipated rise in the cocoa production from West Africa plunged the prices marginally during the month. Similarly the declining trend in the number of lots traded was followed this month also with a sharp decline of 85% to 17 lots. This is the lowest volume figure for cocoa. The southern rally continued during May also with a small rise in trade volume to 52 lots. Investors took

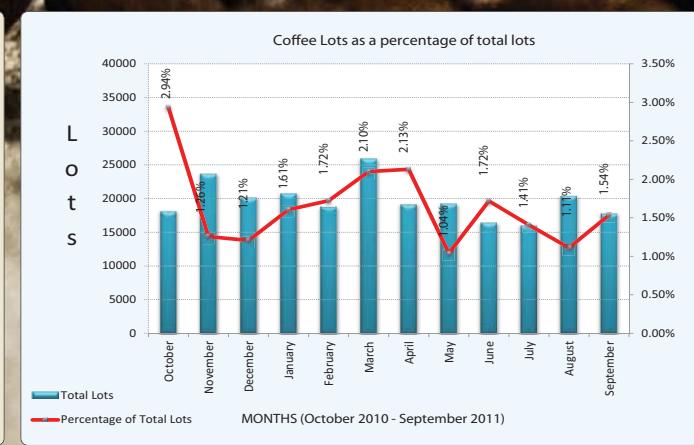
benefit out of the declining price through short selling. The month of June again saw rise in cocoa futures prices on the concern over staggering global economy and raising debt crisis in Euro zone. The positive sentiment was also seen in MEX terminal as trade volume increased significantly to 156 lots. Likewise, the month of July also remained positive as 358 lots were traded in MEX terminal. This is the highest traded volume for cocoa with a share of 2.24% in total market volume. The trade volume was increased due to mixed sentiments as prices remained volatile during the month and political uncertainty in Ivory Coast over

recent months had resulted in temporary closure. During the start of August, cocoa prices saw bearish rally with the easing of supply from the major producing countries. However, the trend got reversed amid bullish news of supply deficit for the next cocoa season and a weaker US dollar. Following the news, the trade volume was reduced during this month with 104 lots. The trend continued during the month of September with a total market volume of only 27 lots. During the month, global supplies were improved as production was expected to increase in Cote d'Ivoire.



Coffee

Brazil is the largest producer of coffee whereas USA is the major consumer of coffee which means any major fundamental changes in these countries affect the price of this soft commodity.



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Introduction

Coffee was first discovered in the 7th century which is now produced over 70 countries. Coffee is also regarded as one of the important commodity and popular beverage where over 2.25 billion cups of coffee are consumed in the world everyday. The major types of coffee are Arabica and Robusta. Arabica coffee is regarded as better quality as compared to Robusta whose taste tends to be bitter and has fewer flavors. Arabica coffee accounts for about 80% of all coffee produced in the world for obvious reason. Brazil leads the global coffee production followed by Honduras, Colombia and Peru. The global production of coffee is dominated by Brazil which produces almost one third of all worlds' coffee. Raw Coffee is mainly purchased by the multinational companies like Procter and Gamble, Kraft, Nestle and Sara Lee. Similarly, US, Germany and Italy are the major consumer of Coffee. Regarding the trading of coffee in futures market New York and London is regarded as a major hub for the trading. However, in terms of volume New York Board of Trade (NYBOT) stands at the top.

Fundamental Facts

- Weather is the prime factors that affect the price of coffee. Unfavorable weather conditions in major coffee producing regions affect production which ultimately affects the price.
- Coffee prices are largely determined by supply/demand fundamentals. Any major change in the cropping pattern as compared to demand would impact the prices.
- All the coffee in the world is grown in the bean belt. The bean belt is the region between the Tropic of Cancer and Capricorn.
- Brazil is the largest producer of Coffee whereas USA is the major consumer of coffee which means any major fundamental changes in these countries affect the price of this soft commodity.

Explanation of Charts

The volume of coffee in the month of October, 2010 was 532 lots which was second highest for the review period of 12 months i.e. from October 2010 to September 2011. This rise in the interest among the investors was mainly due to rising price of coffee which had reached 13 year high in the month of October. Moreover, the delay in the shipping of coffee from the world's largest producer i.e. Brazil also supported the price to remain on bullish trend and had generated interest among the local investors. However, the lots size from November, 2010 to February, 2011 had declined to 297 lots, 243 lots, 333 lots and 323 lots respectively. In the month of November there was ease in the supply of coffee as export rose from

Nicaragua and also due to the absence of any hurdles, the Brazilian export was smooth which led to price stability. As the market was stable investor's shied away from the market. Moreover, January and February saw profit taking activities in the market as the price was on the multi year high. As a result the investors managed to take more position in this commodity compared to last two months. Nevertheless, the trend reversed on the month of March and April where 545 lots and 407 lots were traded respectively. Here, Investors swamped into the market as the market continued to rally on anticipation of further rise in the price.

Moreover, exporter and producers in the international market held back the beans in anticipation the market would climb further which had created interest among the local investors. Moving onto the month of May, the volume for coffee had declined by more than half as price of coffee broke another level to reach 14 years high. The continuous trend reversal created confusion among the investors leading to fall in the volume. On the other hand, there was slight improvement in the lots size from the month of June to August where 282 lots, 225 lots and 226 lots were traded respectively. The summer was mainly dominated by the debt crisis concern from the both side of Atlantic i.e. US and Eurozone which had affected the commodities. However, the fear of cold temperature in the major coffee producing zones also impacted the market as the output could decline with unfavorable temperature. Likewise, US debt deal in the month of August and supply concern from the world's largest producer i.e. Brazil was also the major concern for investor taking the position. The availability of clear information on increase in price of coffee created interest among the Nepalese investors to take more positions compared to the month of May. There was slight improvement in the number of lots on the month of September as 273 lots were traded. The price had declined to reach a multi month low as traders were nervous about the global financial health particularly of US economy. This attracted the local investor to go short in order to gain from falling price.

Corn

Any major data regarding the production details from the major producing countries affect the price of corn

Introduction

Corn is an agricultural product that is grown throughout the Midwestern United States, as well as other areas. It is a plant whose food value and wide variety of uses make it the most important crop grown in the United States. The top three producers of corn are USA, China, and Europe. Futures and options on corn have been traded on the Chicago Board of Trade since 1877. Corn is also traded on other futures exchanges throughout the world. Monthly crop reports produced by the U.S. Department of Agriculture are closely watched by corn traders because they give information about expected supply, which directly affects prices..

Some Fundamentals

- Corn commodity prices can be affected by a wide range of factors, but the most important determinants of the price of corn are weather. Any fluctuation in weather in the corn producing areas affects the production of corn, which ultimately have impact on the price of corn.
- Corn is largely being used to produce ethanol, which also affects the price of corn. Ethanol is being used as an alternative fossil fuel and with the rise in the energy prices; the demand for ethanol

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also increases. So demand and supply of bio fuel also determines the price of corn.

- Any major data regarding the production details from the major producing countries affect the price of corn.
- Since, U.S. is the major producer and exporter of corn in the global market, any major event regarding corn in U.S. can affect the price of corn in international market. It's important to follow the major corn activities in U.S.
- The demand from Japan also affects the price of corn. Any restriction or changes in import policy of corn might affect the price of corn.

Explanation of Charts

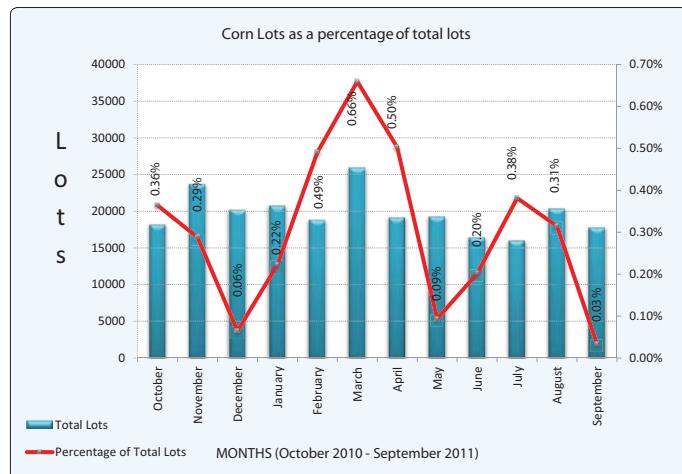
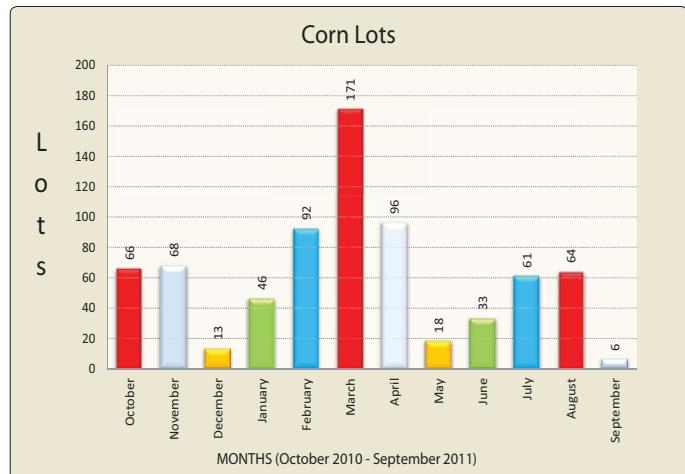
Since the start of the corn trading at MEX terminal, the lots taken for this commodity has shown wide variation. As per the MEX Year Book 2010, Corn volume at MEX in the month of September 2010 was 123 lots. But while looking at the lots of other two months after September the lots had decreased almost by 50%. But actually in these two months the price of corn had risen on a note of weaker dollar and fall in world supply especially in South Africa, the biggest corn producer. There was further rise in price in the following two months. The major factor was tight supply by US government and adverse weather condition hampering the production of corn. But despite such rise in price there was severe fall in the lots for the month of December to 13. But in the next two months the investors realized that it is safe to take long position in corn and as a result there was rise in lots to 46 and 92 in the month of January and February respectively. The month of March and April was no different than the previous two month. There was rise in the price of corn on a note of adverse weather conditions and increased exports by US giving 171 and 96 lots in the months of March and April



respectively. Though the lots of corn had decreased in the month of April, the above chart shows that it has contributed 0.50% of the total lots traded for all commodities in that month.

The price of corn did not change its direction in the following two months. The continuous rainfall had given full support to its price rise. But the investors at MEX terminal did not have full confidence on taking long position for a continued period of time. As a result the lots traded at MEX in the month of May and June resulted to only 18 and 33 respectively. The month of July also showed a rise in the price again on a note of adverse weather condition but in the

next month the price started to fall. Despite heavy rainfall in corn producing states, about 60% of the corn was in excellent condition. This news gave enough hints to the investors about the corn market and led to increase in corn lots to 61 and 64 lots in the month of July and August respectively. The month of September showed some mixed reaction. Initially there was rise in the price as there was drop in production due to dry summer weather conditions. But at the end of the month there was drop in the price as government report showed a larger U.S. inventories than forecasted. On a note of this news, only 6 lots were traded in the month.



Cotton

Introduction

Cotton is a natural fiber that grows in a boll or protective capsule. It has been valued for thousands of years as it can be woven and spun into fabric. Cotton is the world's most important non-food agricultural commodity. It produces fluffy fibers for clothes and other beautiful fabrics. At present cotton is blended with other materials to create mixed fabrics like terry cotton. Since cotton is grown in the tropical and sub-tropical regions, it is produced in the countries in that region. The largest producers of cotton are China, India, United States and Pakistan.

Some fundamentals

- Cotton is produced by small trees and shrubs.
- Cotton ranks 5th among the leading cash crops.
- Cotton accounts for about 40 percent of total world fiber production.
- There is more cotton grown globally than any other non-edible crop.
- One cotton bale can produce 215 jeans.
- The cotton plant requires about 180 – 200 days from planting to full maturity and ready for harvest. Cotton covers 2.5% of the world's total cultivated land.

Explanation of Charts

The volume of cotton in the month of October was 1305 lots at MEX terminal as the price of cotton increased on expectation that the demand will enhance. This was mainly due to the flood damage to Pakistan's cotton crop for the 2010-2011 season. The officials estimated that the country may have to import 3.5 to 4 million bales of cotton due to floods that the region had to bear. In the month of November, the volume for cotton lots increased to 1727 which was due to the price increase in cotton during the period. The enhanced price was attributed to the worldwide shortage of cotton which

was unable to meet the rising demand for the same. This created interest among the local investors to gain from the bullish trend of this commodity. The volume for cotton in the month of December decreased as it fell to 1567 lots. The prices further increased during the period as the Indian government limited the yarn exports to 7,20,000 metric tonnes during the period. Cotton production in Pakistan also witnessed a decline which also lead to the rise in the prices. The cotton volume for the month of January further declined during the period as it attained 1404 lots. The prices increased further during the period due to the shortage of cotton production since the last two months witnessed agro-climatic changes which affected the production process. During the month of February, the cotton volume increased to 2125 lots amidst speculation that the prices will decrease due to boost in the production in major countries. The volume for cotton lots witnessed a surge during the month of March as it reached 2815 lots. The prices enhanced due to a USDA report which announced that the widening difference between the increasing demand and the shortage of supply would lead to the increase in the prices. These news once again increased the confidence among the local investors leading to increase in lots traded at MEX terminal for the month of March. The cotton lots for the month of April witnessed a significant drop during the month to reach a total lots figure of 423. The prices headed southwards during the period as a result of increasing export from the major producing countries. The decrease in price decreased the confidence

among the local investors leading to drastic fall in the lots at MEX terminal. The volume for cotton further declined during the month of May to reach 159 lots. Cotton prices further declined during the period due to popular opinion that cotton was positioning itself for higher exports. The Cotton volume witnessed a brief increase during the period of June to reach 180 lots. The prices further plunged as the government of India gave

its approval for further export of 10 lakhs cotton bales to meet the rising demand.

The month of July saw cotton volume decrease to 165 lots. The prices increased during the period as Government of India reported that it would not allow more exports of cotton as the current seasons stocks were reported to be much lower than earlier reported. In the next 4 months (April to July), the fall in price collapsed the confidence among the local investors

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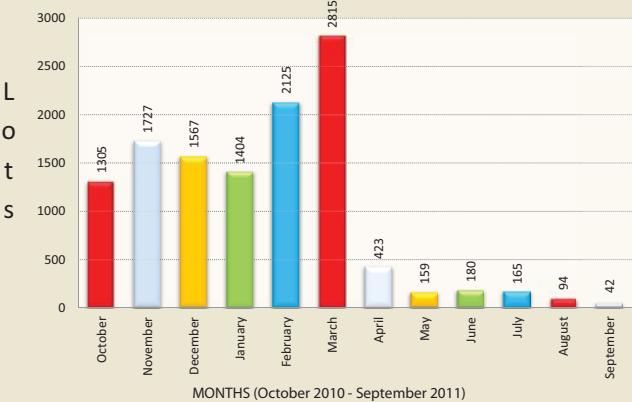
The cotton plant requires about 180 – 200 days from planting to full maturity and ready for harvest. Cotton covers 2.5% of the world's total cultivated land.

due to which the lots had shown a decreasing trend. The volume for cotton decreased during the month of August to reach 94 lots. The prices of cotton headed northwards during the period as supply was threatened due to Hurricane Irene hitting the east coast of USA which disrupted the cotton supply from the region. Cotton volume during the month of September decreased further to 42. Prices plunged during the period due to traders forecast that the world's total cotton output will exceed the anticipated figure. The volatility in the price was the major reason of this decrease as investors could not track the correct market movement.

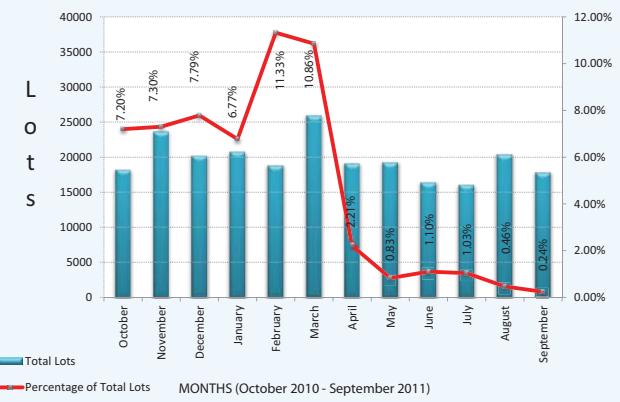
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Cotton Lots



Cotton Lots as a percentage of total lots



Soybean

Around 2838 BC, it was recorded that the soybean was valued in China for its medicinal properties.

Introduction

Soybeans are legumes, native to East Asia, that are grown for oil and protein around the world. They are cultivated primarily in warm and hot climates. They were originally used as nitrogen fixers in early systems of crop rotation-ancient farmers would plant a field of soybeans on an exhausted or depleted field and then plow the crop under to replenish the soil.

The US has been the largest producer of Soybeans, followed by Brazil. However, soybean production has been falling in the US recently, a trend which may continue in spite of the increasing demand for arable lands as pressure on food crops increases. Futures on soybeans have been traded on the Chicago Board of Trade (CBOT) since 1936. The soybeans can be broken down into soy oil and soy meal.

Some Fundamentals

- The soybean, also known as the soy bean, is a legume native to East Asia.
- An ancient Chinese legend says that the wild soybean's nutritious properties were first discovered by a band of traveling merchants about 5,000 years ago.
- Around 2838 BC, it was recorded that the soybean was valued in China for its medicinal properties.
- Soybeans were first cultivated in northern China and from there it spread into Japan, Korea and the rest of SE Asia and were first brought to America in the early 19th century.
- Some of the better known soybean products include soy meal, soy flour, soy milk, tofu, meat substitutes, tempeh, soy sauce, soy cheese, soy cream cheese,

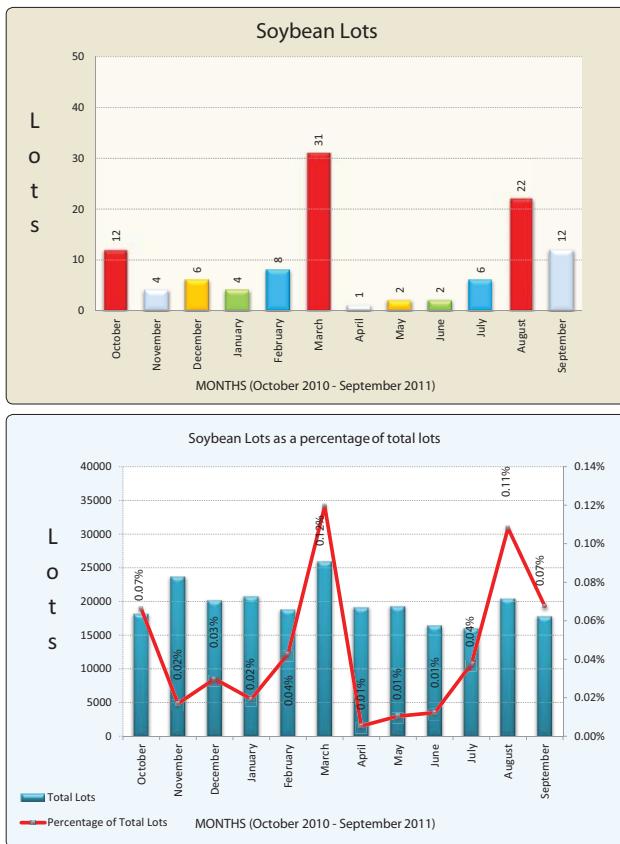
infant formula, bio-diesel fuel, animal feed, etc.

- World soybean production has increased by over 500 percent in the last 40 years, and will continue to grow on strong demand for animal feed (especially in China).

Explanation of Charts

Soybean is another commodity that is among the less traded in the MEX terminal. The chart itself explains the volume of this commodity. The volume of soybean traded in the MEX terminal has followed an erratic pattern as prices have been affected mainly by the demand and supply of the concerned commodity. The month of October saw Soybean market trend on bullish grounds as prices jumped as reports showed rising

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demand from importers including China for supplies from the USA, the world's largest grower and exporter and a reduced supply estimates from the US Department of Agriculture. Soybeans futures settled at their highest in more than two years in the month of November after the USDA slashed its expectations for the crop. The department cut its soybean production expectations to 3.375 billion bushels, down from 3.408 billion bushels forecast in the previous month. The lack of rain in the center-west of Brazil delayed the planting in a region that grows 47% of the country's total production. Soybeans prices rose as demand increased in China, the world's largest consumer. Moreover, China's soybean imports rebounded to 5.48 million metric tons in November, the first gain in five months. Soybean rally extended throughout the month as adverse weather threatened crops in Argentina and Brazil, the world's biggest exporters behind the US, thereby disrupting the supply. The persistent drought in South America, particularly in Argentina, had impacted soybean prices on the world market in a big way, sending prices skyrocketing. The drought was attributed to the La Niña anomaly which developed in the South America region. The prices of soybeans also jumped after the US government cut forecasts for US inventories,

signaling tighter food supply as demand increased. Soybean prices fell in the month of February on fears-the higher Crude Oil prices might depress World Economies and reduce demand for Soybean exports. Adding to the negative sentiments was an estimate that Brazil's soybean harvest will total 72 million tons as against the forecasted figure of 70.3 million tons. Soybean futures at the MEX trading platform attained the highest lots during the analysis period to reach 31 lots and settled higher during the month of March with rekindled speculative interests' buoyed prices. Soybean's price rise was also attributed due to the speculation that wet, cold weather will delay planting and thereby reduced yield prospects in the US, while rain threatened oilseeds ready for harvest in Brazil. Soybean traders and investors sold futures during the month of April anticipating more import of oil as harvesting of Soybean was progressing well in South America. Continuation of devastation in Japan because of unending earthquakes had also dampened the demand for soy products which weakened the demand for soybean. The prices of Soybean continued to fall in May as investors sold commodities on speculation of higher prices and weaker economic growth curbing demand for raw materials, including those who used to make food. According to USDA, export inspection

of the oilseed rose 43 percent to 7.77 million bushels which lowered the prices. During the month of June, soybean prices plunged further on speculation that drier, warmer weather allowed US farmers to accelerate planting delayed by an unusually wet spring. In other words, buyers were not ready to pay higher prices due to weak overseas market. The USDA also confirmed that reserves before the next harvest will rise as export demand ebbs. The soybean prices headed northwards during the month of July on climbing demand for tightening US supplies. Soybean futures rose amidst speculation that unusually hot weather will curb crop yields in the US, the world's biggest producer and exporter. Soybean prices surged higher in August after the US government said farmers will harvest smaller crops higher than forecasted last month following a damaging heat wave. The rout that drove the soybean prices southwards proved irresistible to speculators anticipating that even slowing growth will cause shortage of soybean. The prices of Soybean plunged dramatically during the month of September due to news that the Argentina strike was over coupled with the poor domestic demand from the major consuming countries.

Soybean Oil

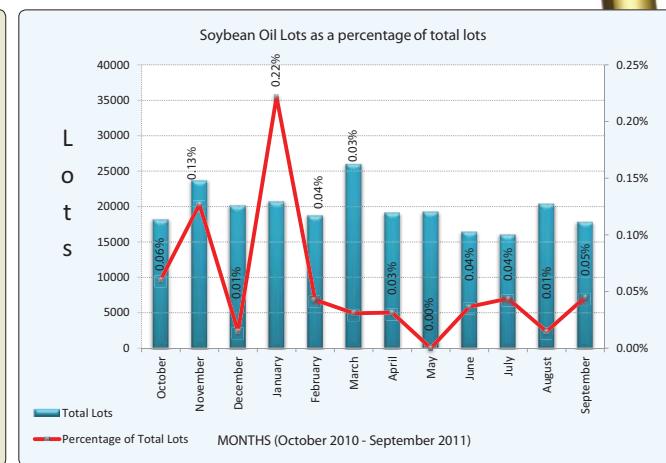
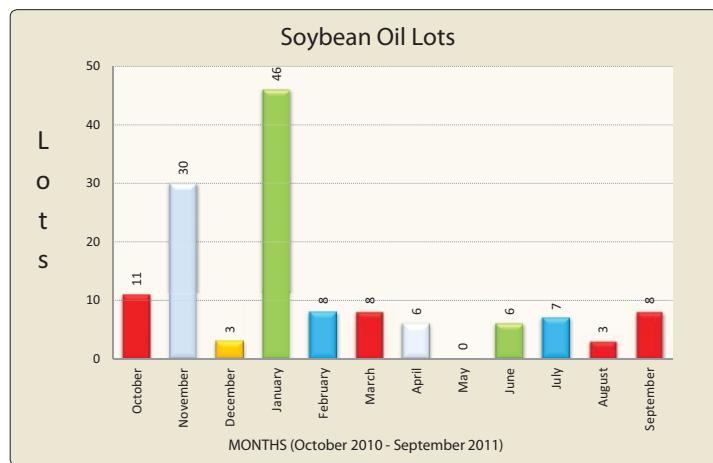


Introduction

Soybean Oil is widely used oil and is commonly called 'vegetable oil'. Soybean Oil is a very healthy food ingredient despite the bad publicity regarding fats and oils in general. Soybean oil is very popular because it is cheap, healthy and has a high smoke point. Soybean oil does not contain much saturated fat. Like all other oils from vegetable origin, soybean oil contains no cholesterol. Saturated fat and cholesterol cause heart diseases and mainly found in products from animal origin such as milk, cheese and meat products.

Some Fundamentals

- Soybeans, in comparison to other beans, grains and cereals, contain a huge amount of fat.
- Soybean oil has normally a shelf life of 1 year but its better to store soybean oil for only a few months at room temperature.
- According to University of Stellenbosch Business School (USB)'s 2011 Consumer Attitudes about Nutrition Survey, soybean oil was among the top three oils ranked 'very healthy' by consumers.
- Argentina and Brazil are the leading players in the international soybean oil market.
- In past 10 years, the increased global bio-diesel production capacity has increased the consumption of soybean oil in Europe.



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- China is the world's largest and Indian is the second largest importer of Soybean Oil.

Explanation of Charts

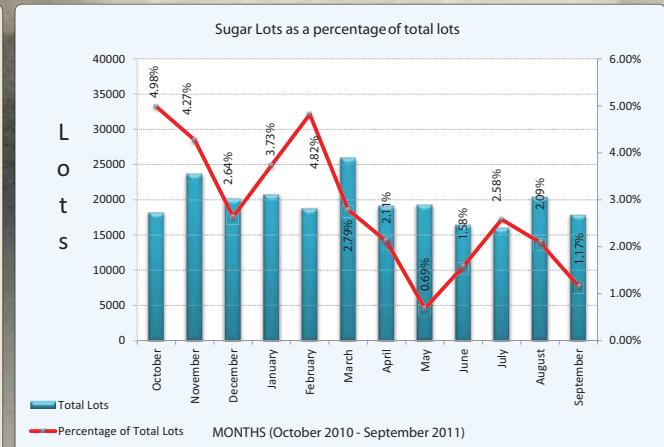
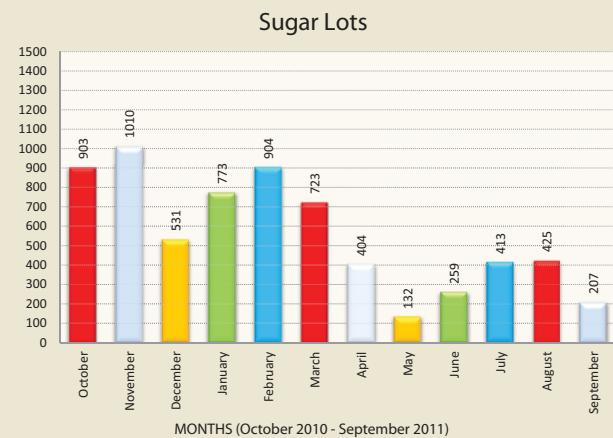
Soybean Oil is among the less traded commodities in the MEX terminal. The chart itself explains the volume of this commodity. The volume of soybean oil traded in the MEX terminal has followed an erratic pattern as prices have been affected mainly by the demand and supply of the concerned commodity. The prices of soybean oil in the initial phases enhanced due to the increased overseas demand for supplies from the US, the biggest producer and exporter. The USDA had also cut its forecasts for the year's yields sparking hikes in the futures market for soybean oil. The month of November saw trading in soybean increased to 30 lots as investors sought to take advantage from the rising prices as growth in worldwide supply failed to keep pace with the rise in demand, with weather patterns hurting the crops. The imports by India, the biggest consumer after China, climbed 7 per cent to a record as zero taxes, growing population and incomes fuelled demand for processed foods gave impetus to the prices. Soybean Oil also rose after palm oil climbed to a 28-month high on increased demand from China, the world's largest consumer. In hindsight, soybean oil is used as a substitute for palm oil. The prices of soybean oil continued to rise further in the month of December, although the lots traded shrunk significantly to reach only 3 lots, due to the strengthening of the demand from the largest consumers of the commodity. The New Year saw soybean oil trade its highest in the analysis period to reach a total of 46 lots on speculation that rains have boosted crops in South America which attributed to the fall in the soybean oil prices. The MENA crisis brewing in the region spooked the markets and pushed crude oil sharply higher in February. Traders reduced fears that higher crude oil prices might depress World

Economies and reduce demand for grain exports especially soybean oil. The prices climbed the most in March as soybean oil advanced on speculation that the turmoil that had cut Libya's crude production disrupting more Middle East supplies. The La Nina weather event, which brought heavier-than-usual rainfall to parts of Southeast Asia, continued to provide impetus to the prices of soybean oil. Soybean Oil prices decreased during the month of April on increased South African production boosted demand from North African countries. Soybean oil futures closed higher in May due to planting delays which threatened to reduce US crop

yields. The month of June saw Soybean Oil futures trade lower as warm and drier weather in most of the US allowed farmers to accelerate delayed soybean plantings and gave boost to crops stunted by cold and wet conditions earlier in May. Soybean oil futures continued trading on the lower side in the month of July after inventories rose in China. The prices of soybean oil shot up in August due to the disruption in the supply of the given commodity. The prices of Soybean oil reduced during the month of September as news surfaced of good weather in Argentina and decreased demand worldwide which reduced the demand for Soybean oil.



Sugar



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Introduction

Sugar is a popular agricultural product that is derived from sugar cane. Sugar belongs to a class of edible crystalline carbohydrates and is mainly produced from 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. Futures and options on sugar are traded on the Coffee, Cocoa, and Sugar Exchange (CSCE), which became a subsidiary of the New York Board of Trade in 1998. To meet delivery terms of the contract, U.S. cane sugars and other foreign-produced sugars can be transmitted. 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 months of the year 2010. This volatility in price was the reason that this commodity was introduced for trading.

Some Fundamentals

- The world supply and demand, production and consumption are the major factors that influence the world sugar prices.
- Increasing population and growing income have a major impact on the consumption and price trends.
- Increase in international crude oil prices has resulted in an increase in the demand for ethanol as an alternate source of energy.
- Any news coming out of the largest producing and consuming countries have an effect on the price of the sugar.

Explanation of Charts

Since the start of the sugar trading at MEX terminal, the lots taken for this commodity has been fluctuating every month. As per the MEX Year Book 2010, sugar volume at MEX recorded the highest volume in the month of September 2010 i.e. 1112 lots. But the very next month there was fall in the total lots traded for the month of October i.e. 903. The major reason for decrease was the ups and downs in the price of this commodity due to the concerns over the increased rain reducing the drought situation as well as the decision from India to start exporting sugar. The very next month there was an increase in lots of this commodity in MEX terminal from 903 lots to 1010 lots. The continuous rainfall in India and Australia and reduced

production in Brazil has contributed to an increase in the price of sugar. Due to this the investors had finally seen some profit making from last month to this month and this was the reason for increase in the lots for this month. The next month witnessed a rise in the price of sugar as there was uncertainty about the export of sugar from India. India was uncertain about the amount of sugar to be exported in the year 2011-2012 as it was too early to decide.

**Sugar belongs
to a class of
edible crystalline
carbohydrates and
is mainly produced
from sucrose or
sugar beet.**

increase in demand in comparison to low supply as there was decrease in production of sugar in Brazil. Though there was some decline in the price of sugar but it eventually rose again as a result of fall in production in Brazil. The other major reason which showed a continuous rise in the price of sugar was an increase in demand from Russia, the major importer of Sugar. For the month of Feb again there were ups and down in the price of sugar. The major reason for increase in price was decrease in production of sugar in Australia and for decrease was the increase in production by Brazil. Therefore the game of demand and supply played a major role for increase in the price of sugar both in the month of Jan-Feb increasing the lots to 904 in the month of Feb.

The next three month witnessed a continuous fall in the lots of sugar at MEX terminal. The major reason was fall in the price after a continuous rise since last three months as Brazil increased its production on a note of improved weather conditions. In the next two months, the price of sugar again started rising as the there was improvement in supply against demand and as a result there was increase in the lots at MEX terminal to 259 and 413 in the months of June and July respectively. But the next month again there was fall in the price as Brazil lower production was substituted by production in Australia but the lots at MEX terminal in the month of August was only 425, not much change from previous month. But in the month of September, there was fall in the lots of sugar. The slowing European as well as US economy led to fall in the demand for this commodity which led to fall in the price. Though there was continues downtrend, the investors were not able to take much position in this month.



Commodity Insights

Wheat

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Transportation cost also affects the price of wheat
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Introduction

Wheat is the most important cereal crops grown. It is cultivated in many regions of the world as it is one of the highly consumed food staple. Wheat covers more of the earth's surface than any other cereal crop for cultivation. Although it takes more land space than other cereals, it is only the third-largest cereal crop, behind maize and rice. Due to its importance, the investment in it has become a compulsion. In order to safeguard themselves from the risk of adverse price movement, the producers and the merchandisers involve in hedging activities.

Some Fundamentals

- Unfavorable weather conditions like heavy rainfall, drought, hot dry weather conditions etc effect the production and the price of wheat.
- The review of key supply and demand

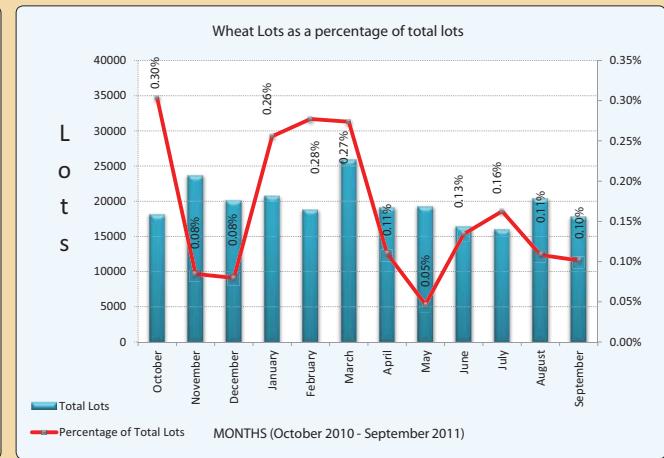
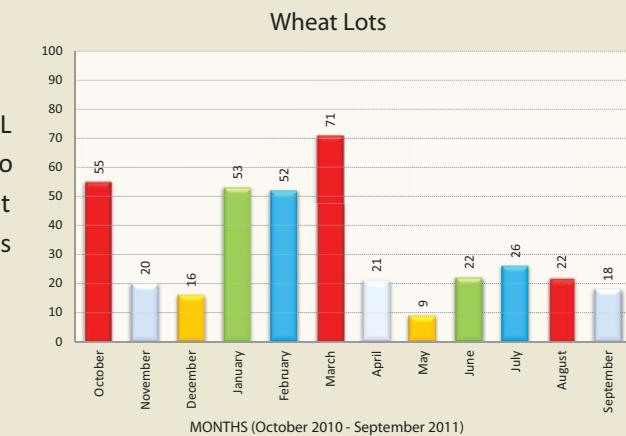
factors affecting wheat market is necessary for analyzing the wheat market.

- The level of worlds ending inventory to be exported and imported.
- Impact of U.S. dollar depreciation on wheat prices.
- Current events impacting the wheat prices.
- Transportation cost also affects the price of wheat.

Explanation of Charts

Wheat comprised of 0.30% share of total lots traded during October, which remained the highest percentage share during the analysis period. Wheat was traded for total of 55 lots during this month in MEX trading platform. According to the report published by USDA, global wheat production in 2010/2011 is projected to reach 641.4 million tons, down 1.6 million

tons during this month, where as global wheat consumption is projected to increase by 2.1 million. This had an ultimate effect on the prices of wheat as prices rallied north due to expected shortage in wheat supply. Wheat saw massive decline during the month of November and December. The total number of lots traded in MEX terminal declined to 20 lots and 16 lots respectively. Production from Argentina, Pakistan, Canada and Australia increased which added more stocks in the global wheat supplies. However, the consumption figures were still higher than that of production. With slight rise in supplies, prices remained calm during these months. Similarly USDA, also came up with a better than expected wheat production report, which showed increase in production by 10 million bushels in United States. Despite huge plunge in the traded lots, sentiments of optimism were seen



Commodity Insights

in the wheat market during the month of January and February. During these months, total of 53 lots and 52 lots were traded respectively, which was a significant rise in comparison to previous 2 months. The price rose on the speculation over declining production from U.S., the largest grower. Similarly, downward revision was made for the production from Australia and other major producing countries which increased the price of wheat marginally. The month of March remained positive for wheat market as the number of lots traded in MEX terminal reached to its highest level to 71 lots. During this month wheat shared 0.27% of the total market volume. It seemed investors

were speculating on the rising prices. However, USDA anticipated rise in the wheat supply especially from Australia for coming months. Australia contributed the most in the supply of the commodity, followed by Argentina and Saudi Arabia. After a significant rise in the month of March, wheat market saw a free fall in the trade volume and remained almost at the same level for rest of the period. USDA reported that the wheat planted area for 2011 was forecasted at 58.0 acres up 8 percent from that of 2010. The rise in the plantation area indicated more production, which declined the wheat futures prices. As a result of sentiments of pessimism, traders of MEX decided to remain silent, and only 21 lots were traded during April. Following the sentiments which were developed during previous month, number of lots declined during the month of April also. The total number of lots traded in MEX terminal during May reached to 9 lots only. This was the lowest traded volume for the commodity. The investment was recovered slightly in the month of May, as number of lots traded was increased to 22 lots, which covered 0.13% of the total market volume. The U.S. wheat supplies were lowered by the USDA as result of flooding and persistent wet soil in North Dakota and Montana. Similarly, world wheat production was also projected down by 5.2 million tons due to adverse weather conditions in Canada and U.S. After

June, wheat market did not see any progress and remained at the same level for July and August with 26 lots and 22 lots. In the month of September, the USDA reported that wheat stockpiles are expected to increase in coming months. Similarly increase in the production worldwide led to decline in the prices of wheat. Due to declining prices, wheat futures remained unattractive in the MEX terminal and as a result only 18 lots were traded at MEX terminal.

Commodity Insights



Copper

Introduction

Copper is one of the important industrial metals, which has a remarkable combination of properties. It is a good electrical and thermal conductor, thus is used in many electronic and related devices. Copper is also used to create alloys in combination with other metals like zinc, bronze, aluminium etc. During the 19th century the foundation of the Electrical Age was set up and thereafter the demand for copper increased tremendously. Chile has been the top mine producer of copper followed by the USA, Indonesia, Peru and China.

Some Fundamentals

- Major copper consuming countries include China, USA and Europe. Any major news regarding copper demand from these countries affects the price of copper.
- Copper is commercial metal which is used by housing, automotive and electrical industries. So its demand is affected by the general state of major copper consuming economy. For example: in the time of recession the demand for copper went down which generally pressured the price of copper to low levels. Similarly in times

of economic growth, demand generally gets high and so does the price of copper.

- Also some other key factor regarding the price movement of copper is related to the supply side. Any major data regarding production from major copper producing mines in countries like Chile, USA, Peru, Indonesia and China.
- In North and South America, production is often affected by labor unrest while in parts of Asia and Africa; it is affected by political unrest.
- Weather conditions also contribute to price change with floods and droughts affecting production and transport of copper.

Explanation of Charts

According to the MEX Yearbook 2010, market volume of copper started to decline from the month of July, which continued in October 2011. The total number of lots traded during October was declined by almost 50% to 748 lots. However, the price of copper continued to remain higher as large established mines were consistently failing to hit production targets. Similarly, China and other emerging economies have a long term insatiable appetite for copper, which drove the prices higher. After a

heavy fall in trade volume, market showed sentiments of optimism and trade volume started to increase gradually. Investors started to speculate on the rising price of copper due to declining supply and increasing demand from world second largest economy, China. The trade volume increased for the 3 consecutive months till December. During November number of lots traded was increased by almost 34 percent, while the price of copper also increased and hit all time high on 11th November on the concern over Euro zone debt crisis and strict Chinese monetary policy. It seemed that investors were coming back to the ground to play the game again, as a result of which total traded lots reached 1001 lots at the end of the month. The increasing trend in traded volume continued in MEX terminal till January with a total lot of 1527 lots in December and 2210 lots in January. During January, copper experienced highest trade volume for the entire year despite mixed sentiment in the international copper prices. Copper prices saw sideways trend because of disappointing Chinese copper consumption and uncertainty from the supply side. The total number of lots traded in January was 31 percent more than that of

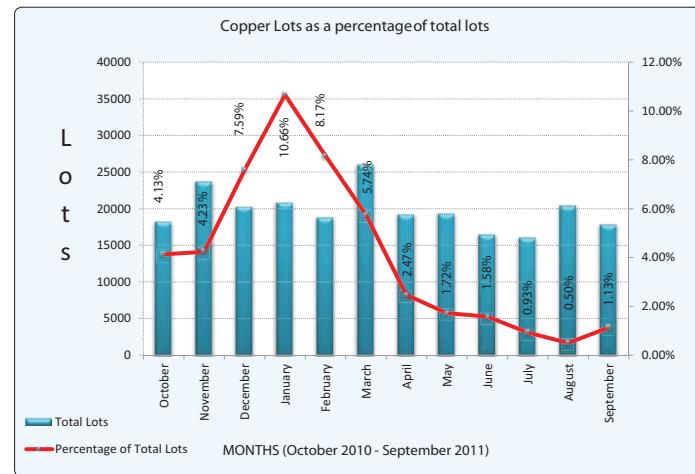
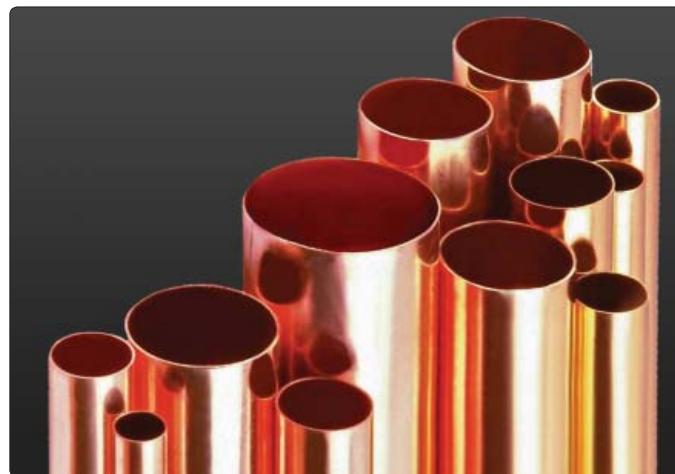
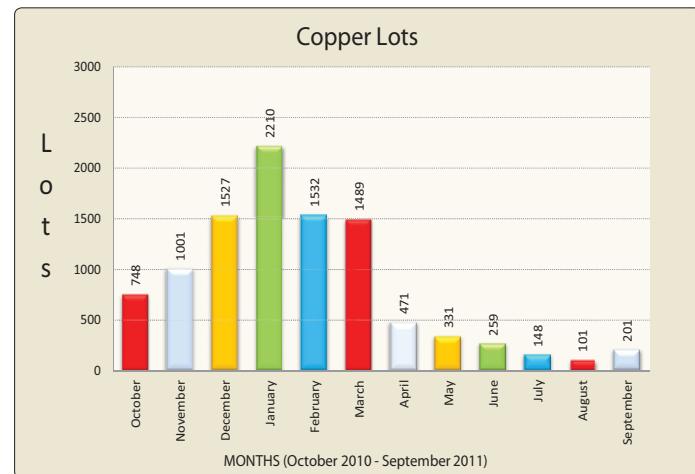
Commodity Insights

lots traded in December. The sentiments of pessimism was seen in the copper market as trade volume started to decline heavily each month after February. During February, the market volume decline by 30 percent to 1532 lots. Copper price continued its northern rally as signs of recovery was seen in the largest economy, U.S. and demand from China was expected to increase despite the monetary restrictions. Despite positive signs from the international market, trade in copper declined during the month. The southern rally in trade volume continued in March also. The fallout continued in the month of April at MEX terminal. Portugal, which was under the pressure of default accepted the bailout package offered by the European Union Central Bank, which led to rise in copper price but was smoothed on an account of devastating earthquake in Japan. Similarly, decline in the demand from the largest consuming nation again led to decline in the price of copper. Due to this mixed effect, speculators were seen reluctant to trade on copper, as a result of which number of traded lots declined by almost 69 percent to 471 lots in MEX platform. In the month of May, copper market saw mixed sentiment as U.S. economy showed average

performance due to which copper market lacked attractiveness and number of trade declined to 331 lots. The sentiments of pessimism still prevailed during the month of June. The falling demand from China and decision of FOMC to keep the interest rate unchanged, led the price of copper to decline, which couldn't build much confidence in the market. As a result, lots at MEX terminal declined to 259. The negative sentiments, which were created in previous months, prevailed during July and August, which was seen in the trade volume. The total number of lots traded in MEX terminal for the month of July and August decline to 148 lots and 101 lots respectively. In the month of September, the short selling dominated the copper market as prices rallied to southern hemisphere on the concern that growth rate in China is expected



to remain sluggish. Similarly, slower global economic growth pushed the prices further down to its lowest level. As a result, the lots traded at MEX terminal increased by 99% to 201 lots.



Mini Copper



Introduction

Copper is a reddish brown nonferrous mineral which has been used for thousands of years by human beings for various purposes. It has number of applications ranging from coins to pigments, and it is basically in demand in industrialized nations. This metal is closely related with silver and gold, with many properties being shared among these metals. This metal is highly conductive of both electricity and heat, and many of copper's uses take advantage of this quality. Copper can be found in numerous electronics and in wiring. It is also used to make cooking pots. Copper is also relatively corrosion resistant, since it forms a patina which resists oxidation. For this reason, copper is often mixed with other metals to form alloys such as bronze and brass.

Some Fundamentals

- Major copper consuming countries include China, USA and Europe. Any major news regarding copper demand from these countries affects the price of copper.
- Copper is a commercial metal which is used by housing, automotive and electrical industries. So its demand is affected by the general state of major copper consuming economy. For example: in the time of recession the demand for copper went down which generally pressured the price of copper to low levels. Similarly at the time of economic growth, demand generally gets high and so does the price of copper.
- Also some other key factors regarding the price movement of copper is related to the supply side. Labor disputes and strikes in the major mines affect the supply and price of copper.

Explanation of Charts

Since the start of the Mini Copper's trading at MEX terminal, the lots taken for this commodity has shown much variation. As per the MEX Year Book 2010, Mini Copper's volume at MEX in the month of September 2010 was 776 lots. The month of October saw a marginal decrease but the next 2 months saw an increase of 52.77% and 66.48% in the total lots traded in comparison to October.

The month of October was occupied by the news of slow recovery of US economy and weakness in dollar. As a result, trading of mini copper increased to 772 and 1103 in the months of October and November respectively. December saw further increase in mini copper lots on news that the American central bank may boost purchases of U.S. securities which translated to

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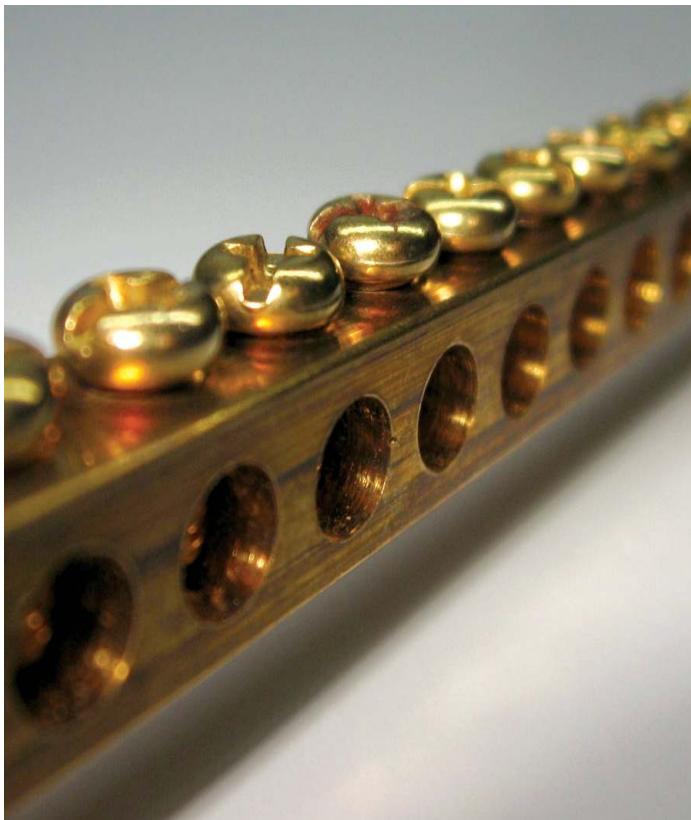
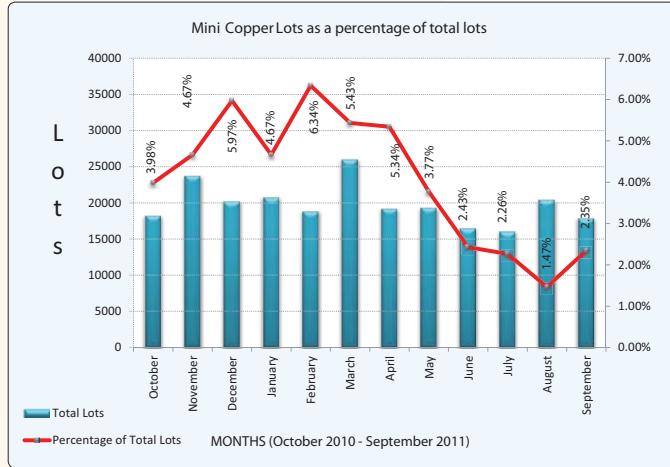
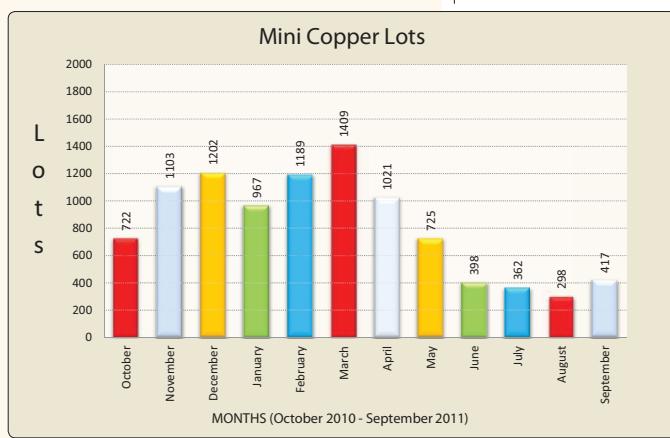


Major copper consuming countries include China, USA and Europe.

increase in demand for industrial metals. The investors were able to capitalize on this news and were able to take second highest lots of 1202 in the year 2010.

The start of the year saw copper prices decline on note of falling demand for copper from China and the US, the world's top two consumers. This also affected mini copper volume in the MEX terminal with 967 lots being traded in January. But with copper at low prices, interest soon picked up and 1189 lots were traded in February, an increase of 23%. This increase in interest in mini copper remained in March and 1409 lots were traded in that month. The tightening of monetary policy in China and the Libyan crisis gave way to falling prices which saw investment demand for mini copper increase. But with prices continuing to fall, interest in copper soon waned and only 1021 lots were traded in April. The earthquake in Japan as well as fall in demand from the US contributed to this decline in prices. This falling trend continued well into May and saw only 725 lots being traded, a mere 3.77% of the total lots traded at the MEX terminal. It might be worth noting here that copper prices reflect the true state of any economy or for that matter, the world economy. Hence, the falling copper prices in this case reflected a weak global economy and for that matter,

weak investor confidence in this metal. This attributed to the decline in mini copper volume in the MEX terminal. June proved no exception for mini copper, with a decrease of 45% in total lots in comparison to the previous month. Continuing weak demand from China and the FOMC's (Federal Open Market Committee, US) decision to let the interest rate remain low showed that all was not well in terms of recovery and this directly pressured copper prices leading to the downfall in total lots. July yet again saw further decline in total lots being traded to 362 lots. While the rate of decline was albeit marginal, this indeed pointed to lack of confidence in the investors towards the copper market as a while. It is interesting to note that the trading pattern of copper and mini copper was similar in the sense that since March, both the copper contracts were on a declining trend. August recorded the lowest number of mini copper lots traded with only 298 lots being traded. This was a mere 1.47% of the total lots traded at the MEX terminal. But with copper prices at such low levels, interest soon prevailed. This interest in copper was further increased with the euro zone trying to find a suitable solution for its ever spreading debt crisis. Likewise, trickles of positive economic data from the US also increased interest in copper. As a result, 417 mini copper lots were traded in September, the highest in 4 months.



Brent Crude

Introduction

Brent Crude Oil is a light crude oil containing approximately 0.37% of sulfur. It is suitable for production of petrol and is refined in Northwest Europe. It has an API gravity of 38.03 and a specific gravity of around 0.8333. The main producers of this commodity are Saudi Arabia, Russia, USA and Iran. It is used to price two thirds of the world's internationally traded crude oil supplies. It is traded mostly on the Intercontinental Exchange (ICE).

Some Fundamentals

- Brent accounts for less than 1 percent of world crude oil production. However, it determines the price of more than 60 percent of internationally – traded crude oil.
- Brent is ideal for production of gasoline and middle distillates.
- Oil production from Europe, Africa and the Middle East flowing west tends to be priced relative to Brent Crude.
- There is generally negative correlation between Brent Crude Oil and the American Dollar. This means that when the USD declines, all other factors remaining constant, the price of Brent Crude Oil generally increases.
- It has positive correlation with WTI crude oil with both WTI and Brent increasing

and decreasing at the same time. The degree of volatility however does differ.

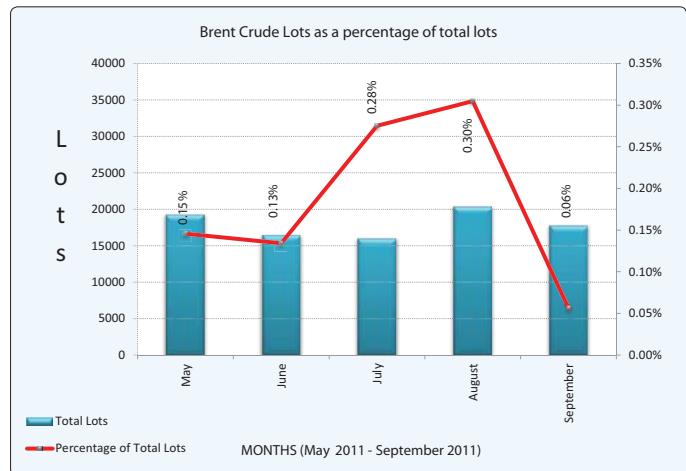
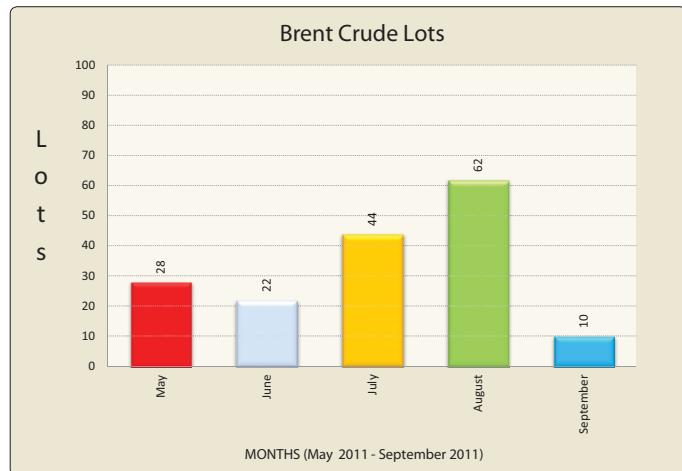
Explanation of Charts

Brent Crude was introduced on 16th May, 2011 in MEX terminal for trading. The chart above shows that in the month of May the total lot for this commodity is 28, that's because it was traded only for two weeks in the month of May. The month of May showed decline in the price of Brent Crude as Dollar rose to two month high against euro on a note of debt concerns in Europe. In the next month, there was slight decrease on total lots traded for the month of June as there was mixed reaction from the market. There was rise in the price for the first two weeks of the month on a note of weaker dollar and Middle East turmoil. But the next two weeks showed a fall in the price as bailout to Greece was approved. Though the lots had decreased in this month yet is little less than the percentage of total lots compared to the previous month. While in the month of July, the lots had doubled as investors started gaining confidence over this commodity as they have for Crude Oil. The month of July showed a bullish trend

on a note of higher demand and tighter U.S. inventories, but concerns about moderate economic growth in China and euro zone debt woes kept a sharp eye on gains. But at the end of the month, again the price of Brent Crude further rose as a storm approached the Gulf of Mexico, disrupting the supply. While in the next month there was fall in the price of this commodity as US Credit rating agency downgraded the Financial and Commodity market of US. But the other weeks, there was again a price rise on a note that US will be again trying to stimulate its economy and boost fuel demand. This mixed market situation supported the investors

BRENT IS IDEAL FOR PRODUCTION OF GASOLINE AND MIDDLE DISTILLATES

to take more positions in this commodity and as a result the lots traded in the month of August increased to 62. The month of September again led to increase in the price of Brent Crude on a note of approval of a euro zone bailout fund by German lawmakers, easing some of the worries about developed economies. Though there were some profitable opportunities for the traders but they managed to capitalize with only 10 lots on the month of September.



Commodity Insights



Crude Oil

Introduction

West Texas Intermediate (WTI) crude oil is of a very high quality. Its API gravity is 37-42 degrees (making it a “light” crude oil), and it contains less than or equal to 0.42 percent of sulphur (making a “sweet” crude oil). WTI is generally priced at about \$2-4 per barrel premium to OPEC Basket price and about \$1-2 per barrel premium to Brent; although on a daily basis the pricing relationships between these two can vary greatly. Oil is used for almost 40% of the world’s total energy demand. Almost all the industries including agriculture are dependent on oil in one way or the other. Similarly, industries like transportation and petrochemicals are largely dependent upon the prices of crude oil. The price of crude

oil is very volatile which leads to inflation globally. There is lots of byproduct of crude oil like aviation gasoline, kerosene, jet fuel oil, liquefied petroleum gas etc.

Some fundamentals

- The oil we find underground is called crude oil.
- World’s biggest reserves of crude oil are in Saudi Arabia followed by Iraq, Canada, Iran and Kuwait.
- World’s largest producers of crude oil are Saudi Arabia, Russia, United States and Iran.
- USA is the world’s largest consumer of crude oil followed by China, Japan, Eurozone and Russia

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Almost all the industries are dependent on oil in one way or the other. Moreover sector like agriculture is also dependent upon the use of oil

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Commodity Insights

- OPEC countries control 40% supply of crude oil globally.
- Almost all the industries are dependent on oil in one way or the other. Moreover sector like agriculture is also dependent upon the use of oil.
- Crude oil is processed to obtain products such as Aviation gasoline, motor gasoline kerosene, jet fuel, distillates fuel oil, liquefied petroleum gas, lubricants and others.
- The prices of crude oil are usually very volatile as there are lots of factors other than demand and supply which impact the price of oil. For example, political instability in the Middle East usually impacts the crude oil prices.
- Crude oil accounts for 37% of the world primary energy consumption.

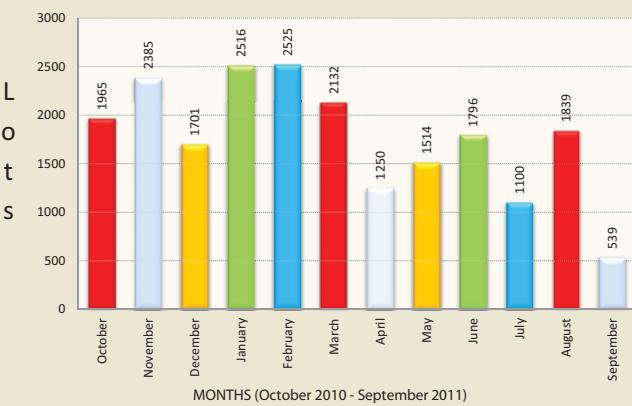


Explanation of Charts

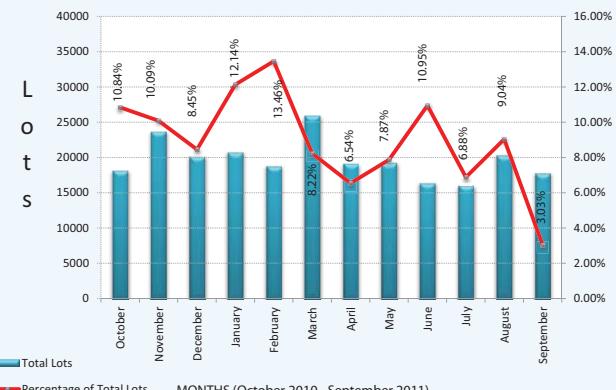
The volume for crude oil attained 1965 lots during the month of October at MEX terminal. Crude oil prices saw sideways trading after an initial rise in the prices. The prices enhanced due to a stronger demand, a rebound in the financial markets and a major strike at French ports which disrupted the supply of the crude oil. The crude oil volume for the month of November rose significantly to reach a total of 2385 lots. The prices reached a two year high on concerns over increased demand due to increasing cold winter and exceptional growth in the global economies which strengthened the demand for energy products. The bullish trend increased the confidence among the local investors as a result of which the lots increased at MEX terminal. The volume for crude oil decreased in the month of December to reach 1701 lots. The prices continued to rally north during the period due to increasing energy demand and shortage in supply from major oil producing countries. Crude oil volume increased significantly at the beginning of the year which is shown by the number of lots traded i.e. 2516. Prices of crude oil continued its bullish trend due to the political unrest which increased the fear that the turmoil would disrupt the export of crude oil worldwide. The continuing bullish trend further increased the confidence of the investors resulting in an increase in lots during the month. The volume for crude oil improved slightly during the month of February to reach 2525 lots. The prices continued its bullish trend due to the chaotic situation arising from the MENA region which disrupted the supply of crude oil. The month of March witnessed a slight fall in the volume of crude oil as it reached 2132 lots. The crisis in the MENA region worsened during the month which provided impetus to

the prices of crude oil to attain record levels in recent years. April saw a significant fall in the volume of crude oil traded in the MEX terminal as it reached 1250 lots, a fall of 882 from the previous month. The decline in the crude oil prices was mainly due to the improved EIA report, which gradually increased till the end of May. The volume for May realized slight improvement to 1514 lots. The prices inclined due to the crisis enveloping the MENA region despite the increment of supply from the OPEC nations. The month of June saw crude oil volume increase slightly to 1796 lots. The prices declined during the period due to weak economic indicators and inflation hitting the markets. Crude oil volumes decreased significantly over the month of July as it recorded 1100 lots, the least crude oil lots traded in the analysis periods. The Crude oil prices mainly fell due to the concern on US default which weakened the US economy outlook for the next few years. The bullish trend which increased confidence among the local investors was shaken due to fall in the price. Due to this fall, the investors were not much interested to take position in this commodity at MEX terminal. The volume for crude oil contracts traded in the month of August rose significantly to attain 1839 lots. The prices further declined during the period amidst persistent fears over the faltering state of the global economy beginning with the largest consumer of crude oil, USA. Crude Oil contracts decreased drastically to reach a figure of 539 during the month of September. Prices plunged during the period as a result of weakening of the global outlook in growth which decreased the demand for energy products. The decreasing price further decreased the confidence among the local investors as result of which the volume traded at MEX drastically decreased.

Crude Oil Lots



Crude Oil Lots as a percentage of total lots





Introduction

Heating Oil is made from Crude Oil and is also known as No. 2 fuel oil. It accounts for about 25% of the yield of a barrel of crude oil, the second largest cut after gasoline. Heating oil is used in the central heating of homes and small buildings. Approximately seven percent of American households - some 8.5 million in total, with nearly one-third in the Northeastern states - rely on heating oil to keep warm in winter. Globally, heating oil prices are highly correlated with crude oil prices as cost of production of heating oil includes the cost of crude oil used plus cost of refining, distribution and storage. Thus, all factors influencing crude oil prices have a profound influence on heating oil prices too. These factors include, supply-demand, global economic scenario, natural disasters, currency fluctuations, geo-political tensions, interest rates, prices of other assets, commodities etc.

Some Fundamentals

- USA is the world largest consumer of heating oil which accounts for almost 40% of the global consumption. So it's important to keep an eye on major report regarding heating oil coming out of US especially EIA weekly report.

- Heating oil is mainly used during the winter. So it's important to keep an eye on the weather during the month of December, January and February.
- Major portion of the heating oil is consumed in the Northeast part of US. So it's important to focus on the weather pattern of Northeast US.
- Refining company decision to produce heating oil affects the supply of heating oil.
- Other notable factors include crude oil prices, inventory conditions, geopolitical tensions etc.

Explanation of Charts

While looking at the chart one can very well see that heating oil is not much popular among the general Nepalese investors. A major reason for this being the lack of awareness regarding heating oil. The month of October was bullish for heating oil. The Energy Department reported a decline in distillates that includes heating oil and diesel and also the weakness in dollar had increased the demand for oil which led to rise in the price of this commodity. In the

Major portion of the heating oil is consumed in the Northeast part of US.

following month, the heating oil market showed some mixed reaction. Initially it rose on note of falling inventories but later on started decreasing due to Euro zone crisis spreading to other countries as well. The month of December and January showed bearish trend in the heating oil market. The strength in dollar, moderate temperature and China's interest rate revision for the second time decreased the demand for heating oil which led to fall in the price. Though all this information was fully available in the market, yet the investors had not taken position for this commodity to capitalize on the news. The month of February was no different than the month of December and January. The price continued to decline as the production that had decreased due to violence in Libya was offset by the inventory supplied by North Africa.

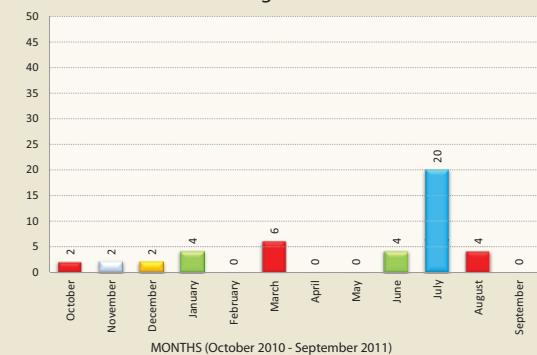
In the next two months (March and April) there was rise in the prices. The major reasons for the rise was the unrest in Middle East leading to delay in shipment of oil and fall in the inventory of distillates as reported by the Energy Department of the

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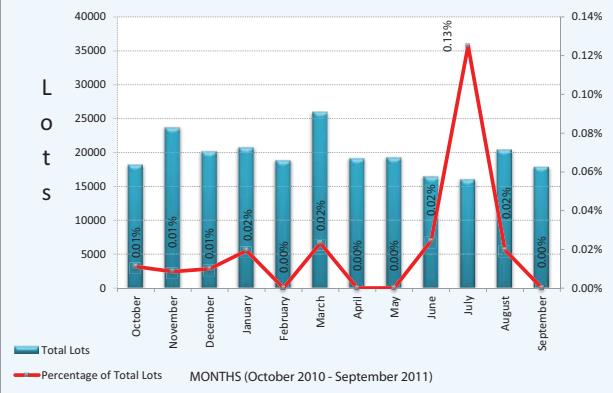
US. The rising prices continued even in May as the demand for heating oil rose by 3.9 percent to 3.55 million barrels per day according to a report by the American Petroleum Institute (API). However this failed to create any interest among the investors and there were no lots recorded for the month. The next month also saw the bullish trend continue on a note of decline in distillate supplies. The investors were able to capitalize on this news by taking 20 lots of this commodity in the month of July. The month of August also showed rise in the price of heating oil on a note of continued strong export demand but the investors preferred to stay away from the market, thus recording only 4 lots during the month. The month of September also showed a rise in the price as there was news that Germany approved a measure to strengthen a fund intended to help Europe overcome its debt crisis.



Heating Oil Lots



Heating Oil Lots as a percentage of total lots



Commodity Insights

Mini Crude oil

Introduction

Crude oil is composed of various organic chemicals and found in large quantities below the earth's surface. It is a raw chemical compound which is refined to produce products like gasoline, heating oil, diesel, kerosene etc. Most of the industries are dependent on the crude oil as it is the most important source of energy. Crude oil is used for almost 40% of the world's total energy demand. Industries like transportation and petrochemicals are largely dependent on the crude oil.

Russia is the largest producer of crude oil, which produces 10,120,000 barrels per day, followed by Saudi Arabia and United States. The price of the crude oil is determined by the OPEC countries and China has become the world's largest consumer of crude oil. Many economies are dependent on crude oil. For e.g. more than 70% of the Iranian government's budget depends on crude oil export. So, crude oil is the most important ingredient to run the global economy. Any disruption in supply of crude oil would

lead to inflation and collapse of major governments.

Some Fundamentals

- The American Petroleum Institute (API) and Energy Information Administration (EIA) data released on Tuesday and Wednesday respectively impact the price of crude oil. These data show the crude oil inventories in world's largest consuming country i.e. the US.
- The marketplace forces of supply and demand determine the price of crude oil. If demand grows or if a disruption in supply occurs, there will be upward pressure on prices.
- Geopolitical tension in major oil producing countries also affects the price of crude oil.
- Weather condition also affects the price of crude oil. During winter, weather forecasts affect the price of crude oil.
- Crude oil is priced in US Dollar and Dollar devaluation puts pressure for higher oil prices.
- Major announcements by IEA (International Energy Agency).
- OPEC output, supply and spare capacities affect the crude oil price.



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- Speculative buying and selling also affect the crude oil price.

Explanation of Charts

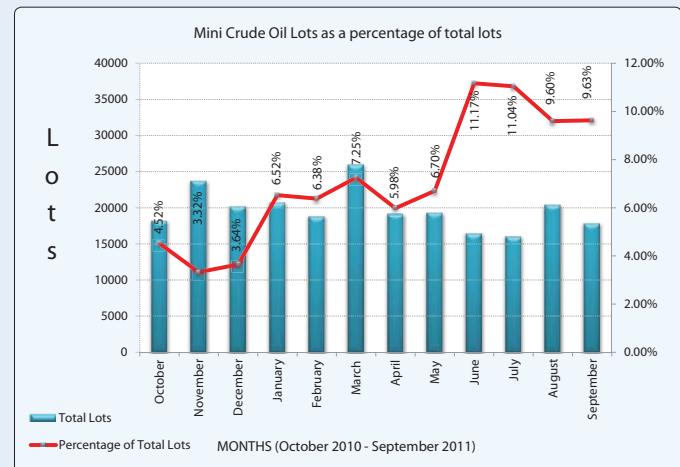
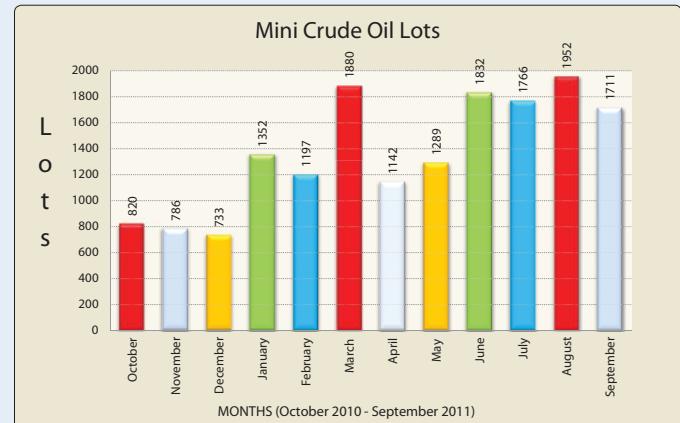
According to data published in MEX Yearbook 2010, the number of lots traded in MEX terminal declined during the month of September 2010. The declining trend in Mini Crude oil continued for three consecutive months till December. During the month of October, crude oil price saw sideways trading after seeing an initial rise. Crude oil saw this initial rise mainly due to stronger demand, a rebound in financial markets, a weaker Dollar and a major strike at French ports. The forecast for global oil demand growth for 2010 was also revised by 0.2 mb/d to 2.3 mb/d on higher than expected economic data. If we look at the crude oil inventory, it declined till the end of December. However, investors were seen reluctant to trade on mini crude during the fourth quarter of 2010 with total volume of 820 lots, 786 lots, and 733 lots in the respective three months.

The month of January was full of positive sentiments for crude oil market, which is shown by the number of lots traded. The volume increased almost 2 times in

comparison to previous month's trade volume with 1352 lots. Prices of crude oil continued its bullish rally during this month also. The main reason for higher crude price was the political unrest in Middle East, which increased the fear that the turmoil might disrupt the Suez Canal spreading unrest in the region. The bullish trend in market volume could not sustain during the month of February as volume declined marginally to 1197 lots from 1352 lot in January. However, during March, crisis in Middle East and North Africa provided positive sentiment to the investors which resulted in significant increase in the trade volume. Total of 1880 lots were traded during the month. The prices also inflated by 10-15 percent. During the month of April crude oil prices rallied south which led to a decline in volume to 1142 lots. The decline in the crude oil prices was mainly due to the improved EIA crude oil inventory report.

However, the next few months saw the crisis in the MENA region dominate crude oil prices. As a result, 1289 lots, 1832 lots and 1766 lots were traded in the months of May, June and July respectively. The increase in the market volume continued till the end

of August, during which total of 1952 lots were traded. This was the highest market volume for the crude oil for the analysis period. With the increase in the lots, share in total lots traded also increased, which can be seen in the charts. September saw slight decline in the market volume of mini crude oil with 1711 lots. Prices remained sideways during the first half of the month due to lack of strong fundamentals and inventory news. However, mini crude made a heavy fall due to rise in supply whereas demand remained sluggish as a result of slower economic growth.



Natural Gas

Different macroeconomic factors like exchange rate, interest rate and other economic indicators affect the price of natural gas market.

Introduction

Natural Gas is a colorless, odorless, environmental friendly source of energy. It's a gas which contains methane. Before natural gas can be used as a fuel, it must undergo extensive processing to remove almost all materials other than methane. Some of the major applications of natural gas are:

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

The major issues regarding the use of natural gas are transportation and storage. Pipeline is used as one of the major ways of inland transporting of natural gas.

Some Fundamentals

- Data released from the major producers have an effect on the price of natural gas.
- Getting updates from the US Department

of Energy, as U.S. is the world's largest consumer of natural gas.

- Accidental news in natural gas mines affects the price of natural gas.
- Different macroeconomic factors like exchange rate, interest rate and other economic indicators affect the price of natural gas market.
- The supply side factors that influence natural gas price are production, imports and storage levels. Moreover, hurricanes and severe weather condition also disrupt the supply.
- The demand side factors that affect the natural gas price are strength of the economy, weather and crude oil price. Similarly, severe weather condition in developed countries increases the consumption patterns and become major factor for influencing the price.

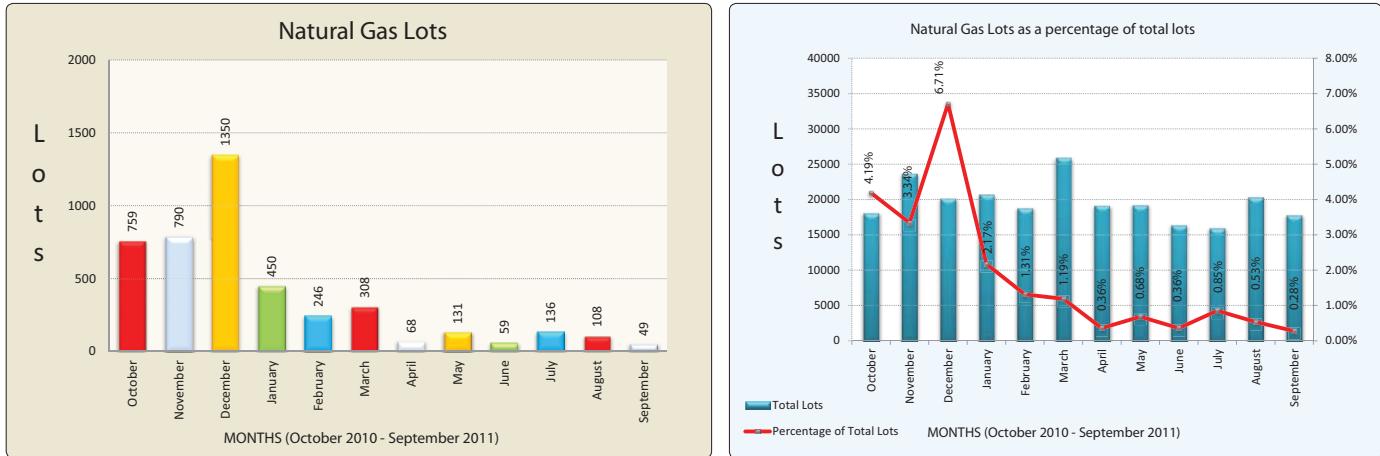
Explanation of Charts

Since the start of trading at MEX terminal, the lots taken for this commodity has not shown much variation. As per the MEX Year Book 2010, Natural Gas volume at MEX in the month of September 2010 was 2106 lots, but in the month of October and November

the lot had decreased to 759 and 790 lots respectively. While looking at the market in the month of October and November, the investors could have taken the position in this commodity as the inventories of Natural Gas held in underground storage had grown by 93 billion cubic feet to about 3.683 trillion cubic feet. This showed that the supply for natural gas is sufficient enough to fulfill the demand and this news could have provided profit to investors as the price decreased due to sufficient supply. In the next month the investors started gaining confidence over this commodity as the ample supply of this gas had been maintaining its downtrend in price. As a result, investors were attracted towards this commodity taking a total of 1350 lots in the month of December; a rise of 71 % since previous month.

As the month of January approached the natural gas inventory started falling on a note of temperature falling below normal level thereby increasing the use of natural gas for heating purposes. This led to increase in price but led to fall in the lots at MEX terminal. In the following month, the news of increase and decrease in the temperature had created some confusion about the market behavior

Commodity Insights

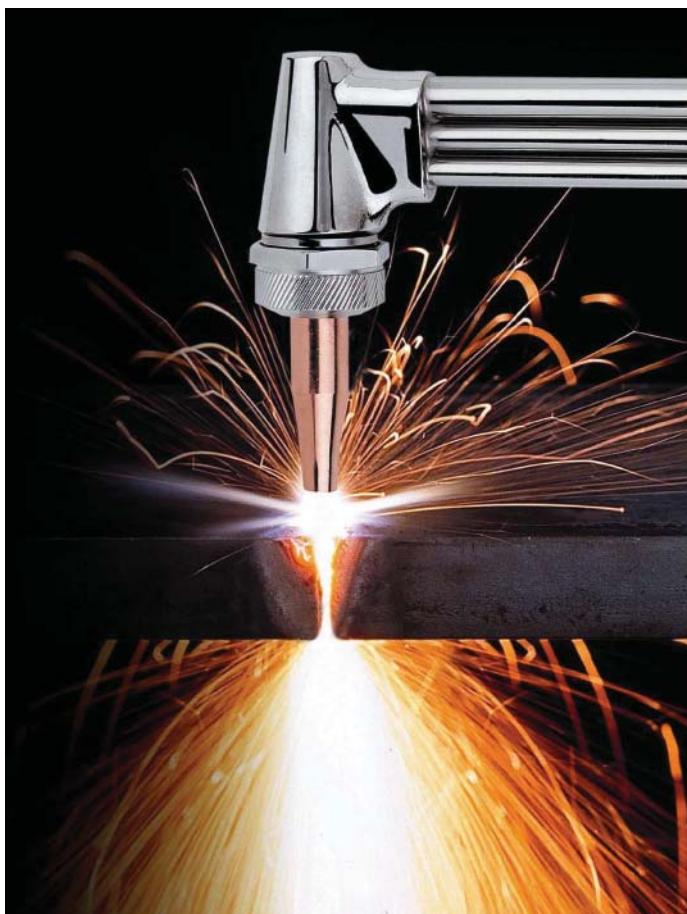


due to which the trading in this month was only 246 lots. The month of March saw an increase in the lots of this commodity due to decrease in global supplies, colder weather conditions as well as the President Barak Obama's urge to use more of US oil instead of foreign oil. This led to rise in the price and the investors took advantage of this rise throughout the month generating 308 lots at MEX terminal. In the following two months, marginal decrease in the natural gas supplies and slower economic growth in US provided much opportunities for speculation which at

first showed a fall to 68 lots in the month of April but later on, increased to 131 lots in the month of May.

The next month saw a fall in the price of natural gas as there was increase in the stock of this commodity in underground storage in the lower 48 states in US. But even after getting such useful news from the market, the investors were not able to capitalize it as there were only 59 lots, the lowest traded lots at MEX terminal after December 2010. The declining trend in the price continued in the next two month as well, as moderate

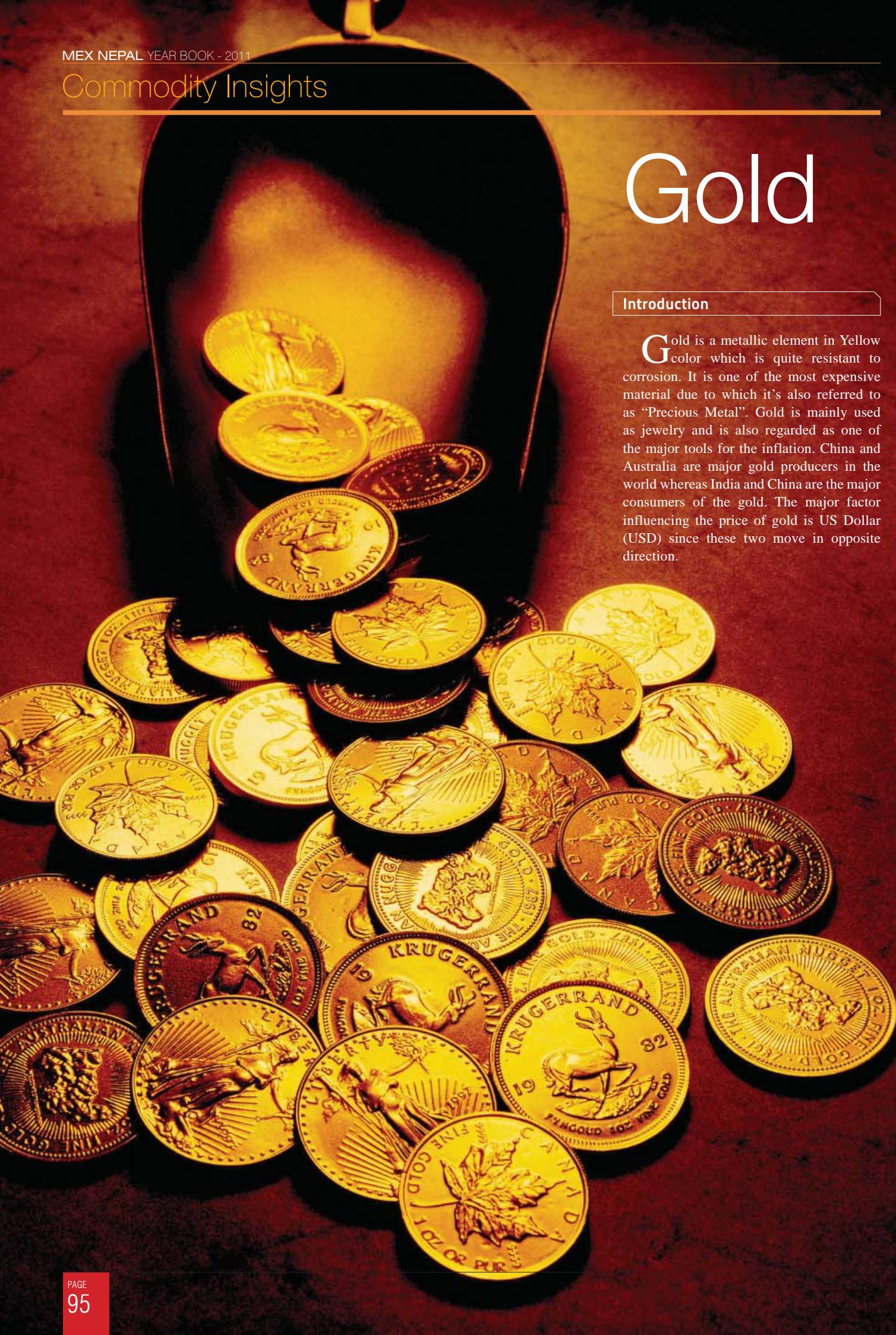
temperature led to reduction in usage of the heating fuel. But this time the investors fully utilized this opportunity leading to rise in the lots in the month of July and August to 136 and 108 lots respectively. The month of September was no different than July and August. There was fall in the price due to increase in the supply of natural gas. Despite the continuous decreasing trend in Natural Gas market, the investors were not able to take much position and as a result there was a fall in the lots to 49.



Gold

Introduction

Gold is a metallic element in Yellow color which is quite resistant to corrosion. It is one of the most expensive material due to which it's also referred to as "Precious Metal". Gold is mainly used as jewelry and is also regarded as one of the major tools for the inflation. China and Australia are major gold producers in the world whereas India and China are the major consumers of the gold. The major factor influencing the price of gold is US Dollar (USD) since these two move in opposite direction.



Commodity Insights

Some Fundamentals

- Gold is primarily used for making jewelry and investment purpose which is followed by industrial, electronics and dentistry use.
- Out of total consumption jewelry and investment stands at 50% and 40% respectively.
- World's largest gold producing countries are China, Australia, United States, Russia and South Africa.
- It is estimated that 50% of all the gold ever produced has come from South Africa.
- The major holder of physical gold are the Euro zone, US and IMF who hold 10,792.6 tonnes, 8133.5 tonnes and 2,846.7 tonnes respectively.
- Traditionally, investors tried preserving their assets during hard economic times by investing in precious metal such as gold.

Explanation of Charts

Gold, which is one of the highly traded futures contract in MEX terminal, saw declining trends through most of the review period i.e. from October 2010 to September, 2011. October saw the total gold trading of 3169 lots which was 17.48% of the total traded lots and was also second highest in the review months. The price of gold had risen to record high as decision by Federal Reserve to buy government bonds raised the inflation expectation. This created interest among the local investors to invest in the precious metal. The following month saw gold trade rise to the highest level in the review period. In terms of numbers of lots it inclined as compared to previous month to reach 3512 lots while in term of percentage of total lots it declined to reach 15%. The continuous increase in the price of gold created an interest among the investors to take more position in this commodity at MEX terminal. Moreover, gloomy economic scenario in the US also sparked the gold's

safe heaven appeal. However, in the month of December, number of lots traded at MEX terminal declined which continued till January. The total lot traded was 2555 lots and 1718 lots for December and January respectively. There was short term correction in the price of gold which made the investors hesitant to enter into the market. Similarly, China tightened the bank reserves to control the inflation, which faded the safe haven appeal for gold. In the month of February, total traded volume increased slightly to 1718 lots. This increase in the investment in gold was driven by the interest rate hike by the Chinese central bank for second time in just six weeks. The month of March and April saw the total lots size decrease to reach 1233 and 1035 lots respectively. The price of gold reached an all time high on fear of inflation in the major economies around the globe. Moreover, worries about the Middle East and North Africa also feared the investor about the possible outcomes which affected the investor's decision to take position for this commodity. The trend didn't change much in the month of May and June as total lots traded was 1109 lots and 1232 lots respectively. The global economic woes continued especially in the US where weaker economic data kept on coming out. This declined the USD consequently increasing the gold price. However, local investors were on wait and watch mode which saw low volume of trade during this period. The declining trends in the lots size continued for the month of July where lowest number of lots was traded i.e. 706 lots. The European sovereign debt crisis intensified in the month of July which again supported the

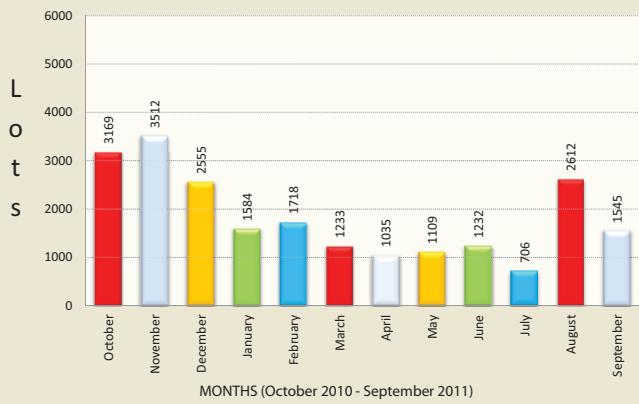
gold price to rise under uncertain economic environment. Local investors under such circumstances kept distance from trading this commodity. However, there was drastic change in the number of lots during the month of August as total lots increased by more than 300 percent to reach 2612 lots. The news of global economy losing the momentum spurred the demand for gold in international as well as domestic market. The most striking news for the month was the S&P, the credit rating agency, downgrading the US debt rating from AAA to AA+ which led to increase in the price of gold. The number of lots had declined drastically on the month of September by 1067 lots to 1545 lots. This decline in the interest among the local investors was due to volatile price of gold in the global market.

The major holder of physical gold are the Euro zone, US and IMF who hold 10,792.6 tonnes, 8133.5 tonnes and 2,846.7 tonnes respectively

”



Gold Lots



Gold Lots as a percentage of total lots



Mini Gold



Introduction

Gold is a yellow metallic element which is quite resistant to corrosion. It is one of the most expensive material due to which it's also referred to as "Precious Metal". Gold is mainly used as jewelry and is also regarded as one of the major tools for inflation. China and Australia are major gold producers in the world whereas India and China are the major consumers of gold. The major factor influencing the price of gold is USD since these two moves in opposite direction.

Some Fundamentals

- Gold is primarily used for making jewelry and Investment purpose which is followed by industrial, electronics and dentistry use.
- Out of total consumption Jewelry and investment stands at 50% and 40% respectively.
- World's largest gold producing countries are China, Australia, United States, Russia and South Africa.

- It is estimated that 50% of all the gold ever produced has come from South Africa.
- The major holder of physical gold are the Euro area, US and IMF who hold 10,792.6 tonnes, 8133.5 tonnes and 2,846.7 tonnes respectively.
- Traditionally, investors tried preserving their assets during hard economic times by investing in precious metal such as gold.

Explanation of Charts

Mini Gold contract like the major gold contract was one of the highly traded contracts in the mini category over the review period which started on 1st October, 2011 and ended on 30th September, 2011. In the month of October 2010 total lots traded was 2146 which was second highest in the review period and in terms of percentage of total lots it stands around 12% of all the traded contracts. In the month of October, the price of gold had reached an all time high which created interest among the local investors.

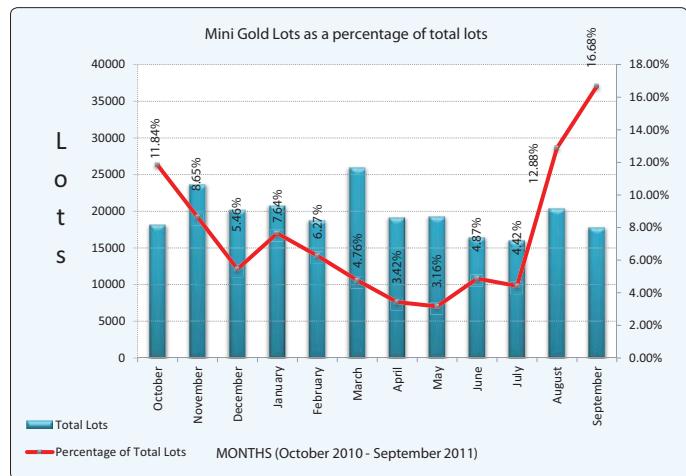
The price rise in the international market was based upon the decision made by the Federal Reserve to buy the government bonds which leads to inflation and under such circumstances the price of precious metal rises. Here, the investors were highly optimistic as the price of gold showed a continuous bullish trend. Moving on to

Due to the nonstop rise in the price of gold, investors were cautious while investing as there was possibility of reversal.

the month of November, the number of lots declined slightly but was still on the higher side as 2044 lots were traded. In the international market, price of commodities were rising and gold was no exceptional case which created huge interest among the investors in Nepalese market to trade for mini gold. At the same time disappointing

Commodity Insights

economic data from the west also pushed investors toward the safe haven investment. In the month of December there was drastic change in the number of lots as it declined by around 50% to reach 1099 lots. This extreme change in the interest among the investors was due to continuous surge in the price of the yellow metal. Due to the nonstop rise in the price of gold, investors were cautious while investing as there was possibility of reversal. However, with the start of the New Year the number of lots had improved as compared to December as total lots in the month of January, February and March reached 1584, 1177 and 1233 lots respectively. The fear of inflation prompted investor to invest in the gold in the first quarter of 2011. Similarly, the interest rate hike by the Chinese Central Bank for the second time in six weeks period also saw the price of precious metal going up. However, the interest among the investors declined between April to July where total lots stood at 654 lots, 608 lots, 798 lots and 706 lots respectively. The political crisis in the MENA region led to uncertainty among investors ultimately impacting their decision to take positions in the market. Moreover, there were also the continuations of economic despair in the leading economies like the US. The investors were not confident under such situation to invest and were in a mood of wait and watch which impacted on the number of lots that were traded on MEX terminal. On the other hand, August saw the number of lots rise by nearly 370% to reach 2619 lots. This rise in the interest was due to global economy losing its momentum. Likewise, the downgrading of US debt rating by the credit rating agency S&P had sparked the demand of the commodity in the local market. September saw very volatile gold market due to which the investors started moving away from the major contracts to the mini contract category as 2963 lots was traded which was also 16.68% of total trade. The debt issues in the west had particularly impacted the yellow metal price and investors were also investing as per the market swing.



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 2010 were Peru, Mexico and China. While looking at the consumption side, the largest consumer of silver is United States followed by India, Japan and Italy.

Some Fundamentals

- The American Economy and the movement of the USD affects price of silver. Any major news and events affects the USD which in turn affects silver prices.
- Silver prices, like gold prices are affected by the world economy. During times of financial crisis, such as the current financial crisis, silver prices tend to be affected. The Greek debt crisis had major impact on silver prices.
- Major news releases by International Monetary Fund, Federal Reserve, G20 countries, and European nations have an effect on silver prices.
- One of the primary drivers for silver prices is gold. In a bullish environment, speculators tend to be interested in precious metals. Hence, alongside gold, they tend to invest in silver too as both are seen as a store of wealth.

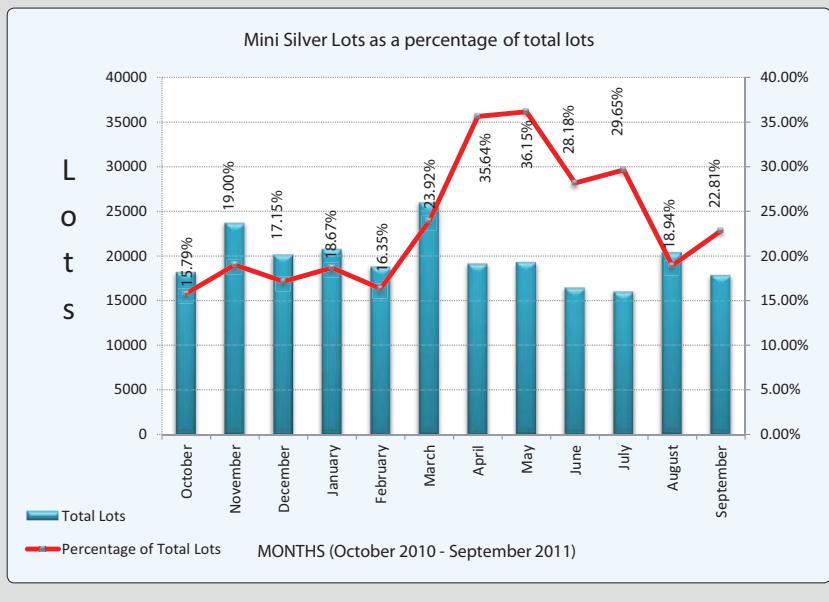
Explanation of Charts

Mini Silver is also one of the highly traded contracts in the MEX terminal. There were altogether 2862 lots traded in the month of October, 2010 which was also lowest in the review period i.e. from October, 2010 to September, 2011. October was the month of festival and marriages in the major silver consuming countries i.e. India, which increased its demand and its price. This made the local investors cautious while investing in Mini Silver. However, November saw an impressive increase in the number of lots with total lots reaching 4491. The price of silver was continuing its record setting spree which attracted Nepalese investors for investing in the Mini Silver contract. Moreover, mounting worries over the European debt crisis also pulled investors to invest in Mini Silver contract. However, December saw a decrease in trading volume by 23% to reach 3451 lots. Continued uncertainty in the world economies kept investors off the market leading to this decline. January saw an increase, albeit marginally, to 3869 lots but this again decreased in February to record the lowest volume traded at 3066 lots. With the world economy in tatters and increasing unrest in the MENA (Middle East and North Africa) region, confusion gave way to fear which contributed to this decline. However, the safe haven appeal of silver soon returned and March recorded an impressive 6203 lots in the MEX terminal, an increase of a mind boggling 102 % from the previous month. Continuing increase in silver prices attracted investors to silver and mini silver and this continued in April too. April recorded the second highest lots traded for the review period with 6808 lots being traded. This further increased in May which

Commodity Insights



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.



saw 6952 lots being traded, the highest in the review period. Investment in mini silver accounted for 36.15% of all lots traded in the MEX terminal in May which hinted at the popularity this contract was having among the investors. However, the lots went on a decline in June after Chicago Mercantile Exchange started increasing margins on silver. The decline was further compounded by a stronger dollar. As a result, with decline in silver prices, the volumes declined too, reaching 4621 lots. But with mounting economic woes in major economies, the charm of silver attracted investors back to the market to record a marginal increase in the month of July to reach 4741 lots which was 29.65% of all lots traded in the MEX terminal. But the fear factor soon played in yet again as silver continued its volatile journey in the following months of August and September. On one hand, the safe haven appeal of silver lured investors to invest in it. While on the other hand, declining manufacturing activities in major economies kept investors out of the volatile silver market. As a result, the next 2 months saw 3852 and 4052 lots being traded.



Palladium

The price of palladium is mostly responsive to economic supply and demand as other precious metals



Commodity Insights

Introduction

Discovered by William Hyde Wollaston in 1803, palladium is a rare and lustrous silvery-white metal. Palladium is one of the constituents of the platinum group metal (PGMs) along with platinum, rhodium, ruthenium, iridium and osmium. These have similar chemical properties but palladium has the lowest melting point and is the least dense in the group. Palladium is used as an auto catalyst in the automotive sectors, industrial applications, jewelry purposes and as an investment tool.

The main reference price for palladium is the London Fix which is considered as the international benchmark. The quotation is done twice a day and it is used for most of the deals. The fixing is transmitted by international agencies and it is widely followed by producers and industrialists all around the world.

Some Fundamentals

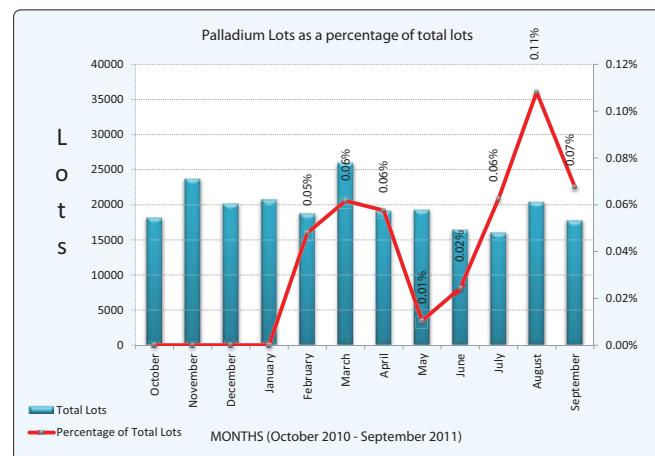
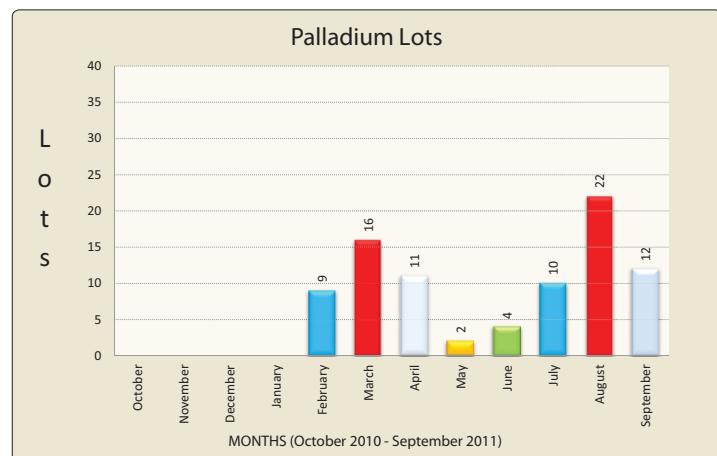
- The price of palladium is mostly responsive to economic supply and demand as other precious metals.
- Since the supply of palladium is very limited, the prices are more volatile than the other industrial metals.
- The exporting policies of the major producing nations including Russia and South Africa affect the prices.
- The size and availability of the Russian palladium stockpiles as well as the economic situation of the main consuming countries including USA, Japan and Europe also affects the prices.
- Prices of the other precious metals may also play an important role since there are some substitution effects among them.

Explanation of Charts

The chart shows that Platinum has 0 lots from October 2010 to February 2011

as this item was introduced only from 22nd February, 2011 in the MEX terminal. The trading for this commodity started from the month of its introduction. During the month of inception, 9 lots were traded, which was a slow start but was considered a good one in comparison to platinum, which was introduced at the same time. Prices during February climbed to a ten year high price since 2002. The prices soared on the concern over reduced supply from Russia, which indicated that palladium market would move deeper into deficit. The month of March saw rise in the volume traded for this commodity by 77 percent to 16 lots. However, prices tumbled back to its lowest level during the first half of the month. This decline in prices was attributed mostly due to earthquake and tsunami in Japan. The number two automaker in the world suffered huge loss in auto industry which led to decline in demand for palladium. During April, palladium made its price correction. The global demand from the automotive industry was expected to see continuous growth, which acted as a strong attribute for rise in price of the precious metal. However, number of volume traded had decline to 11 lots in the month of April. The month of May saw, significant decline in the trade volume as palladium market showed mixed picture. Initially, prices appeared bearish due to the knock on effects of the earthquake and tsunami in Japan, which caused supply chain problem. On the plus side, ongoing fears of potential disruption in supply from South Africa were expected to support prices. Therefore, as a result of indifferent market, traders were reluctant to take risk on the commodity. During the month of June, palladium did not see any improvement in trading as trade volume still remained to its lowest level i.e. 4 lots. Investors still remained indifferent towards the commodity as demand and supply remained confusing

due to reconstruction in Japan and labor disputes in South Africa. Palladium showed signs of relief during the month of July, with an increased trade volume to 10 lots. Prices also remained bullish during the month due to improved auto sales in the world largest auto market, China. This indicated signs of improvement in the palladium market. The positive sentiments continued during the month of August as number of lots traded in MEX terminal increased by 120% to 22 lots. This was the biggest trade volume during the analysis period. However, prices saw sideways trading followed with the disappointing second quarter economic report form U.S. and ongoing Euro zone debt crisis. The increasing trend that continued for four consecutive months broke in the month of September as number of lots traded in MEX terminal declined by 45 percent to 12 lots. During the month palladium made a strong southern rally with the price reaching its 7 month low range. The free fall in palladium was attributed to improved dollar and sovereign debt crisis in Europe mainly in Greece.



Commodity Insights

Platinum

Introduction

Platinum is a metal that has a variety of uses in jewelry and industrial applications. Platinum is one of the world's rarest materials. Eighty percent of platinum supply comes from South Africa, about 10 percent from Russia, and the rest from North America. Futures and options contracts for platinum trade on the New York Mercantile Exchange, as well as other exchanges around the world. Platinum is the principal member of a six-metal group called platinum group metals (PGM). The other members of the group are palladium, rhodium, ruthenium, osmium, and iridium. All have chemical and physical qualities that make them vital industrial materials. It also has high electrical conductivity and catalytic properties making it suitable for industrial applications. While gold is considered an investment alternative, the use of platinum for the same has also been increasing in recent months due to its rare nature and its industrial demand.

Some Fundamentals

- Global platinum prices are driven by a host of factors such as strength of the global economy, currency movements of major economies, interest rates in these economies etc.
- Disruption in production in any of the top producers, mainly South Africa will result in volatility in platinum prices.
- Europe is the biggest consumer of platinum, followed by China, North America and Japan. It is important to

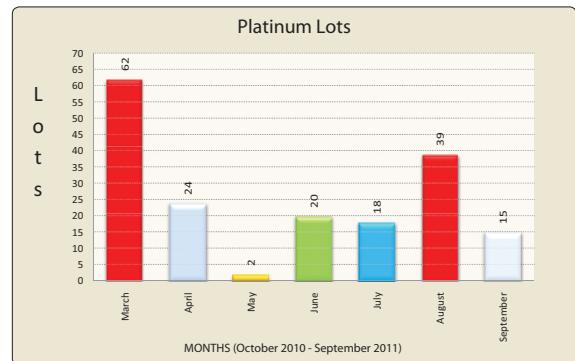


know the demand scenario in these countries.

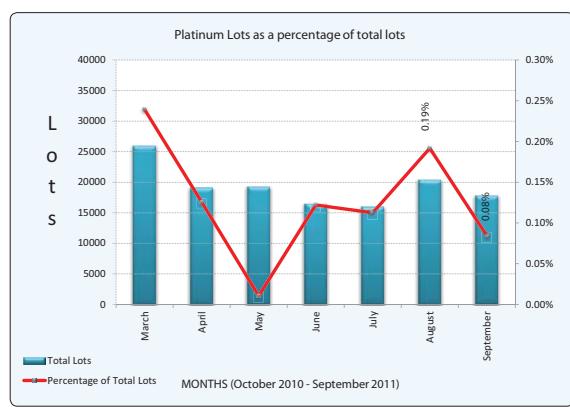
- Price movement of other precious metals such as gold also influences the price of platinum.
- As majority of platinum is used for auto catalyst, it is important to know about the health of the automobile industry in the major consumer nations.

Explanation of Charts

The chart above shows that Platinum has 0 lots from October 2010 to February 2011 as this commodity was only introduced from 22nd February, 2011 in the MEX terminal. The trading for this commodity started from the month of March onwards. As a result the total lot traded in the month of March was 62 which accounts for 0.24% of the total lots traded for all the commodities in the month of March. Gold and silver prices have continued to test all-time and 30-year highs respectively on a note of ongoing unrest in the Middle East, higher oil prices, inflationary fears and a weaker dollar. So was the case of Platinum. The investors who had taken position for silver and gold also took position for this commodity and as silver has recorded highest lots in the month of March, Platinum also recorded the highest lots. But in the next two months there was fall in the lots. The month of April showed rise in the price again due to geopolitical tensions, inflationary pressure and weakening dollar. While the month of May showed a decline in price as the supply of platinum rose and also the international investors who faced loss on a note of correction started settling



their holdings in this commodity. But the investors in Nepal were not having much confidence on the market movement of this commodity as a result there was sharp fall in these two months. The next two months again showed uncertainty in the United States due to low interest rates, uncertainties in euro zone's fiscal situation, and worries over talks to raise the U.S. debt ceiling had again supported the Platinum's price. This bought some interest among the investors to take position in this commodity. As a result the total lots in the month of June and July rose to 20 and 18 respectively. The month of August also recorded a rise in price but this rise was mainly attributed due to power crisis that had shut South African mines with a further lift coming from oil and expectations of more US rate cuts. This news further built confidence among the investors and resulted in increase in the lots for this commodity. The price of platinum declined in the month of September as traders started speculating on the anticipation that the price was expected to rise on a note of decrease in production in South Africa and also due to depressing economic outlook of USA. The investors at MEX terminal were unable to make a clear indication of the market trend for this commodity and as result they were able to take only 15 lots in the month of September.



Commodity Insights



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. It is produced as a byproduct of copper, gold, lead and zinc refining. Silver, along with mini silver is one of the most highly traded commodities in the MEX terminal.

Some Fundamentals

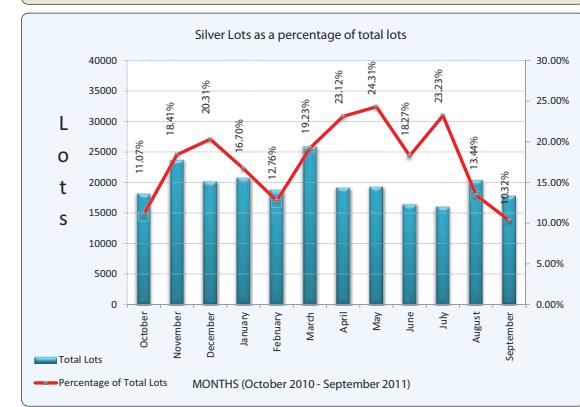
- Peru, Mexico, China, Australia, Chile are the major producers of silver.
- United States, India, Japan and Italy are the most silver consuming countries in the world. So any silver related news from these countries affects the price of the silver.
- U.S. dollar and Euro are the major currencies that affect the price of the silver.
- Most of the produced silver is the by-product of lead, copper and zinc mining.
- Industry, decorative uses, photography, and jewelry and silverware account for 95% of annual silver consumption.

Explanation of Charts

After an impressive volume in the previous month (covered in the previous yearbook), silver lots declined on October. While silver prices saw new records being made on month-on-month basis, the overall lots declined on account of the festive season of Dashain. The festive season saw the total lots decline as well. November saw a massive surge in silver lots with an increase of 116.90% to 4353 lots. With the festive

season over, investors looked all set to take on the markets which contributed to this increase in overall increase in lots as well as silver lots. However this volume declined marginally on December to 4088 lots. While a weaker USD saw silver prices create all time highs, traders seemed to question this "Bull Run" that had been going on for a long time. As a result, only 3461 lots were traded in December which still made up 20.31% of the total lots traded in the MEX terminal. This downward movement continued in January too as the world silver market witnessed the biggest month-on-month decline in silver prices since 2008. Positive unemployment data from the US which fell to the lowest level since May 2009 (9.4%) helped pressure commodities markets leading investors to shy away from silver investments. February again saw silver lots decline to its lowest level for 2011 to 2393 lots. Despite the decline, silver came in third among the most commodity traded, after crude oil and mini silver. A mind boggling increase in crude oil prices seemed to have led investors to turn to crude oil for better returns. However, the interest in silver soon returned in March with 4985 lots being traded, an impressive 19.23% of total lots traded in the MEX

terminal. The ongoing Egyptian crisis as well as escalating Libyan crisis seemed to have lured investors to invest in the silver rally which led to the highest 2011 volume for silver. April saw the volume decline, albeit marginally to 4417 lots. Deteriorating financial conditions of European countries saw silver prices reach the highest in 31 years which led to investors flock to the silver bandwagon. Silver constituted an impressive 23.12% of total lots traded in April. May recorded the second highest volume for the year 2011 with an increase of nearly 6% to 4674 lots. Change in margin requirements, growth slowdown, Chinese tightening policy saw silver prices decline, making way for short sellers to take advantage of the situation. However, as prices declined further in June, investors were casting doubt on the sustainability of the bearish trend. As a result, silver lots declined to 2997 making up almost 19% of total lots traded. However, as the prices started reversing, silver volume started picking up, resulting in 3715 lots being traded in July. Continuing problems in Europe contributed to the increase in prices resulting in increase in lots. In August, silver lots decreased to 2734 lots owing mainly to the continued instability in the financial markets which saw investors shy away from the market and this trend continued well into the month of September which saw only 1834 silver lots being traded.



Small Gold

Introduction

Gold is a metallic element in Yellow color which is quite resistant to corrosion. It is one of the most expensive material due to which it is also referred to as "Precious Metal". Gold is mainly used as jewelry and is also regarded as one of the major tools for the inflation. China and Australia are major gold producers in the world whereas India and China are the major consumers. The major factor influencing the price of gold is USD since these two moves in opposite direction.



Commodity Insights

Some Fundamentals

- Gold is primarily used for making jewelry and Investment purpose which is followed by industrial, electronics and dentistry use.
- Out of total consumption Jewelry and investment stands at 50% and 40% respectively.
- World's largest gold producing countries are China, Australia, United States, Russia and South Africa.
- It is estimated that 50% of all the gold ever produced has come from South Africa.
- The major holder of physical gold are the Euro area, US and IMF who hold 10,792.6 tonnes, 8133.5 tonnes and 2,846.7 tonnes respectively.
- Traditionally, investors tried preserving their assets during hard economic times by investing in precious metal such as gold.

Explanation of Charts

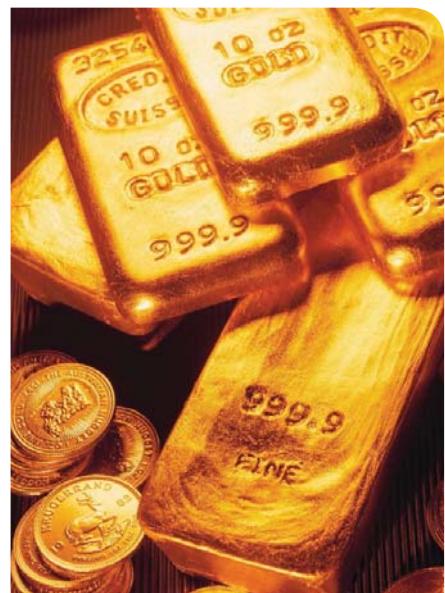
Small gold contract was introduced in MEX terminal from February, 2011. In the first month of the contract launch, only 57 lots were traded as people were unaware about the contract. Moreover, the rise in the interest rate by the Chinese central bank for the second time in just six weeks saw investors of small gold to wait and get the clear signal from the market. The trading of small gold improved in the month of March by more than eight times as investors became more familiar with the contract. The trading lots reached 497 for the month of March which was more than 8 times as compared to the previous month. Likewise, the political turmoil in Libya resulted on higher gold price due to which the local investors were attracted towards the small category contract. Similarly, Earthquake in Japan and Europe debt issues also played a crucial part to attract the investors in the market. The interest among the investors kept on rising

as month of April saw yet another rise in the number of trade when 826 lots were traded. Here the major reason for the investors to trade was the inflation concern in developed economy and debt taken by the banks in the Eurozone. The situation in the Europe was getting worse which prompted the price of gold to reach high and generated encouraging investment in the small category of gold contract. The number of lots continued to increase in

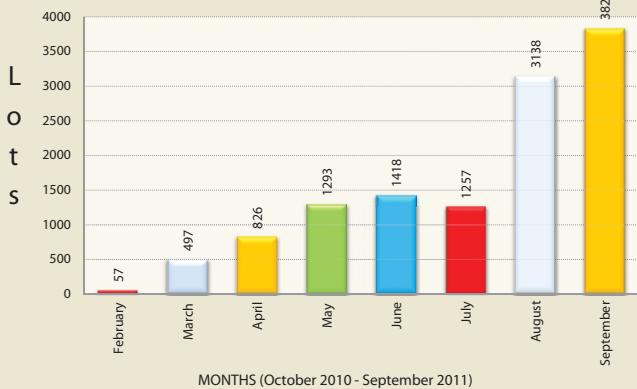
the month of May and June which stood at 1293 lots and 1418 lots respectively. In this period, US economy continued to get worse which resulted decline in the USD consequently increasing the gold price. This prompted the local investors to go long on the small gold contract. However, in the month of July, the number of lots declined slightly as compared to the previous month to reach 1257 lots. In the month of July, the European debt concern continued and US debt issues also started to heighten which saw gold price climb to record level. Here, the local investors were not fully able to capture this information which saw slight decline in the number of traded lots at MEX terminal. On the other hand, the month of August saw drastic change in number of lots as the total lots increased by two and half time to reach 3138 lots. The market was highly concerned about the global economy losing its momentum. S&P, world's top most credit rating agency had downgraded the credit rating of US from AAA to AA+ which saw gold price climbed to record. Under such circumstances investor were very pessimistic about the US as well as global

economy and choose precious metal for investment. The number of lots climbed to the record level in the month of September when 21.54% of total trade was of small gold. In terms of number it was 3827 lots as volatility in the international market saw investor preferring small category contract as compared to major contract. The price of gold was mainly very volatile on issues related to debt in Europe. Meanwhile, to sell their profitable position in the international market to cover the steep losses in equities which saw bearish trend in the gold price and saw investors going short to take profit.

The major holder of physical gold are the Euro area, US and IMF who hold 10,792.6 tonnes, 8133.5 tonnes and 2,846.7 tonnes respectively



Small Gold Lots



Small Gold Lots as a percentage of total lots

