CRUDE PALM OIL FUTURES (FCPO)

DISCLAIMER
This brochure has been provided for general information purposes only. The information contained does not constitute legal, financial or investment advice and neither does it make any recommendation or endorsement regarding the product mentioned herein. Although care has been taken to ensure the accuracy of the information within this brochure, Bursa Malaysia does not warrant or represent, expressly or impliedly as to the accuracy or completeness of the information herein. Bursa Malaysia does not accept any liability for any investment decisions made on the basis of this information. You are advised to seek independent advice and / or consult relevant laws, regulations and rules prior to trading / investing.

Photo used is courtesy of Malaysia Palm Oil Council

BURSA MALAYSIA BHD
15th Floor Exchange Square
Bukit Kewangan
50200 Kuala Lumpur
Malaysia
Tel : +(603) 2034 7000
Fax : +(603) 2710 2308
Email : derivatives@bursamalaysia.com

www.bursamalaysia.com

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 27 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.

FOREIGN CURRENCY DEPOSIT (for Initial Margin only)

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

Notes:

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).

EXAMPLES OF **TRADING STRATEGIES**

SCENARIO 1

Plantation companies are perpetually long in palm oil, 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 by the 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

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 STRATEGIES**

SCENARIO 3

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.