

11th ASIA PACIFIC MINERAL RESOURCE HEDGING TIN IN MALAYSIA

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BURSA MALAYSIA DERIVATIVES

Twenty Years in the future?



World-renowned Physicist Michio Kaku

World Mining Production 1984 - 2014 by Continents

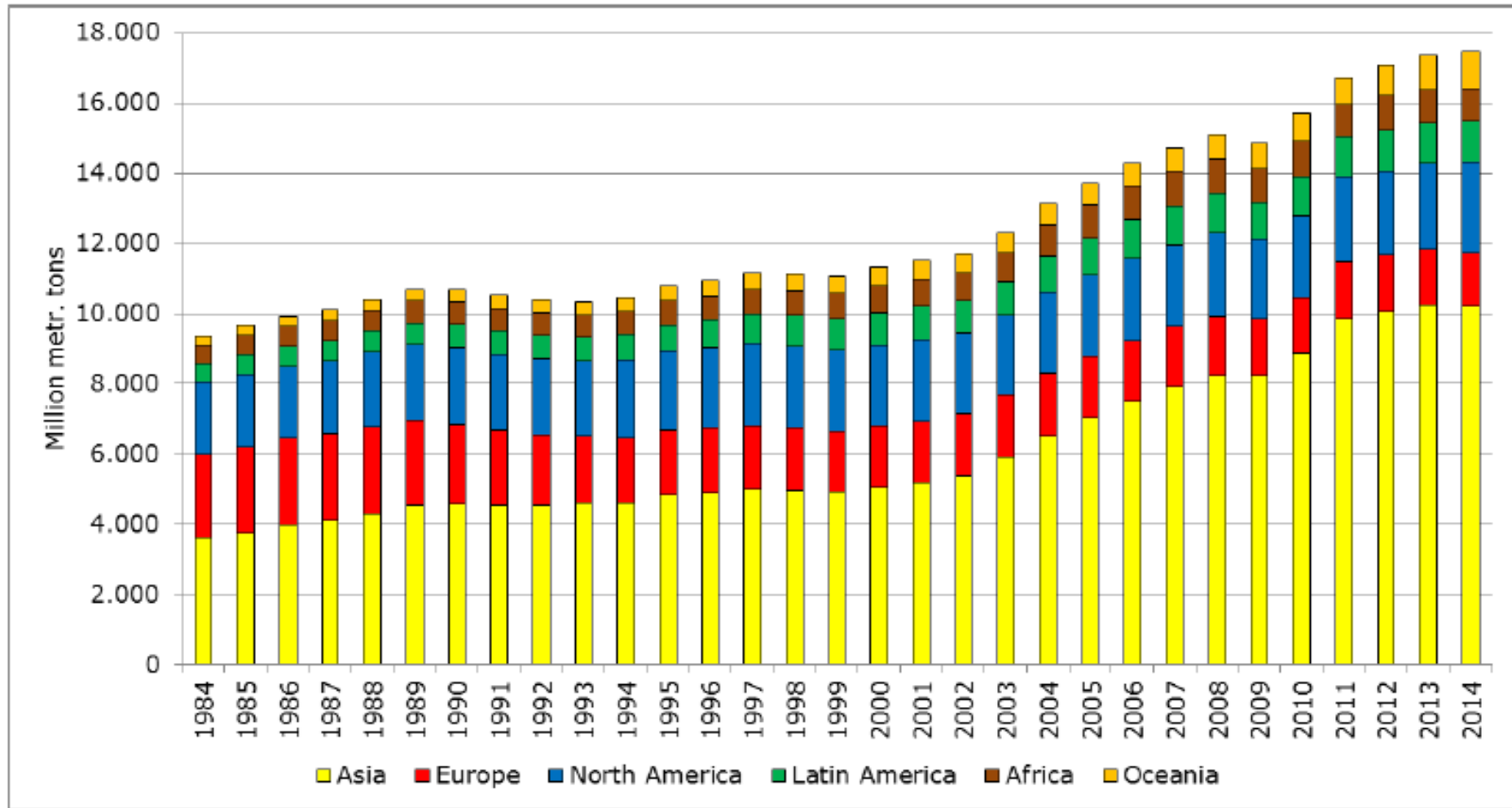
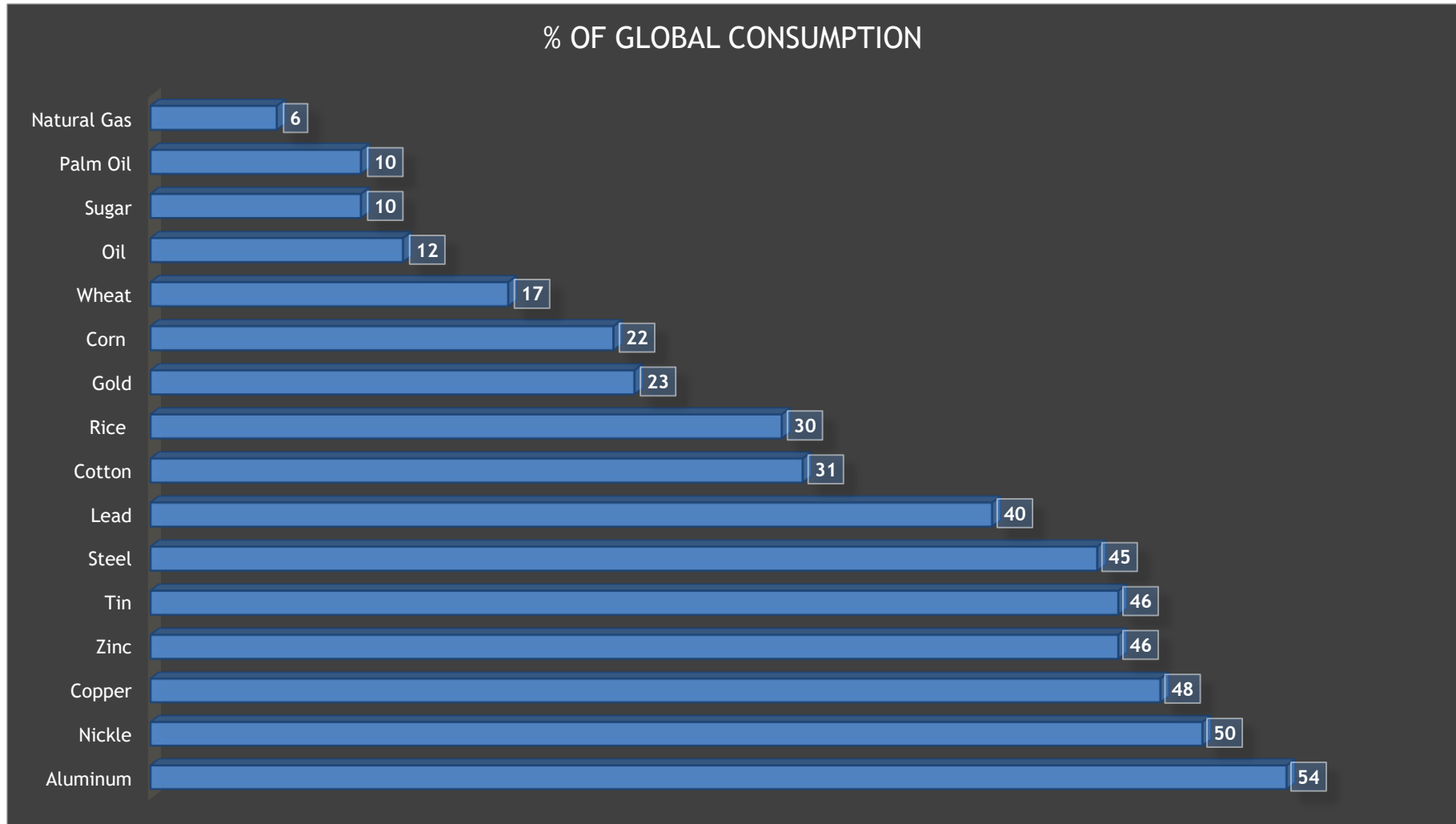


Fig. 2: World mining production 1984 - 2014 by continents (without construction minerals, in Million metr. t)

(Source: Federal Ministry of Science, Research and Economy)

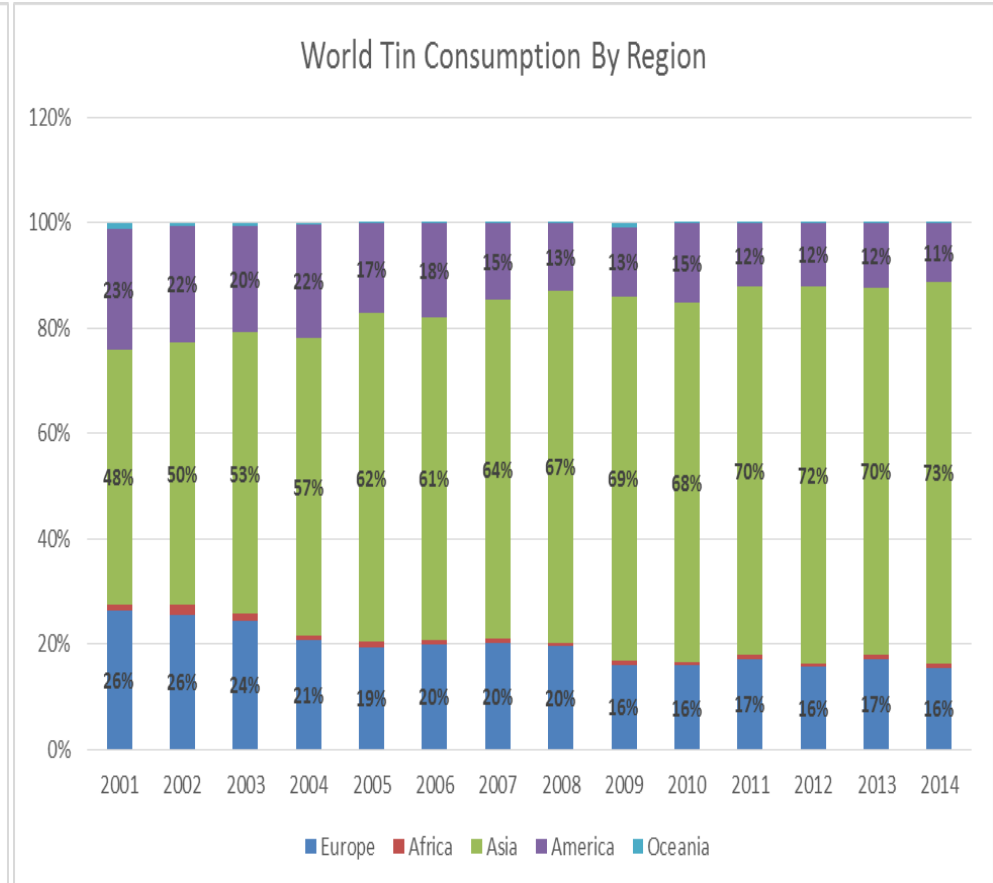
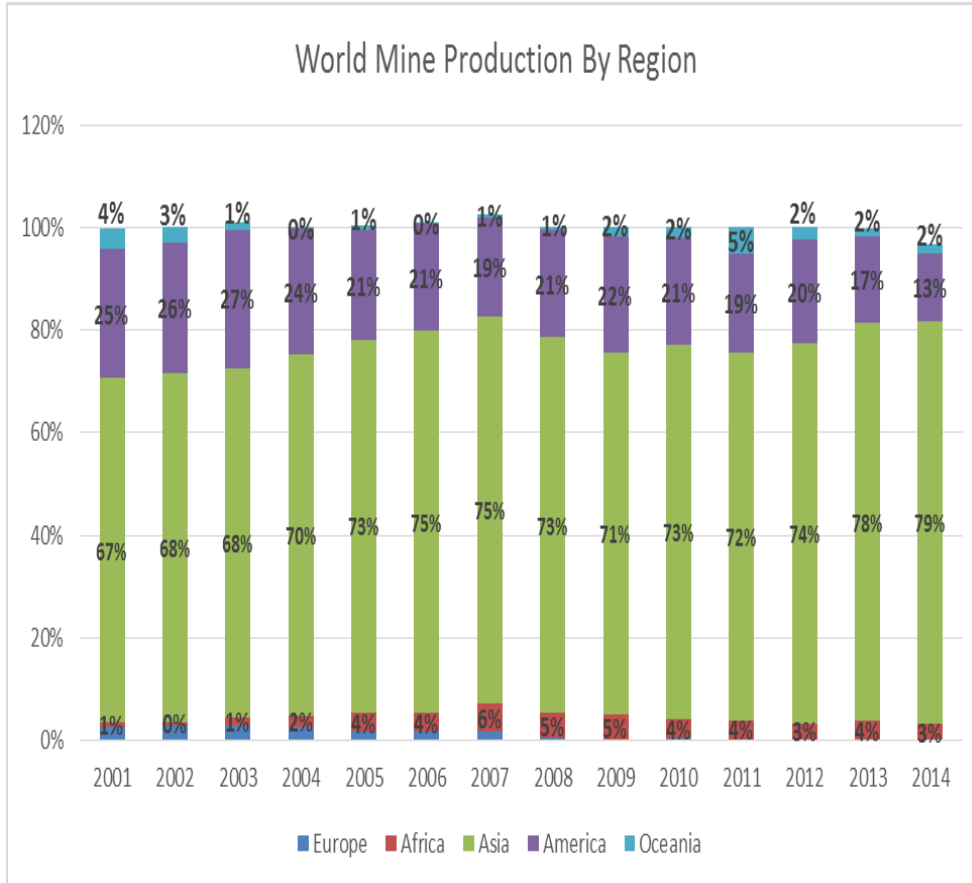
China's % Consumption



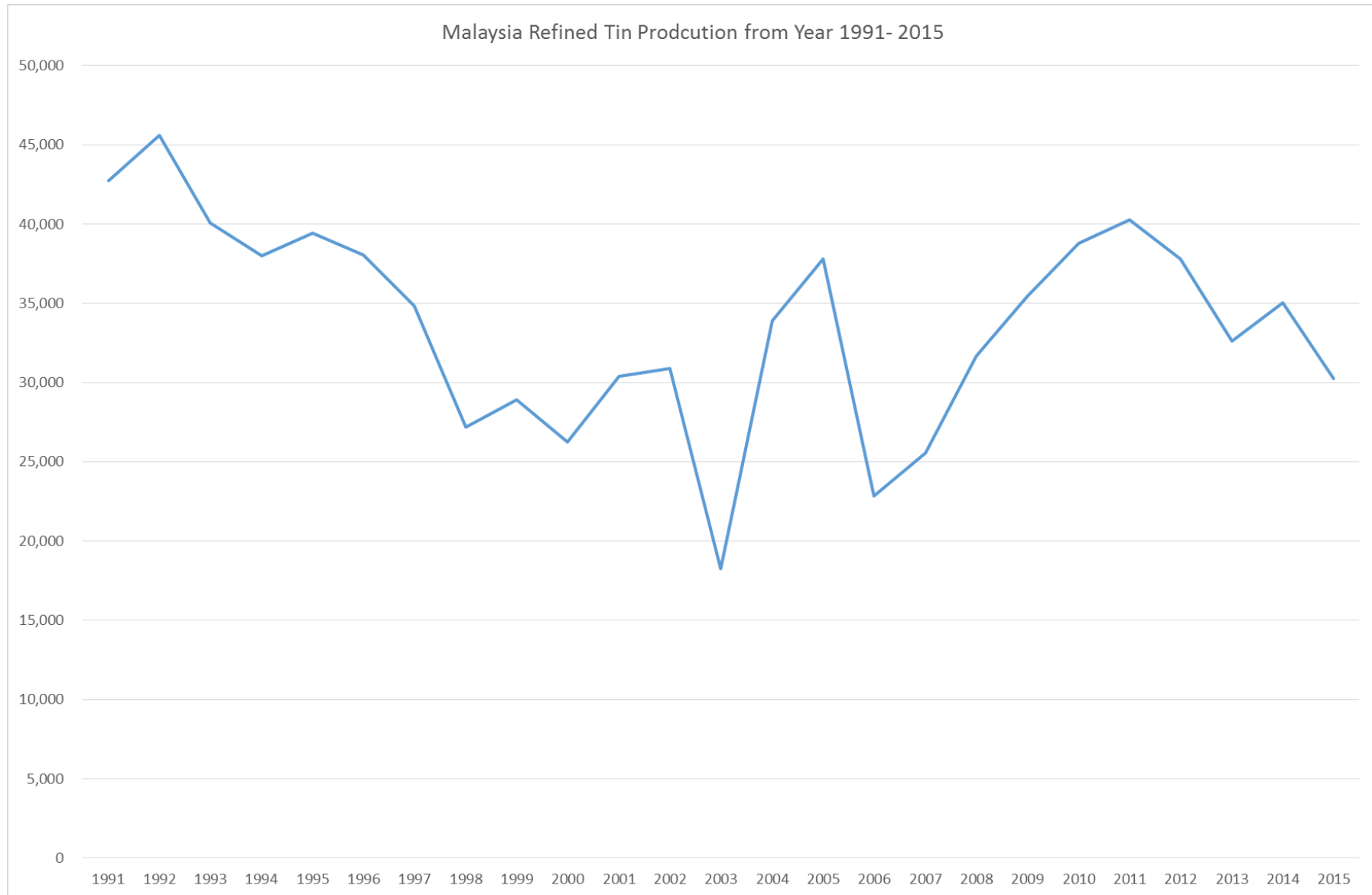
Source: The Wall Street Journal, World Bureau of Metal Statistics, World Gold Council, BP Stats Review of World Energy 2015, Metalytics via MS, US Department of Agricultural

TIN PRODUCTION AND CONSUMPTION BY REGION

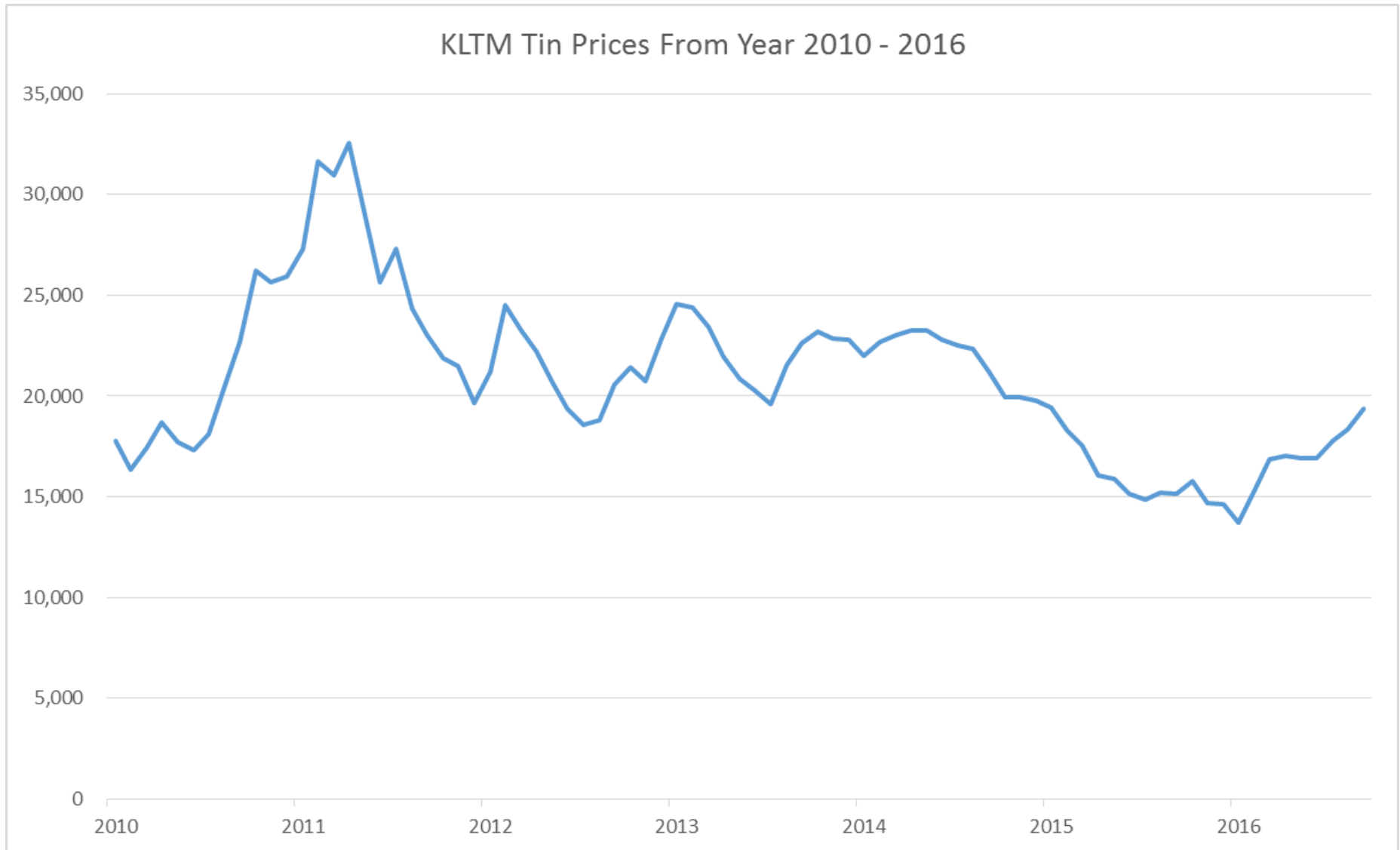
➤ 81% of Global tin production and 73% tin consumption is in Asia



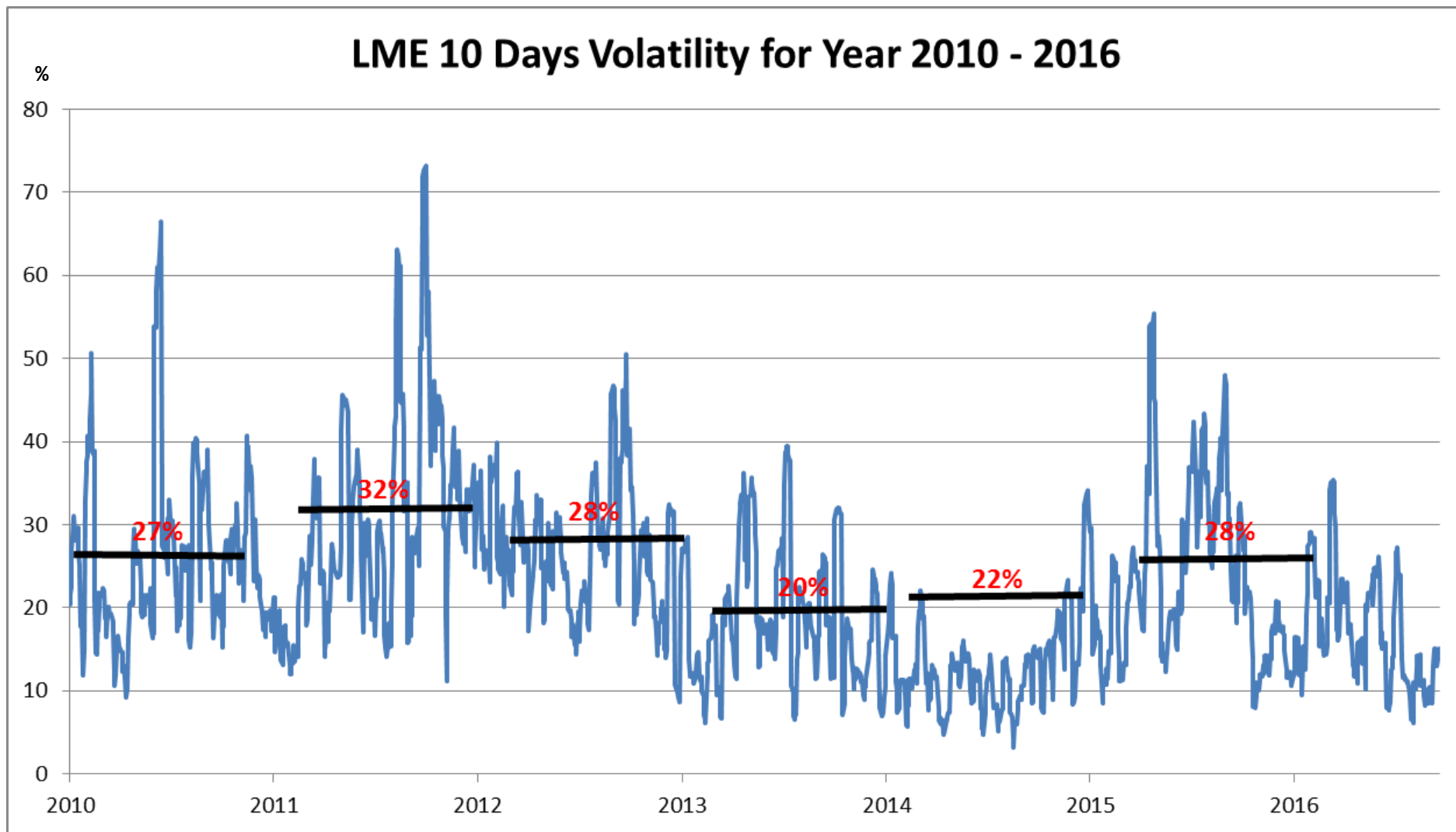
Malaysia Refined Tin Production from Year 1991 - 2015



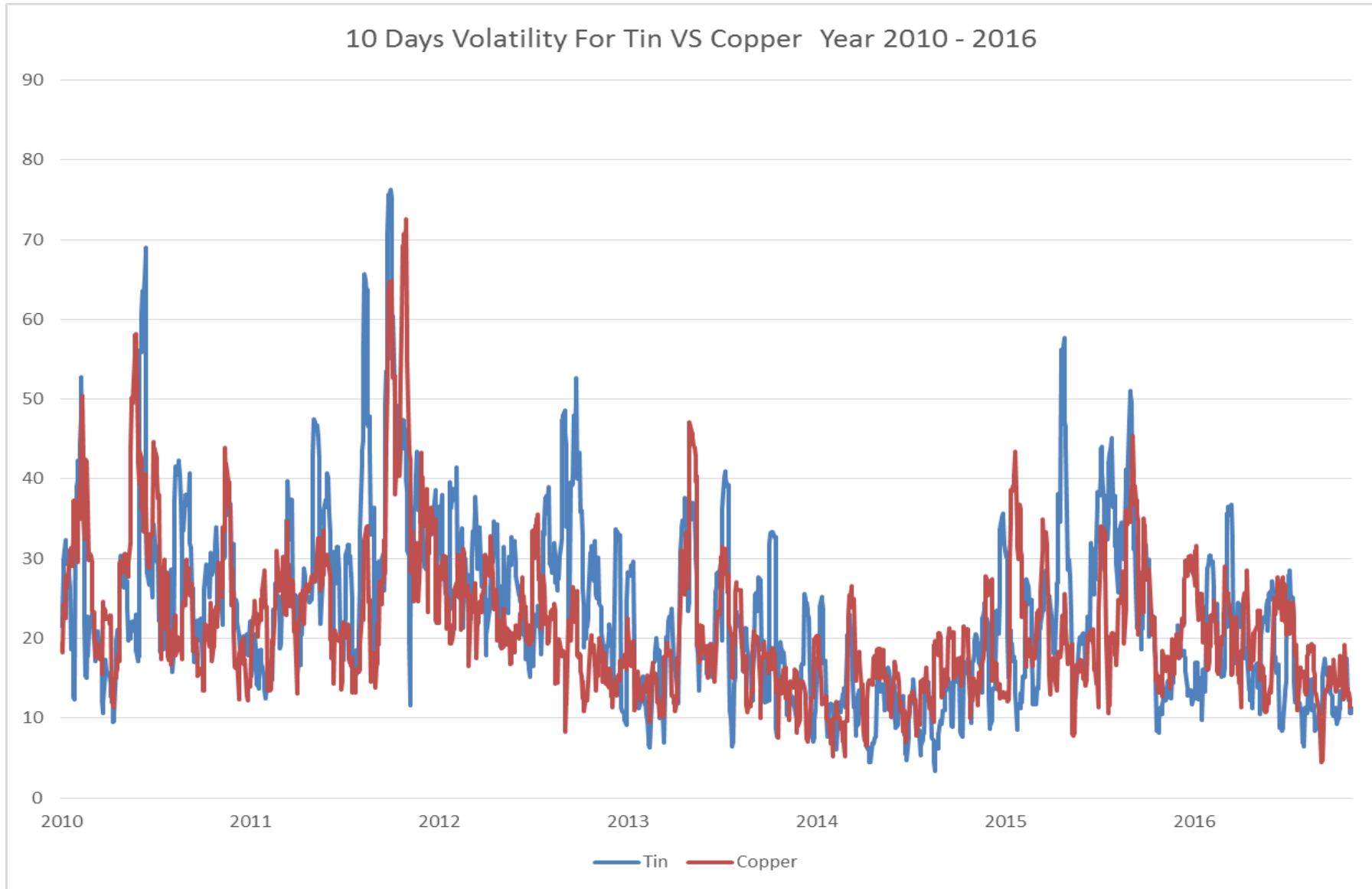
Source: KLTM



10 Days Price Volatility for LME Tin



10 Days Volatility Tin Vs Copper

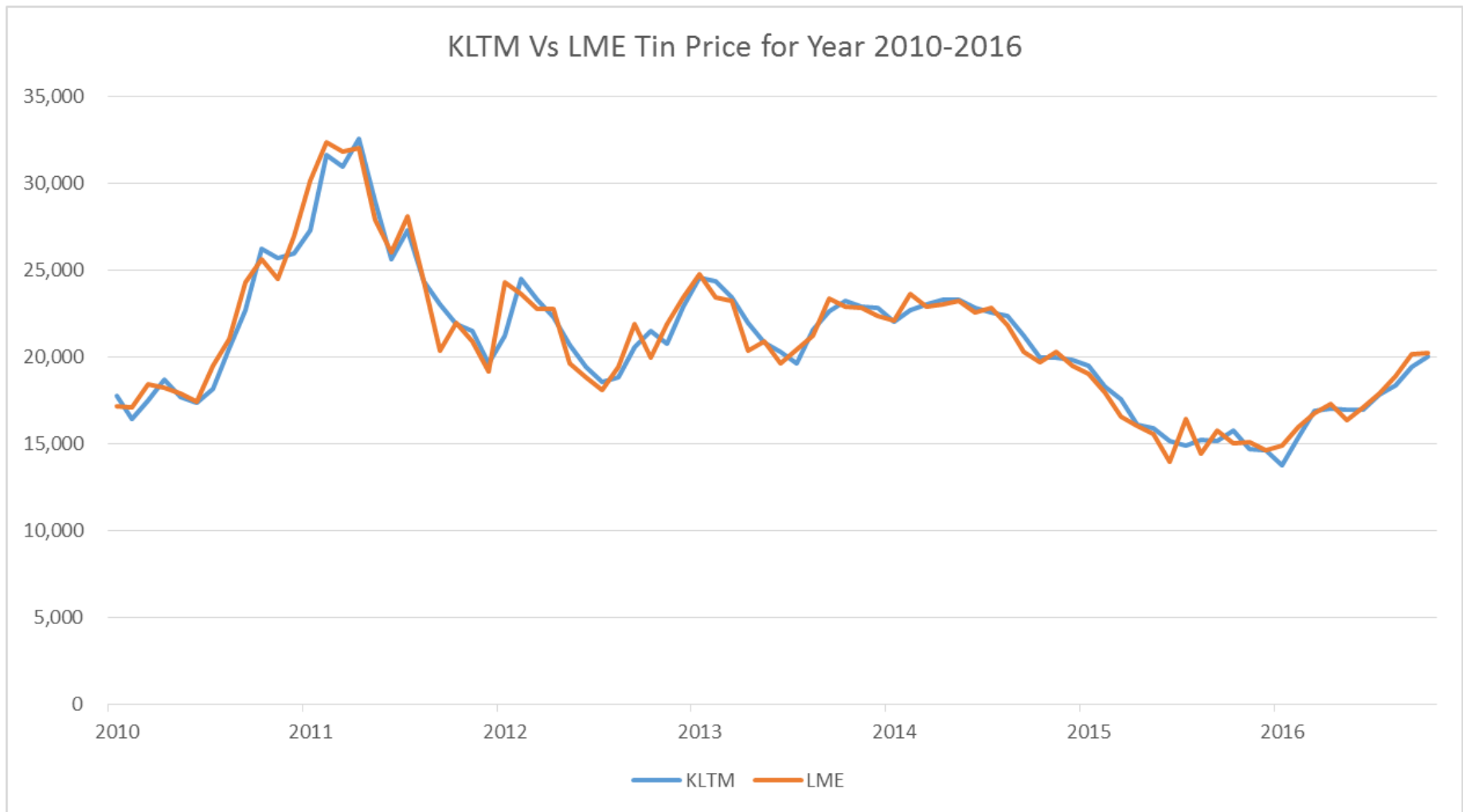


Seasonal Chart For Tin Price From Year 2012-2016



Source : Bloomberg

- ✓ To connect Tin trading to global market via Globex Trading Platform
- ✓ To provide a transparent price discovery trading mechanism
- ✓ To provide a platform to Tin industry to manage their price risk
- ✓ To leverage on existing established physical market infrastructure of Kuala Lumpur Tin Market.



Hedging for Tin Buyers

Timble Pte. Ltd. is a soldering company. The company purchase tin from Quick Tin, a tin smelting company in Malaysia.

Assuming it is January 2016 and current tin price is USD 15,000 per MT. Timble Pte. Ltd. has received an order of 50MT which needs to be delivered in September 2016. Timble Pte. Ltd. anticipates that the tin price will rise to USD 19,500 by September 2016.

What options does Timble Pte Ltd have?

Options 1

Buy 50 MT at USD 19,500 = USD 975,000

Or Options 2

Date	Futures					Physical			
Jan-16	Buy	15,000	50	750,000					
Sep-16	Sell	19,500	50	975,000		Buy	19,500	50	975,000
	Profit of			225,000		Purchase cost after offsetting futures hedge			750,000

Hedging Example for Tin Sellers

Pokeman Ltd. is a tin smelting company. They supply Tin to all tin users. They have contracted to sell 10,000MT of tin by end March 2017.

Assuming the current date now is 1st September 2016 and the price of tin is USD 19,500 per MT. Pokeman is expecting 30% increase of tin production in Year 2017 which will cause the price to decrease to about USD 16,000 per MT.

What options does Pokeman Ltd. have?

Option 1:

Sell 10,000 MT of Tin at USD16,000 = USD 160,000,000

Or Options 2:

Date	Futures				Physical			
1-Sep-16	Sell	19,500	10,000	195,000,000				
31-Mar-17	Buy	16,000	10,000	160,000,000	Sell	16,000	10,000	160,000,000
	Profit of			35,000,000	Sales Price after adding profit from futures hedge			195,000,000

Negotiated Large Trade (NLT)

- An off-market trading facility that allows Trading Participants or their clients to arrange and transact orders of a defined large size away from the trading system.
- NLT allows large trades to be done at a single price and it minimises the possible price impact and time delays that may occur when transacting orders of large sizes on the Exchange.

Main Advantage:

Bursa Malaysia Clearing House takes over counterparty risk

Exchange For Related Position (EFRP)

- EFR refers to an arrangement between 2 parties whereby a futures position is exchanged for related positions or vice versa. The related position can include cash or physical, swap, OTC derivative or other futures position.
- The related position must involve the commodity or a financial asset underlying the futures contract, or must be a derivative, by-product or related product that has a reasonable degree of price correlation to the commodity or financial asset underlying the futures contract.

Heading

Contract Specifications

Contract Code

FTIN

Underlying Instrument

Underlying tin quality as prescribed by Kuala Lumpur Tin Market

Current KLTM Contract Grade: A contract on the KLTM is for refined tin metal of ASTM Grade B339.93 and BS-EN610: 1996 specifications with a minimum tin content of 99.85% Sn of any of the brands which are currently approved by the Board of KLTM

- MSC
- Banka
- Mentok
- Thaisarco
- JH
- PGMA
- YS
- YT
- YUNHENG
- IMLI
- TININDO

The Board of KLTM may, from time to time, amend the list of approved brands.

Contract Unit

1MT

**Minimum Price Fluctuation
Price Limits**

1 US Dollar per MT

There must be no trading at a price more than 10% above or below the settlement prices of the preceding Business Day (“the 10% Limit”) except as provided below:

- (a) If spot month Contract trades at the 10% Limit, the Exchange will announce a 10-minute cooling off period (“the Cooling Off Period”) for Contracts of all contract months (including the spot month) during which trading may only take place within the 10% Limit for Contracts of all contract months (including the spot month).
- (b) After the Cooling Off Period, Contracts of all contract months (including the spot month) will be specified as reserved for a period of 5 minutes, after which the price limit will be expanded to 20%. The prices traded for Contracts of all contract months (including the spot month) must then not vary more than 20% above or below the settlement prices of the preceding Business Day (“the 20% Limit”).
- (c) If spot month Contract trades at the 10% Limit less than 30 minutes before the end of the first trading session, the 10% Limit will apply to Contracts of all contract months (including the spot month) for the rest of the first trading session, and the 20% Limit will apply to Contracts of all contract months (including the spot month) during the second trading session.
- (d) If spot month Contract trades at the 10% Limit less than 30 minutes before the end of the second trading session, the 10% Limit will apply to Contracts of all contract months (including the spot month) for the rest of the Business Day.
- (e) On any Business Day other than the Final Trading Day, the price limits in the above paragraphs apply to trades in Contracts of all contract months including the spot month. On the Final Trading Day, the price limits in the above paragraphs do not apply to trades in spot month Contracts.

Contract Months	Spot month and the next 11 succeeding months up to 12 months ahead.
Trading Hours	<u>First Trading Session</u> 0900 hours to 1200 hours <u>Second Trading Session</u> 1330 hours to 1500 hours *Malaysian Time Zone
Final Trading Day	Contract expires at noon on the 15th day of the month, or if the 15th is a non-market day, the preceding Business Day.
Settlement Method	Cash Settlement based on the final settlement value using KLTM prices.
Speculative Position Limit	The maximum number of net long or net short positions which a client or a participant may hold or control is: 500 contracts for the spot month 1,000 contracts for all months combined

List of Bursa Malaysia Derivatives Trading Participants



- 1) Affin Hwang Investment Bank Berhad
- 2) AmFutures Sdn Bhd
- 3) CIMB Futures Sdn Bhd
- 4) Credit Suisse Securities (Malaysia) Sdn Bhd
- 5) Fedrums Sdn Bhd
- 6) Hong Leong Investment Bank Berhad
- 7) Inter-Pacific Securities Sdn Bhd
- 8) J.P. Morgan Securities (Malaysia) Sdn Bhd
- 9) JF Apex Securities Bhd
- 10) Kenanga Deutsche Futures Sdn Bhd
- 11) LT International Futures (M) Sdn Bhd
- 12) Maybank Investment Bank Berhad
- 13) Okachi (M) Sdn Bhd
- 14) Oriental Pacific Futures Sdn Bhd
- 15) Phillip Futures Sdn Bhd
- 16) RHB Investment Bank Bhd
- 17) TA Futures Sdn Bhd
- 18) UOB Kay Hian Securities (M) Sdn Bhd

Thank You

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