NCDEX
Pragati ka Solid Exchange

THE PEACE OF MIND GOLD CONTRACT
Bringing Transparency To India’s Gold

GOLD FUTURES
PRICING BASED ON GLOBAL CUES

India is one of the largest importers of gold in the world with 90% of country’s physical demand for the metal is being met from imported gold bars. Despite being the largest consumer and biggest exporter of gold jewellery, India remains a price taker and follows international market for its pricing in domestic market. Domestic price of gold in India is, thus, derived from the international gold price, rupee-dollar exchange rate and domestic market conditions, which includes customs duty, domestic premium, etc. For physical market players with considerable exposure to international price risks, the single most important factor that ensures their ability to effectively hedge the risks by trading in domestic futures is transparency in domestic pricing. However, since 2013, domestic market conditions and government policy interventions have distorted the rupee price of gold resulting in drastic de-coupling of domestic market from international gold market, resulting in non-transparent price discovery and imperfect hedging.

ABSOLUTE TRANSPARENCY

NCDEX GOL DhEDE, launched in January 2014, marked the beginning of country’s endeavor towards transparent price discovery in gold and re-established its link with the international market. GOL DhEDE offered a simple and transparent mechanism for calculating price of gold in the country based on international price of gold and RBI reference rate irrespective of domestic market conditions. This clarity and transparency in traded prices ensured that domestic prices continuously moved in tandem with international prices, with little scope for manipulation and made GOL DhEDE the perfect and most efficient risk management tool for hedgers in the country. GOL DhEDE was, however, introduced as an intention matching contract.

GOL DhEDE 1 Year Performance:
• Rs 32,587 Crore - Total traded value (From January 16, 2014 to March 18, 2015)
• 1,31,466 Lots traded • 273 Unique members traded

GOL DhEDE - QUARTERLY PERFORMANCE IN 2014-15

Source: NCDEX
RATIONAL FOR NCDEX GOLD FUTURES

A survey of physical market participants throughout India carried out by NCDEX for seeking feedback from key stakeholders on their participation in the compulsory delivery contracts in gold revealed that:

Derivation of Spot Price/Final Settlement Price (FSP) are not in sync with current market practices. Currently, the final settlement price of compulsory delivery contracts in Indian exchanges is derived through spot price polling. However, the spot market price of gold is shrouded in a cloud of mystery and opacity, which does not allow market participants to back-calculate the domestic spot price for gold in the country. Given the international linkages, effect of exchange rates and impact of domestic factors like customs duties and premium on the spot price of gold, transparency in the calculation of final settlement price is utmost important in ensuring efficient hedging and price risk management.

NCDEX’s newest offering GOLD Futures is an attempt to discover a composite spot price for gold in the country by simplifying methodology used in the calculation of FSP in a very transparent manner and by putting in place a mechanism for assessing premium/discount of gold in the country.
**USP OF NCDEX GOLD FUTURES**

**1. Transparent Pricing through formula-driven FSP Derivation**

Existing practice on Indian exchanges for calculating FSP is based only on spot price polling at the delivery center. FSP in this case is a simple average of polled spot price at that center. Market participants have no mechanism to verify the methodology and time of polling nor can they back test the components of spot price. In NCDEX GOLD Futures, the FSP is calculated on the expiry date based on closing international gold price on the day of expiry, RBI reference rate, prevailing customs duties and assessed premium/discount.

In the new contract 96-97% of FSP calculation is formula-driven. The step by step calculation is as illustrated through an example below:

<table>
<thead>
<tr>
<th>Existing – 100% Polling</th>
<th>FSP Calculation in New NCDEX Gold Futures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Polled price for market participants at the maturity of contract</td>
<td>1. International Closing Price = $1235.9*31.9899927</td>
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<tr>
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<td>2. RBI Reference Rate = $61.75</td>
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<td></td>
<td>3. Customs Duty = $392/10 gms * 62.80 * 10.30%</td>
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<td></td>
<td>4. Premium = $2<em>31.9899927</em> 61,75</td>
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<tr>
<td>For example: T1 - Rs 27,062 T2 - Rs 27,081 T3 - Rs 27,070 T4 - Rs 27,050</td>
<td>5. Gold price for 10 gms of 995 purity equivalent in INR = 2,697,108.89/100 = 26,971.0889</td>
</tr>
<tr>
<td>FSP (Simple Average): Rs 27,066 per 10 grams</td>
<td>6. Price is rounded to nearest INR = 26,971</td>
</tr>
<tr>
<td></td>
<td>Arriving at a Composite Price INR First 3 components based on formula &amp; data that can be back tested by market</td>
</tr>
<tr>
<td></td>
<td>Independently Polled Premium</td>
</tr>
</tbody>
</table>
In the new method for calculating FSP under NCDEX GOLD, it is not the spot price that is polled but the premium/discount of gold in domestic market.

Grounded Contract
Transparency and simplicity in FSP calculation and independently polled premium/discount means that NCDEX GOLD is the purest and best available price of gold in the country making the ideal contract for market participants. It provides the most transparent and efficient risk management platform for hedgers, ensures physical delivery at the expiry of the contract through a reliable platform for retail participants and lastly, but not the least, creates a level playing field for small investors and day traders.

Spread Benefits
A spreader trading in NCDEX Spread Gold (GOLDHEDGE and GOLD) would require a margin of 2.5% only, which is one-fourth of the margin requirement of 10% when trading between GOLDHEDGE and deliverable gold contract.