BMD CRUDE PALM OIL FUTURES

Advantage & Opportunities
A BRIEF HISTORY

• CPO futures launched since October 1980 by the then Kuala Lumpur Commodity Exchange (KLCE)

• Subsequently, KLCE through mergers with other Malaysian Exchanges was transformed to become Bursa Malaysia Derivatives Berhad (BMD)

• In 2009, CME Group took a 25% stake in BMD and in 2010, all BMD products were listed and traded on the Globex trading platform. Globex is the world’s leading electronic trading platform operated by CME Group.
PRODUCTS OFFERED BY BMD

- Malaysian Ringgit-Denominated Crude Palm Oil Futures
- Crude Palm Kernel Oil Futures
- USD-Denominated Crude Palm Oil Futures
- Options on Crude Palm Oil Futures
- FBM Kuala Lumpur Composite Index Futures
- Options on FBM Kuala Lumpur Composite Index Futures
- Single Stock Futures
- 3-Month KLIBOR Futures
- 3-Year Malaysian Government Securities Futures
- 5-Year Malaysian Government Securities Futures
BMD CRUDE PALM OIL FUTURES CONTRACT

- Underlying instrument: Crude Palm Oil
- A Delivery Contract
FCPO CONTRACT SPECIFICATION

- Contract Code: FCPO

- Contract Size: 25 Metric Tons

- Min Price Fluctuation: RM 1 per metric ton
  (RM 1 x 25 m/t = RM25.00 profit or loss)

- Contract Month: Spot month and the next 5 succeeding months, and thereafter, alternate months up to 24 months ahead
FCPO CONTRACT SPECIFICATION

- Trading Hours: 10:30 a.m. to 12:30 p.m.
  3:00 p.m. to 6:00 p.m.

- Speculative Position Limits
  - 800 contracts net long or net short for the spot month
  - 10,000 contracts for any single delivery month except for the spot month
  - 15,000 contracts for all contract months combined
FCPO CONTRACT SPECIFICATION

- Last Trading Day & Maturity Day:

  Contract expires at noon on the 15th day of the delivery month, or if the 15th is a non-market day, the preceding Business Day.

- Tender Period:

  1st Business Day to the 20th Business Day of the delivery month, or if the 20th is a non-market day, the preceding Business Day.
Delivery Point:

Crude Palm Oil of good merchantable quality, in bulk, unbleached, in Port Tank Installations approved by the Exchange located at the option of the seller at Port Kelang, Penang / Butterworth and Pasir Gudang (Johor).
## TENDER SUMMARY

### BMD CPO Tender (last 12 months)

<table>
<thead>
<tr>
<th>Month</th>
<th>No. of Contracts</th>
</tr>
</thead>
<tbody>
<tr>
<td>May-12</td>
<td>2,280</td>
</tr>
<tr>
<td>Jun-12</td>
<td>2,527</td>
</tr>
<tr>
<td>Jul-12</td>
<td>2,006</td>
</tr>
<tr>
<td>Aug-12</td>
<td>2,539</td>
</tr>
<tr>
<td>Sep-12</td>
<td>1,939</td>
</tr>
<tr>
<td>Oct-12</td>
<td>2,986</td>
</tr>
<tr>
<td>Nov-12</td>
<td>2,464</td>
</tr>
<tr>
<td>Dec-12</td>
<td>2,439</td>
</tr>
<tr>
<td>Jan-13</td>
<td>3,124</td>
</tr>
<tr>
<td>Feb-13</td>
<td>2,493</td>
</tr>
<tr>
<td>Mar-13</td>
<td>1,558</td>
</tr>
<tr>
<td>Apr-13</td>
<td>1,009</td>
</tr>
</tbody>
</table>

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Think ♠️ Feel ♠️ Act
Contract Grade

- Free Fatty Acids (FFA) of palm oil delivered into Port Tank Installations shall not exceed 4% and from Port Tank Installations shall not exceed 5%.

- Moisture and impurities shall not exceed 0.25%.

- Deterioration of Bleachability Index (DOBI) value of palm oil delivered into Port Tank Installations shall be at a minimum of 2.5 and of palm oil delivered from Port Tank Installations shall be at a minimum of 2.31.
INITIAL MARGIN REQUIREMENTS

Margins are required by the Exchange to cover adverse price movements.

- Spot Month = RM6,250 per lot
- Forward Month = RM6,000 per lot
  (Subject to change from time to time)
WHY USE FUTURES

- **USE AS A PRICE RISK or HEDGING TOOL**

FCPO futures contract is a tool used by players in the industry to hedge and manage risk against unfavourable price movements in the physical market.

Example:

Plantation A feels that the current 3rd Month FCPO prices are favourable and would like to lock in the price of crude palm oil in case prices drop. Plantation A decides to hedge 10,000 MT of CPO for next month’s delivery at the current price.

<table>
<thead>
<tr>
<th>Date</th>
<th>Action</th>
<th>Financials</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 April 2013</td>
<td>Sells 400 3rd Month FCPO contracts @ RM2,400 (400 x 25MT = 10,000 MT) Value of CPO = RM24m</td>
<td>Initial Margin requirements: 400 x RM6,000 = RM2.4m</td>
</tr>
<tr>
<td>1 May 2013</td>
<td>3rd Month FCPO price falls to RM2,300</td>
<td>Profit from FCPO: (2,400-2,300) x 400 x 25 = RM1m</td>
</tr>
<tr>
<td>1 May 2013</td>
<td>Sells 10,000 MT of CPO @RM2,300</td>
<td>Receive RM23m from CPO Add RM1m profit from FCPO Effective selling price: RM2,400 per MT</td>
</tr>
</tbody>
</table>
WHY USE FUTURES

• **USE AS ALTERNATIVE MARKET**

  Buy futures contracts when you need to cover against your needs in physical. Unwind (sell) your futures contracts after you had cover (buy) your physical needs.

  Sell Futures contracts when you are not able or having difficulties to sell your physical goods. Cover (buy) back your sold contract in futures after you had sold your goods.
WHY USE FUTURES

EXAMPLE: ALTERNATIVE MARKET TO SELL

Plantation A has yet to find a buyer for their anticipated production of 10,000 MT of CPO for the following month. They then decide to sell the CPO on the futures market at current prices.

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<tr>
<td>1 April 2013</td>
<td>Sells 400 July FCPO contracts @RM2,400 (400 x 25MT = 10,000 MT)</td>
<td>Initial Margin requirements: 400 x RM6,000 = RM2.4m</td>
</tr>
<tr>
<td></td>
<td>Value of CPO = RM24m</td>
<td></td>
</tr>
<tr>
<td>1 May 2013</td>
<td>Finds a physical buyer for 10,000MT of CPO @ RM2,300</td>
<td>Receive RM23m for CPO</td>
</tr>
<tr>
<td>1 May 2013</td>
<td>Buys back 400 July FCPO contracts @RM2,300</td>
<td>Profit from FCPO: (2,400-2,300) x 400 x 25 = RM1m</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Effective selling price of CPO = RM2,400 per MT</td>
</tr>
</tbody>
</table>
**WHY USE FUTURES**

**EXAMPLE: ALTERNATIVE MARKET TO BUY**

Plantation A receives an order from their client for an additional 5,000 MT of CPO for June delivery. Due to existing commitments, Plantation A feels that they may not have sufficient production to meet this order. They then decide to buy the CPO on the futures market at current prices.

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</thead>
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<tr>
<td>1 May 2013</td>
<td>Buys 200 July FCPO contracts @RM2,300 (200 x 25MT = 5,000 MT) Value of CPO = RM12.5m</td>
<td>Initial Margin requirements: 200 x RM6,000 = RM1.2m</td>
</tr>
<tr>
<td>1 June 2013</td>
<td>Manages to buy 5,000MT of CPO from another plantation @ RM2,400</td>
<td>Pays RM12m for the CPO</td>
</tr>
<tr>
<td>1 June 2013</td>
<td>Sells back 200 July FCPO contracts @RM2,400</td>
<td>Profit from FCPO: (2,400-2,300) x 200 x 25 = RM1m</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Effective price of CPO = RM2,300 per MT</td>
</tr>
</tbody>
</table>
ADVANTAGES OF FUTURES

• AMPLE SUPPLY & DEMAND
   Plenty of buyers and sellers in the FUTURES market place. Likewise in the physical market rather limited players and you may not have much bargaining power (sometimes).

• FLEXIBILITIES
   Futures market gives you the flexibilities by allowing you to SELL when not much of taker in physical place and also allow you to BUY when supply are tight and less selling interest at the physical market place.

• MINIMAL COUNTER PARTY RISK
   For Exchange traded futures, the counterparty to the position is always the Clearing House and therefore all trades are guaranteed.
ADVANTAGES OF FUTURES

• PAYMENT & PERFORMANCE GUARANTEED

No worries of defaults risk in-term of contracts performance and payment as futures contracts is exchange traded. Likewise physical forward contract may face some counter party risk when prices swing violently or supply problem.

• IMPROVE FINANCIAL CREDIBILITY

It will help to strengthen and improve financial standing & smoothen business operations after you had hedged (sell or buy) in futures against your physical.
ADVANTAGES OF FUTURES

• PAPER ENTRIES & NO BACKROOM LOGISTIC WORK
  Less paper work & no logistic problem likewise physical involve quite a fare bit of paper work and logistic issues.

• ADDITIONAL DELIVERY or SOURCING POINT
  Due to the convergence of prices and the delivery settlement system, the BMD CPO futures market can be used as another delivery or sourcing point.

• USE AS STORAGE
  Sell your stocks/inventory and collect cash and buy futures contract (SWAP). Indirectly You replace your stocks/inventory with futures contracts.
ALTERNATIVE TRADING FACILITIES

Negotiated Large Trades (NLT)

• Off-market trading facility enabling users to mutually arrange and transact pre-defined orders of significant size
• Minimizes the price impact and time delays that may occur when transacting orders of a large size

• Benefits
  – Combines the benefits of the regulated market with those of the OTC market
  – Flexibility of executing the trade during off exchange hours
Exchange for Related Positions (EFRP)

• Arrangement between 2 parties whereby a futures position is exchanged for a related position

• Related position can include cash or physical, swap, OTC derivative or another futures position.

• Benefits
  – Integrates physical and OTC markets with exchange-traded derivatives
  – Enhances financial integrity as trades are cleared through Clearing House
  – Trades can be done on a single trade using this facility
OPPORTUNITIES IN TRADING

LOOKING AT CHARTS AND SIGNALS
Think       Feel       Act

GAP Resistance
Stronger overhead resistance
WHY BMD CRUDE PALM OIL FUTURES?

• Most actively traded CPO futures contract

• Most price sensitive to the Palm Oil trading community

• Widely recognized as the Global Pricing Benchmark for Crude Palm Oil and its derivatives
WHY BMD CRUDE PALM OIL FUTURES?

• User/Refer as a basis for their pricing of their products

• User/Refer as a guide and barometer for the direction of the Palm Oil prices

• Portrays as a transparent window for traders of the other competing oil as a cross-reference on their values

• Essential for overall price discovery and efficient Risk Hedge management
WHY RHB INVESTMENT BANK?
Merger between RHB Investment Bank and OSK Investment Bank

Combined entity is the largest investment bank in Malaysia by assets with a leading regional presence.

Combined staff strength of over 4,500.

Shareholder’s funds > RM1.7 billion

Comprehensive network of close to 100 offices (excluding RHB commercial bank branches), across the ASEAN and Greater China regions.
WHY TRADE FUTURES THROUGH RHB INVESTMENT BANK

- A regional investment banking group with a trusted brand name.
- Offers a wide range of financial products and services for retail, corporate and institutional clients.
- One of the pioneers in the Malaysian derivatives markets offering full fledged execution and clearing services for our clients.
- A Bursa Derivatives Clearing Participant with the strongest balance sheet.
- Regulated by both Bank Negara Malaysia and Securities Commission Malaysia.
- Ranked top 3 futures brokerage house in Malaysia (exclude locals).
- Access to Global Markets.
OUR STRENGTH IN NUMBERS

- Over 300 licensed derivatives market professionals
- Dedicated Corporate Palm Oil Desk with 10 licensed dealers to serve your execution and clearing needs
- Daily palm oil commentary and research reports
- Online trading platform
- Foreign Futures with night-desk

“Committed to the industry, we have one of the largest talent pool of derivatives professionals in Malaysia.”
Some of the 40 foreign futures contracts currently offered:

- Soybean (CBOT)
- Soybean Oil (CBOT)
- Crude Oil (NYMEX/ICE)
- Gold (COMEX)
- Silver (COMEX)
- Sugar (Liffe/NYBOT)
- Wheat (CBOT)
- Copper (COMEX)
- Cocoa (Liffe)
- Natural Gas (NYMEX)
- Rubber (TOCOM)
YOUR PERFECT PARTNER

CELEBRATING 100 YEARS OLD IN 2013.
FROM A SINGLE BRANCH AT OLD MARKET SQUARE TO OVER 500 BRANCHES SINCE 1913.

CELEBRATING 100 YEARS OLD IN 2013.
FROM A SINGLE BRANCH TO OVER 2,500 DELIVERY CHANNELS SINCE 1913.
THANK YOU
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