



Singapore Mercantile Exchange  
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## **Black Pepper Futures Contract The Asian Advantage**

39<sup>th</sup> IPC Session, Lombok  
25<sup>th</sup> Nov 2011

**The Exchange**



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## Global commodities exchange based in Singapore



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A Member of Financial Technologies Group

Market leader in technology solutions, domain expertise across all asset classes

Regulated by the Monetary Authority of Singapore

Behind some of the most successful exchanges in India, Asia and Middle East, inc. MCX, MCX-SX, NSEL, IEX, DGCX and newly launched Bourse Africa, GBOT and Bahrain Financial Exchange

[www.smx.com.sg](http://www.smx.com.sg)



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## Group Successes and Track Record

- Multi Commodity Exchange (MCX)
  - 5<sup>th</sup> largest commodity derivatives exchange in the world (no. of contracts traded, 1H 2011)
  - Top most traded silver and nickel contracts traded in the world (FIA rankings, 2010)
  - 2<sup>nd</sup> most traded copper contract in the world (FIA rankings, 2010)
  - 4<sup>th</sup> most traded crude oil contract in the world (FIA rankings, 2010)
- MCX – Stock Exchange (MCX-SX)
  - World's largest currency derivatives exchange, by number of contracts traded (WFE rankings, 2010)
- Dubai Gold and Commodities Exchange(DGCX)
  - Commenced trading in Nov 2005 as the first commodity derivatives exchange in the Middle East.
- Indian Energy Exchange
  - First ever power exchange established in India
  - Market leader with over 86% market share

# SMX Board of Directors



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**ANG SWEE TIAN**

Chairman

- Former President of Singapore Exchange (SGX)
- Established SGX AsiaClear
- First Asian exchange official in FIA's Futures Hall of Fame
- Successfully managed merger of SIMEX with SES to form SGX
- Served in Monetary Authority of Singapore



**JIGNESH SHAH**

Vice Chairman,

- Innovator of modern financial markets in emerging economies
- Ernst & Young Business Transformation award
- Bringing markets to the masses
- Passion for corporate social responsibility



**V HARIHARAN**

Director

- Instrumental in setting up green-field exchanges – MCX, IEX, MCX Stock Exchange, IBS Forex
- Former Chief Technology Officer, Financial Technologies Group
- Board Director on several exchanges and support companies including SMX and SMXCC from inception
- Senior roles at Bombay Stock Exchange (BSE) and National Stock Exchange (NSE)



**JOSEPH MASSEY**

Director

- Former Managing Director and Chief Executive Officer, MCX
- Associated with leading financial organizations such as LIC, RBI, Stock Holding Corporation of India, and Vadodara Stock Exchange
- Former Managing Director, Interconnected Stock Exchange of India (ISEI)



**TAN SOO NAN**

Director

- Former Senior Managing Director of DBS Bank
- Former CEO of Temasek Capital responsible for direct private equity investments



**VIJAYKUMAR IYENGAR**

Director

- Founder, Agrocrop International, Singapore
- Chairman, Singapore-Indian Chamber of Commerce & Industry
- Agrocrop recognized in Global Trade Programme by IE Singapore, Singapore International 100

## As SMX Completes Its First Year



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- Fully stable, reliable market operation backed by robust technology and global support
- Went live with 4 contracts, and since expanded the product offering to 12 contracts
- Current average daily value of contracts traded: **US\$650-700 million**
- Current daily trading volumes: **> 20,000 contracts traded per day**
- More than **400,000 contracts** traded with **US\$16 billion** value during SMX's 1<sup>st</sup> year of operations
- Signed up 50 members spreading across various international geographies, enabling cross-border participation by global industry players
- Formed key partnerships with global exchanges, including TOCOM (Japan), TAIFEX (Taiwan), ICDX (Indonesia), BCEC (Vietnam) etc.



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## Connected Market Participants

### Clearing Members

- Newedge
- Phillip Futures
- Ong First Tradition
- UOB Bullion & Futures
- Citi
- Morgan Stanley
- ICICI Bank

### Members

- 50+ members including
- Vitol
  - Glencore
  - Trafigura
  - Total Global Steel
  - .... Etc

### ISVs

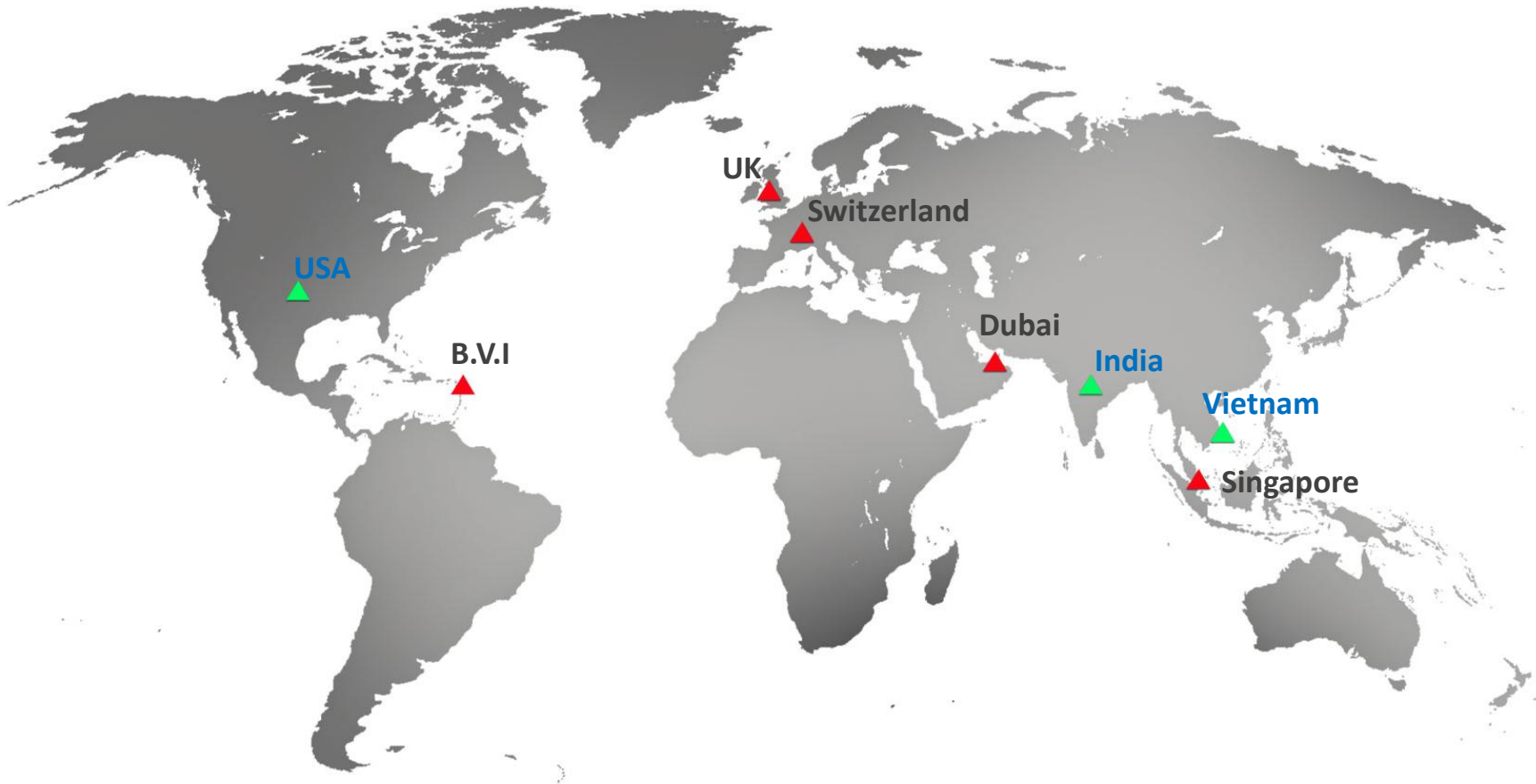
- Pats
- RTS
- Orc
- FFastFill
- GL Trade
- Fix 4.2
- Proprietary Developers





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## Global Membership Footprint



# Global Partnerships



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## Forging International Business Alliances



TRUNG TÂM GIAO DỊCH CÀ PHÊ BUỒN MA THUỘT  
Buonmathuot Coffee Exchange Center







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## The Opportunity in Singapore

- Strategically located at the crossroads of major international trade flows, with close proximity to major Asian commodity production, storage zones, shipping, and consumption markets
  - 60% of coal production and 60% of coal consumption (China, India, Australia, Indonesia in top 10 coal producers)
  - Largest market today for physical consumption and production of Gold
- Singapore is the 2<sup>nd</sup> largest Forex trading centre in Asia – US\$231bn Daily
- World class and trusted regulatory environment under the Monetary Authority of Singapore - with open trade and capital flows, and minimal restrictions on product development
- Asia is now the leading region for trading of global listed derivatives, overtaking the traditionally-dominant US and Europe
  - More than 8.8 billion derivatives contracts were traded in Asia in 2010, showing a 43% growth from 2009

### Transparent Reliable Market Access

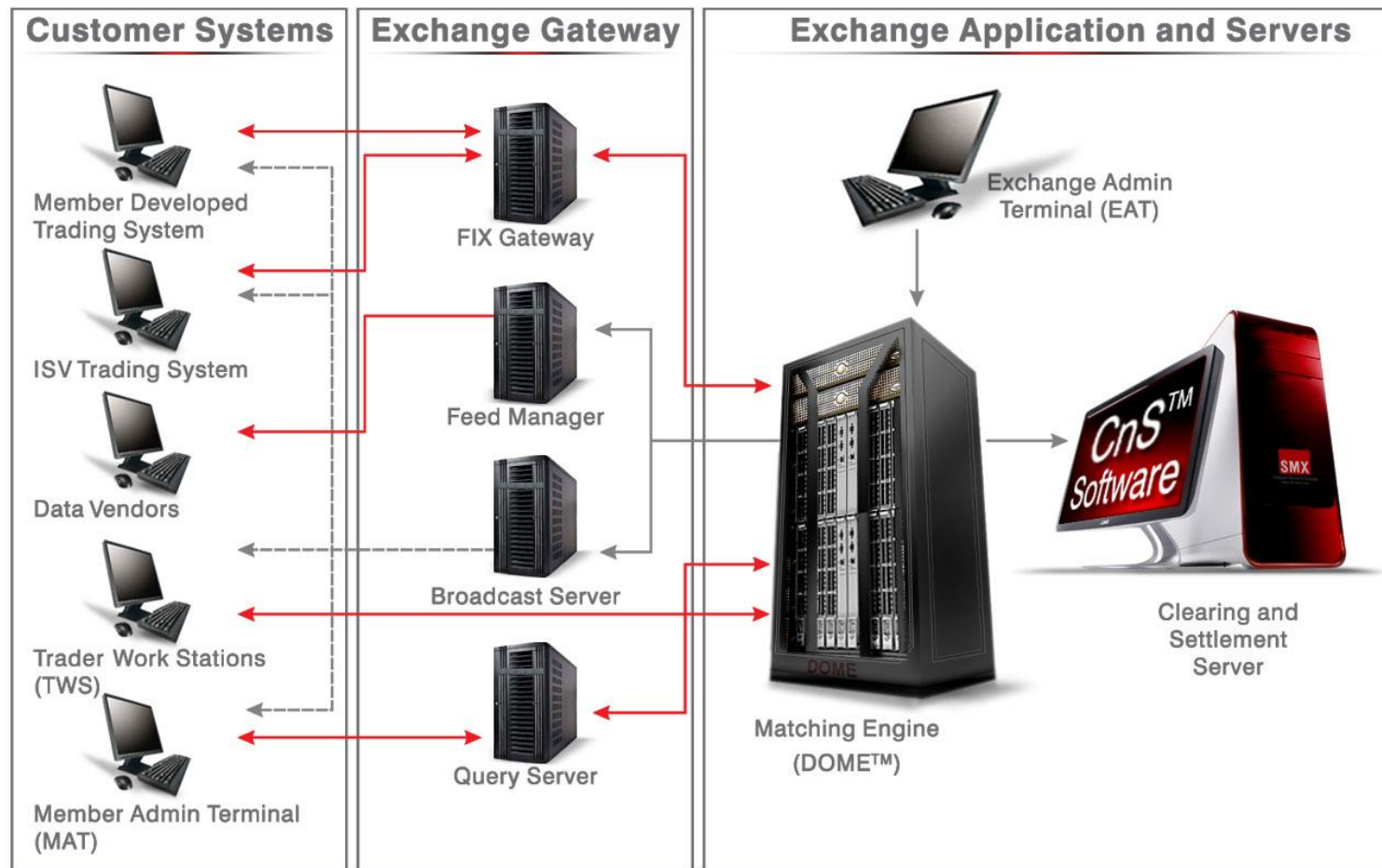
- Single reliable and well established platform for multiple asset class trading
- Price-Time priority system ensures fair and transparent trading
- Direct Market Access
- Connected to market leading ISVs and back office system providers
- FIX 4.2 connectivity for trading platforms
- Trading hours from 10.00am SGT to 2.30am SGT on the next calendar day
- SingTel Dark Fiber – High Frequency Trading
  - 0.62ms order roundtrip time between SMX Datacenter in KCDC and SMX matching engine

# Exchange Platform

# SMX

Singapore Mercantile Exchange

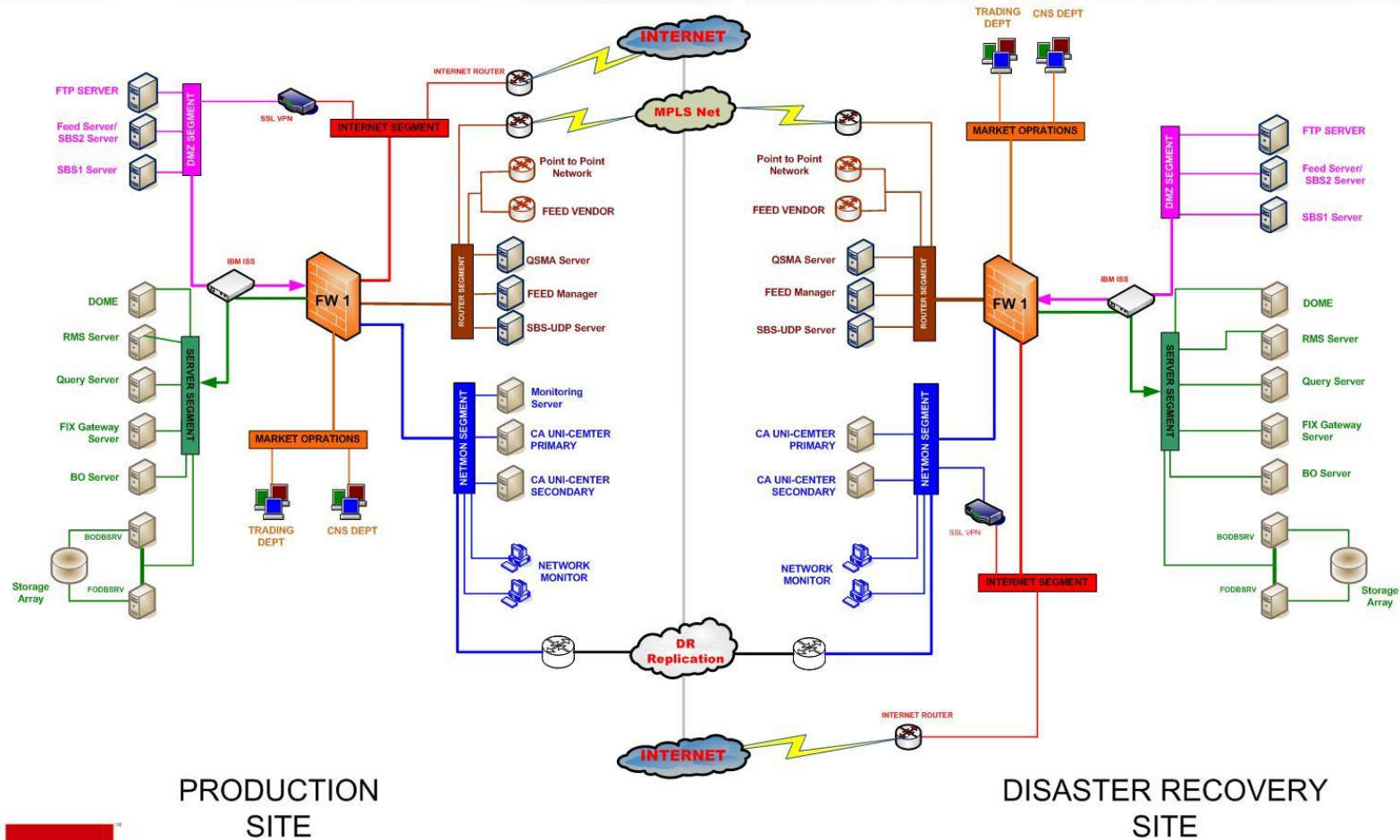
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# Disaster Recovery Site

**SMX**

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## Role of SMX

- Provides an automated, electronic trading platform
- Establishes the rules and conditions governing trading
- Researches and develops commodity derivative instruments
- Provides education on commodity derivatives

## Role of SMXCC

- Separate legal entity from SMX
- As CCP clears and settles trades matched on SMX
- Oversees and monitors settlement of physical delivery





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## Clearing & Settlement

### Structure of Singapore Mercantile Exchange Clearing Corporation

SMX provides Central Counter Party (CCP) settlement guarantee through SMXCC, a wholly owned subsidiary of the Exchange

Cuts out 3<sup>rd</sup> party clearing and unnecessary costs

Guarantee Fund manages default risk

Pre Risk Margining System

### Settlement

Settlement on T+1 basis

Online connectivity with settlement banks

ICICI, Standard Chartered - SMXCC Settlement Banks

# Product Groups



**ENERGY**



**PRECIOUS METALS**



**BASE METALS**



**AGRICULTURAL**



**CURRENCIES**



**INDICES**





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## Product Development Roadmap

- 12 contracts currently being traded:

- Gold Futures (Physical & Cash)
- Silver Futures
- Copper Futures
- Iron Ore Futures
- WTI Futures
- Brent Futures

- USD/AUD Futures

- EUR/USD Futures (Physical & Cash)

- USD/JPY Futures

- GBP/USD Futures

- In the pipeline to be launched:

- Black Pepper Futures (Physical)



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## A Futures Market for Vietnamese Black Pepper

- Vietnam is the largest producer and exporter of black pepper – the country exported 110,000 metric tons in 2010, earning revenues over \$ 400 million.
- In spite of this flourishing trade, there is no futures market associated with this high value export commodity.
- Significant price volatility underlines the need and potential of a vibrant futures contract. (Annualised Vol = 30%)
- Based in Singapore, but serving the entire Asian region, SMX is the ideal platform for trading Black Pepper futures contracts. Singapore is home to several major agricultural trading houses, and the Exchange is accessible to key market participants from all major producing and consuming countries.



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## Pepper Futures Trading Benefits

### Farmers

Amount of Land Used  
= 40,000 Hectares for  
Black Pepper

### Exporters

- Phuc Sinh
- Intimex
- Olam
- Amanjaya
- Jayanti
- Nedspice

### Primary Beneficiaries :

Producers, Traders, Processors, Exporters

- Protect against price fluctuations  
Annualized Volatility = 30%
- Participants protected by hedging on  
futures
- Risk Management : Through Hedging

### Logistics & Supply Chain

**Warehousing Companies**  
C.Steinweg

**Inspection Companies**  
•SGS

### Other Services

- Carrying & Forwarding
- Inspection
- Transportation

### Banking & Financial Services

**Banks with  
Commodity Trading Licenses**

- BIDV
- Techcombank
- Maritime Bank
- BNI
- BNP

### Secondary Beneficiaries

- Increased Volume: Domestic & International Banks  
for Margin Financing on the Black Pepper  
traded on the Exchange  
Eg: BNP Paribas  
More sophisticated products
- Collateral Management by Warehousing & Inspection Companies
- Bank Financing on stocks delivered on the Exchange

### International Buyers & Sellers

- McCormic Spices - USA
- Olam International - Singapore
- Nedspice - Netherland
- Phuc Sinh Corporation - Vietnam
- Madhujayanti - India



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## The Asian Opportunity

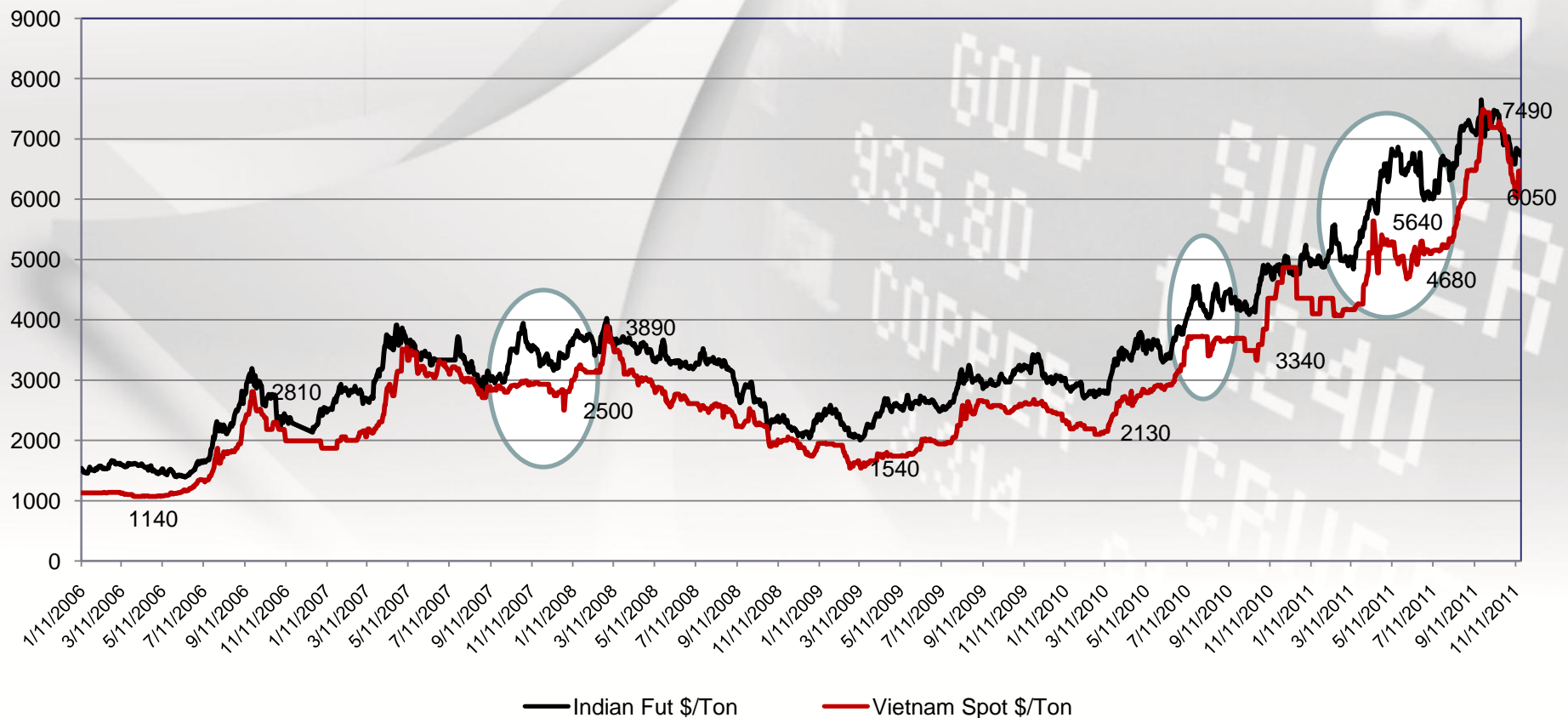
- Largest underlying market – World's largest producer and exporter
- Inadequate avenues for price discovery and price risk management of Black Pepper
- Dependence on taking futures price clue from the Indian Black Pepper market
- Enable price discovery & price transparency for entire value chain
- Providing price risk management solution for Planters, Processors, Exporters – Months ahead of harvest
- Create an internationally recognized Black Pepper benchmark price –Ex-Bonded Warehouse Vietnam  
Eg: C.Steinweg, Vietnam
- Provide alternate selling option for Vietnamese exporters – Delivering on SMX platform
- Enable farmer groups to get remunerative prices for their produce by timing their sale
- Facilitate crop planning based on prevailing futures prices
- Provide a level playing field for all value chain participants – Big and Small Eg: Phuc Sinh, Intimex, Putrabali, Amanjaya, etc. Exchange being unanimous, any buyer or seller can take position of minimum deliverable lots and give or take delivery
- No counter-party payment risk – All transactions guaranteed by SMX Clearing Corporation
- Growth of Ancillary Businesses – Warehousing (C.Steinweg), Trade Finance (BIDV, Techom, BNI, BNP), Inspection Services (SGS ), Carrying & Forwarding (C&F) , Transport Services





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## Volatile Physical Market



Source: Bloomberg

## Existing Derivatives Market for Black Pepper

- The only exchange that offers trading in Pepper futures is in India, a closed market
- Prices Black Pepper in INR
- In general, Black Pepper prices in India and Vietnam move in the same direction. However, differences in quality, location and currency means that the correlation in prices is low



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## Asian Opportunity

- Strong Market Potential in Vietnam – World's largest producer and exporter
- Lack of international hedging platform (India being a closed market)
- Trade Multiple of Indian Black Pepper Futures Contract = 58.53 (7 years average)
- Projected Average Daily Trading Volume (ADTV) in Vietnam Black Pepper Futures contract with similar Trade Multiple = **28,094 MT (140.47 MUSD)**

## Example of Black Pepper Hedging by a Planter in a falling market

- Assume in the month of December, looking at his crop, a planter expects to harvest at least 5 MT of Black Pepper during February (Crop arrival month)
- He has to sell his crop at the prevailing rates during February arrivals, thus exposing himself to a falling market
- He has the option of entering into a blanket contract with a buyer, but there are chances of default if price falls
- Thus the Planter takes a short (sell) position of 5 MT on SMX February contract at USD 7700/MT in the month of December
- As price falls, he faces a loss in the physical market. But his losses will be offset by his gains in the futures market

Futures Market (USD/MT)		
A	Futures price of February 2012 delivery contract on December 2011 in which planter has taken a short (sell) position	7700
B	Future price of February delivery contract on 20 <sup>th</sup> February 2012 when the seller buys back and squares off his position	7000
C	Profit	+700
Spot Market (USD/MT)		
D	Prevailing spot price during December 2011 (Planter's expected returns as per his input costs)	7500
E	Spot price falls on February 2012 when the crop has been harvested and ready to be sold	7050
F	Loss	-450
G	<b>Net Position of the Planter (C-F)</b>	<b>700 – 450 = 250</b>
H	Price Risk/Loss in the absence of hedge i.e. F	<b>-450</b>



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## SMX Black Pepper Futures\*

### Contract Details

<b>Symbol</b>	SMPEPPER
<b>Trading Unit</b>	5 metric tons
<b>Price Basis</b>	US Dollars per metric ton (US\$5000)
<b>Tick Size</b>	US\$1.00 (US\$5per contract)
<b>Trading Hours</b>	1000 to 2000 SGT Monday to Friday. On Last Trading Day, trading hours will be from 1000 to 1700 SGT.
<b>Contract Months</b>	Current month and three consecutive months
<b>Last Trading Day</b>	Fifth to last business day of the maturing month
<b>Settlement</b>	Physical delivery
<b>Grade/Quality</b>	Density: 550 g/l; Outbound tolerance limit : -3 g/l
<b>Moisture (% vol/wt,max)</b>	13 %, Outbound tolerance limit : +0.2%
<b>Light Berries/Corns (% by wt, Max)</b>	5%
<b>Extraneous Matter (including pinheads) (% by wt, max)</b>	1%

\* Subject to regulatory approval



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## SMX Black Pepper Futures\*

### Contract Details

<b>Mould (% by wt, max)</b>	0.75%; outbound tolerance limit +0.25%
<b>Packing</b>	Double PP bags, of 50 net weight; Tare weight difference : 400 gm
<b>Standard Allowance</b>	0.02% (3 kilograms)
<b>Sampling</b>	100% -Fresh Deposit, 10% - Revalidation (Density, Moisture, Mould, Per Bag Weight)

### Delivery Details

<b>Delivery Unit</b>	15 metric tons (+/- 1 %)
<b>Delivery Centre</b>	Exchange approved warehouses within 50 kms of Ho Chi Minh City
<b>Delivery Period</b>	Last five business days, including the 2 Business days preceding LTD, Last Trading Day (LTD) and 2 Business Days following LTD for the maturing contract month.
<b>Deliverable Growths</b>	Any origin

\* Subject to approval from the Monetary Authority of Singapore



## How to Participate?

### Options

1. Member
2. Client





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## Membership & Its Advantages

### Clearing Membership

#### **General Clearing Member**

(Clears & settles own trades as well as those of its customers)

#### **Special Clearing Member**

(Clears & settles trades for non-clearing members)

### Non-Clearing Membership

#### **Broker Member**

(Trades for itself or on behalf of its customers)

#### **Trade Member**

(Trades only for itself )

#### **Remote Member**

Trader or Broker located outside Singapore)

**Enjoy discounted clearing & trading fees exclusive to members...**

**Right to trade products across all asset classes listed on SMX...**

**Membership is open to market participants around the world...**

## SMX Membership

### Trade Member (TM)

- Can be located any where in the world
- Must clear trades through a GCM or a SCM
- Is subject to minimal capital requirements
- May be:
  1. an individual
  2. a partnership
  3. a corporation





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## ***Thank You***

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