

2020



Summer 2020, Vol. 20

IME

Quarterly

Iran Mercantile Exchange Quarterly Newsletter



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Publisher: Iran Mercantile Exchange (IME)

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Pickup in Production, the Axis IME's New Strategic Plan Pivots Around



As the period for the IME's vision plan is coming to an end in the Iranian year 1399 and with regards to the CEO's strategic plan having been updated (1397) as well as dramatic changes in business environment, including intensification of political and economic sanctions against Iran, emergence of new technologies, enforcement of a plan to hamper price control policies, listing of the IME on the Tehran Stock Exchange, launching of new financial instruments like reverse auction trades and debt securities, the IME decided in 1398 to revise its strategic plan, said Hamed Soltaninejad, the IME CEO.

The other factors with a major role in preparation the new strategic plan he added were the IME generating less income due to gold coin futures getting delisted from the exchange and the decrease in trading fees for some assets, along with other areas capable of getting improved in the new plan like employing the balanced score card assessment model (BSC) and risk management approaches.

A committee was established with board members and high ranking officials of the company and experienced experts in the field attending, and after holding 8 sessions to review and revise the previous strategic plan along

with 33 taskforce sessions in this regard and 92 sessions held by the executive team, the new one with a vision for the next five years up until 1404 was written.

According to Soltaninejad the outcome of all these efforts were that the previous strategic plan was probed to find the potential flaws, the company's vision, mission and values were revised and updated, decision makers came to a deeper understanding and analysis of the IME's beneficiaries, internal and external factors influencing the IME's running (weak and strong points as well as opportunities and threats) were investigated, future plans were prioritized, how

much the company's strategies are in line with those of the SEO and the Ministry of Economics was evaluated and finally initiatives the IME is about to take including projects and process improvement measures were outlined.

He explained that according to the new plan the IME's mission is to become the main reference of price discovery for strategic commodities and provider of various services, relating to commodities and commodity-based securities, to manufacturers, businessmen and capital market participants in a fair, competitive and transparent atmosphere. To accomplish the mission, the IME employs brilliant staff and state-of-the-art technologies and tries to extend its markets beyond the borders of the country along with fulfilling the needs of the domestic market.

As to the values to be observed in

the IME, he stressed on fostering a fair competitive atmosphere for trading and encouraging unification of executive procedures and the IME's concern for observing rules and regulations and promoting professional transparency.

He added that the IME puts especial emphasis on productivity and efficiency when it comes to managing resources and considers being committed to moral and religious values, personal aptitude and technical competence, honesty and trustworthiness as criteria to employ its staff, for whom the IME provides mechanisms to improve their skills and act more creatively. Also the company tries to inspire its staff to be accountable to customers and feel respect for them. Fostering integrity in providing services is another principle taken seriously which along with all said above is to prepare the groundwork for

the exchange to fulfill its social responsibilities and pay its share to improving the national economy. In his final remarks, Soltaninejad explained that the IME aims to increase its operational revenues, foster more satisfaction among beneficiaries, deepen its markets via marketing plans, interact more effectively with other entities, and develop more sustainably through systematic branding. Furthermore, the IME continuously and consistently enhances systems and methods so that it can come up with more quality services. What's unique to the new strategic plan, the CEO of the exchange continued, would be completing the IME's value chain for products it already trades and to step into new business realms as well, in order to do its part in realization of the year's motto, "pickup in production", which will be unveiled in the not too distant future.





IME General News



Measures IME is about to Take in Line with Year's Motto

As to realization of the motto "Pickup in Production" chosen by Iran's Supreme Leader for the Iranian year 1399, the CEO of IME said that it entails everyone in the country cooperating for their long-term interests.

He explained that the IME has the plans to review and enhance the infrastructure available on the exchange so that it could provide its beneficiaries with better services and to reach that goal we are going to tap into the ideas and knowledge of beneficiaries and experts.

Launching trades for surplus non-transferable properties of banks and the government in order to revive their stagnant assets and to enhance their transparency, launching a multi-stage settlement system with the aim to develop long-term trades, providing the groundwork for more continuous offerings and giving the producers an assurance that they can procure their raw materials, which has always been a source of worry for them, via the IME's physical market are among the most important programs of the exchange in the current year.

He also mentioned that developing premium trades with the aim to make sure commodities to

be produced in the future will be sold, increasing interactions with the banking system to provide financing resources for traders of SALAM contracts against low-cost collaterals, expanding the market for trades of commodity depository receipts in order to securitize the commodities stored in warehouses, developing the IME's futures markets as a price risk coverage instrument and cooperation with Parliament's Research Centre to prepare the draft for the national law of warehousing with the aim to expand warehousing across the country will be other initiatives to be dealt with by the IME in the same year.



Depicting IME's Transnational Role in Collaboration with Foreign Entities

Advisor to the chairman of the Securities and Exchange Organization in international affairs, Bahador Bijani, is of the opinion that given the IME's initiatives in an international level including signing agreements and starting joint projects with foreign exchanges, we are going to see foreign buyers and sellers participating in the IME's market in the not too distant future.

One of the main functions of commodity exchanges is price discovery. That is to say that all over the world, buyers and sellers freely use commodity exchanges as venues in which commodities are



traded at prices discovered based on the fundamentals of supply and demand. Likewise, the IME, established 12 years ago, has been

successful in setting up 3 transparent markets, for trading various products, which are the physical, the derivatives and the financial.



Bijani reiterated that the IME has played a significant role in the country's economy since establishment with a totally different status in trades of industrial commodities as to real price discovery and transparency. He added that the statistics of the whole capital market shows that the IME has got a big share of the total trading value, which indicates the increasing importance of the exchange to decision makers, market participants and those who are active in various industries.

Bijani also explained that the IME can eliminate unnecessary middlemen and develop infrastructures in steel and petrochemical industries. This makes the market for the raw materials relating to these industries transparent, which in turns leads to real and fair prices for the final products with the biggest

share of profit in the pockets of producers.

Furthermore, he continued, the IME has been expanding the scope of its activities beyond the borders of the country along with the big steps it has taken towards participating more actively in domestic economy. There are some commodities offered on the IME with foreigners being their main purchaser and even in some cases Iranian buyers purchase on their behalf.

He then said on the condition that we pave the way for the IME to collaborate with other exchanges across the world, we could sell some Iranian commodities directly to foreign customers via their own venues in a transparent atmosphere. He added that the IME has been trying to pay its share in this regard negotiating with its foreign counterparts, which has led

to signing MOUs and laying the first brick of mutual trading platforms.

Bijani insisted on the fact that in all management levels of our country one can see the belief in transparency, real price discovery and eradication of rent-seeking. That's where the IME can step in and play its historic role in developing a balanced and booming economy.

Another area, in which the IME has played very successfully, Bijani added, has been the agriculture sector. Currently, a lot of farmers are enjoying the services the IME offers and the government decided to let the IME take care of the offering of a few agro-products. Lately, the IME managed to launch instruments on saffron, cumin seeds and pistachios as precious products of Iran's agriculture and they will be hopefully extended to more products.

Significant Events in IME within Shapour Mohammadi's Term as Chairman of SEO

Shapour Mohammadi submitted his resignation in March 2020 after a nearly 4 year term running the Securities and Exchange Organization of Iran. Within the current hijri year (20 March 2019 to 20 March 2020) issued the permit for the IME to launch a trading floor for the IME's brokers in Aras free trade zone. The IME also launched trades of options and CDRs on saffron.

Another important event for the IME within the same year was opening of a symbol on the first floor of Iran Farabourse market for trading the IME's shares. Moreover, the IME started physical trades of pistachios with Minister of Economics, head of the economic committee of Majlis and the chairman of the SEO attending the opening ceremony.

In the hijri year 1395, within Mohammadi's term in SEO, the IME listed 73 warehouses to implement article 33 of the Law of Increasing Productivity of Agricultural Products for barley and maize in the whole country as well as issuing standard parallel SALAM contracts

worth 27 thousand billion rials as a means to raise funds for the government.

In 1396 the IME witnessed listing of 11 new underlying assets and 95 new warehouses as well as inauguration of an online trading system for derivatives called VIDEX.

First agreement purchase contracts by the government on the IME, underwriting of 3 gold coin funds, launching CDRs and futures on pistachios, initiation of trades of wheat based on article 33 of the Law of Increasing Productivity of Agricultural Products, launching premium trades, initiation of the secondary market for the Lotus gold fund and signing an agreement between Iran's and India's commodity exchanges for trading products like bitumen were among other events which occurred during his term in 1396

In 1397 the IME had its shares traded on the TSE for the first time.

The exchange also



listed 18 new warehouses and new bank vaults for storing and delivery of gold coins. There were also options and futures contracts launched on saffron in the same year. Furthermore, 97 investment funds based on securitized gold coins started trading on the IME after obtaining necessary permits from the SEO.

1397 was an exceptional year for the IME as the exchange took the first place among other entities within Iran's capital market as to both value and volume of trades; thanks to supports the IME received from the revered Chairman of the SEO, Shapour Mohammadi.

In 1398 the IME held the ceremony of launching CDRs and futures on cumin seeds. Later on, the IME signed an MOU with Iraq Securities commission; establishing a commodity exchange in Iraq with the help of Iranian experts was among the items included in the MOU, in order to facilitate exports and imports between the countries.



Moreover, two official ceremonies for launching trades on spot and derivatives trade of pistachios and saffron were held in the IME.

All that's said speaks of the support of the SEO, which was being administered by Shapour Mohammadi at that time. He paid his share of contribution to Iran's capital market. Now it's time for his successor Hasan Ghalibaf who is a talented and trusted figure in our capital market to do his best to move the SEO forward during these hard times.

Shasta Holdings Products to Be Offered on Iran Mercantile Exchange

Chairman of Iran chamber of cooperatives believes that offering commodities produced by Shasta's subsidiaries on the IME along with its shares on the equity market will bring about maximum transparency to the holding both financially and commercially, having an overall influence on the country's economy. He insisted that the government used to pay lip service as to publicizing companies under its ownership, but with Shasta the government decided to finally keep its word by offering its shares on the TSE, which was a positive and constructive measure.

These companies he added are either loss making or not making as much profit as the size and value of them entails. Hence, not only didn't they take any burden off the government's shoulders, the government has to inject funds into them to help them stand on their feet. Therefore, if they go public, the government will be free of the problem of providing them with annual budgets and save its finances for cases with higher priority.

He also said that until now we have been witnessing a non-transparent atmosphere in sales of products of some of the subsidiaries of Shasta and



in case they are obliged to offer their total productions merely on the Iran Mercantile Exchange, the rent seeking issue will be eliminated and their market will be revolutionized, although even now that part of their products are sold on the IME, the market has paved a long way in terms of transparency as compared to previous years.

Abdollahi hoped that this will be a harbinger of a process for state-owned companies to go public. This way we will have a much bigger private sector with less companies running at loss. With the government having a smaller share in the economy, resources will be used optimally, which in turn leads to a surge in production and a booming economy.



IME Financial Markets



Producers Cover Price Volatilities Risk via Long-Term Contracts on IME

Deputy of Surveillance and Operation elaborated on functions of long-term, credit and premium contracts to cover risks in various industries.

Mohtashamipour explained that spot contracts account for a big share of the IME's transactions, in which commodities are delivered upon settlement of the trades. Such contracts are in need of development as producers are most of the times in need of cash.

Along with spot contracts, the IME offers premium contracts based on which both sides of the trade enter a long-term agreement and are obliged to trade a pre-determined amount of commodities on a fixed price in the future. This way the producer could be assured of the demand for part of their products within a specific time in the future. Therefore, the producer could plan for the rest of products and try to find a market for them. He added that there is no limitation for any industry to use this contract on the IME in the future.

He mentioned that given the pandemic we are experiencing because of the coronavirus, both consumers and producers are exposed to back-breaking risks, especially within Iran's market which is suffering from severe price volatilities. Premium contracts are a big help in this situation, providing the possibility of risk coverage for both



sides via long-term trades.

Yet, he added, such contracts are not that much popular on the IME, as either side shows reluctance to get engaged depending on whether the market is bullish or bearish. In times that we are not in recession, the producer is not interested in entering such contracts, creating extra obligations for themselves, as they will have no difficulty selling their products. On the other side, consumers are eager to enter such contracts as they have worries as to provision of consuming products they are going to need in the future. In recessions he continued the story is the other way around. That's why it's kind of difficult to develop such contracts in the short term. Hence, we need to have deep markets, which are mature enough to entice participant use long-term contracts

and other instruments to cover risks, which are hard to predict in Iran's fluctuating conditions for almost all commodities.

Among contracts currently trade on the IM, Mohtashamipour said, are SALAM contracts, via which the producer is provided with the funds needed for production beforehand. Using such funds the producers produces the commodities and will deliver them to the customer at maturity.

Last but not least, he continued, are credit contracts based on which the commodity is delivered to the customer and the value of the trade will be settled in the future through the LC opened within a bank for the producer or based on an agreement between the two sides. This way, the customer can overcome the problem of fundraising.

Idle Capitals of Producers Get Liquid through Debt Securities Traded on Iran Mercantile Exchange

Chief executive officer of the National Development Investment Group Company, Amir Taghi Khan Tajrishi said that we have been witnessing launching of new financial instruments on various exchanges in Iran within the previous year. Among them are debt securities which will help producers to liquid their idle capitals. In other words, they can securitize their outstanding claims and sell them on the market.

According to him last year was a time to break all records so that the market index brought about a 200 percent yield for the investors while other markets like the gold and foreign currency markets did not have much appeal to them.

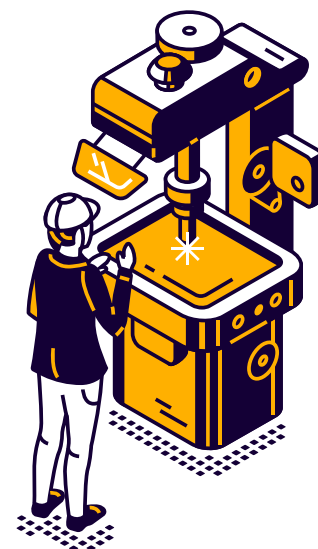
Last year he added was replete with unsystematic risks for the market but the surge of the capitals by people into the market and their increasing eagerness to invest in the stock market led to a very big growth in the market so that the number of trading codes went up to 13 million, held mostly by real shareholders.

Tajrishi explained that while everyone was focused during the last year on the stock market index, there were various financial instruments launched on exchanges like options and futures contracts on portfolios.



The most important one, however, unfortunately not receiving the attention it deserved due to the coronavirus pandemic, was the obligatory sales, or so-called two sided trades, which were launched on a few symbols and prepared the groundwork for risk management in markets which were now more appealing to investors.

Even when the market is bearish, he added, this instrument could help the investor to make profit on the condition they do their trades based on market analysis. The two sided market, in addition to yielding profit for traders, prevents crowded queues for buying or selling and make the market more liquid. Moreover, it does not let bubbles to create in the market in times that prices are moving upward.





He also spoke of an instrument running on the electricity ring of the Energy Exchange, which is called the capacity certificate. It opens up the opportunity for the private sector to invest in building new power plants and takes the burden of spending budgets on it off the government's shoulders.

Another one he said is the commodity debt securities launched on the IME, helping producers with the financing needs through securitization of their outstanding claims and selling them on the IME.

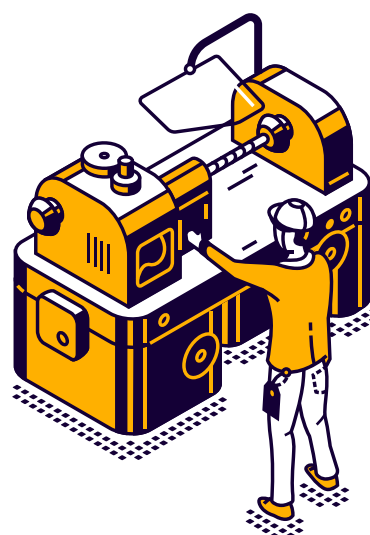
Tajrish continued that the current hijri year, 1399, could have enormous risks, the most important of which probably the coronavirus. It has led to complete lockdowns in numerous markets around the world, leaving them with an 8,000 billion loss in their values altogether. Commodity and stock exchanges might go through the same detrimental situation unless a solution is thought of. Another risk posed to such markets is the escape of capitals under various pretexts and the rise of speculation on parallel markets.

He then explained that if things get worse and we will be experiencing no increase in foreign currency rates from one side and control of inflation and cash flow on the other, the index might go down by a few percent, but with inflation of more than 40% and increase in rate of dollar against

trial, our stock market index will go up by 30 percent, in spite of relative decrease in global market rates, or up to 50% if global prices get better.

In the current situation he insisted that investors in our stock market should pay attention to various factors including concepts like risk and expected rate of return in the market, learning principles of trade in stock markets for newcomers, paying attention to outcomes of technical and fundamental analyses, using instruments like investment funds, portfolios or exchange trade funds for novices, taking advice from experts, monitoring national and global macroeconomic variables, buying portfolios instead of single shares in order to mitigate risks, avoiding emotional and herd behavior in the stock market and having a long-term view and expectation of the market.

Finally, he talked about the initiative taken by Iran Farabourse to issue two symbols of Corona1 and Corona2 which make use of crowd funding as an instrument to act like a charity for helping the poor. Real and legal investors could buy 10 thousand rial securities in an unlimited number and give a hand to those who are under severe financial pressure due to the pandemic. This way Iran's capital market, which is very dynamic these days, has been able to fulfill its social responsibility in current hard times.



The Gold Coin Vault of Ayandeh Bank to Start Operation very soon

The board member of the Ayandeh Bank unveiled the bank's decision to launch its gold coin vault in the week to come with the storage capacity of 150 thousands of coins. The vault will serve the CDR trades participants as the warehouse of the underlying commodity in the IME.

Ali Saeedi shared the news stating that the vault would start receiving gold coins from the customers and issuing CDR securities as of the upcoming week to reopen the trading symbol under the Ayandeh Bank's name in the exchange platform. The bank is in the final stage of getting the approval of the exchange to reopen the symbol as promptly as possible. To this effect, Ayandeh Bank is trying to join one of its vaults near Tehran's gold market in bazar to the CDR storage network of the IME and it is planning to open up additional vaults in other cities complying with and operating under exchange standard practices.

■ Turning assets to securities

As to the merits of asset securitization and the financial instruments Saeedi said one of the great potentials of the capital market is the ability of securitization of assets so if we securitize as much commodity and underlying assets of interest



to investors as possible, the asset management industry will grow larger in the country. The gold coin is one of the commodities highly interested by many; however, investing in the traditional and out-of-exchange market of gold coin carries its own challenges like assaying, security in storage and transfer of the gold and above all the risks of non-transparent trades. According to Saeedi such hazards can be addressed and mitigated through financial solutions of the exchange including Commodity Depository Receipts (CDRs). The solution relieves the concerns of the investors as they can rest assured about the gold coin purity and genuineness and trades are carried out online. Moreover, such transactions are registered and the government takes its dues from upon settlement of trades.

■ **Diversification of investment portfolio**

It is worth noting that by issuing CDR on an underlying commodity it will gain the potential of being added to the investment portfolio of investors so the portfolio managers can shape up a portfolio of diverse assets for their customers and manage portfolios in a much better fashion by this new service to the market.

■ **Providing finance for the agriculture sector**

The member of the board of directors of Ayandeh Bank highlighted the significance of the CDR in agricultural sector and said, in the agriculture market of saffron for instance farmers can deliver their produce to the exchange's licensed warehouses and can receive the warrant after the product passes the quality controls and gets stored in the warehouse. The farmers can use the CDR to raise finance by pledging the receipt as collateral to get loans from banks. The Ayandeh Bank is planning to launch this service for farmers and warrant holders of saffron CDR and to extend it to other agriculture products.

■ **The exchange not blamed for the rise in prices**

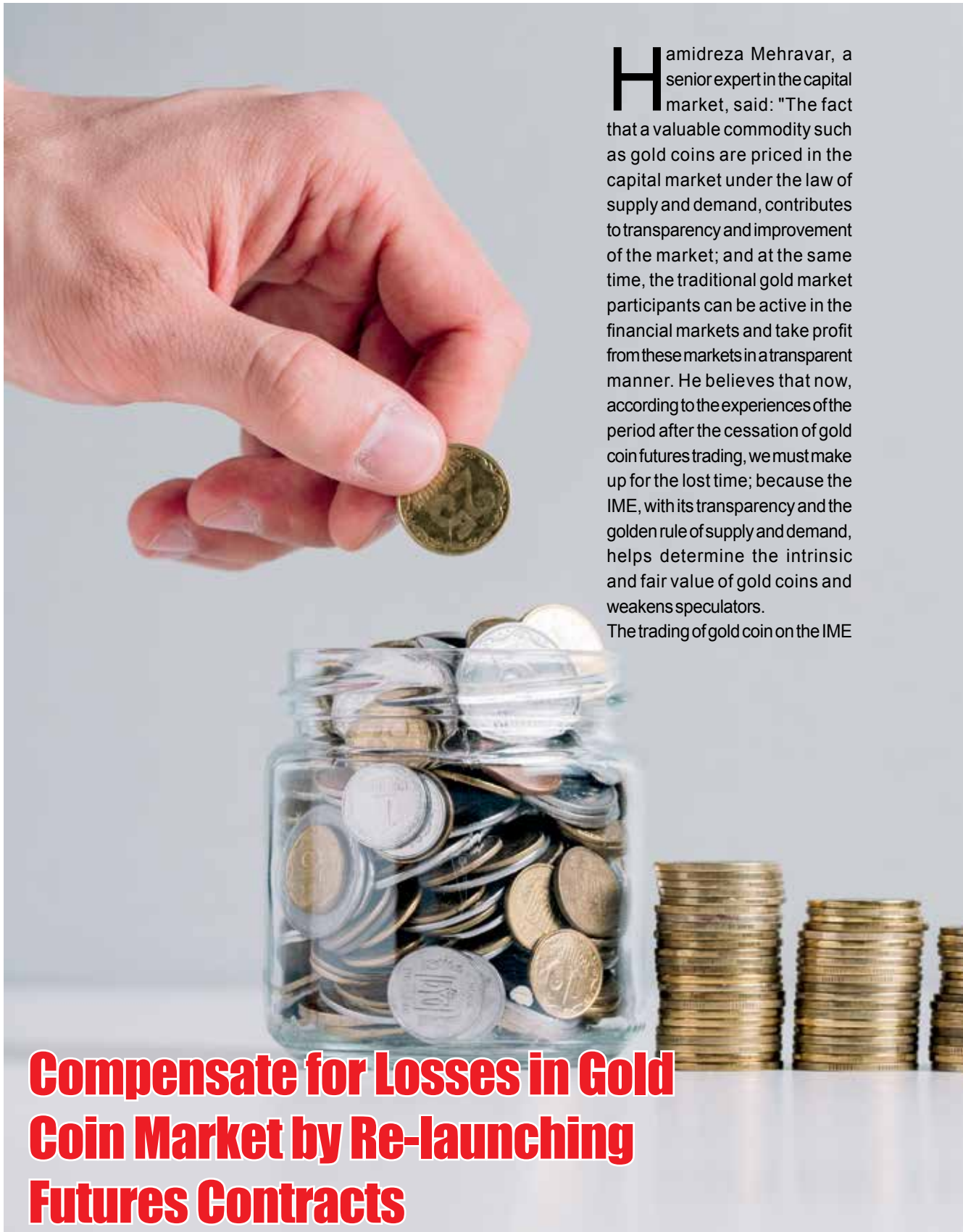
As to those who put the blame of price rallies in the traditional gold coin market on the exchange's CDR platform, Saeedi said they have misconceived the issue as the CDR is a market operating on cash spot platform of the exchange and they have taken it wrongly for the future market as

the prices in the futures markets, leveraged and offered for a future date, are different from those of the traditional markets in nature so they have considered such differences in the prices as a signal sent by futures or CDR to the traditional market leading to price rise. The misunderstanding is rooted in the fact that CDR trades are cash trades like traditional market except for it is traded on an organized, transparent, regulated and official market. It is worth noting that for each and every coin deposited in the banks' vaults a receipt will be issued so the exchange market has an edge by having transparency and trust over the traditional market. Therefore, for and equal to the numbers of coins stated on each receipt, there will be physical gold coins in the exchange's vault.

■ **The policy maker must be vigilant to safeguard transparency**

The board member of the Ayandeh Bank believes that such claims are lodged by those who are against transparency so the policy and decision makers should be cautious in the face of such false claims that have aimed transparency. "I recommend the central bank to transfer all cash spot transactions of this capital asset to the Iran Mercantile Exchange and its CDR platform in order to maintain and increase transparency in gold coin trading thereby normalizing and balancing the market to witness as much transparency and facility in gold coin trades as possible" said Saeedi.





Hamidreza Mehravar, a senior expert in the capital market, said: "The fact that a valuable commodity such as gold coins are priced in the capital market under the law of supply and demand, contributes to transparency and improvement of the market; and at the same time, the traditional gold market participants can be active in the financial markets and take profit from these markets in a transparent manner. He believes that now, according to the experiences of the period after the cessation of gold coin futures trading, we must make up for the lost time; because the IME, with its transparency and the golden rule of supply and demand, helps determine the intrinsic and fair value of gold coins and weakens speculators. The trading of gold coin on the IME

Compensate for Losses in Gold Coin Market by Re-launching Futures Contracts

has been full of ups and downs for some time. Whenever the price of a gold coin fluctuates, its transactions in formal forms (through the IME) are also overshadowed and some mechanisms and price controls are defined for it, which, although in the short term may satisfy the policymakers, in the long run not only is not in line with supply policies on the IME, it also opens the door for speculators to abuse the non-transparent mechanisms.

Of course, this is not unprecedented; since two years ago, when some policymakers and market participants linked the rise in the price of the gold coin in the free market to the gold coin futures contracts on the IME and then stopped the trade of the contract, it was clear that this solution was unprofessional and doomed to failure. Because the price of gold coins continued to rise in these two years; while trading on the IME could make the pricing process of this product transparent and attract a large amount of liquidity.

Hamidreza Mehravar, a senior expert in the capital market said: "In the exchange, the asset value of any product is closer to its real and intrinsic value. So one should not think that the stock market makes a product more expensive; rather, all over the world,



when the price of a product is to be transparent, they use efficient tools such as the exchange, because it is precisely in the exchange market that the pricing criteria, which is the supply and demand, comes into play.

He added: "If the supply of a commodity is lower than its demand, it is bought and sold above its intrinsic value, or when the supply is high, it can be bought below the price; but in a normal situation, the actual price is obtained. However, in some unprofessional analyses, some officials attributed the price of gold coin to futures contracts and removed this type of transaction from the market.

Mehravar said: "Those who have created a monopoly in the gold coin market are not interested in another system such as the IME

which can break up their monopoly using financial instruments and also making the process of price discovery transparent."

He stated: "These speculators have controlled the gold coin market for many years and set the prices, and unfortunately they are still trying to control the market in the same traditional and unclear way. Under these circumstances, they certainly welcome the closure of the gold coin futures market; because their most important and modern competitor has been removed from the market. It should be noted that the presence of gold and many other commodities on the world's commodity exchanges has paid off, and most countries use this mechanism in their trade."



Hemmati's Order to Organize a Working Group to Re-Launch Gold Coin Futures Contracts

The member of the Securities and Exchange High Council announced the order of Abdul Nasser Hemmati, Governor of the Central Bank of Iran, to organize a working group to study the development of gold coin transactions in the form of financial instruments and to restart the gold coin futures contracts on the Iran Mercantile Exchange.

Regarding the possibility of re-launching gold coin futures trading on the IME, Shahin Cheraghi said: "The capital market of Iran understands the central bank's concerns about the gold coin market and the sensitivities of trading on this valuable commodity. Since in some commodities such as gold coin, it is not just the commodity itself that matters, but the effects that the commodity can have on other markets and the economy, therefore, the central bank's concerns in this regard are truly important.

Cheraghi added: "In one of the recent meetings of the Securities and Exchange High Council, the Governor of the Central Bank regarding the gold coin transactions in the form of financial instruments and re-launching the gold coin futures contracts on the IME ordered to organize a working group for further investigation and to build an understanding."

According to the member of

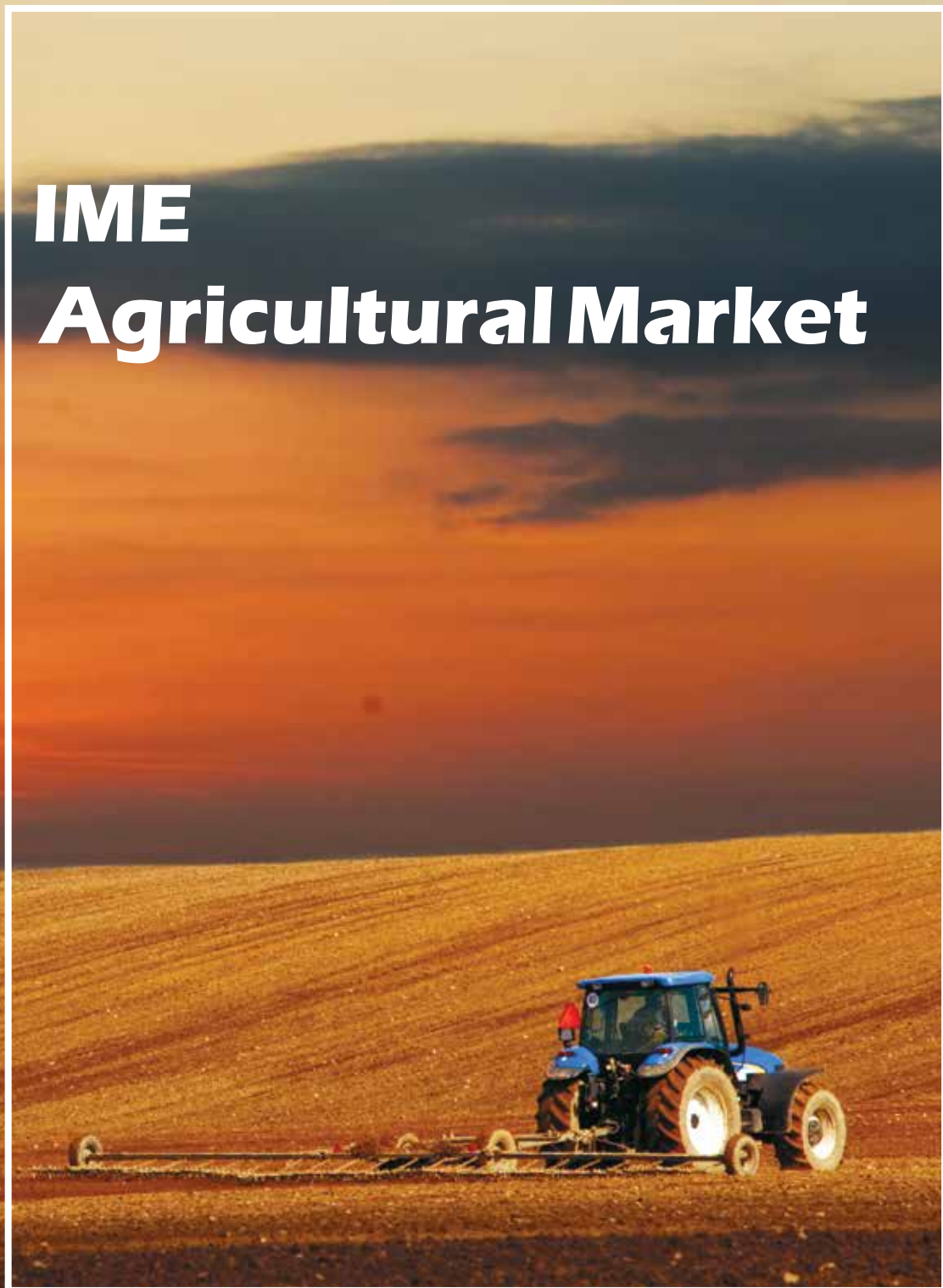


the Securities and Exchange High Council, by holding joint meetings and understanding the concerns of the money market watchdog, we can reach a common point in the gold coin market and develop financial instruments based on this asset in the capital market.

"Fortunately, the Governor of the Central Bank has a positive view towards the capital market and has actively supported the capital market in recent months," said Cheraghi. He expressed hope that the result of joint meetings between experts and managers of the capital market and the Central Bank will definitely reach a favorable point and said that it is expected that gold coin futures will be launched in the Iran Mercantile Exchange.

IME

Agricultural Market





Representative of the Torbat Heydarieye City to Iran's Parliament talked about the possibility of launching a portfolio management fund for saffron in the Iran Mercantile Exchange which, according to him, would be a way to safeguard saffron farmers and the saffron to be sold at real and fair prices. He explained that currently the saffron industry is lacking an efficient organization to protect the interests of farmers and producers, which is a problem not only in cities that saffron is native to them but also all over the country.

This entails that we create an efficient organization based on law which is overarching and financially powerful and with the capability of decision making. Although we currently have the saffron cooperative which is active, it has several shortcomings and is in dire need of strengthening so it can take care of the interests of saffron farmers.

Zangeneh then pointed out the outstanding claims of farmers from the rural cooperative and said that apparently the cooperative has



bought more saffron than the budget allotted to it, which has put them in trouble paying their dues. Yet, it has been stipulated that the farmers are going to receive their claims by the end of June at the latest.

He also mentioned that the Iran Mercantile Exchange has agreed to launch a portfolio management fund on saffron which would play a significant role in protecting the rights of saffron farmers. The farmer would not only get the profits gained from selling their product but also enjoy the revenues generated by such funds.

Launching Saffron Funds in IME; a Measure to Prop up Saffron Industry



More Steps towards Self-Sufficiency in Agriculture with More Offerings on the IME

Member to the Confederation of Iranian Industry insisted that one of the most effective ways to eliminate unnecessary middlemen to make the market of agro-products more productive is to exploit the potential of the IME and prepare the groundwork for moving towards self-sufficiency in the agriculture sector.

He explained that the food industry accounts for more than 10% of the whole added value in our industry. In the Iranian year 1397, in spite of sanctions against Iran, our exports in food industry reach to 5.5 billion dollars, which is a remarkable amount. Furthermore, the food industry accounts for 16.8% of all industrial jobs in our country and could be increased in case of being paid more attention to. Regarding the vision we have got for the Iranian year 1404, we have the plans to produce 300 million tonnes of agro products by then, which speaks of its importance and its leading role in economic development of the country given the critical situation we are currently in.

He added that our domestic production of agro-products can meet more than 95% of our domestic needs, with 130 million tonnes of annual production by our producers. Karim Tafreshi made a comparison in this regard with our neighbors and said that statistics show that Gulf countries have imported 77% of the



food from abroad and the value and volume of their food imports have grown respectively 11.2 and 8.7 percent from 2009 to 2014. Saudi Arabia is on the top of the list with 62% of the whole 35 million tonnes of food products imported by these countries and Emirates with 19.4%, Kuwait with 8%, Oman with 5.1%, Qatar with 4% and finally Bahrain with 1.5% come next. As to the fact and figures of our imports in food products he then said that the value of imports have been up to 1 billion dollars every year, which has been decreased this year by 30 to 40 percent.

He then elaborated on difficulties we are grappling with like foreign currency fluctuations and directives and bylaws that appear out of nowhere, which speak of not thoroughly studied policies. He added that due to sanctions a lot of foreign

manufacturers hesitate to enter long-term contracts with our producers and prefer to sell the equipment we need in cash. On the other side, sanctions cause delays in delivery of such equipment. All these have led to predicaments for those who are active in this industry, with their profit margins at the lowest level and their production costs at the highest level ever recorded.

He finally suggested that there are two ways to alleviate the problems of food industry. First of all we need to get concentrated on exports of agro-products in which we have relative advantage like saffron instead of importing products like watermelon and secondly we can use the capacity of the Iran Mercantile Exchange to offer our products directly so that farmers have more of the profits in their pockets not the middlemen.



Warehousing is Key to IME's Development

CEO of Donya Investment Development Brokerage elaborated on the key role the IME have played in recent years in development of derivatives and financial instruments as well as the development of the agriculture sector in Iran via implementation of systematic warehousing mechanisms and launching of commodity depository receipts contracts.

Hasanali Besharat Ehsani believes that the key factor that completes the production chain in agricultural commodities in Iran is the warehousing system which has been initially developed by the IME in combination with CDR contracts, both of which in need of expansion over the exchange.

Besharati, as a high ranking expert within Iran capital market, insisted

on fact that there will be more agro-commodities listed on the IME with much more participants attending on the condition the IME works on localities with the potential of listing more warehouses in order for the farmers to be able to store their produce in harvest season.

He added that IME's performance in recent years as to launching new financial and derivatives instruments and listing more underlying assets speaks of the impressive role this entity will be playing in the country's economy in the not too distant future.

He explained that all over the world there are futures or options contracts with specific standards launched on products like the wheat, which are a means for price discovery of the product and a tool for mitigating the risks involved in production and



trade of it. As there is high degree of convergence in prices of various types of wheat, futures or options contracts on even a single type of this product could help farmers to estimate the price at which they could sell other types of wheat they produce. That's how consumers can plan their consumption of wheat for a year, for example, based on the prices discovered on the exchange. Wheat is considered as a strategic commodity in Iran as well and the IME has been correctly focused on it with listing standard warehouses for it.

Ehsani also said that in Iran we are witnessing that prices for agro-products are not discovered based on the fundamentals of supply and demand and we are still dependent on traditional methods. However, if we take modern approaches of trade not only producers and consumers but also speculators and investors could predict prices and also cover their risks using financial instruments available in the market and make it a deep one.

He also mentioned that we unfortunately apply price control



policies which act like an obstacle when it comes to development of financial instruments. However, we are suffering less from such policies with regards to strategic and export commodities. In spite of our policies which do not comply with standard policies on an international level, we can use the potential of the IME with launching more commodity based securities so that we can enhance the volume of trades for our agro-products on it and prepare the groundwork for a more developed exchange.





Cutting of Red Tape on Export Commodities with IME

The Export Guarantee Fund of Iran has recently inaugurated a plan with ten items in line with the Pickup in Production Policy of the hijri year 1399, among which is facilitating export of goods on the IME and the IRENEX within long-term contracts. A capital market expert, Hasan Rezaie, said that if we come to see a kind of cooperation and compliance in services among the Customs, the Central Bank, the Export Guarantee Fund and the IME so that they can work together in an integrated manner, exporter will have access to all permits and approvals needed for exporting their goods on a single platform, The Iran Mercantile Exchange, which will definitely lead to a jump in export of Iranian commodities and, in turn, to a boost in domestic production.

In order to, he added, entice and encourage companies to do their exports this way, the IME has taken the necessary measures, yet there are a few notions to be taken into consideration for expediting the whole process.

First of all, we need to introduce a method of settlement for trades, the

foreign currency we use and the type of barter trade. All these are practically viable on the IME.

He explained that Iran's export bitumen is traded merely on the IME and Iran's customs treats a cargo of bitumen traded on the IME as having all the permits to be exported and the companies will not get into much trouble in the exportation process. We are in need for the same solution for other export goods

Currently the process of obtaining the necessary permits for exportation of domestic products is so long and complicated that most producers quit in the midway and prefer not to export their products. That's exactly where the IME can step in. we need to think of a package of permits needed from all the governmental bodies involved in the process of exportation of commodities, which is available in an integrated manner via an agreement and cooperation between the IME on one side and them on the other. Putting this theory into practice means a surge of exporter to the IME for taking advantage of such a facility. As his final remark he insisted that this approach will also discourage

rent-seeking and encourages positive competition. As an example, he added that when the farmer of saffron can directly sell his produce over the IME to a foreign customer, the price for saffron is discovered based on the fundamentals of supply and demand. Everything is transparent with the biggest share of profit in the pocket of the farmer, who is the real owner of the product. In other words, there will be no middlemen and no unnecessary red tape and bureaucracy.





Benefits of offering total maize and barley crops of the country to IME

Two key members of the Agriculture Commission of the Parliament (ACP) shed light on how the nation can reap benefits of offering of total country's production of maize and barley on the exchange in the context of implementation of the Law for Enhancement of Productivity in the Agriculture Sector and Natural Resources (LEP). Lowering the financial burden of the government, supporting the farmers by paying their claims in the shortest while, raising quality of commodities and diminishing the role of middlemen in trades are but a few of merits of putting the Guarantee Price Plan (GPP) into force for the year 1399. The cabinet of ministers approved to earmark 12 K billion rials in credits for the State Livestock Affairs Logistics company (SLAL) at the proposal of the minister of Agriculture Jihad which is going to be granted by the central bank of Iran in line with the LEP and the law for the budget spending of the government in order to implement market regulation and the guarantee price policies.

The guarantee price policy is a plan under which the government quotes official prices of the agriculture products each year encouraging the farmers to sell their produce on the IME trading platform. In case that the farmers sell at lower-than-the-government-offered prices in the IME, they will be paid for the difference by the government.

The basic factor in determining the price by the administration is the cost of production of the agriculture produce. To this end, the SLAL has been authorized by virtue of the cabinet of ministers' approval to pay the gap between guarantee price and the exchange-traded prices having been approved by the State Planning and Budget Organization (SPBO).

■ Guarantee Price, a Win-Win Plan

In his interview with the IRNA, Abbas Papizadeh, a member to the ACP said that the implementation of the plan is primarily to the benefit of the government itself as it would not have to pay total costs of purchasing products so it would engage the budget solely for payment of the price difference to the farmers rather than making a full payment from the government's purse. When maize and barley are traded through the IME, the selling farmers can receive their money in 3 days after trade with the government paying the difference; so, full settlement of transactions in the shortest period is one of the merits of the plan. Papizadeh said lack of awareness is the major obstacle in welcoming the plan by the farmers and it is hard for them to change their old method of selling goods to government. Shifting to modern methods requires conducting vast information dissemination in the media and giving information



directly to the farmers. The plan will be flourishing through time and the targets will be achieved as time goes by. The ACP member referred to the great potentials of the GPP for blanketing the whole production of wheat in the country and said the government allocates a great chunk of its agriculture sector budget for buying wheat from the farmers each year while it can save it for spending in other areas by leaving the matter to the trading platform of the Iran Mercantile Exchange based on the purchase plan that enjoys legislative and logistics supports. The IME has put up facilities and warehouses across the wheat, barley and maize production hubs in the country best equipped to serve the farmers. Therefore, the government should support the plan by involving the exchange in the process of purchasing wheat at the harvest season.

■ Reforms in the agro-economy via GPP

Ali Akbari is another member of the ACP who says although the guarantee price plan sustained hardships in implementation due to sharp foreign currency rates movements in the past two years, there will be sizable offerings of maize and barley in the IME this year as a strong debut for the plan. There is no doubt in the fact that the agriculture sector needs reforms in the areas of marketing and trade. Offering of agricultural products on the exchange platform as a transparent and modern market can be a one of a kind solution. There are major issues concerning agriculture products market and trade including excessive dealership activities, price irregularities, absence of a price reference platform and quality assurances that can be



addressed by the capital market and the commodity exchange in Iran. Akbari added that the GPP has numerous merits that can help the agriculture economy find a way out of hardships, hence, wheat as the most important agriculture product in Iran, is on the top of the list of the GPP commodities; however, there are sensitivities and concerns that prevent it from getting traded on the exchange. The ACP member went on to say that a large number of agriculture products including barley, maize, sugar, rice, dates, day-old chicken, frozen meat and chicken, and oilseeds meal have been traded on the exchange under GPP platform. To bolster the offerings a number of exotic and attractive agricultural products like cumin seeds, saffron and pistachios have been added to the GPP inventory in recent two years. Concluding his remarks Akbari enumerated lack of sufficient warehousing infrastructure and lack of awareness of the farmers about the IME's services and trading mechanism as the major obstacles in the way of comprehensive listing and coverage of the agriculture products under GPP platform which should be addressed as prompt as possible to achieve brilliant results.



Launch of the First Agro-Commodity Fund

The deputy CEO of IME in Research and Market Development announced that the Securities and Exchange Organization has issued principal agreement for establishment of the first agriculture commodity investment fund (ACF) in the Iran Mercantile Exchange. Naserpour said that following the meetings and negotiations with the SEO authorities on issuance of the license for subscription of commodity investment funds for the agricultural products asset class, a principal agreement was issued by the market regulator for underwriting and public offering of the first agriculture commodity fund of the capital market. ACFs are similar to gold-based investment funds in terms of investment portfolio composition and article of association; moreover, they are going to invest the collected capital on commodity-based securities not on the physical commodities.

■ Trades on commodity-based securities

According to Naserpour, the agriculture funds are authorized to



issue up to 10 million investment units and are allowed to trade and invest in commodity securities such as CDR and derivatives like futures and options on agriculture products, thereby contributing to enhancement of market liquidity for such instruments, which in turn leads to a booming agricultural market with diverse range of products. By developing warehousing facilities for the newly-listed agro-products like dates, raisins, rice and walnuts and at the same time launching CDR and derivatives on them, ACFs can trade the instruments launched on



such products after their permits have been issued by the SEO.

■ **ACFs: Key to stabilized agriculture market**

The IME research deputy went on to say about the important feature of the ACFs that they can play an unparalleled role in stabilizing market prices across the agriculture market as price stability is key to a thriving market. “We hope, by obtaining the regulator’s approval, to launch several agro-funds in order to contribute efficiently to market stability for the whole agriculture sector”, said Naserpour.

■ **Diversification of investors’ portfolio**

In addition to the advantages that ACFs can bring about for the agriculture market, they can be a suitable instrument to diversify the investment portfolio particularly at a time we are witnessing a majority of the investments and capitals of the society flowing towards the capital market. As the investment choices broaden, some investors may opt to use ACFs as a more professional investment apparatus to diversify their portfolio. A rational mode of

diversification of investment portfolio can be comprised of several steps; the first one could be diversification in asset classes like stocks, commodities or gold. To narrow down each asset class, the investor can decide for instance to invest in different industries in the stock market, or make a portfolio of different commodities to mitigate the risks.

Concluding his remarks Naserpour said that, volatilities in the price and market of gold, agriculture products and other essential and basic commodities, and the trading instruments issued based on them provide a great opportunity even for amateur traders and newcomers to make a portfolio of investment by trading commodities in various investment modes like CDRs, commodity ETFs, and in the next level through derivatives like futures and options rather than trading them in the traditional spot and physical markets.



Launching a Comprehensive Trading Platform for Medicinal Plants and Herbs in Collaboration with IME

The director of the Office of Medicinal Plants and Herbs of the Ministry of Agriculture Jihad said the comprehensive marketing and trading platform of medicinal herbs will soon be launched in association with the IME warehousing network. Hossein Zeinali said one of the challenges the medicinal plants producers face is the lack of proper marketing infrastructure to offer and sell their products. Likewise, the buyer's side shares the same struggle, as they do not have access to a shopping platform to order a purchase. The other challenge faced by the sector is the dealership activities by middlemen snowballing prices from production chain to consumer market. Zeinali expressed hope that by launching the platform farmers and industrial producers would be able to find the match for their orders and trade their products on a transparent platform at a competitive price without any intermediaries. The comprehensive platform in addition



provides room for those interested in learning medicinal plant farming to receive trainings and consultancy from the experts and professionals active in this field. As to the role of the government in the exchange-administered platform, he said the government will only oversee the market and facilitate processes. As to the IME's role in the comprehensive platform Zeinali said that the exchange's collaboration with the project is pivotal as we are

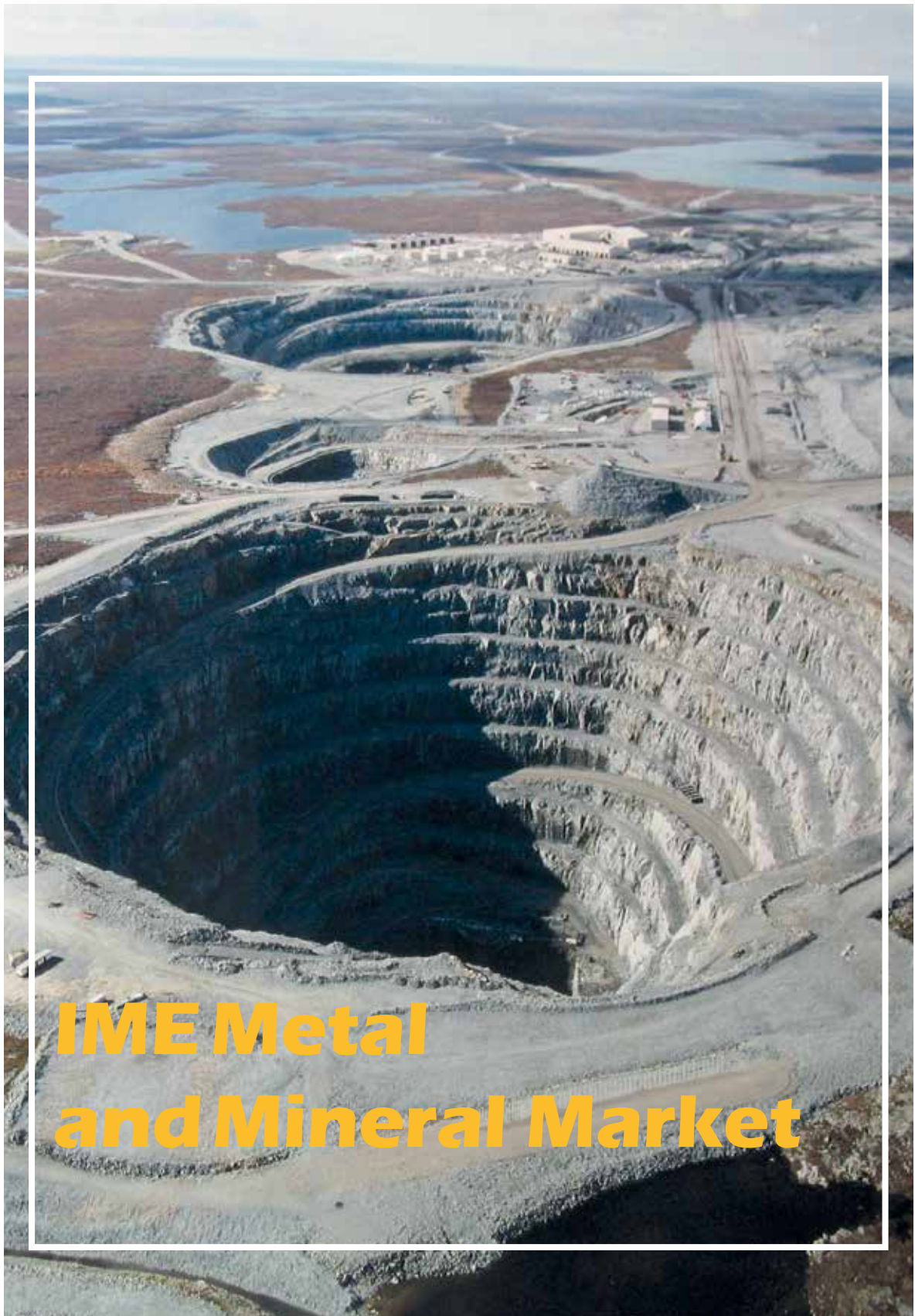


going to use the warehousing and storage facilities of the exchange for quality assessment and storage of the plants as well as the trading platform of the Iran Mercantile Exchange to promote a booming market for the medicinal plants which could end up in exporting the commodity via export trading floor of the exchange. According to Zeinali one of the key features of the platform is the potentials it provides for enhancing the quality of the medicinal plants through exchange's warehousing and standardization requirements so distribution of such products will be facilitated to the medicinal herbs shops, pharmaceutical and food plants by permission of the Ministry of Health.

■ Let us promote contract-based farming

The director of the Medicinal Plants and Herbs Office went on to say that the body has been planning to promote and institutionalize contract-

based farming of medicinal herbs using the capacity of standard warehouses which could lead to raising quality of products and linking up the herb producers and the processing industries with the buyers in the international markets. The core function of the platform is providing a facilitated linkage between herbal plants producers and farmers and the buyers including food processing and drug plants. As to pricing formula of medicinal plants on the exchange platform he said the Center for the Medicinal Herbs will calculate the total costs of production for each plant and inform the farmers annually; and the final price will be determined by supply-demand mechanism. However, by institutionalization of the contractual farming, the farmer would be able to link up directly to the processing industries for an intermediary-free price discovery. As to retail transactions, an institute is going to be established in order to contribute to fair price setting on medicinal plants.



IME Metal and Mineral Market

Setting Price Cap for Steel, as Inefficient as Control Price Policy

The head of the IME's market operation and surveillance is of the opinion that setting up a price cap for steel products rings a bell, much the same as control price policy of the government which acts in blatant conflict with the competitive price discovery practices followed on the exchange, leading to rent-seeking opportunities for the few. Reza Mohtashamipour shared his standpoints in an interview with Fars News Agency stating that setting upper limits for steel sections prices is in gross violation of competitiveness of transactions in the IME and to the benefit of rent-seekers. The main challenge posed back in 1397 as the foreign currency rates rose sharply so the Market Regulation Headquarter decided to set a cap for steel products prices; however, the HQ left the issue to the cabinet of ministers; yet the cabinet for its turn evaded the responsibility so the Economic Headquarter of government decided the contentious matter and called for removal of the price cap in the IME.

According to Mohtashamipour, removing price cap is a general rule of the IME that cannot be imposed to only one specific commodity or asset class. After government's decision on lifting price limits there were no price caps for any of the listed commodities of the IME so the issue of price cap setting was put to legal investigation which revealed that it had generated massive rents for some participants that later led to opening up of criminal lawsuits in the court of justice. Studies show the price cap sidelines producers gradually and provides dominance for intermediaries; so whoever manages to buy on the

exchange would benefit from the rent of price gap between the exchange and free market. As of the beginning of the year over one million tonnes of steel has been sold on the exchange platform and taking into account that there is an average price gap of 10000 rials per kilo for each steel product, a tremendous amount of 10000 billion rials of rent has been reaped and pocketed by the middlemen.

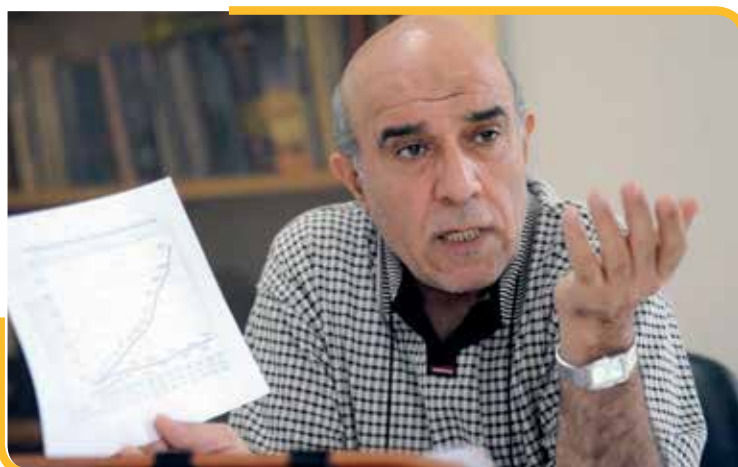
Mohtashmaipour went on to state that the price cap policy has not been enforced yet. Up until the middle of the year 1398, the exchange was following the base price formula which was a ratio of 83% of the quotation of global steel price vendors or the very export prices of the domestic factories so that the initial price of steel offerings, calculated based on the above ratio, were 10000 up to 20000 rials lower than the free market prices bestowing a regulatory rent to the buyers. Later on, as of autumn of 1398 this very formula was never observed and they formulated other pricing patterns quite irrelevant to the base price of steel. The current version of pricing is 83% of world steel prices according to global vendors' price inventory.



The Plan to Offer Cars on the Exchange Platform on President's Table

Ahmad Nematbakhsh the Secretary of the Car Manufacturers Association is of the opinion that the car market is fraught with rent and corruption and there are only two solutions to modify such irregular attitudes in purchase and sales of vehicles. The car makers have taken measures for balancing the market with their sales plans; however, to regulate the car market there are no comprehensive methods but either selling cars at free market prices or offering cars on the exchange platform of the IME as it had been already tested and corroborated.

Nematbakhsh in an interview with the commodity news outlet said the Iranian carmakers are buying their raw material including steel, aluminum, copper and polymers from the IME, so in the same way they can sell their products on the exchange platform. "I attended a meeting with President Rouhani together with a number of industry leaders in which I told the President, your administration is



fully supporting the capital market, please allow the auto makers offer their products on the IME platform" recalled Nematbakhsh. According to the Secretary of the Association of Carmakers, offering of vehicles on the exchange platform will root out the rent of two-tier car pricing in the domestic market and will provide transparency in the auto market. He stressed that car offering on the exchange platform will turn the current pricing situation into one price system putting an end to



destructive dealership activities on car market. The brilliant experience of the industries offering commodities on the exchange platform and expansion of the scope of their offerings speaks of the advantages that offering of cars on the exchange will provide to the market. "To support the argument I will make an example: before listing of aluminum on the exchange, the price of the non-ferrous metals had risen even to 400 thousand rials per kilo; however, despite the unprecedented current inflation rate, the metal is being traded in the IME at 250 thousand rials per kilo. So I offered the solution

in the meeting based on such great experiences gained by other industries in selling their products on the exchange," stated Nematbakhsh. He went on to say that dual pricing for the automobile market is detrimental to the market, providing rent and unfair benefits for time-seekers; however listing of vehicles on the IME trading platform leads to removal of lengthy bureaucracy for pricing between the Competition Council and the Market Regulation Headquarter. Closing his remarks Nematbakhsh said all carmakers are in full readiness to offer their products in the IME at full capacity.

Golden Time for Financial Instruments

The Economic shock we are witnessing all over the globe remind us of the necessity of running and promoting financial instruments on the IME, which could be taken as arms against recession.

Hossein Selah Varzi, member of the High Council of Exchange, said that the IME has the potential to help cover price volatility risks and work as a platform to safely offer raw materials. He also insisted that this will lead to job creation in various industries.

He elaborated on how falling oil prices have directly affected commodity markets. For example, he said, we are experiencing severe price falls for metal and petrochemical products all over the world. In addition to that the pandemic has led to a decrease of demand for almost all final products. That's why many businesses have faded and we do not expect the trend to get back to normal in short term even if we find a cure for the coronavirus.

He also mentioned that there have been supportive policies (monetary and financial) from governments to help the global economy stand on its feet and revive some businesses. Yet, as said before, we cannot expect things to get back to normal very soon, although we might be experiencing better



conditions little by little.

He then continued that the current global recession has affected our economy as well and it could be seen in lower domestic demands (which could be extended to demands for our export products) and in falling prices of raw materials. These two could be threats and even opportunities. He explained that between 2008 and 2011, governments injected funds to their economies and the effects were seen gradually in commodity markets, like the soaring price of copper to more than 10 thousand dollars per tonne. Things like that might happen during the current recession as well. Price volatilities by nature could have detrimental effects or they might be beneficial under specific circumstances.

Now if we are to produce more

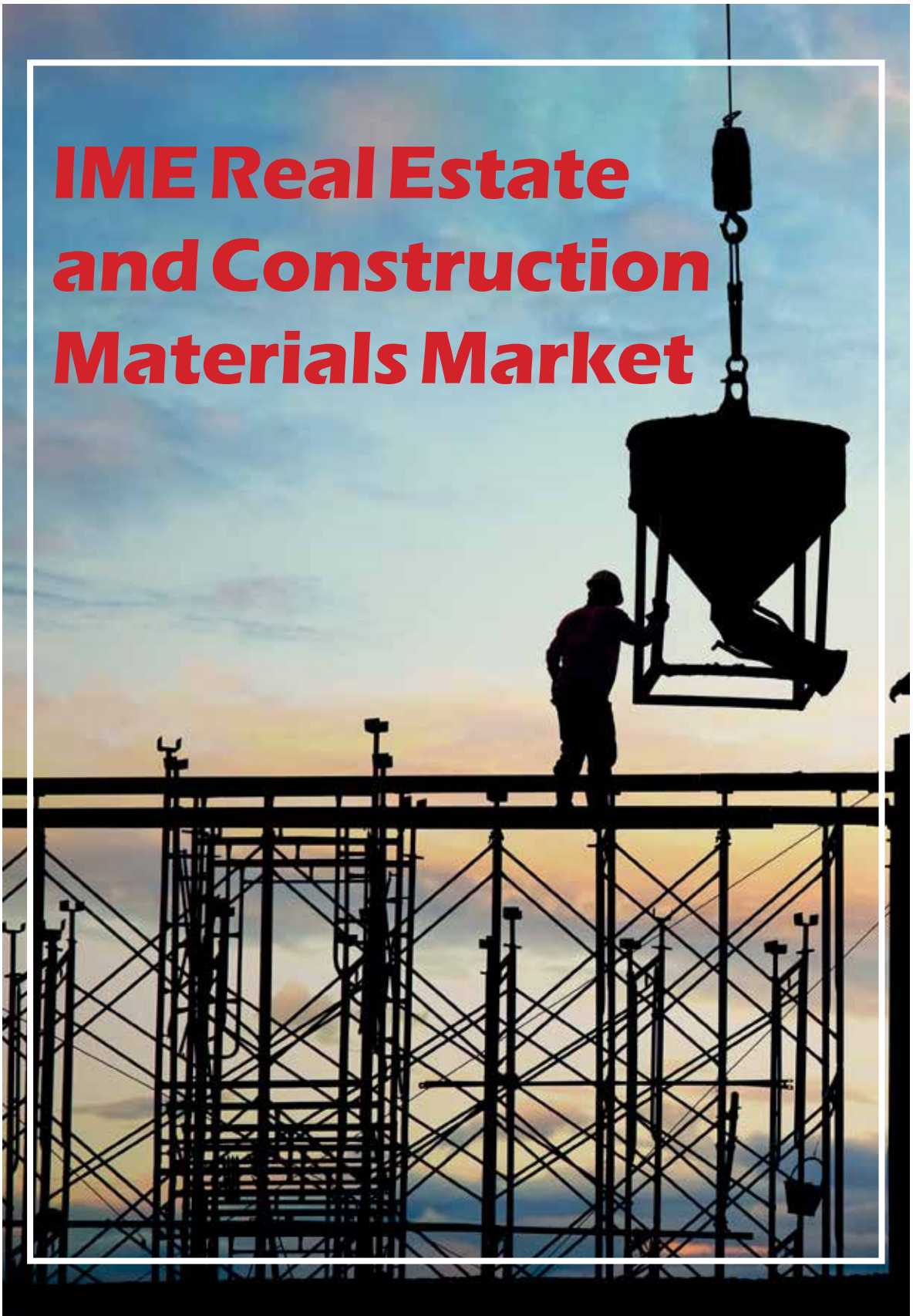
to realize the motto of the year, which is pickup in production, low prices for raw materials could be a merit and regarding the probable rising prices of such materials in the coming months could justify even buying and storing them. But, the problem is that buying raw materials needs enormous funds; a big deal for industries and businesses, which must be overcome with planning.

Furthermore, traders of raw materials have difficulties selling them in times of recession as they do not find enough buyers. There will be also worries as to decrease in production because warehouses might get full very soon. This is not a new situation and has occurred many times in history. For such circumstances, exchanges have designed special financial instruments. The Iran Mercantile Exchange has gained invaluable experiences working with modern financial instruments in recent years, which could be a great help to our businesses and industries. We need to expand them and make use of them in attempt to boost production. Finally, he mentioned Commodity depository receipts are among the instruments which could be very advantages given the current recession. They could be even linked with commodity funds which have been used for a long time in global markets in fighting against severe price volatilities. Severe price volatilities could lead to less production, which is a threat to the rate of unemployment. Using financial instrument could guarantee secure and continuous production in various markets and enhance job security standards for common people.





IME Real Estate and Construction Materials Market



Deputy Minister of Roads, Housing and Urban Development

Housing and Real Estate Trading Board to be Launched Soon / Offering of 1000 Housing Units in IME in the First Phase

The IME is on the verge of implementing an unprecedented plan initiated by the minister of roads, housing and urban development in association with the capital market infrastructure to finance the road and housing projects in which the first phase will begin by offering of some 1000 housing units by the ministry on the IME platform in the near future. The plan will continue to pledge larger offerings as the investment in the project grows via the capital market financing platform.

Amirmahmoud Ghaffari Deputy Minister of Housing in Planning and Resource Management said in an interview that following the directive issued by the minister of housing urging to forge a financing solution through capital market for transportation and



housing projects, intensive meetings have been held between the ministry officials and the authorities from the Securities and Exchange Organization (SEO) in order to reach an agreement on a financing instrument to fund the public projects of the ministry. Finally, pursuant to the President Rouhani's order to the housing minister on accelerating the process, a meeting was held

and attended by the minister's deputy of housing and deputy of planning, the director of the State Construction and Development Company, and the chairman and the high ranking officials of SEO in which a capital raising solution was discussed and agreed upon separately for two sections of housing and road development projects in order to lure investors to fund the projects. He added that the finances needed for construction of at least 12 housing projects will be provided through housing funds which are going to be established in collaboration with the SEO. The value of units and the date of underwriting of the funds will be announced to the public in due course. Ghaffari stressed that the new plan of housing units offering will provide the opportunity for everyone to own a house. The primary workings of establishment of funds will be carried out by the New Urban Areas Development

Company and the National Land and Housing Organization. In the first phase, the mentioned entities will take measures to launch funds and offer the constructed housing units financed by the fund, on the trading board of Iran Mercantile Exchange. The deputy minister added that a special plan on road construction and development including 14 important railroad and freeway projects will be launched based on the capital market fund raising capacities as well.

According to Ghaffari, thorough researches on legal infrastructure as well as several feasibility studies have been conducted by the ministry, paving the ground for a risk-free investment by the capital market participants. He went on to say that oversight on implementation of the projects, timely construction works, and financing at maximum possible rate are among the advantages of presence in this market.



Minister of Roads and Urban Development Advocates a Floor on IME to Trade Construction Materials

Mahmmoodzadeh announced that the Ministry of Roads and Urban Development advocates running a trading floor on the Iran Mercantile Exchange to offer construction materials so that we can do housing projects at lower costs. Along with that there is going to be a financing mechanism on the IME to fund such projects.

He insisted that we are thinking of offering all construction materials, not merely rebar and I-beams which are currently sold on the IME.

He explained that the IME has acquired the permits needed to launch such trading floor from the Securities and Exchange Organization and in the nature of things the prices of construction materials will be discovered on the IME based on the fundamentals of supply and demand in a competitive atmosphere.

As to selling the properties of the Ministry according to the budget law of the Iranian year 1399, he said that the Ministry does not currently own a remarkable number of such properties, but has the plans to sell them to support the national housing plan financially; however,



he added, this is not going to be done via the platform of the IME.

He pointed out that among the measures to be done via this plan is providing average to low income deciles of the society with lands for housing and we are to get the help and support of all governmental bodies.

At the end of his talks he reiterated that governmental bodies are not allowed to sell the lands or properties in their ownership and are needed to submit them to the Ministry of Roads and Urban development so that they could be used for public services.

Minister's Insistence on Selling Surplus Properties of Government on IME

On a meeting session with the first vice-president, Fahad Dezhpasand, Minister of Economy, talked about the surplus properties of the government in Tehran which could be converted into cash, as a considerable amount of wealth. He also said that good performance of the capital market will absorb idle capitals, leading to stability in some markets.

He then explained that the Ministry of Economy covers a wide scope of activities, with a decisive role in both negative and positive outcomes within the economy of the country.

The Minister insisted that we need to take various decisions to boost production in the country. One of them is to consider facilities for tax-payers. Another will be absorbing foreign capitals to the country, which is a way to import technologies as well. The third solution would be to eliminate the obstacles for investors in such a way that they could take the necessary permits sitting in their offices via electronic and smart devices. This way, lots of tax payers will voluntarily pay their taxes, as they know their time and money will be saved.

Two other sectors needed to be electronic are the banking system and the customs, both of which having a big impact on business processes in the country.

He finally added that the value of assets and properties in the ownership of the government is so high that makes one stand in awe. We can use the capacity of the Iran Mercantile Exchange to sell them and solve lots of our problems with the money gained. Moreover, free zones are not working with their full capacities and in some cases they are not even on the right track. To realize this goal, however, he continued, we will be in dire need of the help and support by various entities and organizations.



Updates on Construction Materials Trading Board on Iran Mercantile Exchange

Manager of Economic Studies of the Iran Mercantile Exchange, Javad Fallah, said that in the first half of the current hijri year the IME is about to launch a trading board for construction materials, which not only increases transparency of the market, it also makes it a more competitive one. This way those who are active in housing projects could trade construction materials in credit through debt securities issued by the IME.

Constructional materials have an enormous market comprising a wide range of goods. It seems that this market needs to be regulated. That's why the IME initiated talks with the Ministry of Roads and Urban Development on one side and some of the producers of housing construction materials on the other to convince them that we are in need of such market.

He explained that with launching a trading board for the basic construction materials we will be witnessing a market which enjoys more transparency and



prices will be discovered based on the fundamentals of supply and demand within a competitive atmosphere. Moreover, the IME plans to design instrument like debt securities which helps customers to buy the goods they need on credit while producers receive their money within a shorter period of time. He added that hadn't it been for the coronavirus, talks with both sides would have come to an end by now, yet we hope that we will be able to launch the trading board



within the first half of the current hijri year.

He went on to say in the first stage the IME will offer non-manufactured goods like cement, plaster powder, stone and I-beams, which are being already traded on the IME. In the second phase manufactured products like windows, taps, pipes, wires, etc. will be offered on the IME's side market, which is in need of specific rules and regulations.

As to the advantages of this trading board Fallah explained that in addition to the merits gained when you do your trades on a regulated exchange like transparency, fair price discovery and the guarantees offered by the exchange that both sides will fulfill their obligations, the specific service offered through this trading floor is financing.

He added that the trading floor provides an opportunity for those who are active in the industry to raise capital, especially as procurers of construction materials can sell their goods on credit. In fact, they can sell the debt securities, issued based on the goods they sell to customers on credit, at a decreased value and receive right now the money they were about to get from the customers later. On the other hand, customers are also buying the materials they need on credit and will pay the money after their housing projects are completed and sold.

Fallah finally said that this plan has been approved by the SEO and all the authorities in the Ministry of Roads and Urban development are in agreement with it, as they believe it will end up with cheaper housing for people from low income walks of life.

Advantages of Launching a Trading Floor of Construction Materials on IME

Member of the presiding board of Majlis civil affairs commission stated that one of the merits of launching such a trading floor would be moving towards a discovery mechanism for real and fair prices based on the fundamentals of supply and demand along with a transparent atmosphere for trades of such commodities, which ends up in having a balanced market.

He explained that the Securities and Exchange Organization in cooperation with the Ministry of Roads and Urban Development has planned to run a separate trading floor for trading construction materials other than steel products which are currently offered on the IME.

He continued that currently the middlemen who are active in the market of construction materials distort the balance in the market so that they can sell construction materials at higher prices, making housing for low income people a predicament. However, through



offering such materials on the Iran Mercantile Exchange these unnecessary middlemen will be eliminated and there will be enough room for transparency and fair and real prices.

In the end, the representative of Zahedan province expressed hopes that the IME will take care of the preliminary measures so that this platform could be launched at the earliest time possible in order to take the back-breaking burden of housing from the shoulders of ordinary people.

Implementation of a Plan for Preselling Real Estate in Square Meters through Standard Parallel SALAM

Market Development and Economic Studies Deputy of the Iran Mercantile Exchange announced the implementation of a plan for preselling real estate in square meters through issuing standard parallel SALAM and said: "In the meetings held with the presence of the Deputy Minister of Roads and Urban Development and the chairman of the Securities and Exchange Organization of Iran (SEO), it was decided to implement this plan within the framework of capital market structures and through the IME's standard parallel SALAM." Saying that other projects such as the sale of real estate in the IME's side market, the establishment of barter market for construction and building materials and real estate, as well as launching real estate investment funds (REITs) are under review, Alireza Naserpour added that one of the capital market instruments that can be offered to presale real estate in square meters is standard parallel SALAM because we have great experience in this area. Regarding the process of implementing the presale plan,



he said: "In this plan, the property developers and mass developers or any property builder can issue standard parallel SALAM in order to provide financing and even to sell the property. These securities can be delivered at maturity, which means that the security holder at maturity can pay the certain amount specified in the security and acquire the residential unit; For example, if he is to receive 85 meters, he must provide that number of securities, or he must settle the securities in cash with a specified interest rate at maturity." Naserpour added: "In addition, the publisher's risk and also the

buyer's risk can be managed by introducing embedded buy and sell options on the securities, so that they will enjoy all the advantages of standard parallel SALAM contracts, too." The IME's Market Development and Economic Studies Deputy pointed out the benefits of implementing this plan in the form of standard parallel SALAM and said: "In the absence of an embedded buy option, the buyer will be hedged so that if the buyer can't buy the whole unit at once, he can buy the area he wants and buy the rest over time, and if he can't afford that number, he can sell the security in the market at maturity at the current price and receive the money and will be able to cover the inflation risk."

He also explained about the standardization of the area of real estate and said: "This plan has been implemented in mass real estate development projects and its standardization is such that usually a especial area inside a building is considered as a base and the price of forward contracts that are issued is based on that base area, and at maturity, if someone decides to consider another unit, the increase and decrease in the areas of other units will be determined based on the base area, which will be mentioned in the prospectus before issuing the security.

According to Naserpour, one

of the goals of the project is to help people and homebuyers become homeowners in the face of inflation, while for the mass developers, the plan is a good way of financing.

He said that the infrastructure for the implementation of this plan for preselling real estate in square meters through the IME is provided, adding that the plan does not need to be approved by the Supreme Exchange Council because standard parallel SALAM has been approved by the Council before and can be launched for preselling real estate in square meters.



Agreement to Launch a Specialized Construction and Building Materials Board within Iran's Capital Market

The Deputy Minister of Housing and Construction of the Ministry of Roads and Urban Development said: "Agreements have been made through the Iran's capital market to finance projects and to launch a specialized construction and building materials board in order to organize the industry in a more effective manner and to provide the possibility of small and medium sized capitals to enter the housing sector for profit making."

Mahmoud Mahmoudzadeh stated that in the second phase of registration in the National Housing Plan about 530 people registered through the Internet system and more than 800,000 people registered via SMS. As soon as the health conditions of the community are appropriate, they will be notified to submit their documents on tem.mrud.ir.

Mahmoudzadeh also explained about the presence of the housing sector in the capital market and the possibility of benefiting from this opportunity by the housing sector activists and said: "According to the approach of the Ministry of Roads and Urban Development and in order to balance the housing market and compensate for the shortcomings that already exist, agreements were reached with the Securities and Exchange Organization (SEO) and projects were coordinated."

He noted that there were legal



problems and obstacles to the entrance of a number of construction companies into the Real State Fund. Amendments were made, and the amendments had already been sent to the government. The amendment to the law on organizing and supporting the supply and production of housing has been approved by the government's specialized committees and is expected to be approved in government's general meeting sessions as well and be implemented very soon.

Mahmoudzadeh said: "By the approval of the amendments to the law on organizing and supporting the supply and production of housing, a large volume of mass production projects for housing and services across the country will be introduced through the capital market so that people can invest in this sector."

IME Ready to Start Preselling Real Estate in Square Meters

The CEO of Iran Mercantile Exchange announced the readiness of this exchange to start the pre-sale of real estate in square meters through standard parallel SALAM.

Hamed Soltaninejad said: "Following the negotiations with the Ministry of Roads and Urban Development, projects such as the sale of real estate, the establishment of barter market for construction and building materials and real estate, as well as launching real estate investment funds (REITs) are being pursued and the groundwork for implementation of a plan for preselling real estate in square meters through issuing standard parallel SALAM on the Iran Mercantile Exchange is provided."

Soltaninejad added: "Standard parallel SALAM financial instruments were launched in the IME in 2014, and during the last 6 years, financing for various types of companies in the fields of industry, mining, petrochemicals and agriculture has been done by issuing standard parallel SALAM contracts; therefore, the IME has a lot of experience to take advantage of the real estate market."

The CEO of the IME stated: "In the real estate market, we, in the IME, are trying to reach a financial instrument that increases people's savings, for example, a person who wants to invest in the real estate sector, can directly enter the meter-based real estate trades in the IME, even with a small amount of investment."

Soltaninejad explained: "Some people may not have enough capital to buy an apartment, but with the start of meter-based real estate trades, they can buy an area of a property so that their

investment will grow according to the price of real state; this way, people can invest in the real estate market even with low amount of capital.

The CEO of Iran Mercantile Exchange said: "For this project, the presence of mass housing developers as suppliers of these bonds is needed so that they always offer a certain area of the specified project to the people and buyers in exchange for the amount purchased by the investors. In other words, in this plan, the mass builders, with the aim of financing and selling the property, issue standard parallel SALAM contracts, which can be delivered at maturity."

Soltaninejad concluded: "Converting assets and commodities into securities is one of the measures that allows individuals to easily invest in various assets and creates a transparent market with daily discovery of prices; In the field of housing, the plan to pre-sale of real estate in square meters in the IME will help people become homeowners and maintain the value of their capital in the face of fluctuations in housing prices."

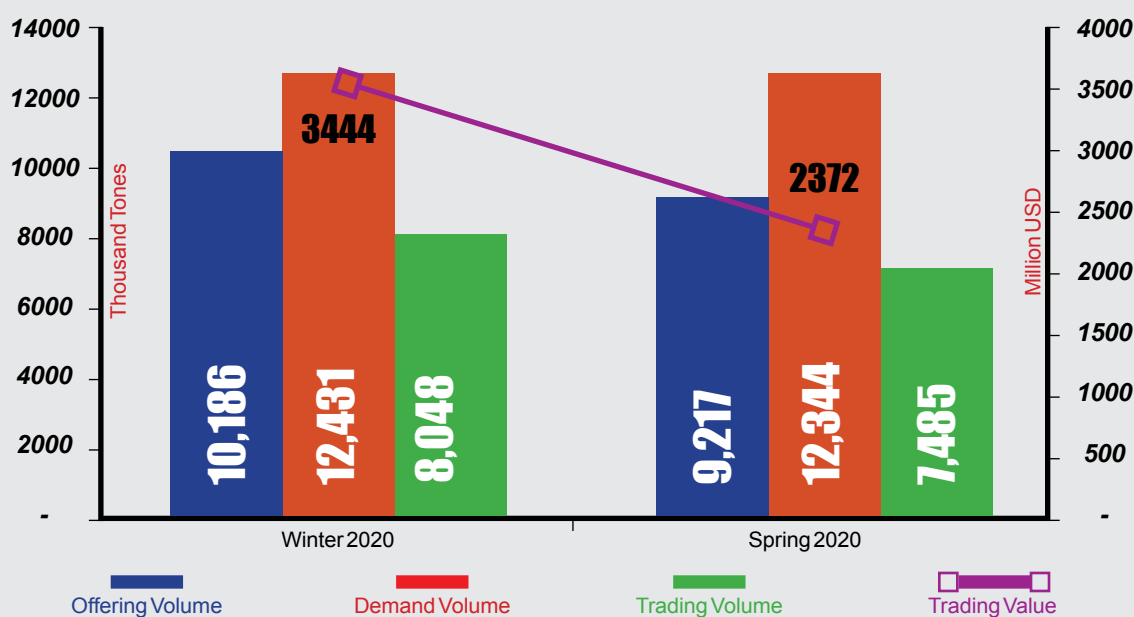




Statistics of IME Business

An Overview of IME's Physical Market

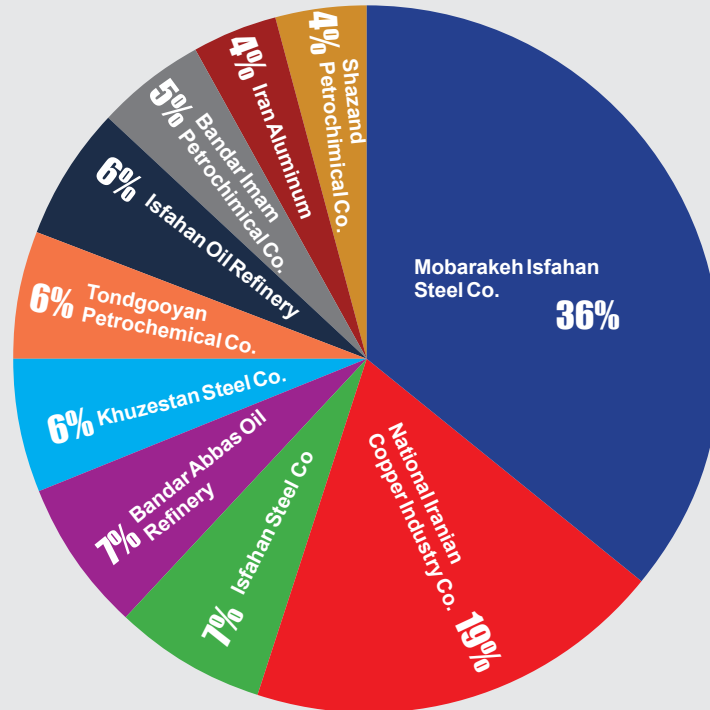
Within the First quarter of 1399 Hijri year (20 March–20 June, 2020), the IME saw trade of a total of 7.4 million tonnes of commodities on its physical market, the value of which stood at 2,372 million USD. The figures show a downward trend as compared to the fourth quarter of the last year with a 7 percent decline in trading volume and a 31 percent decrease in trading value. The decrease in trading volume in the spring is due to the traditional drop in trading volume in late March and early April and the decline in production activities due to the spread of the Coronavirus (COVID-19).



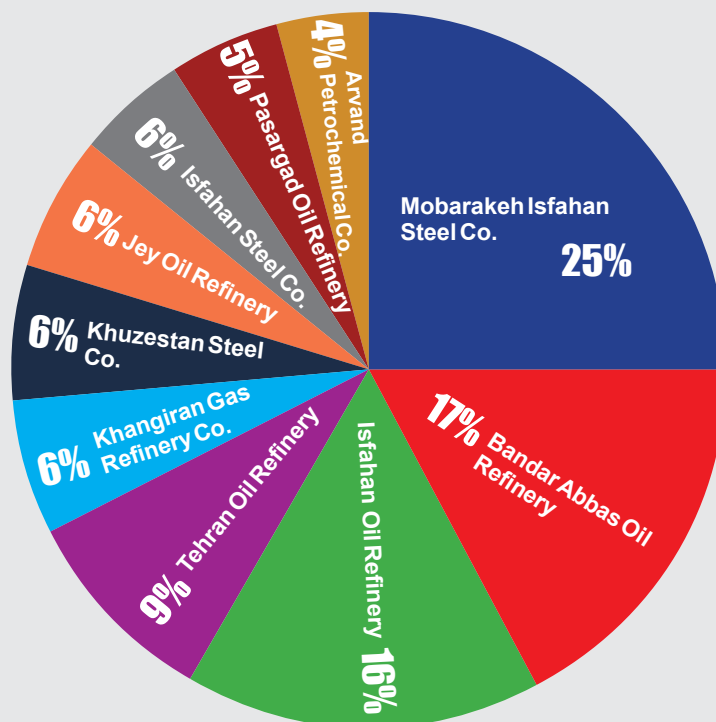
In the following you can see the share of first 10 top suppliers in trading value and volume on physical market of the IME.



Top Suppliers of IME Physical Market in Spring 2020 (Value)



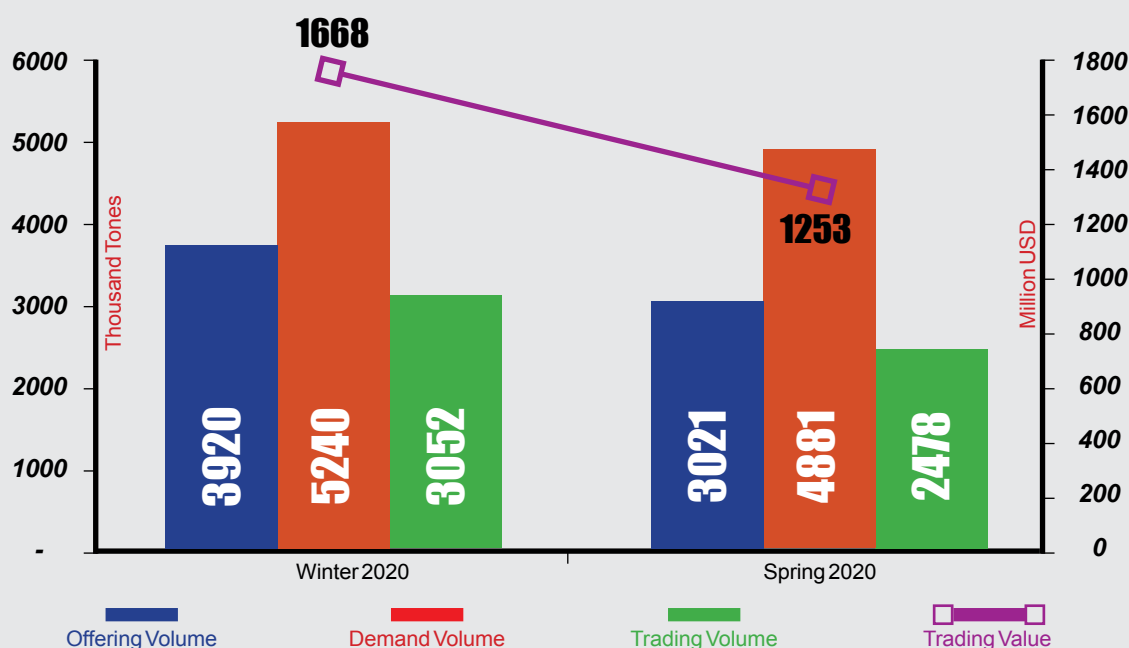
Top Suppliers of IME Physical Market in Spring 2020 (Volume)



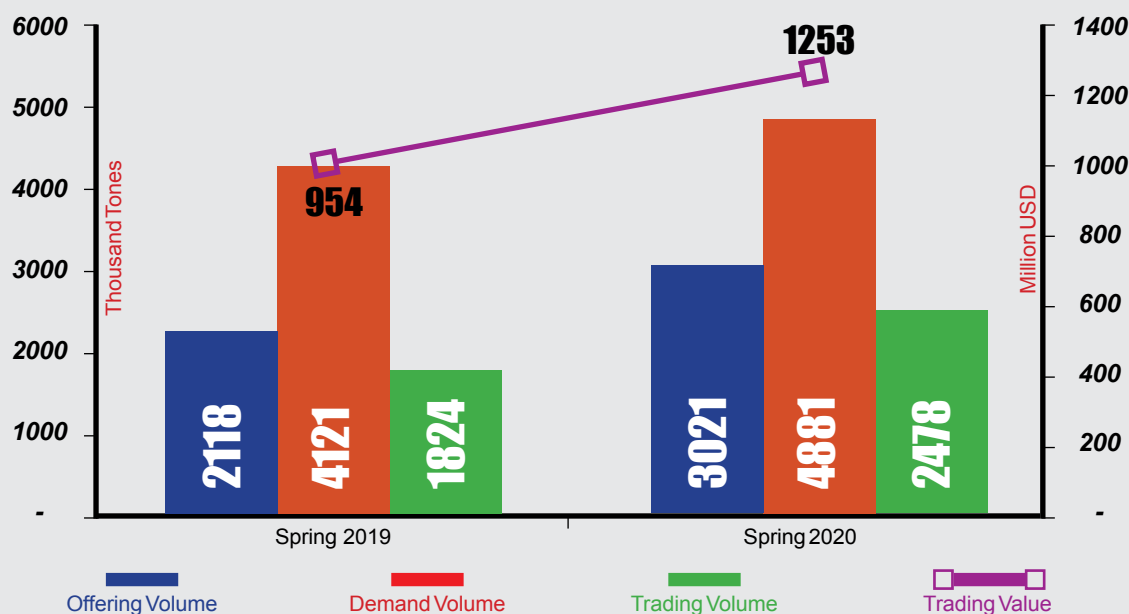


Industrial Products

The industrial trading floor of the Iran Mercantile Exchange witnessed a trading volume of 2.47 million tonnes valued at 1,253 million USD in the first quarter of 1399 Hijri year (20 March–20 June, 2020), showing a 19 percent drop in trading volume and a 25 percent decline in trading value, as compared to a 3-month period before that.



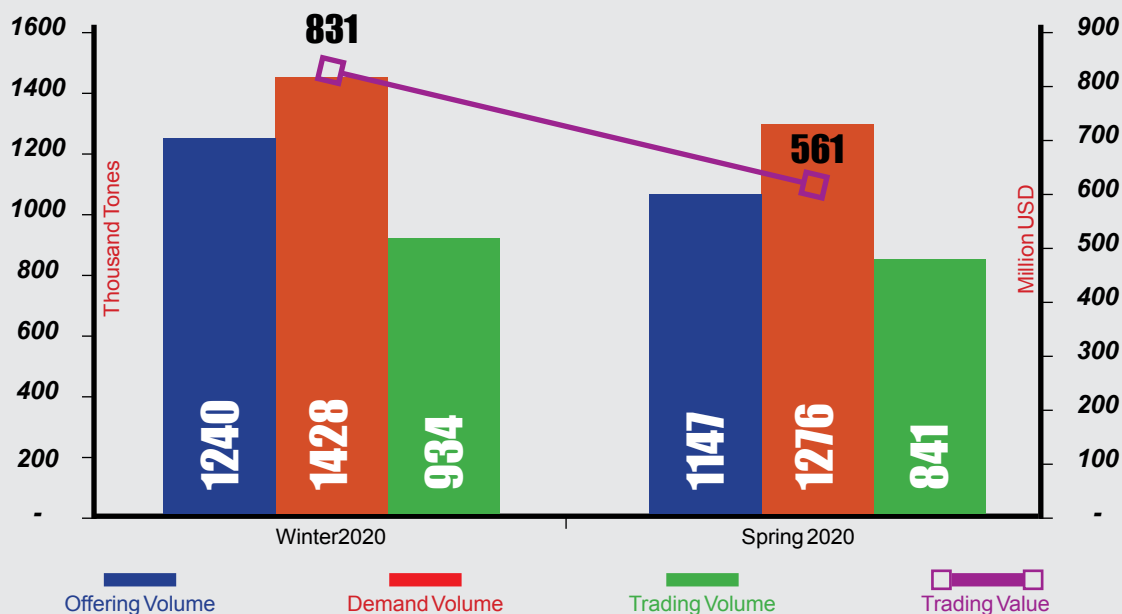
Moreover, comparing trading volume and value between the first quarter of 1399 Hijri year (20 March–20 June, 2020) and the same period in the previous year reveals that the IME saw a 36 percent growth in trading volume and a 31 percent growth in trading value.



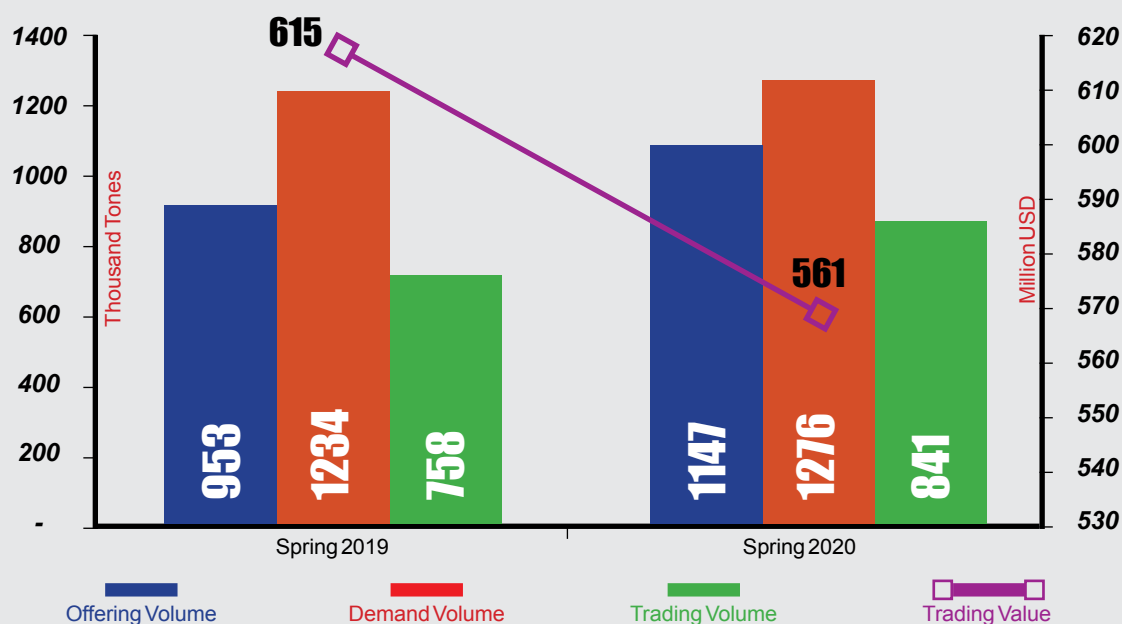


Polymeric Products

In the first quarter of 1399 Hijri year (20 March–20 June, 2020), volume and value of trades on the IME's physical market for polymeric products stood at 841 thousand tonnes and 561 million USD respectively, witnessing drops of 10 and 33 percent in trading volume and value, respectively, comparing to the fourth quarter of the last year.



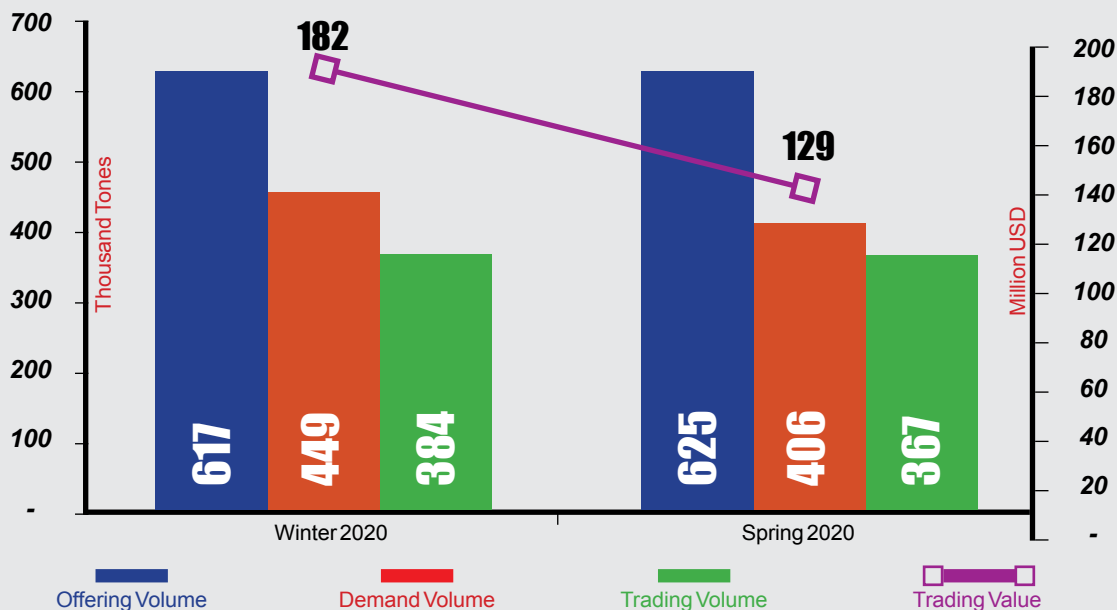
Moreover, comparing volume and value of trades between the first quarter of 1399 Hijri year (20 March–20 June, 2020) and the same period in the previous Hijri year reveals that the IME saw an 11 percent increase in trading volume and a 9 percent decline in trading value.



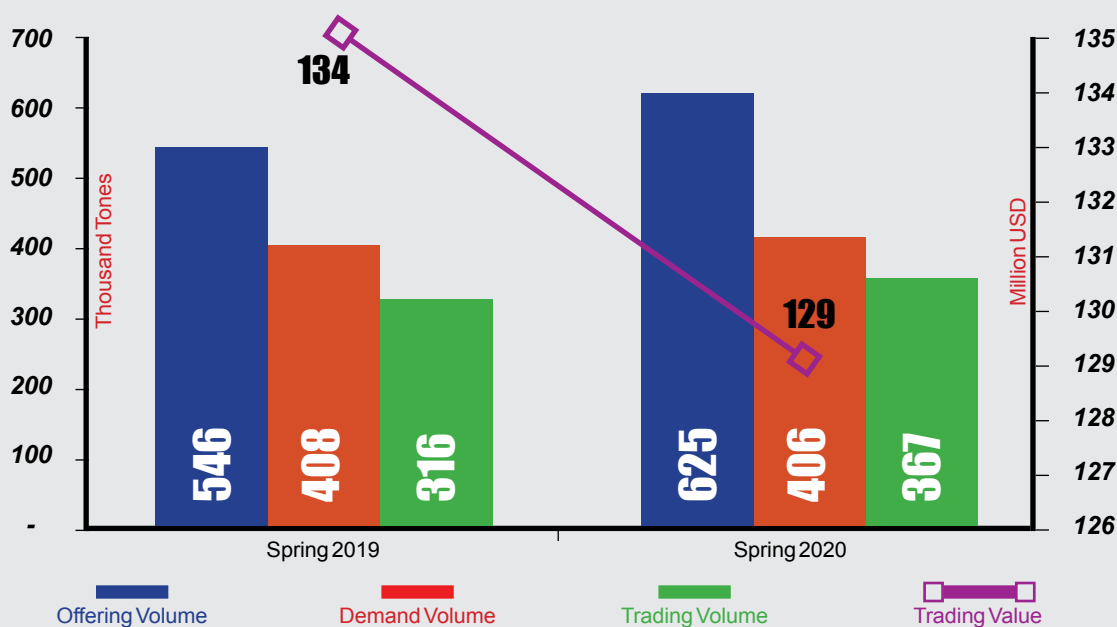


Chemical Products

Within the first quarter of the current Hijri year (20 March–20 June, 2020), the IME traded 367 thousand tonnes of chemicals valued at 129 million USD, showing 4 and 29 percent of declines in trading volume and value, respectively, in comparison to the fourth quarter of the last year.



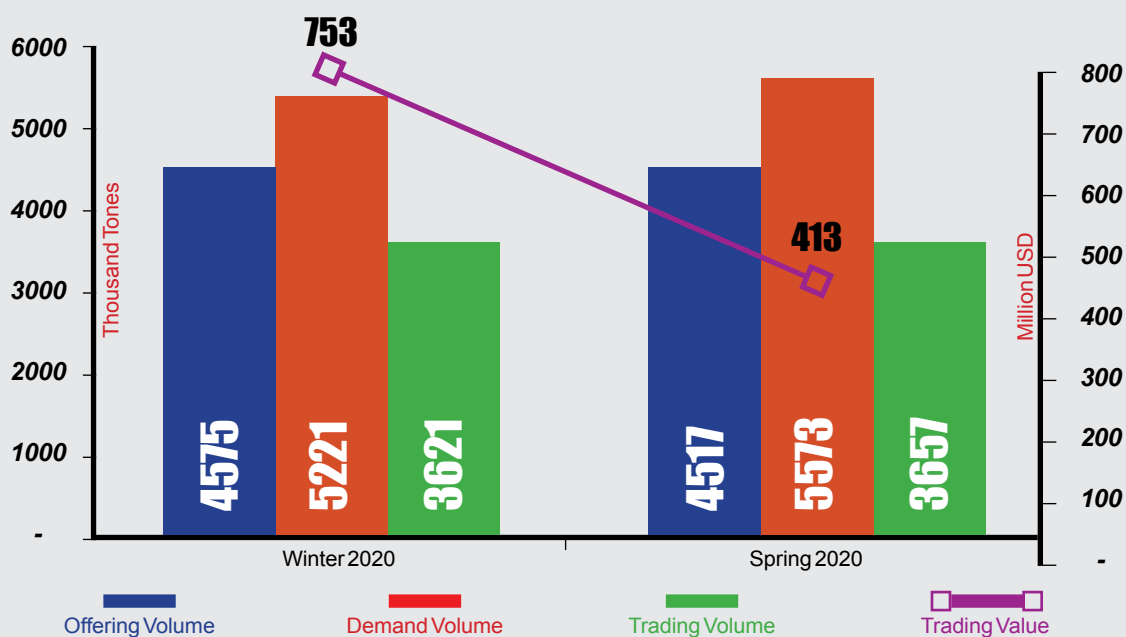
Compared to the same period in the previous Hijri year (20 March–20 June, 2019), trading volume of chemical products shows 16 percent of increase and the trading value witnessed 4 percent of decline.



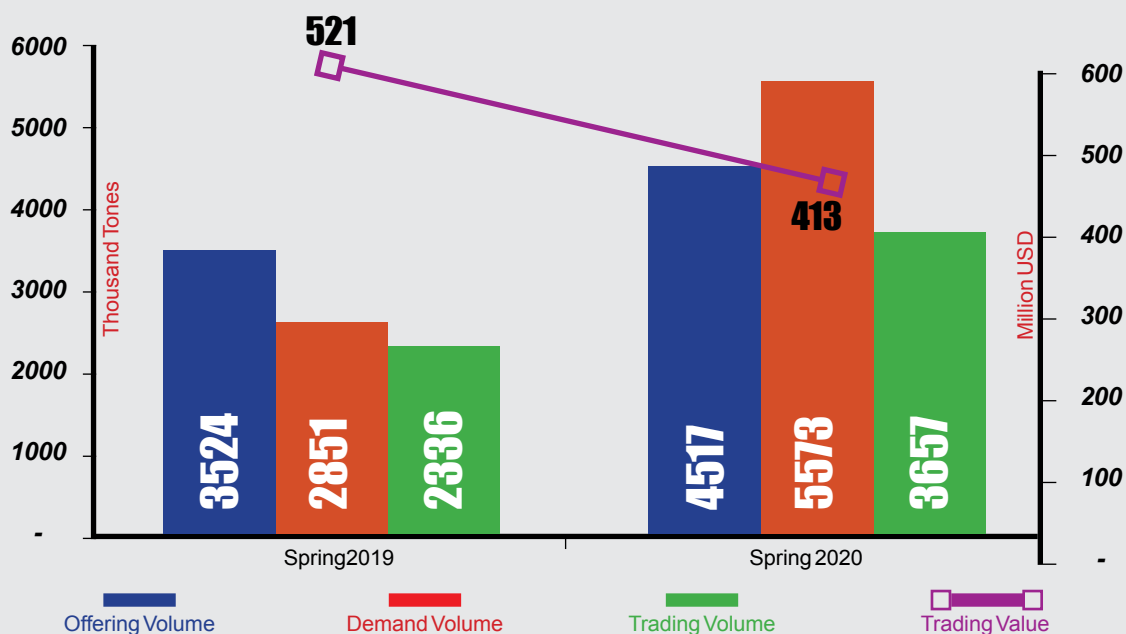


Oil Products

Within the first quarter of the current Hijri year (20 March– 20 June, 2020), there were 3.6 million tonnes of oil products traded on the IME in total, including bitumen, vacuum bottom, lube cut etc., valued at 753 million USD, which showed 1 percent of growth in trading volume and 45 percent of decline in trading value, as compared to the fourth quarter of the last year.



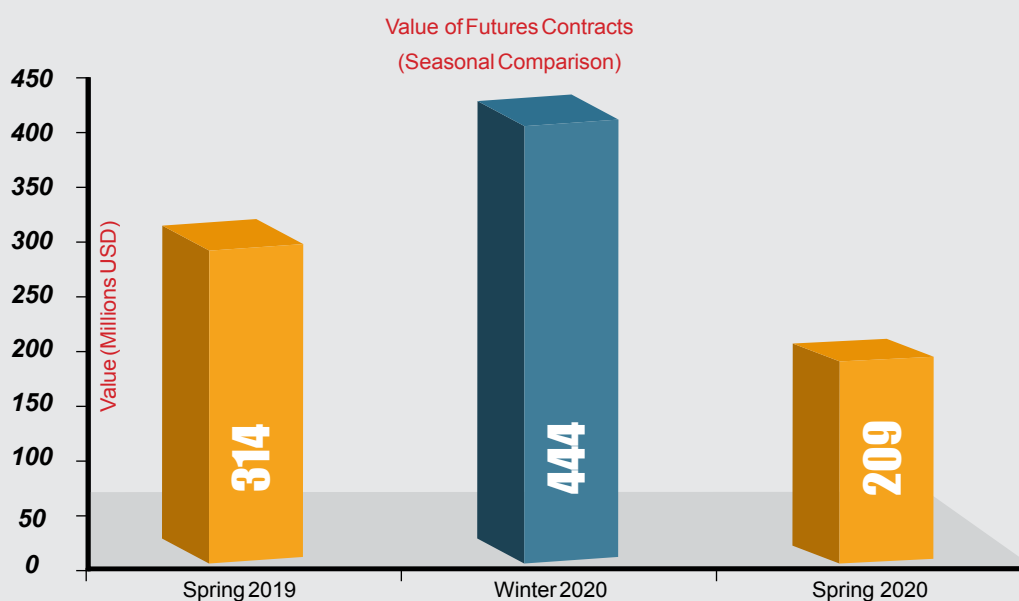
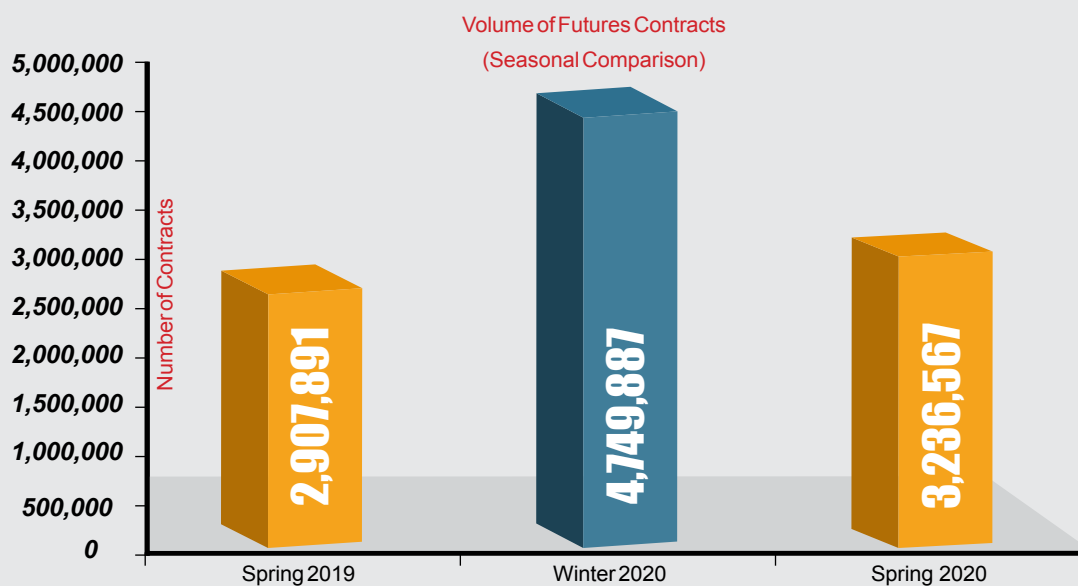
The figures for this period compared with the same period in the previous Hijri year show a 57 percent growth in trading volume and 21 percent of decline in trading value.





Derivatives Market

Within the first quarter of the current Hijri year (20 March– 20 June, 2020), the IME traded 3,236,567 saffron, pistachios and cumin seeds futures contracts valued at 209 million USD, showing 32 and 53 percent of decline in trading volume and value, respectively, in comparison to the fourth quarter of the last year.



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