MCX
METAL & ENERGY
Trade with Trust

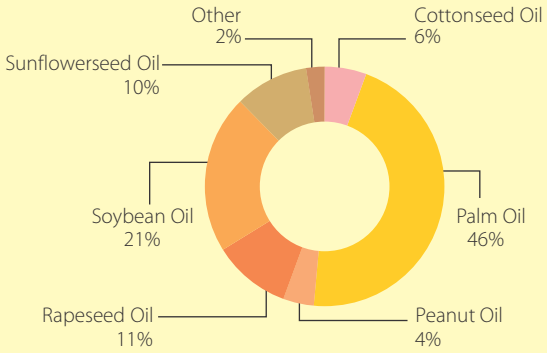


CRUDE PALM OIL

Palm oil is obtained from fresh fruit bunches of oil palm. There are several commercial variants of palm oil, such as, crude palm oil (CPO), refined palm oil, RBD palmolein, and palm kernel oil. CPO, when subjected to refining, results in the other fractions.

Refined derivatives of CPO are mostly used as edible oil. Refined products of CPO are preferred in confectionery and bakery industries due to their cost competitiveness. After an unprecedented upsurge in crude oil (petroleum) prices, the use of CPO in bio-diesel has increased significantly. Environmental concerns have lately promoted the use of CPO in lubricants.

Palm Oil vs other Oil Consumption Share



Source: USDA Estimates (August 2017)

GLOBAL SCENARIO

Major producers of CPO

Country	2015/16	2016/17
Indonesia	32000	34000
Malaysia	17700	18750
Thailand	1804	2000
Colombia	1275	1146
Nigeria	970	970
Other	5084	5301

Major consumers of CPO

Country	2015/16	2016/17
Indonesia	9428	9470
India	9100	9250
European Union	6700	6400
China	4830	4900
Malaysia	2990	2870
Pakistan	2815	2995

Major importers of CPO

Country	2015/16	2016/17
India	8857	9000
European Union	6636	6500
China	4689	4900
Pakistan	2720	3000
Bangladesh	1511	1400
United States	1307	1306

Major exporters of CPO

Country	2015/16	2016/17
Indonesia	22905	25000
Malaysia	16621	16500
Guatemala	614	700
Benin	460	580
Papua New Guinea	572	560
Other	2562	2527



INDIAN SCENARIO

- According to USDA Mar 2019 estimates, India's annual consumption of edible oil during 2016–17 stood at 23.1 million metric tonnes (MT). More than half the consumption was met through imports and the rest through domestically produced oilseeds.
- Palm oil has a significant presence in India's edible oil consumption basket as more than 40% of India's annual edible oil requirement is met by palm oil, almost all of which is imported. In fact, in the annual edible oil import basket, palm oil tops the list (around 60%). The major ports for palm oil imports are Kandla, Haldia,Krishnapatanam, JNPT, Kakinada, Mundra, Chennai and Mangalore.
- According to the estimates of the Solvent Extractors' Association of India, India imported approximately 64.60 lakh MT of CPO and 21.36 lakh MT of RBD Palmolein during the 2017–18 oil year (November to October) to remain the world's largest importer of palm oil.

PALM OIL AS AGAINST OTHER OILS CONSUMED IN INDIA

Consumption in India is marked not just by rising overall trend, but by changing patterns as well. Almost the entire quantity of vegetable oil consumed in India during the early 1970s consisted of groundnut oil (53% of consumption in 1972/73–1974/75), rapeseed oil (25%), and cottonseed oil (9%). Palm oil, soyabean oil, and sunflower oil together accounted for less than 4% of the total vegetable oil consumption. But now the scenario has changed; palm oil and soyabean oil have become the most consumed edible oils in the country, accounting for 45% and 21% of the total consumption, respectively.

In 1994, India shifted from a restrictive state trading regime for oils to unrestricted imports, subject to tariffs and duties. Imported oils, mostly palm oil and soyabean oil, have accounted for most of the consumption growth. Together, these non-traditional imported oils now account for more than half the oil consumed in India, filling a gap arising from increasing demand and static domestic oilseed production.

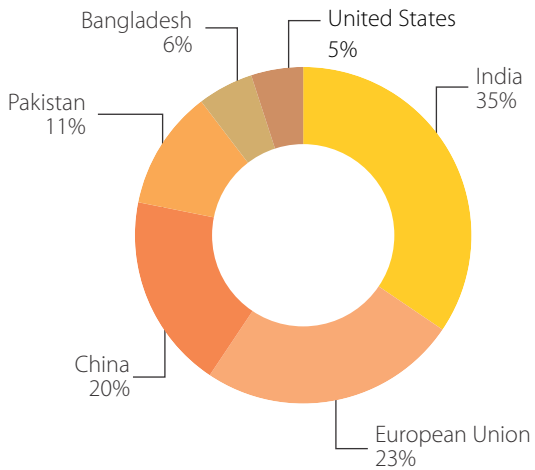
FUNDAMENTAL FACTORS WHICH INFLUENCE CPO PRICES IN INDIA

- *Supply scenario in major producing countries—Malaysia and Indonesia.*
- *Demand in major consuming countries, that is, India, China and The EU.*
- *Foreign exchange rates.*
- *Price-based substitution between oils, that is, between soyabean oil and palm oil.*
- *Changes in import duties and tariffs.*
- *Crude oil prices, as demand for CPO in bio-diesel production is directly related to it.*

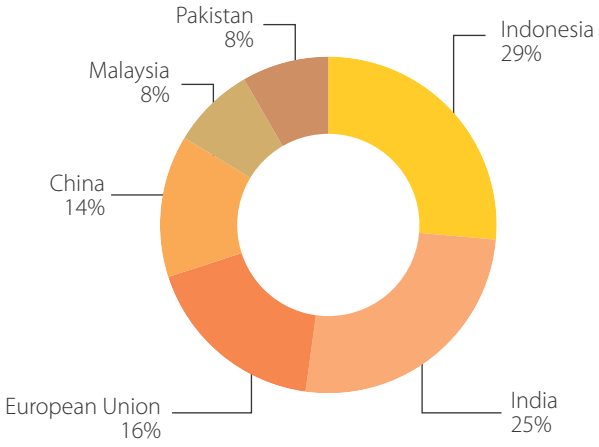
BENEFITS OF TRADING CPO ON MCX

- Volatility in prices due to the changing supply—demand scenario, necessitates hedging to cover price risks.
- Indian price (Kandla) is taken for final settlement, which provides risk cover against change in tariff, import duty, and currency volatility.
- Good volume and open interest provide enough liquidity and depth to trade.
- Initial margin and extreme loss margin are as low as 4% and 1.25% respectively.
- Simple average of the last three days' spot market prices is taken for final settlement.

Palm oil Importing Countries

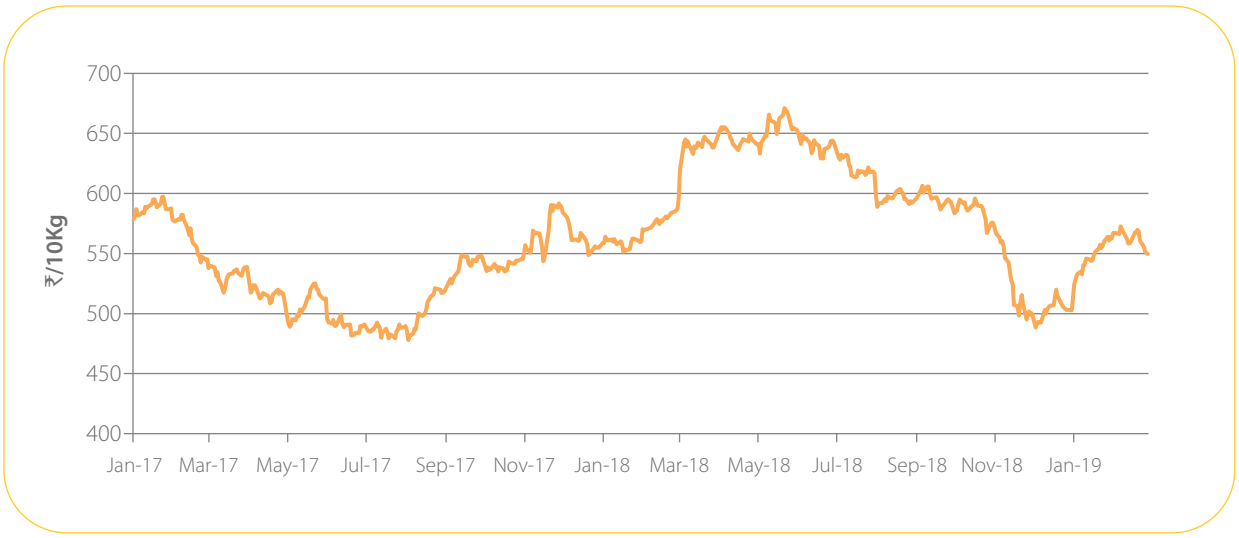


Major Palm Oil Consuming Countries



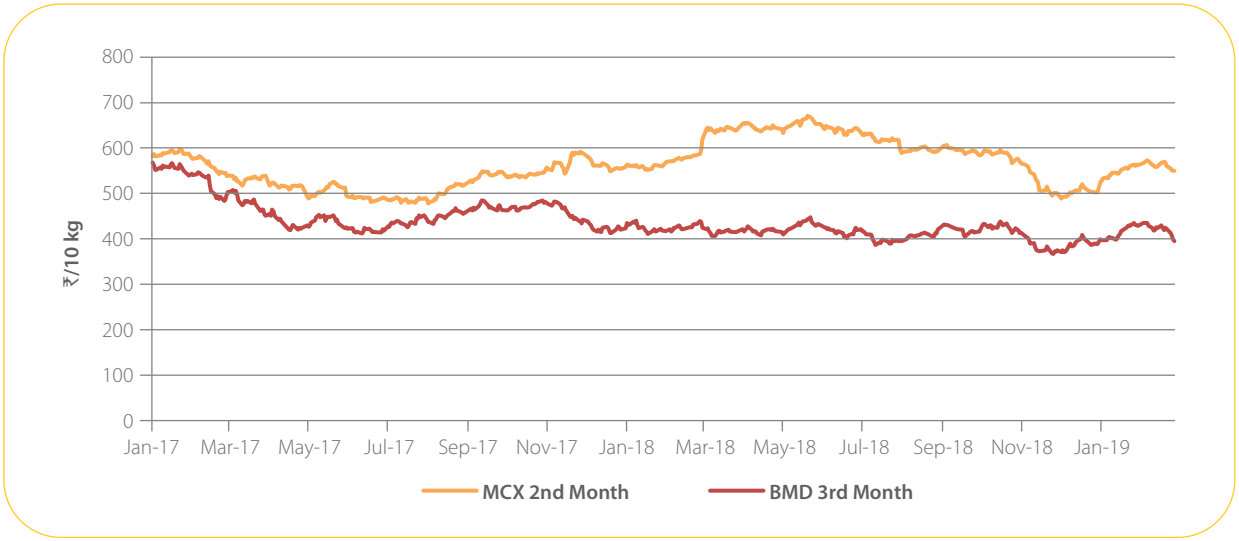
Source: USDA Estimates (March 2019)

MCX CPO: second month continuous price chart



Source: MCX website

MCX CPO vs. BMD CPO (Re Eq.) correlation



Source: BMD & MCX websites

MCX CPO volumes and open interest



Source: MCX website

Contract Specifications of MCX Crude Palm Oil

Symbol	**CPO**
Description	CPOMMMYY
Contract Listing	Contracts are available as per the Contract Launch Calendar.
Contract Start Day	1st day of contract launch month. If 1st day is a holiday then the following working day.
Last Trading Day	Last calendar day of the contract expiry month. If last calendar day is a holiday then the preceding working day.
Trading	
Trading Period	Mondays through Fridays
Trading Session	Monday to Friday: 9.00 am to 09.00 pm
Trading Unit	10 MT
Quotation/Base Value	₹/10 Kg
Price Quote	Ex- Kandla, exclusive of Sales tax/ GST
Maximum Order Size	200 MT
Tick Size	(Minimum Price Movement) 10 paise
Daily Price Limits	DPL shall have two slabs - Initial and Enhanced Slab. Once the initial slab limit of 3% is reached in any contract, then after a period of 15 minutes, this limit shall be increased further by enhanced slab of 1%, only in that contract. The trading shall be permitted during the 15 minutes period within the initial slab limit. After the DPL is enhanced, trades shall be permitted throughout the day within the enhanced total DPL of 4%.
Initial Margin*	Minimum 4% or based on SPAN whichever is higher
Extreme Loss Margin	1.25%
Additional and/or Special Margin	In case of additional volatility, an additional margin (on both buy & sell side) and/ or special margin (on either buy or sell side) at such percentage, as deemed fit; will be imposed in respect of all outstanding positions.
Maximum Allowable Open Position**	For individual clients: 1,00,000 MT For a member collectively for all clients 10,00,000 MT or 15% of the market wide open position, whichever is higher. Near Month Limits For individual clients: 25,000 MT Near month member level position limit shall be equivalent to the one fourth of the overall member level position limit.
Delivery	
Delivery Unit	10 MT (with tolerance limit of 250 Kgs) which means that if the seller delivers any quantity between 9.75 MT to 10.25 MT, it will be construed as adequate discharge of his delivery obligation of 10 MT, though he will get the value only for actual quantity delivered by him.
Delivery Period Margin***	Delivery period margins shall be higher of: **a.** 3% + 5 day 99% VaR of spot price volatility Or **b.** 25%
Delivery Centre(s)	Within Kandla municipal limits
Quality Specifications	Crude Palm Oil of good merchantable quality in bulk and unbleached.
	Refractive Index at 50 C 1.4491 to 1.4552
	Specific Gravity @ 42 C 0.895 to 0.897
	Iodine value (Wij's method) 45 – 56
	Saponification value 195 – 205
	Unsaponifiable matter Not more than 1.2%
	FFA by wt. Not more than 5.0%
	Moisture Not More than 0.25%
Due Date Rate (Final Settlement Price) ****	For contracts where Final Settlement Price (FSP) is determined by polling, unless specifically approved otherwise, the FSP shall be arrived at by taking the simple average of the last polled spot prices of the last three trading days viz., E0 (expiry day), E-1 and E-2. In the event the spot price for any one or both of E-1 and E-2 is not available; the simple average of the last polled spot price of E0,E-1, E-2 and E-3, whichever available, shall be taken as FSP. Thus, the FSP under various scenarios of non-availability of polled spot prices shall be asunder: In case of non-availability of polled spot price on expiry day (E0) due to sudden closure of physical market under any emergency situations noticed at the basis centre, Exchanges shall decide further course of action for determining FSP in consultation with SEBI. For the purpose of spot price the 'actual user condition' of the commodity will be considered.
Delivery Logic	Both Option

* The Margin Period of Risk (MPOR) shall be 3 days in accordance with Circular No. MCX/MCXCCL/018/2019 dated January 15, 2019 accordingly, the initial margin shall be scaled up by root 3. | ** Pursuant to SEBI circular SEBI/HO/CDMRD/DMP/CIR/P/2017/84 dated July 25, 2017 | *** As per SEBI directive SEBI/HO/CDMRD/DRMP/CIR/P/2016/77 dated Sep 01, 2016 | **** As per SEBI directive SEBI/HO/CDMRD/ DRMP/CIR/P/2016/90 dated Sep 21, 2016

Note: Trading will be allowed only upto 5:00 p.m. on the date of expiry of the contract.

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