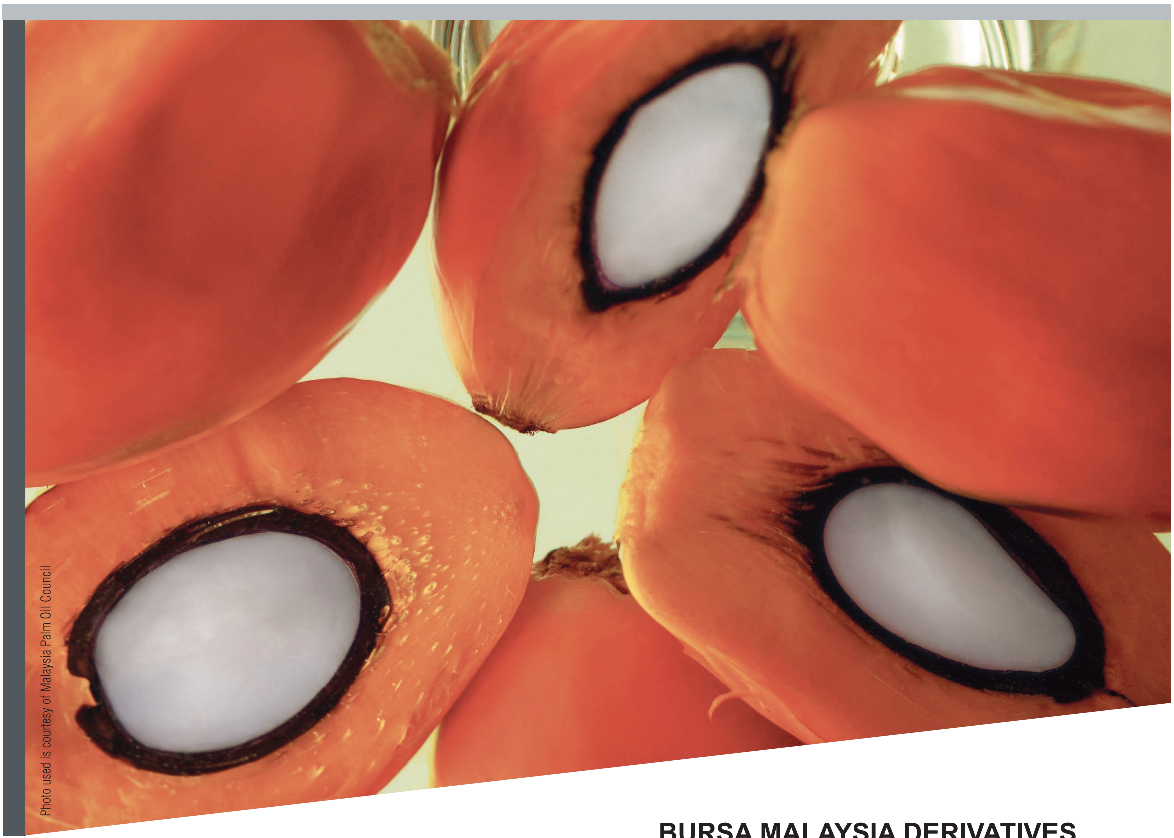
CRUDE PALM OIL FUTURES (FCPO)

CRUDE PALM OIL FUTURES MALAYSIA
Now Traded on CME Globex®



BURSA MALAYSIA DERIVATIVES

BURSA MALAYSIA

CME Group

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CHAPTER 1: FCPO

WHAT IS FCPO?

Bursa Malaysia's Crude Palm Oil Futures contract, or better known as FCPO, has been the global price benchmark for the Crude Palm Oil market since October 1980. The FCPO is a deliverable contract which is traded electronically on Bursa Malaysia's trading platform. With an impressive track record of 30 years, Bursa Malaysia's FCPO price has become the reference point for market players in the oils and fats industry.

BENEFITS OF FCPO

- **To manage price risk –** plantation companies, refineries, exporters and millers can use the FCPO to manage risk and hedge against the risk of unfavourable movements in the price of FCPO in the physical market.
- **To speculate –** traders can use the FCPO to gain leveraged exposure to movements in CPO prices.
- **To gain immediate exposure into the commodity market –** via FCPO, global fund managers and proprietary traders are able to be part of the active commodity market instantaneously.

EXAMPLES OF Trading Scenarios

SCENARIO 1 – Hedging

Plantation companies are perpetually with stock in hand, therefore their risk exposure to the market would be enhanced in declining markets. A palm oil producer knows that in three months, his crop will be ready to be harvested. However, he is worried that prices may fall bythe time he can sell his CPO. He chooses to trade on Bursa Malaysia and hedges his position by selling the FCPO contract. In doing so, he has effectively locked-in his selling price three months later.

SCENARIO 2 – Arbitraging

A trading house realises that the correlation prices of physical palm oil and the FCPO market has deviated from its usual spreads, and that the FCPO is trading at a premium to the physical market. It decides to sell FCPO and buy physical CPO to arbitrage. The position will be liquidated later once the spread of the prices between both markets returns to normal.

EXAMPLES OF Trading Scenarios

SCENARIO 3 – Trading

A Malaysian refiner has received an order to deliver 10,000 metric tons of processed palm oil. However, he only has enough CPO to fulfill 80% of this transaction and has a shortfall of 2,000 metric tons. He turns to the physical market to cover this shortfall but is unable to find any sellers in a bullish market. As the market is anticipating higher prices, he prefers to buy at the current price to protect his profit margin.

He turns to Bursa Malaysia and buys 80 contracts of FCPO (80 contracts x 25 metric tons per contract = 2,000 metric tons) at the prevailing price. He has now effectively locked-in his buying price and will wait for the tender process to take place to collect the physical delivery of Crude Palm Oil.

ORDERS
Order Types

Limit Order

- A limit order is an order which stipulates a price. Buy limit orders shall be matched at the stipulated price or lower and sell limit orders shall be matched at the stipulated price or higher.

Market Order

- A market order is an order that is entered with no price stipulation. It will be matched at the best available opposite price to the fullest extent immediately upon its entry.

Market On Opening Order

- Order can only be entered in the Pre-Opening phase
- To be executed at the auction price

Stop Order (Stop Loss and Stop Limit)

- Stop Loss – becomes market order once triggered
- Stop Limit – becomes limit order once triggered

Market-To-Limit Order

- An order with no price stipulation
- A buy market-to-limit order shall be matched immediately at the lowest sell price
- A sell market-to-limit order shall be matched immediately at the highest buy price
- Thereafter, any remaining unexecuted quantity of the order shall be converted into a limit order at the matched price

ORDERS
Validity Conditions

Good For Day

- Valid for the trading day

Good Till Date

- Valid until a specified date

Good Till Cancel

- Valid until the order is cancelled

Session

- Valid for the trading session

TRADING
Order Execution Conditions

Fill and Kill

- Unmatched portion of the order shall be automatically cancelled by the system

Minimum Quantity

- A specified minimum quantity of the order shall be executed immediately upon entry of the order, failing which the whole quantity of the order shall be cancelled

TRADING STRATEGIES

A strategy is a combination of a number of buy and/or sell orders of similar or different contracts created within the framework of a single order.

Exchange Defined Strategies (EDS)

- Strategies pre-defined by the Exchange and readily tradable
- The EDS defined in the trading system are Calendar Spread and Strip
- Calendar Spread EDS are for the first four nearest contract months
- Six Calendar Spread EDS are available at any one time for each and every futures product

User Defined Strategies (UDS)

- A trader may define his own strategy other than those pre-defined by the Exchange
- The UDS will be broadcasted to the market for interested parties to trade

FOREIGN CURRENCY DEPOSIT (for Initial Margin only)

- Australian Dollar (AUD)
- British Pound (GBP)
- Euro (EUR)
- Japanese Yen (JPY)
- Singapore Dollar (SGD)
- US Dollar (USD)

Note:

1. Please note that all currency deposits for Initial Margin are subjected to hair cut rates as determined by Bursa Malaysia Derivatives Clearing from time to time.
2. Variation Margins are to be paid in Ringgit Malaysia (RM).

CHAPTER 3: FCPO TENDER

OVERVIEW OF TENDER PROCESS

Physical Delivery and Tender Process

- Notice of Tender
- Negotiable Storage Receipts
- Tender Advice and Delivery Allocation
- Tender Restriction Period
- Tender Cycle: Payments and Margins
- Tender Cycle Example

NOTICE OF TENDER

- Participants with spot month short positions may submit Notice of Tender for the delivery of CPO during the tender period (1st – 20th of spot month)
- Participants holding FCPO positions after the 15th of the spot month contract are obligated to make or accept delivery
- All Notice of Tenders must be accompanied by Negotiable Storage Receipts (NSRs)
- Notice of Tender must be submitted to the Clearing House by 12.00 p.m. for same day processing

NEGOTIABLE STORAGE RECEIPTS (NSRs)

- A seller who intends to have CPO appraised for delivery to the market must deliver the CPO to a Port Tank Installation approved by the Exchange located at Port Klang, Butterworth and Pasir Gudang

- Each tender must be in units of 25 metric tonnes or multiples thereof

- Upon appraisal of the CPO, the Port Tank Installation Owner shall issue a NSR, which would stipulate the following:
  - Name and Location of Port Tank Installation Owner
  - Date of appraisal
  - Certification of quality of oil
  - Validity date of the NSR

TENDER ADVICE AND DELIVERY ALLOCATION

- Based on the number of Notice of Tenders received, the Clearing House will allocate Tender Advice to the respective Buying Clearing Participants on a proportionate basis at the participant's level (based on number of open positions)
- Tender Advice is then allocated on a random basis at client's level
- The Clearing House will broadcast the delivery allocation message and transmit the report electronically by 4.00 p.m.

TENDER RESTRICTION PERIOD

- Restriction on closing out of position for spot month contract takes effect one business day before the start of the Tender Period and lasts until the end of the Tender Period.

- During the restriction period, spot month open positions may only be closed out with new trades for the day.

- During the tender period, Buying Participants who intend to close out their positions and do not wish to participate in the Tender Process must perform manual match out before 2.30 p.m.

TENDER CYCLE PAYMENTS AND MARGINS

- Delivery cycle for FCPO tender is two business days
- Buying Participant will pay the tender amount and Selling Participant will receive payment two business days after tender
- Initial Margin is only imposed on the Buying Participant during the delivery cycle
- Variation margin is still payable by both the Buying and Selling Participants but will be reversed at the end of the delivery cycle

TENDER CYCLE EXAMPLE

FCPO Spot Month Contract	T-1	T	T+1	T+2
Date	16 May	17 May	18 May	19 May
Settlement Price (RM)	1403	1186	1398	1398

T = Tender Day
EOD = End Of Day

- On T Day (at EOD process)

  - RM20 tender fees posted to both Buyer and Seller accounts
  - Variation Margin posted to both Buyer and Seller accounts (will be the difference between the Settlement Price on T-1 and T Day)
  - Initial Margin only posted to Buyer's account
  - Positions under the tender process can still be viewed as Open Positions under Delivery but not included in Open Interest

- On T+1 Day (at EOD process)
  - Tender Value posted to both Buyer and Seller accounts (RM1,403, T-1 Settlement Price)
  - Variation Margin posted to both Buyer and Seller accounts (will be the difference between the Settlement Price on T Day and T+1 day)
  - Variation Margin posted to both Buyer and Seller accounts (will be the difference between T-1 and T+1 day)
  - Initial Margin no longer posted to Buyer's account. Positions under the tender process can still be viewed as Open Position under Delivery but not included in Open Interest
- On T+2 Day
  - NSR will be released to Buyer upon receipt of payment
  - Payment will be posted to Seller
  - Open Positions under Delivery will be removed at EOD process

COMPANY PROFILE

Bursa Malaysia Berhad is an exchange holding under Section 15 of the Capital Markets and Services Act 2007. The fully integrated exchange offers equities, derivatives, bonds as well as Islamic services and operates an international financial exchange in Labuan.

BURSA MALAYSIA DERIVATIVES BERHAD (BMD) is a wholly-owned subsidiary of Bursa Malaysia Berhad which provides, operates and maintains a futures and options exchange. Bursa Malaysia Derivatives Berhad operates the most liquid and successful crude palm oil futures (FCPO) contract in the world. In the last quarter of 2009, BMD entered into a partnership with the Chicago Mercantile Exchange (CME) Group which led to an acquisition of an equity interest in Bursa Malaysia Derivatives Berhad. The partnership included the licensing of the settlement prices of the FCPO to CME and the trading of BMD's product offerings through the CME Globex® electronic trading platform.

WHAT WE OFFER

Equity Derivatives

- Futures on the FTSE Bursa Malaysia Kuala Lumpur Composite Index (FKLI)
- Options on the FTSE Bursa Malaysia Kuala Lumpur Composite Index (OKLI)
- Single Stock Futures (SSF)

Financial Derivatives

- 3-Month Kuala Lumpur Inter-Bank Offer Rate (KLIBOR) Futures (FKB3)
- 3-Year Malaysian Government Securities Futures (FMG3)
- 5-Year Malaysian Government Securities Futures (FMG5)

Commodity Derivatives

- Crude Palm Oil Futures (FCPO)
- Crude Palm Kernel Oil Futures (FPKO)
- USD Crude Palm Oil Futures (FUPO)

DISCLAIMER

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Photo used is courtesy of Malaysia Palm Oil Council