Investor Guide

PMEX

Pakistan Mercantile Exchange

Your Local Gateway to Global Markets

Contents

Introduction

Pakistan Mercantile Exchange Limited (PMEX) is Pakistan's first and only multi-commodity futures exchange, which is licensed and regulated by the Securities and Exchange Commission of Pakistan (SECP). It is the largest exchange of the country in terms of members and the second largest in terms of value traded after Pakistan Stock Exchange (PSE). Its shareholders include National Bank of Pakistan, Karachi/Lahore/Islamabad Stock Exchanges, Pak Kuwait Investment Co, and Zarai Taraqiati Bank.

The Exchange offers a diverse range of domestic and international commodities and financial futures. With a sophisticated infrastructure and state-of-the-art technology, PMEX provides a complete suite of services i.e. trading, clearing & settlement, custody as well as back office, all under one roof. The Exchange has a member base of 329 and the average daily trading volume is normally in the range of PKR 3 to 5 billion.

PMEX's international affiliations include Association of Futures Markets (AFM) and Futures Industry Association (FIA).

Contracts/ Products

PMEX offers products that cater to the needs of all types of market participants such as investors who invest in commodities for long term, traders who work with the aim of earning profit based on their market strategy and hedgers who trade to mitigate their risk, using commodity futures market.

There are 2 kinds of contracts offered at PMEX.

1. **Deliverable Contract:** This is a contract which is settled through giving/taking the actual delivery of the underlying commodity on final settlement after the expiry day. However the investor/trader has the right to square off their open positions at any time before expiry and booked their profit/losses in term of cash

2. **Cash Settled Contract:** There is no obligation of giving/taking deliveries of underlying commodities after the expiry of contracts. The profit/loss transferred into the respective traders accounts on final settlement day if their positions remained open on expiry. However the investor/trader has the right to square off their open positions at any time before expiry and booked their profit/losses in term of cash.

The commodities being offered for trade at PMEX can be clubbed into four main categories: precious metals [Gold & Silver], agricultural [Wheat, Rice, Palm Oil, Cotton & Sugar], energy [Crude Oil] and financial futures [KIBOR]. Within each commodity, the Exchange provides different contracts in terms of currency denomination, contract size and tenor. Though the Exchange offers various commodities for investment/trading, bulk of the trade comes from gold, silver and crude oil.

Products	Contracts	
	Deliverable	Cash Settled
Metals	Mini Gold Contract Tola Gold Contract Milli Tola Gold Contract	Gold 100 gram Contract Gold Kilo Contract Gold 50 & 100 Tola Gold 1 oz, 10 oz & 100 oz US $ denominated Silver 500 oz,100 oz &10 oz Us $ denominated Milli Ounce Gold Contracts in USD, EUR , GBP and JPY
Energy	-	Crude Oil (10 & 100 barrel) US $ denominated
Agricultural	IRRI-6 Rice Futures Contract Weekly IRRI-6 Futures Contract Palm Olein Futures Contract Sugar Wheat Red Chilli Weekly Futures Contracts	I-Cotton US $ Denominated
Financial	-	KIBOR Futures Contract

The price trend of the above commodities for the FY 2014-15 is affixed with this document as Annexure A.

PMEX Milli Tola Gold

In December 2013, PMEX launched 'Milli Tola Gold', a product aimed at all income strata with special emphasis on low income groups and savers, who are seeking a convenient, secure and trusted way to buy, sell and accumulate gold as savings. Milli Tola, as the name suggests, represents 1/1000th part of a Tola which can be bought in multiple of approx. Rs 50. Following are the salient features of the product:

- **Start from little**: Buy Gold with an amount as low as approx. Rs50
- **Incentive:** Free of cost custody/Free Insurance
- **Security:** Gold is kept in secure vaults
- **Convenience:** Hassle free buying and selling of gold from anywhere with a single click
- **Liquid**: Easily en-cashable within 24 hours
- **Physical delivery:** If required, you may withdraw gold from PMEX
- **Monitoring:** SMS Alerts of all transactions are sent by PMEX
- **Purity:** Authentic 24karat (99.90%) Gold
- **Transparency:** Price is fair and efficient

Milli Ounce Gold Futures Contract

PMEX is in a continuous pursuit to add new products to broaden its product suite in order to cater to the needs of a diversified group of investors. Previously, Exchange has listed various gold contracts in different denomination and size. However, keeping in view the demand of the market participants, the Exchange has come up with "**Milli Ounce Gold"** futures contract, which has been duly approved by Securities and Exchange Commission of Pakistan (SECP).

The Exchange has listed the following four futures contracts under Milli Ounce Gold and made them available for trading from June 17, 2015:

1. PMEX USD Gold 2. PMEX Euro Gold 3. PMEX GBP Gold 4. PMEX JPY Gold

The Exchange has also introduced a special trading functionality named "Composite Order Trading System" (COTS) to trade Milli Ounce contracts. Using this new functionality a trader may take two positions simultaneously in milli ounce contracts with a single click. In other words, if a trader wants to take simultaneously long position in the PMEX USD Gold and short position in the PMEX EUR Gold, he will place a single order through COTS. The long gold in the first trade and the short gold in the second trade will 'cancel' each other, leaving the trader with an open EUR-USD position only.

Talking on the auspicious occasion of launching of these contracts, Mr. Ejaz Ali Shah, Managing Director of PMEX said, "Over the years PMEX has been trying to augment its product portfolio to cater to the needs of a wider range of investors. Addition of Milli Ounce futures contracts will not only diversify product portfolio of PMEX but will also offers opportunity to its brokers to attract new clientele and enhance their income".

Milli Ounce Futures Contracts Specifications				
	PMEX USD GOLD	PMEX Euro Gold	PMEX GBP Gold	PMEX JPY Gold
Trading Day	Monday to Friday			
Trading Hours	05:00 am to 02:00 am PST			
Unit of Trading	Milli (0.001)Troy Ounces			
Trading System	PMEX ETS			
Price Quotation	US Dollar per troy ounce, upto two decimal places	Euro per troy ounce, upto four decimal places	British Pound per troy ounce, upto four decimal places	Japnanese Yen per troy ounce, upto two decimal places
Tick size	$ 0.1 per troy ounce	EUR 0.0001 per troy ounce	GBP 0.0001 per troy ounce	JPY 0.01 per troy ounce

Red Chilli Weekly Futures Contracts

Red Chilli is a potent ingredient in various cuisines around the world. It is produced seasonally but consumed throughout the year. Pakistan continues to remain among the top five producers in the world. The varieties grown in Pakistan are of high quality and superior to other varieties grown in the region.

In Pakistan, Sindh is the largest producer of red chilli with annual production at 85,000 tons which amounts to 85% of the country's produce. The production pf red chilli is concentrated in the small town of Kunri, also known as the 'Chilli Capital of Asia", located in Umarkot, a district of Sindh province. Other cultivation hubs in Sindh are Mirpur Khas, Sanghar, Badin, Tando Muhammad Khan, Khairpur, Shikarpur, and Ghotki.

Historically in Pakistan, Red Chilli production and its prices have remained highly volatile due to the lack of dependable storage facilities and credible trading platforms. Often growers are forced to sell their produce at lower price where the middle men would remain the key beneficiary, taking away a major chunk of the sellers' margins.

Keeping in view the prevailing circumstances, PMEX along with Pakistan Agriculture Coalition (PAC), Agility Pakistan (Pvt.) Limited and SGS Pakistan (Pvt.) Limited envisioned to bring the red chilli trade on the Exchange. In this regard, the SECP has approved the listing of *Red Chilli Weekly Futures Contract* at PMEX. It is the first spice to be traded at the Exchange's sophisticated infrastructure and state-of-the-art technology based trading platform.

The following three Red Chilli Weekly Futures Contracts have been listed at the Exchange:

1. PMEX Red Chilli Weekly (Grade A+) Futures Contract
2. PMEX Red Chilli Weekly (Grade A) Futures Contract
3. PMEX Red Chilli Weekly (Grade B) Futures Contract

The salient features of aforementioned futures contracts include compulsory delivery, quality certification and availability of multiple grades of red chilies for trading.

In red chilli trading at PMEX, Agility is responsible for providing warehousing and logistic facilities, SGS has been mandated to issue the quality certificate and PAC is playing the role of the trade facilitator.

The listing of these contracts at a regulated trading platform will ensure better price to growers, offer superior quality product to the buyers at a competitive price and provide ease of buying and selling of the commodity. Furthermore, these contracts will pave the way for the listing of similar contracts for other agricultural products such as onions, potatoes and tomatoes.

PMEX is constantly striving to list new agricultural products at the Exchange to develop an active futures market that provides a neutral platform for farmers and traders and help make Pakistan's agricultural sector more competitive.

Red Chilli Weekly Futures Contracts Specifications			
Grade	**A+**	**A**	**B**
Trading Days	Monday to Saturday		
Trading Hours	9:30 am to 6:00 pm		
Unit of Trading	1 Metric Ton		
Price Quotation	Price quoted shall be in rupees per Maund (Where 1 Maund = 40 Kg), Ex Kunri excluding all taxes.		
Delivery Unit	1 MT		
Quality Specifications			
Variety	Maxi – Commonly known as Dandi Cut		
Shape	Round, tipped		
Appearance/Color/Size	Bright shiny red to orange (orangish red), visually homogenous in size	Red to orange (orangish red), visually partially equal in size	Red to orange but slightly orange content should be slight, uneven in size
Moisture	5-8 % Max	5-10 % Max	5-12 % Max
Aflatoxin	10 (B1, 5 ppb) Max (parts per billion)	30 ppb (parts per billion) Max	
Extraneous Matter	1% Max	2% Max	2.5% Max
Damage/Discolor	2% Max	3% Max	5% Max
Visual Mold	3% Max	5% Max	8% Max

Products in Pipeline

In order to realize the potential of PMEX and to define its universe of products, the Exchange has considered the commodities that Pakistan imports, exports or produces along with products listed on various leading international exchanges. In this respect, PMEX has shortlisted over 70 products which meet the requirements to have a viable futures contract in our environment. These new products are a mix of Local / Physical Deliverable Futures and International / Cash Settled Futures, which we aim to introduce in the next 5 years.

Accordingly, the products which the Exchange is currently working on are: Brent Crude Oil, Mill Specific Sugar, Copper, Milli Ounce Gold Contracts denominated in Swiss Franc, Canadian Dollar and Australian Dollar, Platinum and Natural Gas.

Market Timings

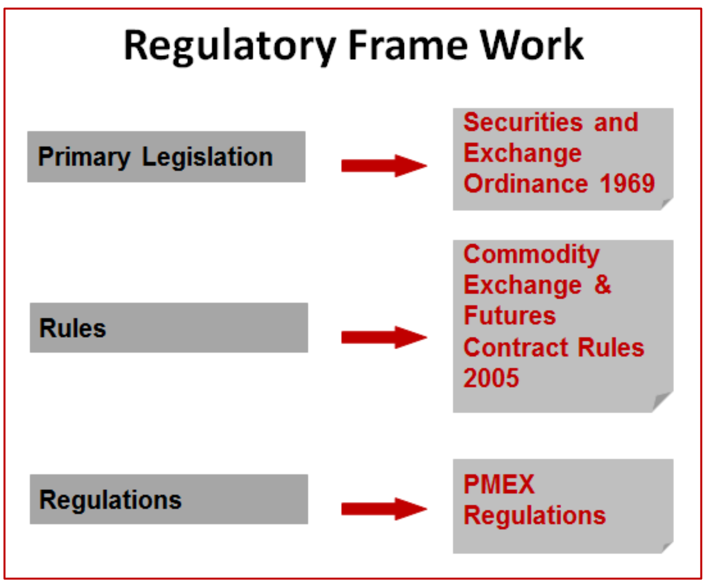
Current market timings of the Exchange are:

Monday: 3 am to 2 am (23 hours)
Tuesday – Friday: 5 am to 2 am (21 hours)

To facilitate PMEX clients, Customer Support Services are available five days a week throughout the trading hours.

Regulatory Framework

At PMEX, a comprehensive regulatory framework has been put in place to protect the interest of all the stakeholders. This framework comprises of three layers:



Regulator

The apex regulator of PMEX is the Securities and Exchange Commission of Pakistan (SECP).

SECP is the financial regulatory agency in Pakistan whose objective is to develop a modern and efficient corporate sector and a capital market based on sound regulatory principles, in order to encourage investment and foster economic growth and prosperity in Pakistan. To learn more, visit http://www.secp.gov.pk/

Trading Systems at PMEX

NEXT Trading Terminal

NEXT is a web based trading terminal that enables PMEX Brokers and Traders to buy and sell commodities online.

Features:

- Market Watch (live rates)
- Buy (Order Types: Market, Limit, Stop Loss Limit, Stop Loss Market, Trailing Stop Market)
- Sell (Order Types: Market, Limit, Stop Loss Limit, Stop Loss Market, Trailing Stop Market)
- Market By Price (MBP)
- Working Order (As placed by different Order types)
- Position (Position summary)
- Message Window (Actions performed, Exchange Alerts)
- News Window (Exchange Alerts)
- Reports (Client Portal, News Wire, Order Details, Message Logs, Risk Watch, Trade Details, Position Details, Chat, Economic Calendar)
- Profile (Contract Profiles, Change Password)

Trader Account Management System (TAMS)

Trader Account Management System is used to perform the following functions:

UIN (Unique Identification Number) Management	Trader Management	User Management
• UIN Entry • Unfreeze UIN • Freeze UIN • UIN Information	• Assigning specific commodities • Assigning commodity limits • Increasing margins • Suspending a trader • Setting Trader Threshold	• Add User • Edit Pending • Edit User • Assign Traders • Activate User • Suspend User • View User Log • Re-Issue USB Key • Pending Re-Issue USB Requests • Add KATS Id

Clearing, Settlement, Reporting (CSR) System

Clearing, Settlement, Reporting (CSR) System is used to perform the following functions:

Daily Operations	Setup	Market Information	Operation Reports	Surveillance Report
• Funds Management (Funds allocation, Funds Withdrawal, Funds Transfer and Approval, Securities Release) • Commission Management (Commission Upload and Download) • Gold Management (Gold Withdrawal, Delivery, Receipt)	• Bank Account Management (Bank Account Numbers, Primary Bank Accounts) • Key Personnel Setup	• Session Management (Session Market Price, Session History, Spread Market Price) • Contract Reports • Margins Reports • Commodity Reports • MGold Market Prices • MGold Session Prices • MGold Contracts	• General Ledger • Trader Funds • MiniGold Receipts Trader Vault Transactions • Settlement Call • MGold Trader Margin • MGold Daily Settlement • MGold Withdrawal Request Status • Key Personnel Details • Broker Exposure Client Wise • Trader Balance	• Trade Details • Position Summery • Account Statement • Daily Statement • Client Margin Call • Ticket Trade Details • MGold Trade • Vault Positions • MGold Positions • Order Details • Account Statement History • Daily Statement History

eBooks

While the rest of the systems are offered free of cost to clients, PMEX eBooks is a paid service offering a tailored solution that encompasses all the requirements including accounting at company and branch levels with additional features such as user role definition and access control, commodity/client specific commissions, general ledger and synchronization with PMEX CSR System.

PMEX Brokers

A commodity broker is a firm or an individual who executes orders to buy or sell commodity contracts on behalf of clients and charges them a commission.

PMEX has over 300 members out of which currently 118 are eligible to trade & registered with SECP. To access complete list of registered brokers, visit http://www.pmex.com.pk/investor/registered-broker.php.

How to open an account with the broker

- Fill out the PMEX prescribed Account Opening Form
- Carefully read and sign the Risk Disclosure Document
- Provide the basic KYC details

Individuals	Companies and Firms
• Date of birth • Gender • Address • Phone No. • Email • CNIC • Occupation • Annual income in last 3 years	• Board Resolution • Certificate of Incorporation • Date of business commencement • National Tax number • Sales tax registration number

Risk Management

At PMEX, risk management philosophy is based on applying best international practices to local conditions. The methodologies employed at the Exchange are proactive in nature and designed to strike an efficient balance between prudence and reality.

The risk management framework has stood up well since inception and even during periods of high market volatility and turmoil. In addition, the Exchange continuously undertakes original research in order to further improve existing practices. Measures like pre-trade checks, client-level margining, no-netting, segregation of funds, auto-liquidation and multiple intraday mark-to-market ensure a robust risk management framework at the Exchange.

Research

PMEX believes in educating the investors and considers it an utmost priority. In line with this, the Exchange develops and disseminates comprehensive commodity reports on a daily, monthly and yearly basis. These free of cost reports provide our clients with a well-rounded and diversified overview of the commodity market.

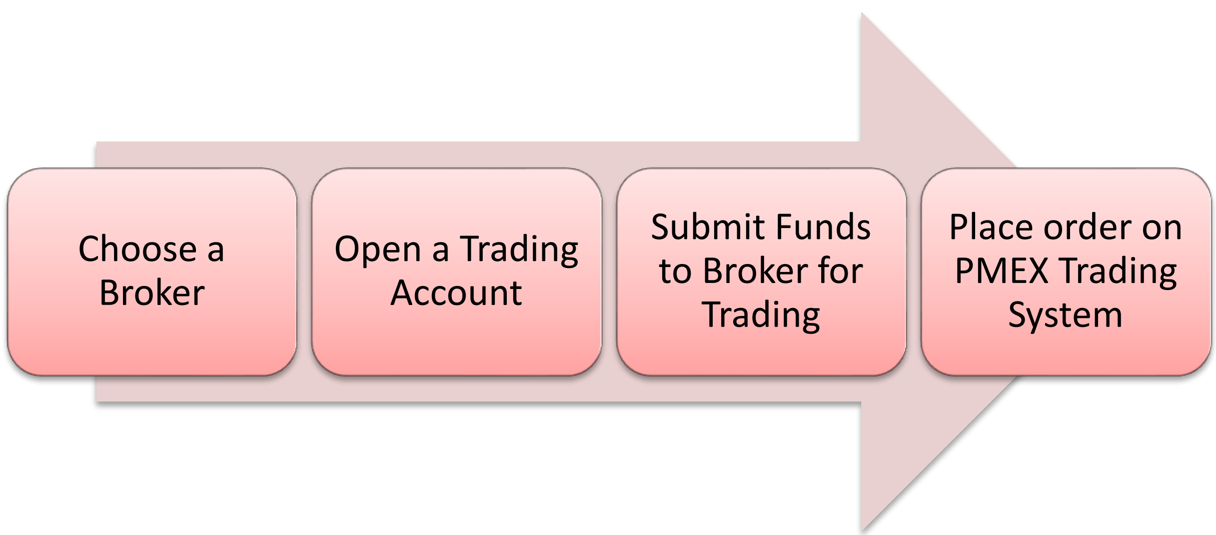
In addition, the Exchange has developed a Research Portal, on its website, whereby Commodity Roundups are updated on a daily basis. This portal also provides a platform to other brokerage houses to showcase their reports.

Training

PMEX is offering Futures Trading 101, biweekly free of cost training sessions, scheduled every Tuesday and Thursday from 3:00 pm to 5:00 pm at PMEX premises. The training is specially designed for market participants to provide an in-depth knowledge of commodity fundamentals, technical analysis and listed products at PMEX.

In addition, it also equips trainees with hands on experience with the Trading System at PMEX. To register, log on to www.pmex.com.pk

Steps of Trading at PMEX



12 Cardinal Mistakes of Commodity Trading

The following excerpt is taken from an article titled "12 Cardinal Mistakes of Commodity Trading" written by Walter Bressert.

1. Taking small profits and letting your losses run

A very common mistake among futures traders is taking small profits and letting losses run. This is often the result of no game plan. After one or two losing trades, you are very likely to take a small profit on the next trade even though that trade could have turned into a large profit-maker that would offset all your losses. Letting your losses run often happens to new futures traders and is not uncommon among professional futures traders. After entering a market, you don't know where to get out. Once you start losing money your tendency is to let your loss get larger and larger as you hope that the market will retrace to let you break even — which of course, it seldom does.

This mistake is overcome by using predetermined stop/loss orders to prevent your losses from running, and following your game plan to take profits at your profit objective.

2. Overstaying your position

One of the most common mistakes of trading futures is overstaying your position, or simply failing to take profits at a predetermined level. There seems to be a natural law that the market is only going to allow one individual so much money before it starts to take it back. Yet, it is when you have these profits, especially paper profits in your account that you often try to get the last nickel out of the trade.

If the market meets your price objective and you are still in the market without a close stop/loss order, you are overstaying your position. All too often the market breaks sharply through your "mental stop" and from that price level, you watch your paper profits disappear before your eyes. Then you decide to hold on for a small rally, and the market never rallies enough. It drops back to break-even, and now you really begin hoping. Next thing you know you have a loss. Be aware that a large profit can turn into an even larger loss.

This mistake can be overcome by the use of trailing stops raised closer to the market as your price objective is approached, or automatically taking profits at your price objectives.

3. Averaging a loss

This is usually a holdover from trading stocks. In futures, with five or ten percent margin, averaging a loss can be disastrous to say the least. A typical approach is that after you have bought a future and it drops lower, you might figure that since it was a good buy then, it is a better buy now. You can also justify averaging down by figuring you will have a lower average entry price and require a smaller move to break even. Unfortunately, you will lose twice as much if the market continues against you, as it almost always does.

There are approaches that will allow you to buy a market at one price level, add on at a lower level and add on again at even a lower level, as long as this was your predetermined game plan before you bought the first contract. You must also have an unmovable stop/loss order that takes you out of all contracts.

This mistake is easily overcome by having a strict rule that you never average a loss unless your predetermined game plan called for buying the market at lower levels with an unmovable stop/loss order to take you out of all contracts if it is hit.

4. Lack of a game plan

90% of the commodities traders have no game plan. That means they do not know what to do if they are wrong and they do not know what to do if they are right. The large paper profit they made often turns into a large loss because they did not know where to get out.

One of the most important moves a futures trader can make is to develop a game plan consisting of these basic guidelines.

- Know how and where you are going to enter a market.
- Know how much money you are going to risk on each and every trade.
- Know how and where you are going to get out if you are wrong.
- Know how and where you are going to take profits if you are right.
- Know how much money you are going to make if you are right.
- Have a Safety Stop in case the market does the unexpected.
- Have an approximate idea of when a market should meet your objectives; when it should begin to make a move, and if it has not done so, get out!

5. Lack of money management

Many commodity traders refer to a trade that might lose them $500 if they are wrong and make them $1500 if they are right as a three-to-one risk/reward ratio – a “decent” trade. Yet, that is wrong because the most important aspect of a trade is not how much you are going to lose if you are wrong, or how much you are going to make if you are right, but what are the odds of making money, of being right. What are your odds of losing money, of being wrong?

Good money management means you know your profit objective and the odds of being right or wrong, and control your risk with stops. You are better off with a trade where you might lose $1000 if you are wrong, or make $1000 if you are right, that would work eight times out of ten, than to take a trade where you would make $1500 if you are right and lose only $500 if you are wrong, but works only one time out of three.

Obviously, this mistake can be overcome only by developing and testing money management concepts.

6. Failure to use protective stop/loss orders

This fits right in with a game plan and money management. It is the failure to use stop/loss orders once you enter a market — not mental stops, but real stops that cannot be removed. All too often commodity traders use mental stops because in the past they have been stopped out and then watched the market move in their direction. This does not invalidate the use of stops, it means their stop was in the wrong place — they did not have a good technical stop.

When a stop/loss order that was determined before you entered the market is hit, it means your analysis was wrong, your game plan was wrong. With a mental stop, as soon as the market has gone through your stop price, you no longer act like a rational human being. You are more likely to make mistakes because you are now operating on fear and hope.

There is an old saying that the first loss is the smallest. It is also the easiest to take, even though it may seem hard at the time.

The only way to overcome this mistake is to have an unbreakable rule (and the discipline to follow it!) that stop/loss orders must be placed each and every time the market is entered. The easiest way to take a loss is to have the stop order waiting before the open or immediately after entering the market. Do your homework when the market is closed, and place your order before the open. Another rule to follow; under no circumstances should an initial protective stop/loss order be changed to increase your risk, only to reduce it.

7. Meeting margin calls

Most often, meeting a margin call will only increase trader's loss. A margin call means trader is wrong in the market and his position should be closed out. Margin calls are met because people do not want to admit being wrong and take a loss; because they hope the market will eventually go in their direction. Margin calls are the result of making one or more of the 12 CARDINAL MISTAKES such as not having a game plan, not using stop/loss orders, overtrading or poor money management.

8. Increasing your commitment with success

One of the most dangerous mistakes traders can make in trading commodities is to increase their exposure, as they become more successful. Just by being successful trades will risk more dollars per trade because they have more money. But, because they have more money (and confidence) when successful, they also likely to take larger percentage risks. Not surprisingly, this ruins more futures traders than a series of small losses.

Traders can overcome this mistake by not allowing their percentage commitment to increase as they realizes profits and by maintaining the stop/loss discipline.

9. Overtrading your account…

…Or risking too large a percentage of equity on any single trade, either with too large a dollar risk per contract or by trading too many contracts for any single trade or by trading too many commodities.

This also happens after a period of success when traders *"know"* that the market is going to do something. They are so certain that this is going to be a really big move that they risk much more than the maximum 10% of their equity. Already emotionally out of balance, all it takes is a couple of limit moves against them and they are bust.

To prevent this mistake from occurring, traders must have a hard and fast rule that they can risk no more than a certain percentage of their equity on any trade regardless of how good the trade looks.

10. Failure to remove profits from your account

It is almost a natural law that the commodities markets over a given period of time will allow trader to make only so much money and then he is going to have to start giving some back. Yet, probably no more than 1% of all commodities traders I know have a rule to take profits out of their account. (But, they never fail to put money into their accounts as they meet margin calls.) Almost always, they leave profits in their accounts and go for the "big trade" — the one that will give them a real "killing" — and usually kills their profits.

This can be overcome by predetermining an equity level at which trader remove profits from his account. When the trader makes profits in the commodities markets, take some money out and put it somewhere else. The commodities markets are not a cornucopia. As all commodity traders will move in cycles. The trader will make some, lose some, make some, lose some. By taking money out of his account when he is profitable, he will not make the mistake of losing larger amounts of money when his down cycle begins.

11. Changing your strategy during market hours

During market hours the trader is subject to emotional reactions of fear and greed much more than he is when the market is closed. Have a trader ever noticed that when he sits down in the quiet of the night before the trading day he can very calmly figure out what he want to do the next day; yet, shortly after the market opens he does exactly the opposite of what he had planned.

With rare exception, the best approach is to not change your trading strategy during market hours unless there is an unexpected news event or market reaction. Overcome this mistake by developing trading strategy before the market opens and having the discipline to not change the game plan during the day.

12. Lack of patience …or trading for the excitement, not the profit.

The average life of a commodity trader is somewhere between five minutes and nine months. Not all commodity traders trade because they want to make money. Many trade because they want the action. Think about it -- must a trader has a trade a day, or can he patiently wait for the high probability trades, even if it means standing aside for a week or two?

For those traders who wish to learn how to make money in the commodities markets, rest assured they can. However do not expect to make money in each and every trade. If a trader concentrates on not breaking the 12 CARDINAL MISTAKES of commodities trading, he has a greater probability of making money over a period of time. Certainly he will have losing trades. Certainly the market will do the unexpected and at times trader will lose more than he expected; but if he steadfastly avoid making these mistakes he must make money.

By studying the past history of a market, a trader can isolate high probability trades and situations that offer exceptionally large profits relative to the dollar risk.

A trader must evaluate his own trading and determine whether he really trades to make money, or for the action and excitement. To overcome this mistake, a trader must develops patience, do his homework, and research markets for high probability trades.

Glossary

Commodity Exchange

An entity which determines and enforces rules and procedures for the trading of commodities and related investments, such as commodity futures. Commodities exchange also refers to the physical center where trading takes place.

Physical Commodity

Generally physical commodities can be broken down into:

- Soft Commodities: agricultural products i.e. wheat, corn, soybean, coffee and sugar
- Hard Commodities: natural resources that must be mined or extracted i.e. gold, silver, crude oil etc

Financial Commodity

A commodity that is not based on a physical or tangible asset. It includes Currencies, Equity Securities, Interest Rates, Indices, etc.

Futures Contract

A futures contract is a standardized legally binding contract to buy/sell a commodity in a specific quantity/quality at some time in the future at a predetermined price. Futures contracts are traded in futures exchanges worldwide and cover a wide range of commodities such as agriculture produce, livestock, energy, metals and financial products.

Broker

A commodity broker is a firm or an individual who executes orders to buy or sell commodity contracts on behalf of clients and charges them a commission.

Hedging

Producers and manufacturers can make use of the futures market to hedge the price risk of commodities that they need to purchase or sell in order to protect their profit margins. Businesses employ a long hedge to lock in the price of a raw material that they wish to purchase sometime in the future. To lock in a selling price for a product to be sold in the future, a short hedge is used.

Speculation

Speculators assume the price risk that hedgers try to avoid in return for a possibility of profits. They have no commercial interest in the underlying commodities and are motivated purely by the potential for profits.

Speculators play an important role in the futures market. Without speculators bridging the gap between buyers and sellers with a commercial interest, the market will be less fluid, less efficient and more volatile.

Futures speculators take up a long futures position when they believe that the price of the underlying will rise. They take up a short futures position when they believe that the price of the underlying will fall.

Margins

Margins are financial guarantees required of both buyers and sellers of futures contracts to ensure that they fulfill their futures contract obligations. Participants in a futures contract are required to post performance bond margins in order to open and maintain a futures position. Futures margin requirements are set by the exchanges and are typically 2 to 10 percent of the full value of the futures contract.

Initial Margin

Before a futures position can be opened, there must be enough available balance in the futures trader's margin account to meet the initial margin requirement. Upon opening the futures position, an amount equal to the initial margin requirement will be deducted from the trader's margin account and transferred to the exchange's clearing house. This money is held by the exchange clearinghouse as long as the futures position remains open.

Long Futures Position

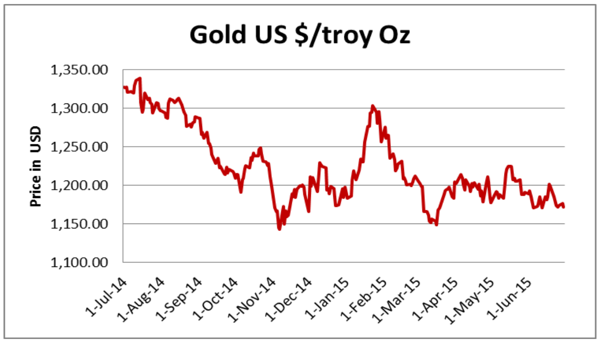
The long futures position is an unlimited profit, unlimited risk position that can be entered by the futures speculator to profit from a rise in the price of the underlying. The long futures position is also used when a manufacturer wishes to lock in the price of a raw material that he will require sometime in the future. See long hedge. To construct a long futures position, the trader must have enough balance in his account to meet the initial margin requirement for each futures contract he wishes to purchase.

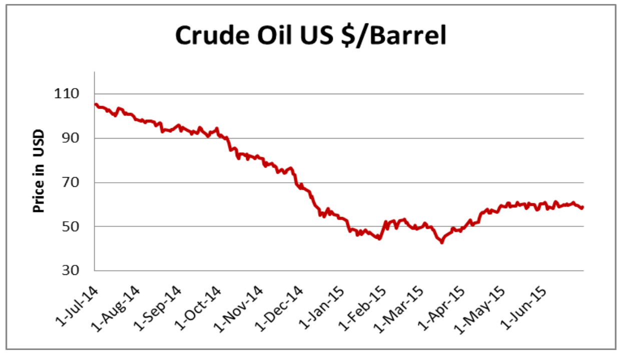
Short Futures Position

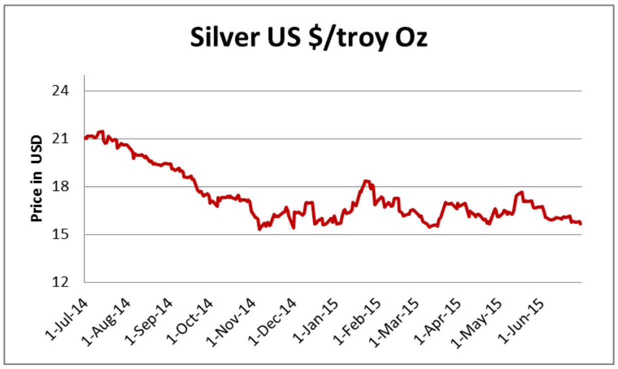
The short futures position is an unlimited profit, unlimited risk position that can be entered by the futures speculator to profit from a fall in the price of the underlying. The short futures position is also used by a producer to lock in a price of a commodity that he is going to sell in the future. See short hedge. To create a short futures position, the trader must have enough balance in his account to meet the initial margin requirement for each futures contract he wishes to sell.

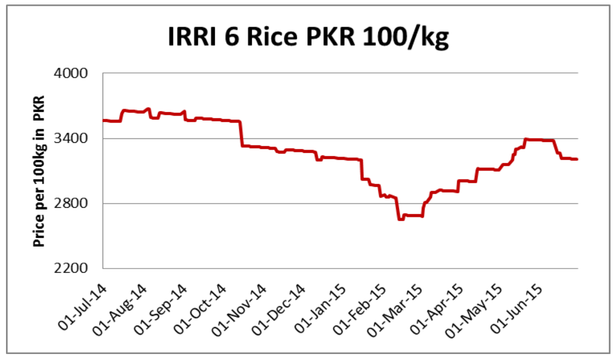
Annexure A

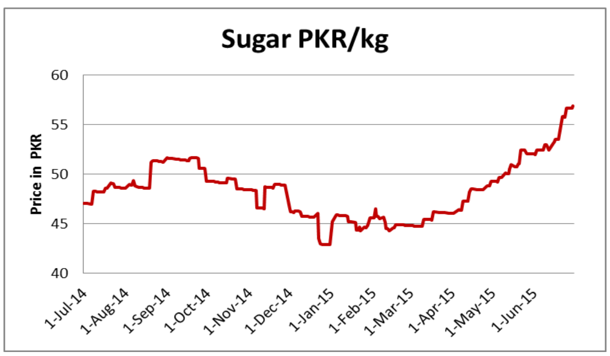
Price Trend of All Commodities FY 2014-15

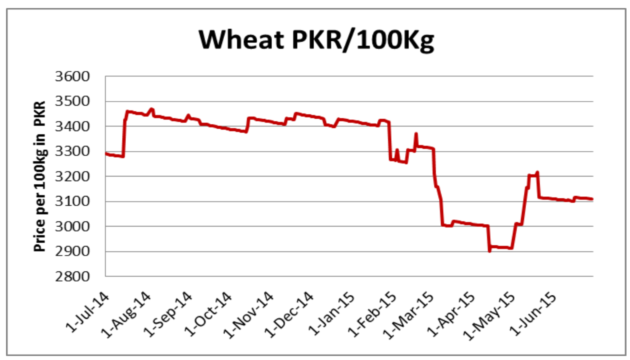


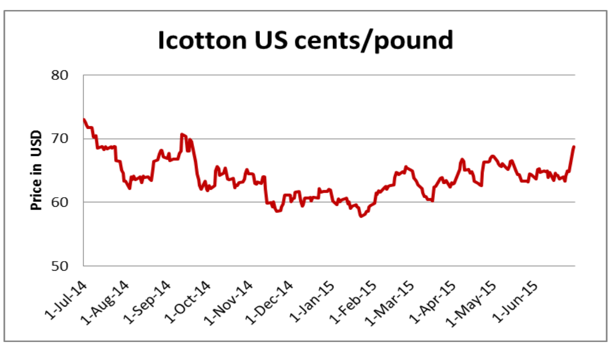


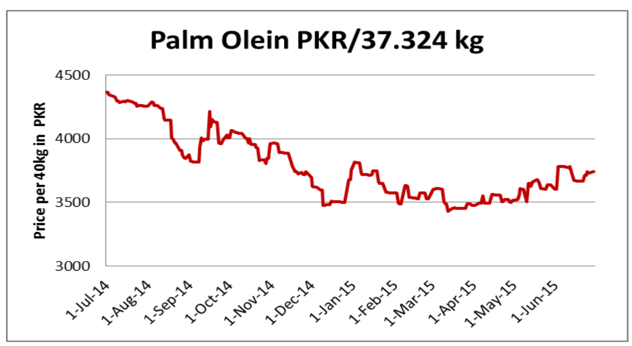












Talk to Us

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