

A STUDY ON COMMODITY DERIVATIVES AS AN INVESTMENT ALTERNATIVE IN NEPAL

Submitted by:

Lokesh Sharma

T.U. Regd. No. 7-1-237-22-98

Campus Roll No. 60/2063

Hari Khetan Multiple Campus

Submitted to:

Office of the Dean

Faculty of Management

Tribhuvan University



**In the Partial Fulfillment of the Requirement for the Degree of
Master in Business Studies (MBS).**

Birgunj, Parsa

March, 2013

RECOMMENDATION

This is to certify that Thesis

Submitted by:

Lokesh Sharma

TU. Regd. 7-1-237-22-98

Entitled

**A STUDY ON COMMODITY DERIVATIVES AS AN INVESTMENT
ALTERNATIVE IN NEPAL**

has been prepared and approved by this department in the prescribed format of the faculty of management. This thesis is forwarded for examination.

Dipendra Kumar Chaudhary

(Thesis supervisor)

Shambhu Pd. Chaurasiya

(Head of Research Committee)

Dr. Bhagwan Pd. Yadav

(Campus Chief)

VIVA-VOCE SHEET

We have conducted the Viva-Voce Examination of the thesis presented by

Lokesh Sharma

TU. Regd. 7-1-237-22-98

Entitled
**A STUDY ON COMMODITY DERIVATIVES AS AN INVESTMENT
ALTERNATIVE IN NEPAL**

*and found the thesis to be the original work of the student written according to
the prescribed format. We recommended the thesis to be accepted as
partial fulfillment of the requirement for the
Master's Degree in Business studies (MBS)*

VIVA-VOCE COMMITTEE

Chairman(Research Committee): _____

Member(Thesis Supervisor) : _____

Member (External Expert): _____

Date:.....

ACKNOWLEDGEMENT

This research study on "A STUDY ON COMMODITY DERIVATIVES AS AN INVESTMENT ALTERNATIVE IN NEPAL" is a partial fulfillment for the Degree of Masters of Business Studies (MBS) under the course designed by the Faculty of Management, T.U. This Study will add one brick on the wall and will be beneficial for other researchers, students, teachers and other parties involved.

First of all, I would like to extend my special thanks to thesis supervisor Dipendra Kumar Chaudhary, Hari Khetan Multiple Campus, without whose guidance the research could be incomplete. I am also grateful to the Head of Department, and all teachers and staffs of Hari Khetan Multiple Campus, whose valuable suggestions and co-operation enabled me to write this thesis in the present form. I am also thankful to administration of Commodities & Metal Exchange Nepal Ltd, Nepal Stock Exchange and other Commodity Exchanges for providing me with required information and data.

Lastly, I am thankful to my friends, colleagues and well-wishers for their valuable suggestions and assistance.

Any error and deficiencies remained in this work are solely due to me for which I am responsible.

Kalaiya-7, Bara
Nepal

.....
Lokesh Sharma
Roll No. 60/063

DECLARATION

I here by declare that the work reported in this thesis entitled "**A STUDY ON COMMODITY DERIVATIVES AS AN INVESTMENT ALTERNATIVE IN NEPAL**" submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Degree of Master Business Studies (MBS) under the guidance and supervision of **Dipendra Kumar Chaudhary**, Hari Khetan Multiple Campus .

.....
Lokesh Sharma
Roll No. 60/063
T.U. Regd. No. : 7-1-237-22-98
Hari Khetan Multiple Campus
Birgunj, Parsa

TABLE OF CONTENTS

<i>Recommendation</i>	I
<i>Viva-Voce Sheet</i>	II
<i>Acknowledgement</i>	III
<i>Declaration</i>	IV
<i>Table of Contents</i>	V-VI
<i>List of Tables</i>	VII
<i>List of Figures</i>	VIII
<i>Abbreviation</i>	IX

CHAPTER ONE: INTRODUCTION 1-10

1.1 Background of the Study	1
1.2 Statement of the Problem	7
1.3 Objectives of the Study	9
1.4 Limitation of the Study	9
1.5 Organization of the Study	9

CHAPTER TWO: REVIEW OF LITERATURE 11-45

2.1 Conceptual Review	11
2.1.1 Derivatives	11
2.1.2 History of Derivatives	12
2.1.3 Types of Derivatives	16
2.1.4 Uses of Derivatives	19
2.1.5 Futures Contracts	22
2.1.6 Gold Futures	23
2.1.7 Futures Market and its role in economy	26
2.1.8 Basic Trading Strategies	28
2.1.9 Analysis to understand the futures markets	30
2.1.10 Derivative Exchange and its market participants	31
2.2 Empirical Studies on derivatives	33
2.3 Derivatives in Nepal	40
2.3.1 Derivatives Exchanges in Nepal	40
2.3.2 Functioning of Derivative Exchanges in Nepal	43

2.3.3 Derivatives in Nepalese investment portfolio	44
CHAPTER THREE: RESEARCH METHODOLOGY	46-49
3.1 Research Design	46
3.2 Population and Sample	46
3.3 Sources of Data	47
3.5 Data Analysis Tools	47
CHAPTER FOUR: PRESENTATION AND ANALYSIS OF DATA	50-68
4.1 Gold Futures Contract Specifications	50
4.2 Gold Future Returns	52
4.3 Comparison of weekly returns	55
4.4 Comparison of monthly returns	58
4.5 Major Findings of the Study	66
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS	69-73
5.1 Summary	69
5.2 Conclusion	71
5.3 Recommendations	73
BIBLIOGRAPHY	X-XII
APPENDIXES	XIII-XXIX

LIST OF TABLES

	Page.No.
1: Gold Futures traded at COMEN	54
2: NEPSE returns in comparison to Gold Futures	54
3: Monthly returns of NEPSE and Gold Futures, 2008	58
4: Monthly returns of NEPSE and Gold Futures, 2009	60
5: Monthly returns of NEPSE and Gold Futures, 2010	62
6: Monthly returns of NEPSE and Gold Futures, 2011	64

LIST OF FIGURES

	Page.No.
1: NEPSE returns in comparison to Gold Futures returns, 2008	59
2: NEPSE returns in comparison to Gold Futures returns, 2009	61
3: NEPSE returns in comparison to Gold Futures returns, 2010	63
4: NEPSE returns in comparison to Gold Futures returns, 2011	65

LIST OF ABBREVIATION

COMEN	Commodities & Metal Exchange Nepal Ltd
MEX Nepal	Mercantile Exchange Ltd, Nepal
NDEX	Nepal Derivative Exchange Ltd
CFX	Commodity Future Exchange
ECX	Everest Commodity Exchange
NEPSE	Nepal Stock Exchange
GC/MAR/09	Gold March 2009 Contract
GC/MAY/09	Gold May 2009 Contract
GC/NOV/09	Gold November 2009 Contract
GC/JAN/10	Gold January 2010 Contract
S.D.	Standard Deviation