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Special Report On

iCOMDEX Base Metal Index

.....Another feather in Portfolio



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The commodity derivatives market in India is entering a new phase of growth with the launch of futures contracts on commodity indices. The country's largest commodities exchange multi commodity exchange of India is launching the iCOMDEX base metal Index futures, India's first tradeable base metal futures Index.

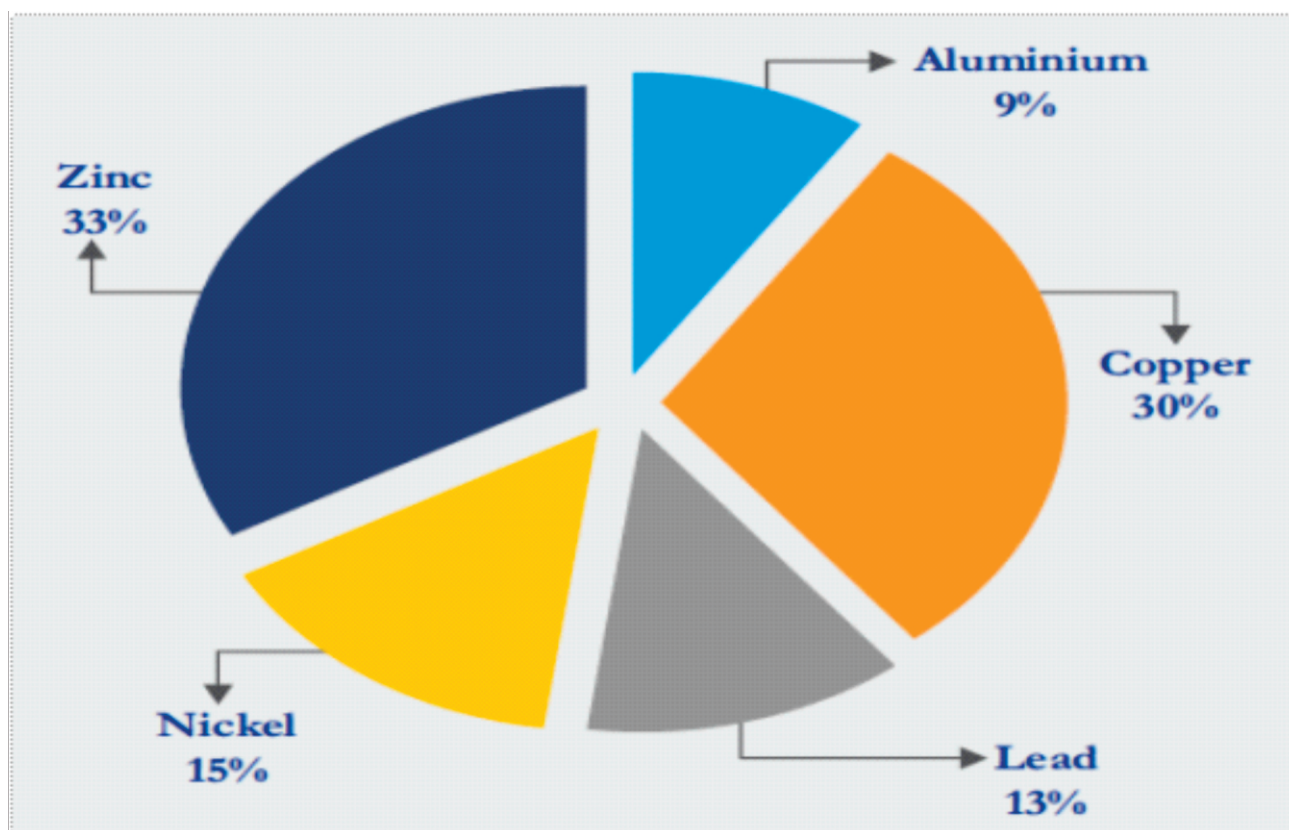
The Securities and Exchange Board of India had granted approval for the bourse to launch trading in base metal indices on June 29, 2020. The base metals future contracts expiring in November and December 2020 and January 2021 will be available for trading from October 19. MCX had already started trading on bullion index, Bulldex, with good volume and making it the country's first such index on underlying bullion futures contracts.

Base Metals Index (METLDEX)

Like MCX iCOMDEX Bullion Index, MCX iCOMDEX Base Metals Index (METLDEX) is also one of the sectoral indices in the MCX iCOMDEX family, and real-time Excess return index. METLDEX futures – a futures contract based on METLDEX – an index on the five liquid base metals traded on MCX platform, viz copper, zinc, aluminium, lead and nickel will provide investors and traders an opportunity to participate in the sectoral index of metals - a barometer of the economic activity in the global markets. MCX METLDEX, tracks the real-time performance of flagship near month MCX Aluminium (5 MT), Copper (2.5 MT), Lead (5 MT), Nickel (1.5 MT) & Zinc (5 MT) futures contracts. The Index is an efficient tool for investors looking to manage their investments in base metal and, being an excess returns index, it is ideal for benchmarking and trading.

Excess return index : The return generated by an excess returns index such as the MCX METLDEX comes from not only the changes in the price of base metals commodity futures (the 'price return'), but also the profits /losses realised by rolling commodity futures (the "roll return") from near to subsequent month futures contract. The sum of the price return and the roll return associated with investment in the MCX METLDEX is the 'excess return' of the index.

Eligible index constituents and their 2020 weights



The weightage reflect the volumes of the underlying base metals trading in India. Each commodity within the index is weighted three-fourths by its liquidity and one fourth by its physical market size in India, determined by local production and imports. The MCX METLDEX is rebalanced annually before the start of the January roll period.

The criteria to be eligible for inclusion as a new selection or to continue as a selection at a rebalance in the Base Metal index are:

- They are in existence on MCX for at least previous twelve months.
- They have a traded history for at least 90% of the trading days during preceding twelve months.
- Average daily turnover during the previous twelve months is at least Rs 500 Crore.

MCX iCOMDEX Base metal futures contract specification

Symbol	MCXMETLDEX
Trading Unit (1 Lot)	Rs. 50 * MCX iCOMDEX Base Metal Index
Tick Size	1
Maximum Order Size	80 Lots
Base Value	10000
Initial Margin	Minimum 5 % or based on SPAN whichever is higher
Final Settlement	Cash settled
Final Settlement Price	The Final Settlement Price will be the underlying Index price arrived at based on Volume Weightage Average Price of the constituents of the underlying Index between 4:00 p.m. and 5:00 p.m. on the expiry day of the Index futures contract.
Index Governance	International Organisation of Securities Commissions (IOSCO) standards
Maximum Allowable Open Position	<p>For individual clients: 1,000 lots or 5% of market wide open position, whichever is higher for all MCX iCOMDEX base metal index futures contracts combined together.</p> <p>For a member collectively for all clients: 10,000 lots or 15% of market wide open position, whichever is higher for all MCX iCOMDEX Base metal index futures contracts combined together.</p>



Source: MCX

Advantage of MCX iCOMDEX Base Metal Index

- These new products have the ability to transform commodities trading for retail as well as institutional participants.
- Retail investors and traders can now participate more efficiently using lesser margins than the underlying commodities. Moreover, they can avoid the worry regarding compulsory delivery process of five days for every contract month.
- Being a broad based index comprising of important industrial metals, the index also is an indicator of the fundamentals and performance of the industrial sector, particularly the metals-using manufacturing industry.
- Further, being a diversified index, it would not get largely affected by micro-economic events relevant to one commodity market or sector.
- Long-term investors can use the MCX iCOMDEX Base Metals Index to gain from exposure to the Base Metals sector as a whole.
- The Index can be used to make a powerful portfolio diversifier, with sound returns and low volatility over time as well as low correlation with equities and fixed income assets.

- Institutional participants can now allocate funds under PMS, MF route to the METLDEX as a tactical allocation, long / short participation as well as create products like ETFs for their investors.
- Further, the diversification potentially reduces volatility in comparison to single commodity exposures
- Protection can be established regardless of overall market direction.

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