

GLOBAL BOARD OF TRADE - GBOT MARKET SNAPSHOT (18th June – 22nd June 2012)

Gold Futures bore the brunt of a selloff after the Fed's monetary policy decision



The general market direction was dictated by a plethora of catalysts last week, including a new government in Greece, soaring bond yields in Spain, weak macroeconomic data and downgrade by Moody's Investor Service of 15 global banks (including Morgan Stanley, Barclays and Deutsche Bank). Relief following pro-bailout election results in Greece proved ephemeral as focus turned to soaring Spanish bond yields. Bad debts held by Spanish banks rose to an 18-year high in April - the Spanish central bank claimed that 8.72% of the loans held by Spanish banks (€152.74 billion) were more than three months overdue for repayment in April 2012. Spanish 10-year bond yields hit a record high of 7.28%. In US, the Federal Reserve extended its asset-buying programme - the programme also known as Operation Twist involves selling short-term debt and buying long-term government debt. On a macroeconomic note, soft surveys of China, US and Eurozone manufacturing activity joined weaker than expected US home sales and lacklustre German investor confidence which painted a sour global economic scene. The Fed's forecast for 2012 US growth was revised down to a range of 1.9% to 2.4% from 2.4% to 2.9% forecast in April. GBOT prices reflected the global sentiment last week.

COMMODITIES

GBOT Gold Futures bore the brunt of a selloff last week as the Fed's announcement of an extension to its Operation Twist programme underwhelmed those who wanted a more aggressive intervention in the form of quantitative easing. Gold often rallies on investors' anticipation of the inflationary impact of central banks' monetary easing policies. Furthermore, the precious metal failed to secure any safe-haven flows from global growth fears as

GBOT Futures Contract	Denomination	Contract Expiry	Closing Price *				
			Monday	Tuesday	Wednesday	Thursday	Friday
EUR/USD	USD per Euro	17-Sep-12	1.2591	1.2691	1.2700	1.2584	1.2588
GBP/USD	USD per British pound	17-Sep-12	1.5652	1.5695	1.5760	1.5639	1.5594
USD/MUR	MUR per US dollar	16-Jul-12	30.57	30.84	30.89	30.79	30.94
JPY/USD	USD cents/100 Yen	17-Sep-12	126.75	126.79	126.03	125.02	124.38
Gold	USD/ounce	29-Aug-12	1623.5	1624.3	1605.8	1575.5	1567.5
Silver	USD cents/ounce	27-Jul-12	2870.5	2842	2832.5	2695	2672
WTI Crude Oil	USD/bbl	19-Jul-12	83.51	84.35	82.27	79.61	79.69

Source: *GBOT Website.

investors turned to cash and bonds. Gold extended losses after the Fed cut its inflation forecast down to between 1.2% and 1.7% for 2012. GBOT WTI Crude Oil Futures tumbled below the \$80/bbl as downbeat economic data from the US and China - world's engine of commodities consumption growth - raised concerns about global growth and fears of less demand for oil.

CURRENCIES

GBOT Euro/Dollar Futures ended a seesaw trading week below the \$1.26 level. Germany's June manufacturing activity slid to its weakest level in three years, indicating that exporters are being

affected by gloomier global conditions and signs that the region's escalating debt crisis is hitting Germany with increasing severity. This Monday, in another sign of the scale of the problems facing Europe, Spain formally made a request for aid to support its banking system after the country indicated it could need up to €62 billion to save its battered banks. GBOT Sterling/Dollar Futures ended lower last week. GBOT Dollar/Mauritius Rupee Futures ended at MUR 30.94 last Friday. The Bank of Mauritius intervened on the domestic foreign exchange market last week and bought \$11.45 million.

FAQs: Capital Markets

IN ITS ENDEAVOUR TO SHARE KNOWLEDGE ABOUT FINANCIAL MARKETS WITH THE PUBLIC AT LARGE, GBOT IS PROVIDING A SERIES OF FAQs IN THIS SECTION.

... continued from last week



92. What is the significance of a stop loss order?

The stop loss order is usually placed to close out an existing long or short Futures open position. It is used to protect oneself from potential loss due to sudden unfavorable price movement. Stop loss orders are stored by the system in suspended mode and are activated only on the trigger of a specific price (called the trigger price), as defined by the trader.

93. When do you place a stop-loss buy order?

When a trader has an existing open short position, the risk for the trader is a sudden increase

in the Futures price. Hence, in order to minimize loss, he can place a stop-loss buy order. In this case, the limit price is placed above the current market price and the trigger price is specified just below the limit price.

When the market price increases, the trader's existing short position begins making loss. In such an eventuality, when the trigger price is breached, the stop-loss buy order is activated and a corresponding buy order is initiated.

94. When do you place a stop-loss sell order?

When a trader has an existing open long position, the risk for the trader is a sudden decrease in the Futures price. Hence, in order to minimize loss, he can place a stop-loss sell order. In this case, the limit price is placed below the current market price and the trigger price is specified just above the limit price.

When the market price decreases, the trader's existing long position begins making loss. In such an eventuality, when the trigger price is breached, the stop-loss sell order is activated and a corresponding sell order is initiated.

95. What are the advantages and disadvantages of stop loss orders?

The advantage of a stop order is that any sudden adverse movement in the market can limit loss to a great extent. The disadvantage is that the stop loss order could be activated by a short-term fluctuation in the price. The solution is to choose a stop-loss percentage that factors day-to-day

fluctuation while preventing as much downside risk as possible.

Also, when the trigger price is breached, the stop loss order is released into the system. The actual traded price of the stop loss order may be different from the limit price specified. This is especially possible in a dynamic market where prices can change rapidly.

96. What is a trailing stop-loss order?

Stop loss orders can be used to lock in profits, in which case it is sometimes referred to as a trailing stop. The most basic technique for establishing an appropriate exit point is the trailing stop technique. Very simply, the trailing stop maintains a stop loss order at a precise percentage below the market price (or above, in the case of a short position).

The stop loss order is adjusted continually based on fluctuations in the market price, always maintaining the same percentage below (or above) the market price. The trader is then 'guaranteed' a minimum profit. The stop loss order is set at a percentage level below / above the existing market price. The stop-loss price and trigger is adjusted as the price fluctuates. Using a trailing stop allows increase in potential profits for the open positions, while at the same time guaranteeing at least some realized capital gain in case of adverse price movement..

To be continued...

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