"Bursa Malaysia Derivatives' Palm Olein Contract - Towards a Global One-Stop Hedging and Trading Centre for Palm Oil."

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Product and Market Development

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BMD SHAREHOLDERS STRUCTURE

BURSA MALAYSIA DERIVATIVES

75%

25%

BURSA MALAYSIA

CME Group
Time is of the essence...
Speed to execute a trade has gone from seconds to milliseconds
BMD is on CME GLOBEX
All BMD trades are matched on CME GLOBEX
1. There are 9 CME Global Hubs.
2. This improves the accessibility and visibility.
3. More than 1 million access points.
Bursa’s FCPO has become an important international pricing benchmark for palm, volume in BMD has grown tremendously since 2009 with volume more than doubling since 2010 and open interest reaching new heights.

FCPO is now deep enough and the palm community sufficiently large enough to support another palm contract much like the soybean complex where soybeans, soybean oil and soybean meal all traded as separate contracts.
Prices of BMD 3rd CPO Futures Contract (1996-2014)

1996
1998 World Palm Oil output rose by 20%, equivalent to two-thirds of increase in world's domestic disappearance. Sabah state became largest CPO producer.

1998 Asian Financial Crisis resulting in sharp decline in prices.

1999-2001 Malaysia stocks level at record high of 1.5 million tonnes.

2000-2001

2004
Shifted to the use of biodiesel. Promotion of biodiesel use, affordability, sustainability & pumps availability have been observed.

2005-2008 Myr depreciated against USD.

2007
CPO prices continue to trend upwards, exceeding RM3,600 on 24 Dec 2007 recorded at RM2,580.

2008
CPO prices hit the high of RM4,690 on 3 Mar 2008. However, prices trend downwards to RM 2,700 on 11 Aug 2008 due to high CPO prices in EU-US and global economic meltdown (European crisis, US subprime crisis) in 08-09. Averaged price during 2008 was RM2,980.

2009
Prices trend upwards and the key driver for recovery in CPO. Prices were sustainable demand for China and India despite the global economic crisis helped by reduced soybean production and lower palm oil output.

2010
CPO price trended higher for Q4 2010 & averaged at RM3,200.

2012
Oversupply of CPO hits a record 2.5 million the highest in history, resulting in sharp decline in CPO price to RM2,500 an end of 2nd half 2012.
How Crude Palm Oil is Being Used?

Crude Palm Oil

- Process of Refining, Bleach and Deodorized

RBD Palm Oil

- Fractionation

  - RBD Palm Olein
  - RBD Stearin

Palm Fatty Acid Distillate (PFAD)
The Monthly Price Of CPO, Palm Olein, Palm Stearin and PFAD In Jan 2009 - May 2014 (MYR)
Major Component for Palm Oil Value Chain.
In 2013, Malaysia export 8.7 mil MT of RBD Palm Olein vs 4 million MT of CPO.

RBD Palm Olein has a higher volatility vs Crude Palm Oil
Price Differences Between DCE and BMD FCPO From Year Jan 2009-May 2014
FCPO Volume and Open Interest From Jan 2010 - May 2014

Mth- Volume ('000) vs Mth- End OI ('000)

- **VOLUME**
- **OPEN INTEREST**

Year:
- 2010
- 2011
- 2012
- 2013
- 2014

Volume and open interest data over the specified period.
BMD CPO and DCE Olein

*B Year 2014 annualised figure*

BMD FCPO Vs DCE Palm Olein

* Mil (MT) * Mil MT (OI)

2009 2010 2011 2012 2013 2014

BMD FCPO

DCE

Oi (FCPO)

Oi (DCE)

>200m

>820m
Rationale for USD RBD Palm Olein Contract

International Demand

• More palm olein exported than CPO, 8.2m tons (RM26b) vs 4.6m tons (RM14b)

• China is largest importer, DCE’s large volumes. Will strengthen the global palm oil market with price discovery on both producing and consuming countries

Commercial Needs

• Price risk management tool for palm refiners, traders, exporters and importers

• Higher volatility and eliminate significant basis risks to CPO
Potential Users

- **Palm Refiners** – managing refining margins and locking in palm olein prices
- **Arbitrageurs/Crack Spreaders** – between DCE palm olein and BMD palm olein, BMD palm olein vs BMD FCPO
- **Olein Importers and Downstream Players** – direct hedging instrument, basis risks arising from FCPO eliminated, USD removes forex exposure
- **PK/PG Swaps Players** – can use BMD olein to offlay some risks, especially counterparty risks
## Contract Specification

<table>
<thead>
<tr>
<th>Price Quotation</th>
<th>United States Dollar</th>
</tr>
</thead>
<tbody>
<tr>
<td>Settlement Method</td>
<td>Physical Delivery via e-Negotiable Storage Receipts (e-NSRs). Ex-tank as per FCPO</td>
</tr>
<tr>
<td>Contract Size</td>
<td>25MT</td>
</tr>
<tr>
<td>Min. Price Fluctuation</td>
<td>USD0.50</td>
</tr>
<tr>
<td>Price Limit</td>
<td>Except for spot month, 10% for individual month, if 3 non spot month triggered the 10% limit, 10 minutes cooling off period and 5 minutes of market interruption. Limit expand to 15% thereafter</td>
</tr>
<tr>
<td>Speculative Position Limit</td>
<td>Spot month - 800</td>
</tr>
<tr>
<td></td>
<td>Individual month – 10000</td>
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<tr>
<td></td>
<td>All month combined - 15000</td>
</tr>
<tr>
<td>Trading Hours</td>
<td>Morning Session 0900 to 1200</td>
</tr>
<tr>
<td></td>
<td>Afternoon Session 1330 to 1800</td>
</tr>
<tr>
<td>Contract Months</td>
<td>Spot month and the next 5 succeeding months, and thereafter, alternate months up to 24 months ahead</td>
</tr>
<tr>
<td>Last Trading Day</td>
<td>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</td>
</tr>
</tbody>
</table>
### Contract Specification

#### 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

Port Klang/Pasir Gudang

#### Contract Grade

<table>
<thead>
<tr>
<th>Specification</th>
<th>In</th>
<th>Out</th>
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</thead>
<tbody>
<tr>
<td>FFA</td>
<td>0.07%</td>
<td>0.10%</td>
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<tr>
<td>M&amp;I</td>
<td>0.10%</td>
<td>0.10%</td>
</tr>
<tr>
<td>I.V</td>
<td>56 min</td>
<td>56 min</td>
</tr>
<tr>
<td>Melting Point</td>
<td>24 max</td>
<td>24 max</td>
</tr>
<tr>
<td>Colour (5½ Lovibond Cell)</td>
<td>2.6 Red max</td>
<td>3 Red max</td>
</tr>
<tr>
<td>GMT+8 Timezone</td>
<td>0000</td>
<td>0100</td>
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<td>Proposed BMD FPOL</td>
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<tr>
<td>Dalian Commodity Exchange POL</td>
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<td>Bursa Malaysia FCPO Contract</td>
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<td>ICDX (Palm Olein)</td>
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<tr>
<td>Mumbai CPO</td>
<td></td>
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<tr>
<td>CME Soybean Oil (Open Out cry)</td>
<td>0830-1315 (CDT)</td>
<td></td>
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<tr>
<td>CME Soybean Oil (GLOBEX)</td>
<td>0830-1315 (CDT)</td>
<td></td>
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</table>

GLOBAL PALM OIL TRADING HOURS (NORMALIZED TO GMT +8)
FPOL Volume and Open Interest

Average OI = 228 lots (5700 MT)
ADV = 77 lots (1925 MT)
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