Standard Capital
Securities (Pvt) Ltd

GUIDELINES

PMEX COMMODITY TRADING

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Do's

1. Verify the authenticity of a broker and its branches from the list of registered brokers from PMEX website (https://www.pmex.com.pk/pmex-broker/)

2. Carefully read and understand the terms and conditions along with the Risk Disclosure Document

3. Ensure that all information is accurately filled in the Account Opening Form and a signed copy of the form is retained for future reference

4. In case of any change in the information provided in the Account Opening Form, immediately communicate in writing to the Broker

5. Only deposit payments to PMEX through cross cheque or online transfer from trader's bank account registered with PMEX

6. Ensure that broker sends daily, weekly, monthly account balance and activity statements to know the trade activity and cash balances in the trading account

7. Ensure that broker sends SMS alerts for trades and cash movement in the trading account

8. Approach PMEX in case of any complaint that remains unresolved by the broker

Don'ts

1. Do not deal with Brokers or their branches not registered with PMEX

2. Do not give wrong, contradictory, or incomplete information in the Account Opening Form

3. Do not issue cross cheque pay order demand draft or any other instrument in the name of the broker, or any of its employee/authorized representative

4. Do not deposit payments in cash in your account

5. Do not deposit payments through third-party cheques or online transfers from a third-party account

6. Do not be misled by alluring advertisements, rumours, hot tips, or the promises of assured returns by the Brokers or their authorized representatives

7. Do not share personal ID and password provided by the Exchange with the brokers or their authorized representatives

8. Do not surrender the right to receiving cash and trade balances reports via email and SMS

9. Do not start trading before reading and understanding the Risk Disclosure Document provided by PMEX

10. Do not give deposit by whatever name called, to any Broker or any of its employee/ authorized representative against fixed or guaranteed returns on deposits as the same is illegal and any claim in respect of such deposits would not be considered/entertained by PMEX

Essential Key Terms

a. Futures Contracts

Futures contracts are legal agreements to buy or sell a particular commodity asset at a predetermined price at a specified time in the future. These contracts are standardized for quality and quantity to facilitate trading on a futures exchange such as PMEX. They have an expiry date and a set price that is known upfront. Futures contracts are identified by their expiry month.

b. Contract Size

Contract size refers to the deliverable quantity of a commodity, or financial instruments that underlie futures contracts. Each contract has a predetermined standardized lot size that specifies exact quantities that are being bought or sold. The size of the contract varies, depending on the commodity. For example, one contract of Crude10 represents 10 barrels of crude oil.

c. Contract/Notional Value (NV)

The contract value is also known as a contract's notional value. The notional value is calculated as follows:

NV = $ Price of commodity x contract size x Rupee-Dollar parity* Example: NV of GO1oz= $1790/oz x 1oz x 178 = Rs. 318,620/-

*State Bank of Pakistan (SBP) Rate

d. Tick Size

The minimum price change/movement in a futures contract is measured in ticks. A tick is the last digit on the price of any contract. The price of a contract is fluctuating constantly. Tick size varies from contract to contract. For example, a tick size of Crude10 futures contract is equal to $0.01 (1 cent)/per barrel. The next price movement would be in multiples of $0.01.

e. Maximum order size

The maximum number of futures contracts in a single order a trader can place is known as Maximum Order Size. It is determined by the Exchange.

f. Types of Orders

1. **Market order**

   When market orders are placed, a trader agrees to either buy or sell at the current available price. The objective is to have the order executed immediately. An important aspect of market orders is that there is no guaranteed execution price. The only information trader needs to provide is stated as follows:
   1) Name of the contract
   2) Number of contracts
   3) Buy or sell

2. **Limit orders**

   Limit orders are conditional upon the price specified by the trader in advance. For a buyer, the limit order will be executed when the offer price matches the price defined by the customer. For a seller, the limit order will be executed when the bid price matches the price defined by the customer. The advantage of a limit order is that trader can dictate the price he wants to get if the order is executed. However, unlike a market order, placing a limit order does not guarantee that trader will receive a fill. If the market does not reach the trader's stated limit price, his order would remain unfilled.

g. Stop Loss (SL)

Stop Loss orders are placed below trader purchase price (for buy orders) or above the trader sell price (for sell orders). The basic purpose of a stop-loss order is to limit trader losses. For stop-loss orders, the same rule is applied as defined in the Limit order section.

h. Take Profit (TP)

Take Profit orders are placed above trader purchase price (for buy orders) or below the trader sell price (for sell orders). This order type enables the trader to specify the exact price at which to close out an open position for a profit. If the price of the order does not reach the limit price, the profit does not get realized. For Take Profit orders, the same rule is applied as defined in the Limit order section.

i. Margin

In futures markets, the margin is the amount of money that the trader deposits in the trader's account at the exchange for opening a futures position.

The futures margin refers to paying only a portion of the total investment amount, i.e., futures contract value.

Margin requirements may fluctuate based on market conditions. When markets are volatile, the resulting price movement may result in higher margin requirements to account for increased price volatility or risk. In contrast, when market conditions become less volatile, margin requirements may be reduced.

Margin must be maintained throughout the time position is open and is returnable after closing out or delivery. It is calculated by taking into account the Settlement Price and VaR methodology.

Margin = Settlement Price x Contract Size x Rupee-Dollar parity x Margin % defined by the Exchange (based on VaR methodology)
Where,
Settlement Price is the price used for determining a position's daily profit or loss as well as the margin requirements for taking a position in the related contract.
VaR is the maximum expected potential loss on the portfolio over a rolling 360 basis and for a 99% confidence interval.

Below are the types of margins that are applicable at the Exchange:
1. *Initial Margin*
It is the amount of cash specified by the Exchange as margin for the contract as per the above calculation) that is required to initiate trade by the trader in a futures contract. The initial margin amount varies for each contract.
2. *Maintenance Margin*
It is the minimum amount that must be maintained at any given time in the trader’s account. If the funds in the account drop below this level, traders may receive a margin call requiring them to add funds immediately to bring the account back up to the initial margin level.

j. Margin Call
A margin call occurs when a trader’s margin (cash) account runs low on funds. The outstanding trade is mark-to-market daily. The resulting profit and loss from this daily MTM are credited/ debited into the customer’s account daily. Margin calls are demands for additional cash to bring a margin account up to the minimum margin.

Most traders either deposit more cash in their margin account or square their positions to bring their margin accounts up to the minimum margin required to hold their position in a contract. Please refer to section 5 for further clarification regarding Risk Management.

It is usually received as a notification message on the MT5 trading platform. The customer also receives an email when the margin decreases.

k. Positions

An investor can initiate a trade by taking a buy (long) position, as well as, a sell (short) position. Traders with a bullish opinion of the market start their trades by buying futures contracts, while bearish traders start by selling futures contracts.