



Mercantile Exchange Nepal Limited

Invest - Trade - Earn

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Research Paper

Macroeconomic Indicators - Nepal

For the macroeconomic stability, we need a coordinated effort of both the fiscal policy and the monetary policy. Currently, the policies have not been functioning well due to one basic reason: Political Instability. The investment climate is worsening and the growth is pretty slow; discouragingly slow. Per Capita GDP is only expected to rise to \$735 from \$712 which signifies the dampness in the economy. Inflation is at its peak; Consumer Price Index (CPI) and GDP deflators are the basic indicators reflecting the inflation in the country and both of them show the pathetic situation of the country on the grounds of inflation measurement. The contribution of agriculture sector in the GDP has increased very little which signifies that it is high time we start thinking taking commercial measures for the farming. The contribution of Service sector is satisfactory, yet with enough with room for improvement. Total Outstanding Debt is still increasing which can be a big headache for the country very soon. In the present scenario, every new

born baby in the country carries a loan of Rs. 18,866.80 which itself is higher and it keeps on increasing with his number of years; this situation really demotivates people.

The Remittance Income of the country has shown a remarkable increment but our policy makers must understand that in the long run, remittance is only adding up economic burden to the country and nothing else because that is actually demotivating people to start up productive economic activities in the country. Imports are highly increasing and exports are discouragingly decreasing; the country administration is tired of looking into quality or the non-tariff barriers in trade but is unable to take it even to the Dispute Settlement of the WTO and also discourage the Dumping strategies of the developed nations. The good news we have is that we have recently revived from the negative Balance of Payments (BOP) and now the target of the policymakers should be about taking it higher for which the exports needs to improve as we have sufficient stability of the Foreign Reserves.

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Fiscal Year		02/03	03/04	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12*
Per Capita GDP	US Dollar	261	293	328	350	410	491	497	610	712	735
Real GDP (in basic price)	Rs in billion	429.7	448.7	463.2	480.4	493.7	522.3	542.7	565.8	587.3	614.1
Agriculture	Rs in billion	165.8	173.7	179.8	185.4	187.2	198.1	204.0	208.1	217.4	228.1
Industry	Rs in billion	76.5	77.6	79.9	81.2	84.4	85.8	85.3	88.7	91.3	92.7
Service	Rs in billion	199.9	213.5	220.6	233.0	243.5	261.4	277.1	293.3	303.7	319.1
Per Capita GDP (in current price)	Rs.	20337	21689	23292	25279	28905	31946	38172	45469	51444	57726
Consumer Price Index#	Annual % Change	4.7	4.0	4.5	8.0	5.9	6.7	12.6	9.6	9.6	7.7
GDP Deflator^	Annual % Change	3.1	4.0	5.9	6.9	7.3	5.6	16.1	14.4	11.2	9.7
Revenue /GDP	in %	11.4	11.6	11.9	11.1	12.1	13.2	14.5	15.1	14.6	15.5
Tax Revenue/GDP	in %	8.3	9.0	9.2	8.8	9.8	10.4	11.8	13.1	12.6	13.2
Non-Tax Revenue/GDP	in %	2.8	2.6	2.7	2.3	2.3	2.8	2.7	2.0	2.0	2.3
Total Government Expenditure /GDP	in %	17.1	16.7	17.4	17.0	18.4	19.8	22.2	21.8	21.6	23.5
Recurrent Expenditure/GDP	in %	10.6	10.3	10.5	10.2	10.6	11.2	12.9	12.7	12.4	16.5
Capital Expenditure/GDP	in %	4.5	4.3	4.6	4.5	5.5	6.6	7.4	7.6	7.9	4.0
Principal Payment/GDP	in %	1.9	2.0	2.3	2.2	2.3	2.0	1.9	1.5	1.3	1.3
Foreign Grants/GDP	in %	2.3	2.1	2.4	2.1	2.2	2.5	2.7	3.2	3.4	3.8
Budget Deficit/GDP	in %	3.3	2.9	3.1	3.8	4.1	4.1	5.0	3.5	3.6	4.2
Foreign Loan/GDP	in %	0.9	1.4	1.6	1.3	1.4	1.1	1.0	0.9	0.9	1.5
Domestic Loan/GDP	in %	1.8	1.0	1.5	1.8	2.5	2.5	1.9	2.5	3.1	2.4
Grants and Loans Received/GDP	in %	3.2	3.5	4.0	3.4	3.6	3.6	3.7	4.2	4.2	5.4
Total Outstanding Debt	Rs. in billion	308.1	318.9	314.4	337.7	332.7	375.6	425.1	440.4	414.7	509.5
Outstanding Domestic Debt	Rs. in billion	60.0	84.6	86.1	94.7	103.8	116.0	125.7	148.1	184.2	201.5
Outstanding Foreign Debt	Rs. in billion	223.4	232.8	219.6	234.0	216.6	250.0	277.0	256.2	259.6	308.1
Per capita Outstanding Debt	Rs	12939.7	13208.5	12838.6	13602.2	13211.5	14710.7	16416.2	16772.5	15576.4	18866.8
Remittance Income	Rs. in billion	54.2	58.6	65.5	97.7	100.1	142.7	209.7	231.7	253.6	330.9
Current Accounts Balance	Rs. In billion	11.6	14.6	11.5	14.2	-0.9	23.7	41.4	-28.1	-12.9	31.4
Export/GDP	Percent	10.1	10.0	10.0	9.2	8.2	7.3	6.9	5.1	4.7	4.7
Import/GDP	Percent	25.3	25.4	25.4	26.6	26.8	27.2	28.8	31.4	28.9	29.2
Total Trade/GDP	Percent	35.4	35.4	35.3	35.8	34.9	34.5	35.6	36.5	33.6	34.0
Trade Deficit/GDP	Percent	-15.1	-15.3	-15.4	-17.4	-18.6	-19.9	-21.9	-26.3	-24.2	-24.5
Income from Tourism/GDP	Percent	2.4	3.4	1.8	1.5	1.4	2.3	2.8	2.4	1.8	2.0
Expenditure on Tourism/GDP	Percent	1.3	1.9	1.6	1.8	2.2	2.6	3.2	2.7	2.0	1.4
Remittance Income/GDP	Percent	11.0	10.9	11.1	14.9	13.8	17.5	21.2	19.4	18.5	21.2
Current Accounts Balance/GDP	Percent	2.4	2.7	2.0	2.2	-0.1	2.9	4.2	-2.4	-0.9	2.0
Balance of Payments	Rs in billion	4.4	16.0	5.7	25.6	5.9	29.7	44.8	-3.3	2.2	80.0
Foreign Exchange Reserves	Rs in billion	108.2	130.2	129.9	165.0	165.1	212.6	286.5	268.9	272.2	386.96
Capacity of Reserves to cover Import of Goods	Months	10.7	11.8	10.7	11.5	10.6	11.7	12.2	8.7	8.4	9.2
Capacity of Reserves to Cover Import of Goods and Services	Months	9.2	9.9	9.0	9.7	8.7	9.4	10.0	7.4	7.3	8.3

* Annual Preliminary Estimates (Based on 8 month data)

Base Year 2005/06

^Base Year 2001/02 = 100

This reclassification allocates capital grants into current expenditure and share and loan investment on public enterprises under financial management. Note: Ratio of GDP is calculated at the current producers' Price. Some figures are updated accordingly as they are updated by the sources themselves.

Source: *Economic Survey 2011/12, Ministry of Finance, Nepal*

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Commodity market is only getting better with each passing day and large numbers of investor are incited towards the market regardless of the investment size. So, there arises the need to cater to all the spectrum of investors whether big, medium or small investors. Although, the market was always an attractive alternative for the big investors but for the medium and mostly small investor it was difficult for investment. However, with the introduction of e-commodities it has been made relatively easy for the small investors to invest trade, hold and earn commodities with systematic and much safer approach of investment.

E commodities allow the investors to buy the different commodities electronically which allows them to buy process and store the commodities in electronic form. Moreover, the user of e-commodities can make immediate transfer of ownership

between themselves. Although, the denomination in the e-commodities is small, yet the delivery is possible through this format.

Case study of e commodities in international Exchange

In the international commodities market, National Spot Exchange Limited (NSEL) of India have introduced the e – commodities where trading is conducted on the commodities like gold and silver. The trading of e-commodities is conducted like share trading. For example one unit of e-gold is equal to 1 gram of gold. Here, investors buy small quantities of e-gold in

their demat account over a period of time and as soon as the investor target is achieved, the corresponding investor take physical delivery through exchange. The biggest advantage to the small investor is that they need do not have to worry for holding commodities and they can take the delivery as per their convenient requirements. Similarly, if the investors are investing for the investment purpose only, it is not compulsory for them to take physical delivery instead they can settle it by cash as well. The popularity of e-commodities is growing immensely in India as huge numbers of small investors are trading through this mechanism.

How to trade e commodities Requirement:

- The first and foremost requirement for trading e-commodities, investor need to open a trading account with the exchange's member and a demat account with a depository institution.
- The investor can place buy and sell orders for e-commodities with the brokers through phone or through internet (in the trading software).
- While placing the order i.e. Buy or Sell, investor has to pay certain percentage (normally 10 % in international practice) for delivery units in demat form.
- Similarly, the remaining amount needs to be paid within the second working day after the purchase i.e. in case of spot contract.
- At the same time, nominal amount for brokerage cost and exchange cost would be deducted from the demat account.
- In case of sell order, additional charge for depository transaction is charged which also comes at nominal amount.

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• At the same time, investors' can take the physical delivery within the exchange specified date normally T+2 days, else they can hold the commodities on demat form and can trade for more commodities.

Example of trade dynamic for trading e-commodities

Suppose, e-gold is trading at Rs 5000 per gram on 27th November, 2012 and rises 15% to reach Rs 5750 per gram. This is how the trade would look like:

The trader has to pay 10% for taking the position on 27th November, 2012 which is Rs 500 (10% of Rs 5000 per gram) for delivery in demat account. Similarly, remaining 90% amount has to be paid within 2 working days after the purchase.

Similarly, at the time of purchase of commodities, brokerage fee has to be paid. Moreover, there other cost including exchange cost and local tax (if applicable) are also involved.

In case of seller, s/he is required to pay the same brokerage fee and exchange charge. However, in this case traders have to pay additional charge for depository transaction.

Key features of e – commodities

- Systematic investment and saving plans for small investors
- No storage or holding cost
- Cost effective ways of investment
- Option for cash settlement and physical delivery
- Investor can buy commodities in small denomination making market accessible to all kinds of investors
- Easy liquidity as investor can sell their Demat holding whenever necessary

Sample Contract Specification for e- commodities (in case of Gold)

Commodity Details	
Commodity	E-Gold
Code of contract	E-Gold
Specification	
Type of contract	Physical delivery and cash settlement
Quality	Refined Gold, .995 fineness
Trading system	Demat Account
Contract Size	1 gram
Commission	Applicable (nominal cost)
Margin Details	
Initial margin	10%
Special margin	In case of high market volatility, special margin, as deemed fit, will be imposed immediately on buy and sell side in respect to all outstanding positions, which will be applied from the same trading day.
Delivery margin	90% (within two working days of purchase)
Trading	
Trading period	Monday to Friday (except exchange specified holidays)
Trading unit	1 unit of E- Gold, which is equivalent to 1 gram of gold
Price quote/base value	Per 1 gram gold of 995 purity
Tick size	10 paisa per unit
Daily price range	5%
Delivery Related parameter	
Delivery Unit	1 unit and multiple of thereof.
Tender and delivery day	T+2 (working day from the date of transaction)
Delivery Logic	Physical delivery or cash settlement

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Difference between physical Gold and e-gold		
Particulars	Physical gold	E-Gold
Possession	Gold is owned by buyer.	Investors directly own gold units in demat form.
Timing	As per the jewelry shop timing.	As per the exchange specified timing.
Storage	At the risk of buyer.	Gold is stored electronically so no need to worry about the security.
Transaction charge	High due to marking and wastage charges.	The charges are low as only nominal charges are paid to exchange.
Physical delivery	Physical delivery in small denomination can result increase in cost.	Physical delivery is possible in small denomination without much wastage.
Liquidity	Selling involve burden of wastage charge which normally wipe out 10% to 15% of gold value.	E-gold can be sold in market value without any wastage.
Purity	In physical gold buying, the buyer cannot be 100% sure about the quality.	With e-gold there is no problem with purity.

Conclusion

The e-series commodity contract would be the first of its kind in Nepal which would help to address the requirement of thousands of small investor who are interested to invest in commodity market. The margin requirement and procedure to trade the e-series contract are easy to follow and investor can develop the habit of systematic investment plan and saving through investment in e-commodities as well. Investor who required bulk commodities in some time in future can keep on investing in small denomination and can opt for the physical delivery when their target is achieved. It is also important to bear in mind that this research paper is based upon the spot contracts and with proper adjustment futures contract can also be introduced to give even greater degree of flexibility for the numerous investors and traders. The reason for making the spot contract for the e-series contract is to allow the investor to have longer time frame to plan their investment. It may be the next major development in the futures market in the ensuing days.



Warehouses: An Integral Part of the Exchanges!

Oxford Advanced Learner's Dictionary defines "warehouse" as "a building where large quantities of goods are stored, especially before they are sent to shops/stores to be sold". Usually, warehouses can be referred to as those commercial buildings which are used for the storage of the goods. And the stored goods may range from any raw materials, packing materials, and spare parts, components to finished goods associated with agriculture, manufacturing, or commerce. For the trading of the agro commodities, warehouses play a significant role but trade value and trade volume reaches a satiable state when the warehouse receipts are used. Investopedia defines the "warehouse receipt" as "a receipt used in futures markets to guarantee the quantity and quality of a particular commodity being stored within an approved

facility". Such warehouse receipts can be used to settle the expiring futures contracts and the delivery of the actual commodity does not remain that essential. Like a share certificate carries all the share value with itself, a warehouse receipt carries the value and essentials of the commodity stored in the warehouse. They do not have a limited use; instead they can also be referred to as the vault receipts that can be used to settle futures contracts having the precious metals as their underlying commodities.

As per the Secured Transaction Act 2063, "document" is defined "as a document of a title or a receipt such as a bill of lading or warehouse receipt issued by a person carrying on the business of transporting or storing goods". The current problem with the warehouse receipt is that the term



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is just mentioned in the act but does not carry much meaning as there is no room for the execution. The same weakness of our lawmakers repeats again: they only identify things but do not give sufficient scope for the implementation. Mentioning about



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“warehouse receipt” in the act has taken through the forthcoming obligations: on one hand, general people are going through the mere expectation that they are going to be facilitated by the act which basically tends to facilitate the rural level farmers and on the other hand, the lawyers claim that though the act has mentioned about the receipt, it cannot be brought to the execution as there is no method to quantify the receipt. The act does not say anything about what to mention in the warehouse receipt and what are the basic requirements for the making of warehouse receipt.

Warehouse receipts basically intend to function as the certificates verifying the quality, quantity and standard of the commodity they have in the warehouse. The figures later in the article reflect an ideal functioning of the warehouse receipt financing and the pre-requisites that are essential for the establishment of such mechanism. Many sectors of the financial system need to make coordinated efforts for the development and success of the warehouse receipt financing mechanism. For the making of a warehouse receipt, an independent agency is required which will inspect the details of the products stored in the warehouse. And the agency that does the inspection should be nationally and internationally recognized for the job, only then can the general public actually trust its inspection. Other very important institution necessary for the system is an insurance company.

An insurance company is required that can evaluate the actual value of the commodities stored in the warehouse, and similarly give the rate the depreciation and other financial mechanisms. It's just that the farmers should be convinced that their product is insured. A reserve fund should be established which can bear the unwanted loss in the supply chain. Here we talk about the indemnity fund which should be established to safeguard the losses of farmer and warehouse level. Then the role of the commercial bank is essential that should identify the warehouse receipt as a legal document either for the deposit or the lending. In the current scenario, the major issue that comes up with the commercial bank is the hypothecation which should actually be addressed by the central bank of the country. And one more thing we should be careful about is that we are talking about the rural level farmers, so this service should

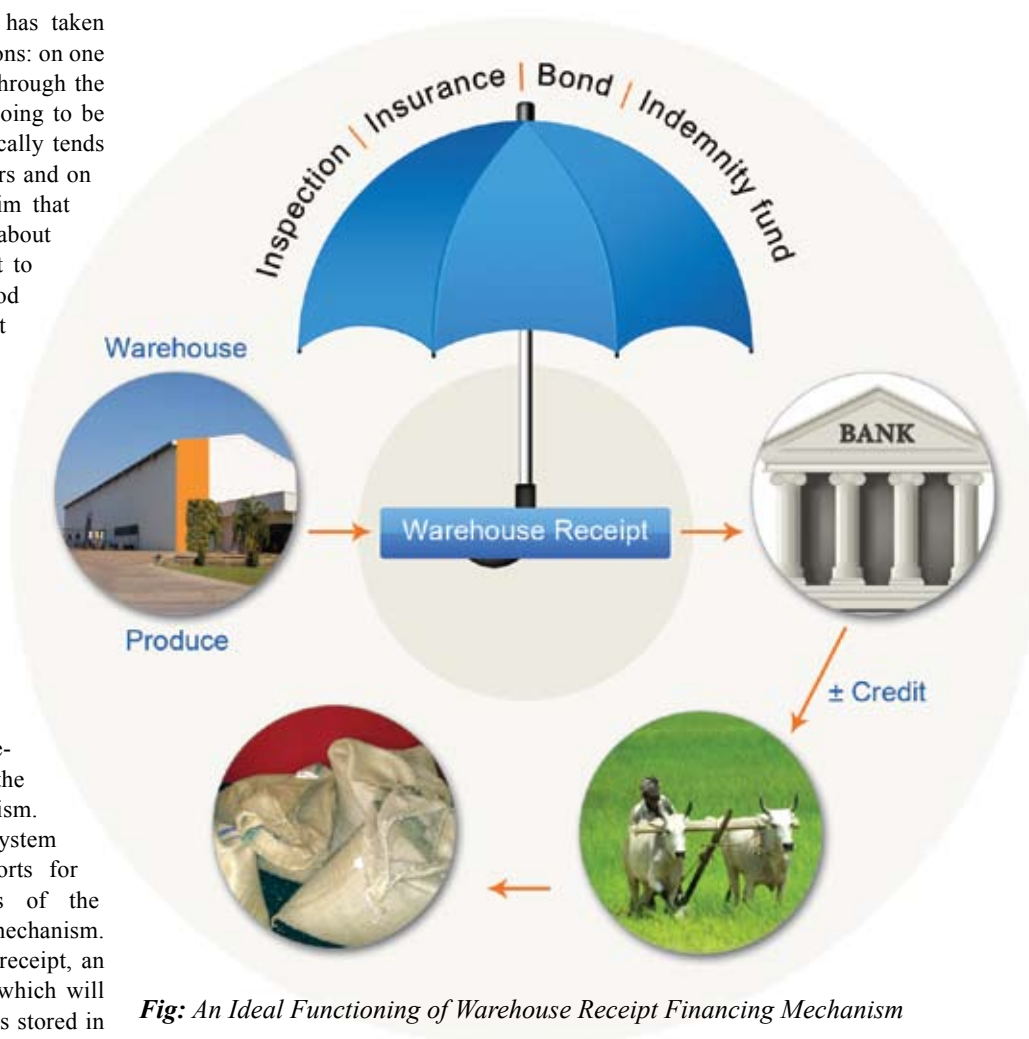


Fig: An Ideal Functioning of Warehouse Receipt Financing Mechanism

be very much accessible to that group of people.

When we talk about the possibilities of warehouse receipt and their financing in Nepal, I see immense opportunity. The figure attached later will give sufficient evidence for the argument above.

We can see in the figure that the warehouse capacity of the government owned Nepal Food Corporation is 95,520 metric tons of the products. Similarly the government owned Agriculture Inputs Company Limited (AICL) has a warehouse capacity of around 66,200 metric tons of the products. Many private sector business houses like Nimbus Group, Dugar Group, Golchha Group also have their warehouses for the storage of the commodities. Therefore, we can have a good idea that we do not lack the warehouses but just lack the initiation which is to be made by the government only. Regarding the costs, when we already have warehouses, the investment is only about the standardization and maintenance of the warehouses.

South Africa is a country which does



not have a separate act for the warehouses but still the warehouse, warehouse receipt and the financial system has been running successfully by keeping them under the contract law for now. This reflects the genuine motive of the country towards development and nothing else. Once the government comes up with a good motive and supports it with legal framework, we are in a position that we can give a good market to our production and we can bring back our reputation. We used to be the exporters of many agro commodities few years back but our carelessness have brought us to that situation where we need to import the agro products. Lets work together to get the reputation back!

Global Economy: An Introspection!



The global market of 21st century has become the most challenging since the inception of internationalization of world economies. With world super powers like the U.S., China and some European countries namely, Russia, Germany etc. almost controlling the global economy, it is indeed extremely ambiguous to distinctly recognize one nation as most successful nation in terms of innovation/technology, trade and most importantly growth perspective. At this point of time, it is essential to assess that in years ahead which of these super powers will control or lead the global economy and find answer to questions like, who will be the global leader hereafter?, will it be one among afore mentioned nations or any other emerging nations?

Economic Perspective

Despite having Gross Domestic Product (GDP) of \$ 15,076 billion (2011), the



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U.S, with the aftermath of financial crisis-2008, has not been able to recover itself significantly. With GDP growth rate of only around 2.6 percent on year-on-year basis for fiscal year 2012, the country's prospect for year 2013 is also expected not to be much optimistic. Having unemployment rate of around 8 percent for the year 2012, with inflation rate of above 2 percent, analysts and economists from around the world are forecasting a gloomy economy for U.S in the year 2013 as well. Moving on to Euro zone with GDP of \$ 13,114 billion for year 2011, with GDP growth rate of negative 0.6 percent on year-on-year basis, the economic bloc is struggling to recover itself from the plunging economy. Despite desperate struggle of finance ministers and governments of key countries from the single bloc via restructuring economic integration and policies-reforms, the economy is showing no sign of recovery. Euro zone, facing

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severe debt crisis, is having unemployment rate of above 11.5 percent by ending months of 2012. The future of Euro zone for the year 2013 and thereafter is looking pessimistic, opine economists from Euro zone.

How China, emerging super economy with a marvelous GDP growth rate of around 7.4 percent on year-on-year basis for the year 2012 (above 7 percent, quarter-on-quarter annualized), is actually roping the world economy? The question may be quite confusing to many. Despite Chinese GDP growth rate being at lower level compared to previous years, the growth rate of 7.4 percent in 'the year in turmoil,' i.e., 2012, considering entire global plunging economy could be attributed 'outstanding' in itself. With GDP of above \$ 7,000 billion for the year 2011, China has successfully controlled its inflation rate below 2 percent, showing the entire world that how well they are exercising their monetary and fiscal policies in a combined manner. It can be clearly observed, with unemployment rate of only around 4 percent for year 2012 and inflation rate of above 1.5 percent, China has efficiently managed trade-off between employment and rate of inflation. Similarly, India, an emerging nation from South-east Asia, with GDP growth rate of 5.3 percent, is also extending its wings to reach higher economic heights, eventually integrating with global economy.

Despite the growth rate of the U.S. not very attractive, if scrutinized from long run perspective, as exhibited in chart, the growth rate, however, looks encouraging for the economy. Similarly, having improved GDP growth rates for the year 2010 and 2011, due to prolonged recession at its peak, the growth rate for the year 2012 turned negative for Eurozone. Considering the trend of GDP growth rate and prevailing economic scenario in Eurozone, economists

have projected the economy to be under pressure in the year 2013 as well. The chart itself is indicating on which way the global economic powers are heading in the years ahead.

Factor Endowments

The economic perspective for any nation is scrutinized in terms of its growth rate, economic activities and most importantly factor endowments that each country possesses and how well it exaggerates available endowments. Different economies in different part of the world are blessed with natural factor endowments or resources, obviously at different scale. A country could be efficient, if only it is capable of taking advantages of available factor resources, whether it is natural resources (mines, water sources, and cultivable land), availability of labor or capital.

In the world economy, some countries are blessed with natural resources while others with factor of production like labor and capital. It is up to the policies and reforms that how well a country optimizes its resources to actually empower its economy.

Economic blocs like America and Africa have abundant reservoirs of metals like Platinum, Palladium, Copper, Gold, Silver etc., where as Middle-east economic bloc, combined with some European countries (OPEC) are rich in energy resources (oil and gas). Asia, on contrary, with cultivable land and favorable climate for agricultural products is endowed with agricultural resources both in terms of fertile land and labor. In addition, countries like the U.S., China, India, Japan and Australia are also the major players at international commodities market.

At present, while countries blessed with energy reserves are controlling world market with the available energy resources,

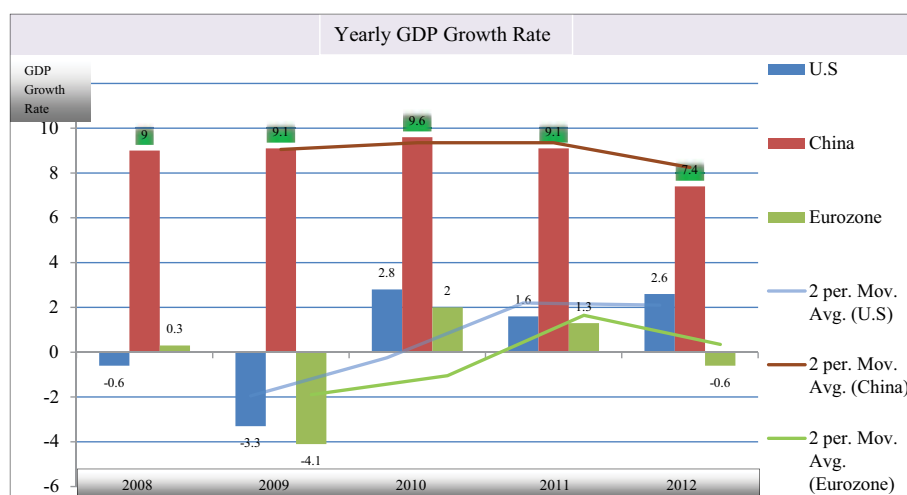
countries having metal mines (the U.S., China, Australia, South Africa, Chile etc.) are significantly manipulating the world market via precious metals like Gold and Silver. As precious metals are directly correlated with powerful currencies like USD, Euro and Pound, with the available factor endowments, these nations are actually controlling the entire world economy.

Asia giants, India, China and Australia combined with the U.S., in fact, on the other hand, being major components in world agro-regime, are eventually controlling the world food prices. No matter be it with natural causes like drought, adverse rainfall or any form of agro-diseases or be it causes related at policy level (tariffs, duty, inventory policy etc.), the truth is, and these countries are in reality controlling the world food regime.

Global Leaders

Considering economic growth indicators coming from world largest economies and their growth rates, it is indeed very difficult to identify a world super power, i.e., from economic perspective. Despite it is tough to select one economy as a potential economic super power, analysts and economists perceive, any economy, no matter from Asia, Europe or America, if optimize their factor endowments in line with their economic reforms/policies could be a world economic leader. Now, it can be predicted that China with its outstanding economic growth rate combined with its abundant factor endowments can be the next economic super power or the U.S. would continue its supremacy via revised economic reforms and policies encouraging overall economic prosperity, eventually creating pull effect to entire global economy or Euro zone emerging with economy-friendly policies reforms to revive itself and support global economic arena. Only time will tell which economy would be the next world supreme economic bloc and how they might impact the global economy.

Finally, we could be hopeful and keep utmost faith over supremely powered and informed political leaders, diplomats and finance ministers of Eurozone and their policies/reforms to support and grow the economy in the coming years, eventually supporting the entire global economy. After considering all myths and facts and economic indicators coming out at the end of the year 2012, it seems that for the year 2013, China, followed by U.S would lead the global economy and be a global economic leader for the year, at least.



Is the bull run in gold over?



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Gold has been bullish for the last several years, precisely 12 years. The bull run which had started in 2002 is now looking like its run out of steam, hitting the \$1900 per ounce in 2011 before making its way south. So for all the gold bugs, is the pleasant journey to the north finally coming to an end? Is there no more money to be made in gold?

While most banks still forecasts for gold to hit record highs some factors state otherwise. The most notable being that 2012 is the only year in the last 12 years that gold hasn't broken its previous yearly high. The status of gold as a safe haven instrument seems to be disappearing which becomes even more apparent if we analyze the recent events in the global financial market.

The latest monetary stimulus program by the Fed saw a spike in gold prices, but it was brief and was quickly met by selling pressure. Even the fright over the U.S. budget failed to revive much interest in the commodity unlike previous times. In fact gold has recently touched a 6 month low at the start of the New Year. So the prospect for gold going higher has never been as weak as now.

The factors that had been driving gold prices higher over the last couple of years were the Federal Reserve and its record low interest rates, Quantitative Easing (QE) and struggling economies on both sides of the Atlantic. But with troubles in Europe waning and the effect of QE3 having little or no impact, the upward movement in gold seems to be limited.

So where does the precious metal go from here? The answer it seems is never as quite easy.

If the factors that were propelling gold to new highs were to happen again, the precious metal could well get back on its track to newer highs. These factors include a weaker American economy, trouble in Europe and unrest in the Middle East. More specifically, anything that weakens the dollar such as a weaker interest rate or quantitative easing is beneficial to gold. Likewise, the factors, that creates panic among the general masses also contributes to gold prices. These factors might be unrest in the Middle East or Europe resulting from conflicts, austerity measures etc.

Ongoing QE3 regime in the U.S.-\$85 billion of asset purchase a month, which is expected to continue 'until the situation improves,' is believed to be the catalyst for bull run in gold. 'Easy-money policy' of Euro zone to deal with the ongoing prolonged recession and shrinking investors confidence in dollar and Euro index could

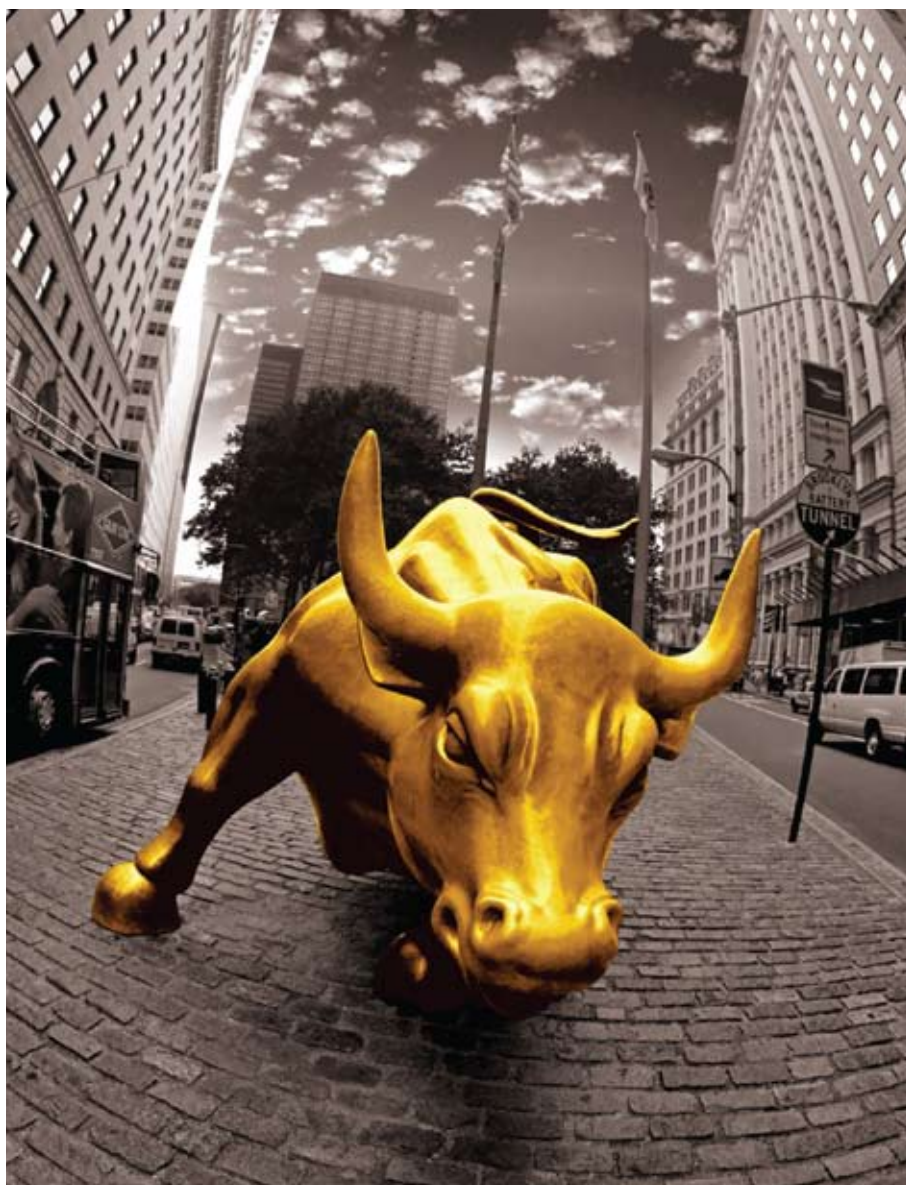
be other driving factors for hawkish gold market.

If none of these things were to happen in the future and we appear to live in a picture perfect world, gold doesn't seem to be the best investment option. A better alternative to investment in a picture perfect world would be its sibling, silver. Copper or any other precious metals would also fare well. This is because, if the economy recuperates and there is expansion in manufacturing and expansion activities, use of precious metals such as silver and platinum as well as industrial metals such as copper would increase, thereby raising its demand and eventually prices.

Amidst improving Chinese Purchasing Managers' Index (PMI), it is clear that the second largest economy of the world is eventually heading towards economic prosperity in coming years. With improving

industrial and manufacturing indicators, the demand for industrial metals like copper, silver, platinum and palladium are indeed expected to gain thrust ahead, favoring the hawkish investors or traders.

But for an average investor, especially in a country like Nepal, access to such information would be limited and untimely. This could result in loss of potential profits. All hope is not lost however. Investors in our part of the world can still access financial news and can get up to date information on the happenings in the financial world. One just needs to click on Bloomberg or CNBC to get updated information. They just need to study the long term trend of the major economies are heading. This could give rise to a potential for investment. Last but not the least, investment like any other, is a science. Take it with a pinch of salt and do your homework correctly.





Business of Olympics:

The Facts Within!

The Olympics- an unparalleled sporting event in the history of mankind- is an event which accounts the spirit of the sportsperson resilience against the face of competition. The event, held once in every four years, is a spectacle in itself given the buzz around the opening and closing ceremonies coupled with groundbreaking stories of immense endurance and grit during the games. The impact of such stories is reverberated worldwide as nations churn out the available resources to stand abreast in the final medal tally. However, given the limited scope of discussion narrowed to me, I am not here to write about the enduring individual stories of success or the rise of sportspersons from the slums to stand at the helm of a particular sport. But, yours truly will try to articulate the importance of the Olympics in the overall economic aspects of a nations' well-being amongst others.

The business of Olympics has slowly but surely started to gain importance as years aged on. Innumerable factors help to pre-determine the economic parameters of hosting an Olympic game. The management team- the sole authority on which the success of an Olympic games

hinges upon- is basically the lifeblood to the games providing everything from the basic amenities to scheduling the various games. In terms of the economic impact of hosting an Olympic, there are short term benefits that are derived from the humongous expenditure in and around the Games and the long term benefits include the enhanced interest with the tourism of the corresponding country and a potential investment sector. Olympic aficionado will argue that a narrow focus on the economic aspects and benefits of hosting one will certainly miss the point. For those, the most important bottom line is this- over the past 10 Olympic games, the host nation has won 54% more medals on average than it has won in Olympics it did not host. If medals are your preference, the preceding sentence exhibits a high return on investment.



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Research Paper & Articles

Impact on Currency Markets

A person of equal intelligence measure could question this topic saying that the games will not affect the currency markets given the magnitude of the games vis-à-vis the global currency markets, which has a mindboggling seven billion dollar as its daily turnover. However, irrespective of the magnitude, from an economic scenario, this does make some sense. In a standard open economy model, government spending such as constructing the various sites and improving the given infrastructure typically leads to real appreciation of the concerned currency with due respect to the market forces of demand and supply in play. Also, the host nation is likely to experience an influx of visitors from all corners of the world. This would, in economic terms, be recorded as a services export in the balance of payments and consequently would enhance the demand for the local currency.

The results suggest that a corresponding Olympic currency would obviously outperform over time. Even though the investment within the Olympic game is a small percentage of the GDP (for example, around 0.8% for the UK 2012 games), one potential explanation is that there is a positive selection bias in picking the host country. Countries with stronger growth in the years before a decision bid would be able to invest more in their Olympics bid, increasing the chances of winning the games. This is even more so if the potential growth is supported by a structural story that lasts longer than just the perceived business cycle. The Beijing Olympics are an obvious case in mind.

Overall, the initial question still hinges whether the games do affect the global currency markets directly or not? However, given the limited scope, the Olympics may be a rather simple tool to pick long-term winners in the competitive currency markets with good long-term appreciation potential.

Impact on Stock Markets

A country hosting an Olympic game has numerous impacts on the stock market of the corresponding country as well. From the benefit of enhancing the country's reputation on the global map as a tourism and investment channel, the announcement of a winning Olympic bid means major enhanced investment in infrastructure, including stadiums, accommodation and transport to prepare for the actual games. For example, as part of the 2012 Games, the London Olympic Delivery Authority had awarded \$9.4 billion in contracts to the surrounding businesses, and the government

had invested an additional \$10.2 billion in transport and infrastructure projects, constituting around 0.8% of UK GDP. This investment offers potential and immediate benefits for local businesses, in particular for sectors including construction and engineering.

How might the perceived benefits be reflected in monetary values in the stock markets? If markets were forward-looking, we would expect the benefits of the Olympics to be priced into local equity markets at the time of the announcement, since the approximate magnitude of required investment would be known in advance. Various studies have examined the impact of the Olympic host announcement on stock prices, with mixed inferences. While there is a slight variation among the host nation's stock markets, all but China and the UK had positive returns in the three days following the announcement. The Greek stock market stands out as the top performer: it outperformed the benchmark by almost 8% after the 1997 announcement of the 2004 Games. For the successful London bid for 2008, the day following the announcement was the unfortunate bombings in the heart of the capital, causing the FTSE to fall by 1.3%, before rebounding into the bullish area. China's winning bid announcement coincided with the turbulent markets amidst the global downturn in July 2001, while the actual games in the summer of 2008 took place against the backdrop of the financial crisis. The equity markets in China, Korea, the US and Greece outperformed leading up to the Games, whereas those in Spain, Australia and the UK underperformed. The latter three equity markets each suffered from the troughs in the global cycle leading up to 1992, 2000 and 2012 games. Given the below-average performance of the Brazilian stock markets, the investors will be hoping for greener days when the countdown for the games commences.

Rio de Janeiro in 2016: What to expect?

Brazil, specifically Rio de Janeiro, will host the Olympic Summer Games in 2016. Two years before the sporting spectacle, it will also have the honor of hosting the Football World Cup—arguably the second most watched sporting event after the Olympics. While both events presents significant organizational and logistics challenges, the events will also offer a unique opportune platform to showcase Brazil as an increasingly cosmopolitan and globally integrated economic powerhouse.

Brazil is currently the seventh-largest economy in the world in US Dollar-

denominated GDP terms (PPP-adjusted), and the fifth largest in terms of land mass and population, but finished a meager 17th in the final medals tally in Beijing 2004. Furthermore, amongst the emerging BRICS nations, Brazil has been perpetually below the perceived economic weight in the Olympics, so does our immediate neighbor, India. As has been the experience in previous editions of the Olympics, Brazil will hope to benefit from being the host nation and collect a number of awards that is more in line with its perceived economic weight in the world and within BRICS group.

In recent history, Brazil has embraced a set of conventional macroeconomic policies that have allowed the economy to overcome a number of structural imbalances and attract record high levels of capital floating in from abroad. The perceived benefits of growth and overall macro-financial stability have weighed on the income scale of general people. However, the opportunities presented by the inclusion of the Games should not be neglected, as there are as many middle-class and high-income earners in Brazil in comparison to the combined population of France and Britain. The days of large fiscal deficits, high inflation and debt levels, external imbalances have slowly but surely given way to smoother business cycles.

Despite the glorified potentials, potential growth, i.e., GDP of 4% per year, is still low in absolute terms in comparison to its immediate counterparts in the BRICS category.

This is a reflection of structural obstacles to growth that have not yet been addressed. Some of which are as follows:

- Large infrastructure deficits after many years of low investment;
- Low domestic savings;
- High tax burdens;
- High levels of labor informality;
- Comparatively low levels of human capital; and
- Low degree of openness to trade.

In this regards, playing host to two of the world's largest sporting events will definitely present an opportune moment to boost investment in infrastructure amongst others. The official Brazilian data suggests that the country will spend a whopping US\$ 50 billion in the next seven years in preparation for the games. Hopefully, this will provide the necessary impetus to generate a long-term multiplier effects in the economy and boost the stagnating GDP growth in the years to come. So, for all the sports enthusiasts out there, Rio is the destination to be when the torch is lit signaling the beginning of the Olympic Games in 2016!