

INTERVIEW

TFD SPECIAL

Ejaz Ali Shah
Managing Director,

PAKISTAN MERCANTILE EXCHANGE



Tell us about Pakistan Mercantile Exchange.

Pakistan Mercantile Exchange Limited (PMEX) is Pakistan's first and only multi-commodity futures exchange, which is licensed and regulated by the Securities and Exchange Commission of Pakistan (SECP). It is the second biggest exchange of the country in terms of value traded after Karachi Stock Exchange (KSE). Its shareholders include National Bank of Pakistan, Karachi Stock Exchange, Lahore Stock Exchange, Islamabad Stock Exchange, Pak Kuwait Investment Co, and Zarai Taraqati Bank. The Exchange offers a diverse

range of domestic & international commodities and financial futures. With a sophisticated infrastructure and state-of-the-art technology, PMEX provides a complete suite of services i.e. trading, clearing & settlement, custody as well as back office, all under one roof. PMEX's member base is above 300 and the average daily trading volume is normally in the range of PKR 3 to 5 billion.

PMEX is a member of Association of Futures Markets (AFM), World Federation of Exchanges (WFE) and Futures Industry Association (FIA) - Asia.

As the Managing Director, what is your vision for PMEX?

PMEX is a national institution and amongst the most prestigious institutions of the country. Though it may have a short history, the volume of daily trade conducted at the Exchange has often exceeded the value of shares traded at local stock exchanges, which shows the potential that the Exchange enjoys. My vision is to make PMEX a household name by adding investment friendly products to the product portfolio as well as creating awareness about the Exchange as an alternate investment avenue. Moreover, we will strive to create opportunities for our members enabling them to expand their outreach and provide services that are comparable to the best exchanges of the region.

What has changed or what is changing that makes you confident about the success of PMEX in coming times?

A lot has changed in a short span of one year as today we are a team that is striving to create a winning culture having its foundation in candor, integrity, merit, respect, transparency & imagination. The above is enshrined in the belief that change starts from within. We have therefore created an environment where company interest is supreme and protected collectively and every team member is not only free but also encouraged to share ideas and concerns. An open forum has been created where employees are briefed about the plans & achievements of the Exchange every quarter and are then encouraged to freely share ideas, suggestions and feedback.

On the business front, we are working on a variety of new products to enrich our product portfolio and are focused on creating opportunities for our brokers enabling them to conveniently and efficiently service their clients. We are also working to increase awareness about opportunities available at PMEX platform and are determined to make PMEX a household name through retail products and increasing one on one interaction through trainings and events. I am confident that with this new breeze of change, PMEX will further blossom to its full potential and show its true colors in times to come!

Which commodities are being offered for trading and investment at PMEX?

The commodities being offered at PMEX can be clubbed into four main categories: precious metals [gold & silver], agricultural [wheat, rice, palm oil, cotton & sugar], energy [crude oil] and financial futures [KIBOR]. Though, the Exchange offers various commodities for investment/trading, bulk of the trade today comes from gold, silver and crude oil.

What new products will be available for trading in the coming years?

Going forward, PMEX plans to launch series of futures contracts such as Brent Crude Oil, Copper, Mill Specific Sugar, International Stock Indices, deliverable HSD & Palm Olein and leading foreign currency pairs i.e. dollar-yen, dollar-pound sterling and dollar-euro to name a few. Moreover, the Exchange is actively working with Islamic banks to introduce Shariah compliant products starting with Murabaha Contract. This is a unique product aimed at providing a vehicle to Islamic banks to deploy their excess liquidity as conveniently and efficiently as conventional banks. We have been encouraged by the interest and enthusiasm shown by the Islamic banking industry in this product. All the modalities have been worked out and we are planning to launch it as soon as we get necessary approval from SECP. Furthermore, PMEX is extending its outreach to cater to the needs of small savers by aggressively promoting "Milli Tola Gold" contract. In this regard, Exchange is working with multiple retail service providers such as telecoms and banks who will be offering this product through their platform shortly.

Recently PMEX has launched Milli Tola Gold. Please tell us about the product?

Although there are very few investment options available to small savers/investors, this group can collectively contribute billions of rupees in savings.

This segment of investors wants minimal exposure to risk while maximizing the value of their investments. Keeping in view the above mentioned investors, PMEX has exclusively designed 'Milli Tola Gold' for investors who are seeking a convenient, secure and trusted way to buy, sell and accumulate gold.

The unique feature of this product is that investment can start from approx. PKR 50 only. In other words, investors can buy as much gold as they desire in multiple of approx. PKR 50. Milli Tola Gold offers 99.9 percent pure gold which is fully insured as it is kept in vaults operated by PMEX. Selling the holding is also easy as it can be en-cashed within 24 hours of the execution of the sell order.

The key to the success of this product depends on providing reliable and convenient distribution channel to the retail investors. Considering the tele density of approximately 140 million in Pakistan, we are relentlessly working with service providers such as telecoms to offer this product.

We feel that this initiative will go a long way in cultivating a savings culture among the masses and would enable them to conveniently save for their future needs.

State Bank of Pakistan has announced its initiative on Warehouse Receipt System in Pakistan. What is PMEX's role in the entire scheme?

We applaud the efforts of the central bank for initiating the Warehouse Receipt System. We feel it is a revolutionary and timely initiative which will be especially beneficial to farmers and would go a long way in achieving food security in the country by tremendously reducing the wastage. We strongly believe that the development of commodity physical trade and market system is essential for boosting the performance of agricultural sector in particular and economy in general.

With regards to the role of PMEX, currently multiple agricultural products are listed on the Exchange such as wheat, rice and sugar etc. However, despite being listed for many years, there has been hardly any activity in these products even though they are

actively traded in spot market and consumed in large quantities. Absence of warehousing infrastructure and certification of agricultural produce are the two main hurdles contributing to low trading of agricultural products at the Exchange. PMEX is confident that the visionary decision of the government to better organize the agriculture sector by developing the required infrastructure will have a tremendous impact with regards to improved output and fair pricing of these products.

This initiative will also open the door for spot delivery. Once the issues of warehousing and certification are resolved and future contracts of agriculture products are terminated at spot delivery, PMEX will be in an ideal position to provide spot platform to the farmers by merging the two markets making it a one window operation. Since PMEX already has the market know how, expertise, systems and qualified workforce, it will be not only cost effective and efficient but also relatively quick for PMEX to achieve a one window solution for the entire country.

This system will work wonders in terms of reducing wastage and bringing unprecedented efficiency and convenience. Moreover, the availability of both spot and futures market at a single trading platform to the market participants would provide a unique opportunity to them to sell their commodity either at spot or future date, whichever suits their needs.

What role is the Exchange playing in creating awareness of futures trading in Pakistan?

Keeping in view the need to create awareness about futures trading in Pakistan, PMEX regularly organizes awareness & training sessions and participates in workshops & seminars. These events not only equip existing/potential market participants and investors with the knowledge of the commodity trading fundamentals but also provide hands-on experience of the trading system at PMEX.

Moreover, the Exchange has started publishing quarterly newsletters and daily & monthly commodity reports, which brief members and existing as well as potential investors about PMEX's systems, products, latest developments and trading highlights.