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**IME**

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Iran Mercantile Exchange Quarterly Newsletter





In the Name of God

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## Iran Mercantile Exchange Quarterly Newsletter Summer 2018, Vol. 13

Publisher: Iran Mercantile Exchange (IME)

Adviser: Dr. Hamed Soltaninejad; IME CEO, Dr. Hossein Mohammadi; Senior Advisor to CEO and CBDO

Editorial Board: Zahra Rahmati, Amin Najari

Photographer: Sajad Razm

Design: Graphic Mosaver

Address: No. 351, Taleghani St., Vali Asr Ave., Tehran, Iran

Tel: +98(21)8564000-2

International Relations Department: +98(21)8564 1022, 1028, 1029

Website: [www.ime.co.ir](http://www.ime.co.ir)

Email: [international@ime.co.ir](mailto:international@ime.co.ir)

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## Editorial Column


Amin Najari

### **Futures Market is not Directing Spot Market**

Recently there has been much dispute on the control that the spot market has over the futures market. But it seems to be more to it than what people think. One also should not forget the appeal that gold coins have for buyers. With the current market turmoil we are witnessing, maybe the easiest way to soothe the pain we are feeling is to unfoundedly, or even misleadingly, blame other markets.

Transparency in gold coins futures market provides the audience with a vista of what is about to happen in the future of market for this commodity. This has been mistakenly taken for granted for the spot market of gold coins, giving the media an alibi to attribute the turmoil we are witnessing in it to the futures market. Yet, if one thinks of absorbing the idle capitals in gold coin spot market to funnel it to the futures market to make it traceable, we should consider it as a constructive instrument. On the other hand, futures market and secondary markets have proven to be of great benefit at times we are dealing with increased levels of idle capitals, with the least advantage of it being its controlling role over severe price volatilities. Given that in Iran and all over the world, futures markets get the signals from the spot market, saying otherwise and blaming the futures market as having a directing role over the spot market leading to the unstable situation of the current spot market of gold coins is nothing but misleading the public.

The question is why the futures market was unable to disturb the spot market when it was not experiencing the current turmoil and the futures market deserved to bear the blame only after the spot market was left in the hands of disturbance. On the other hand, if the spot market goes back to its normal status again, will the futures market be able not to follow and keep having its so-called disruptive influence on the spot market? It will



not take much effort for one to come to right answers to question the like of these. All that said, it is also worth mentioning that, there is a continuous process of adapting and updating in rules and regulations of futures markets, making it increasingly less probable for the futures market to adversely influence the spot market, yet it seems that there is not going to be an end to the scenario of blaming this market.

IME experienced the same issues when there were problems in petrochemical products market. IME was being blamed for what it was not responsible for, and fortunately, the decision makers did their best to explain the situation and stood against the wave which tried to put an end to petrochemicals market on IME.

What we have to figure out is the real factor causing such turmoil in gold coins market, which we believe are the huge trade capitals entering the market, no matter what reasons have caused this. The same story is true for foreign currencies market. The thing is we need to appreciate the value of futures market which is the only reference reflecting the realities of the market and economy in general. Prices at maturity which are higher than the current spot prices and allegedly responsible for the upward trend in gold coin prices is merely a forecast of what is expected to happen in the future, which is based on the real information and data we have access to now.

It seems that we need to improve financial literacy in people from all walks of life in our society and help it come to a better understanding of the nature of market and fundamentals of supply and demand. This way, we hope that we manage our futures market more realistically and based on scientific logic when the gold coins future market sooner or later come back to IME and will be up and running as an instrument with various merits for our economy.



## CEO POST

### IME Provides Raw Materials for Production not Trade



All downstream companies need to file tax returns as evidence corroborating that the raw materials they buy on IME are used for production not trade. Although its IME's job and its transparent mechanism to discover the violation of laws if there are any, downstream producers and manufacturers could also play a big role in this regard with the information they provide IME with.

Due to foreign currency rate severe fluctuations in recent months, metal and petrochemical products have been witnessing a bullish market on one hand and on the other, there has been severe criticism leveled at IME as to increased prices and lack of enough offering of such products on its trading platforms. Offering of such commodities on IME based on the official rate of dollar (provided by the government as subsidy) which is less than the free market rate has enticed middlemen and speculators to enter the market and export such commodities to neighboring countries. These customers on IME just bear the name of producer or manufacturer and have caused unreal demand in the raw materials market. Below you read an interview with Hamed Soltaninejd, Chief Executive Officer of Iran Mercantile Exchange by IRNA to see his views on the issue.

**There have been recently issues in supplying of a number of commodities on IME facing real producers or manufacturers of the downstream section with numerous problems. What is IME's solution to get out of this?**

Many of the issues we are facing with now do not have their roots in IME. IME is a transparent market for trade. Currently, as the base prices on IME are calculated based on single rate for foreign currencies and are lower than before, we are witnessing more demand for raw materials by producers of the downstream.

On the other hand, due to lack of enough supervision after finalization of transactions on IME (which is of course out of IME's control and has separate entities entitled to the



job), there are some who just bear the name of producers, exploiting the situation as they buy raw materials and export them to neighboring countries instead of using them for manufacturing final products in Iran. Part of the unreal increase in demand is because of such middlemen entering the market. That is to say that the crisis is not on the supply side, but the demand side is causing the scenario we are dealing with.

**Some criticize Behin Yab system as to not being able to make a distinction between real customers and middlemen. What has been done in this regard?**

For petrochemical products, customers are introduced to IME through Behin Yab system, whose job is to identify real customers. Now that we have an excess of demand, there have been negotiations between IME and the ministry of industry to improve the system. There have been also other suggestions that each company's previous year performance be the criterion for specifying raw materials. This policy has been implemented for copper cathode and polyethylene terephthalate and needs to be extended to other commodities as well in order to identify real producers.

**What are IME's strategies as to confronting profiteers and the initiatives for more transparency?**

Downstream companies are needed to file tax return so that we can recognize any violations of law if there are any. Yet, it's worth mentioning that by and large, our producers are gentle people who obey rules and regulations and have no problem with transparency. There have been misconducts discovered recently related to companies registered in free trade zones who used to buy petrochemical products under the name of downstream producers and sell them at higher prices in free markets. Once identified, they were reported to judicial authorities, some of whom found guilty by the court of justice.

**Could you talk a bit about the measures taken to regulate the supply side?**

We have less difficulty as to the supply side as compared to the demand. In case the upstream producers cut down on the amount of commodity they supply on IME, we can practice our right using the collaterals they have put up with us. Along with supervisory entities doing their job, IME plays its regulatory role in such cases using another potential provided by law: the price ceiling. Finally, if the upstream producers cannot produce the commodity inside the country, the remaining amount needed will be imported in coordination with authorities.

**Some of those active in downstream sector believe that the upstream decreases the amount of offering on purpose to increase prices. Do you agree?**

Offering procedures are quite clear and all supervisory bodies oversee their activities. In case a producer tries kind of monopoly power on supplying commodities, the Competition Council steps in and investigates the problem.

One can judge for their own on the issue, referring to the statistics on the history of offerings and trades on IME.

**It has been reported that some commodities are sold at higher than global prices. What's your idea?**

Actually, buyers need to be asked why they buy some goods at higher prices than global ones. They compete over the prices which appear on IME's trading board and they take everything into consideration before doing their purchases so that their trades make benefits for them. Some buy at a higher price when they predict a specific commodity will experience an upward trend in prices in the future.



Base prices in IME are proportionate to global prices. There should be a balance in here of course. Prices should be neither too high nor too low so that downstream and upstream producers make a loss respectively.

There is one more thing to pay attention to. IME is not to blame for high costs of production in Iran due to old technologies used currently.

**It's been suggested that customers go to the factories to buy the goods they need. It means there will be no need for IME anymore. Is it practical at all?**

It's so naive to think that downstream producers could easily buy their needs from factories. That is how it was in the past. This would pave the way for rent-seekers who have powerful contacts.

IME's job is not merely to discover prices, but fair distribution of commodities is among the responsibilities of the Iran Mercantile Exchange in our economy.

Those who exit IME will definitely take steps backward and will be trapped in corrupted markets.





IME's General News





## Approved by Listing Board; IME Listed on the First Market of TSE

The securities' listing board agreed by listing Iran Mercantile Exchange on the first market of Tehran Stock Exchange. The IME's stock, so far being traded at the main market of the Farabourse (IFB), is now listed on the first market of the Tehran Stock Exchange and will be traded through this market.

According to the report, IME, at its annual general meeting, held on June 18, 2018, has increased its capital from 900 billion Rials to 1,240 billion Rials from its retained earnings and contingency reserve.

Accordingly, IME, with its recent increase in capital, was able to receive the approval of the listing board to be listed on the first board of Tehran Stock Exchange.

It should be noted that the implementation of the company's development plans in the physical market and introduction

of new commodity-based securities as well as meeting the prerequisites of the minimum required capital for gaining the TSE's approval have been the objectives of this increase in capital.

## Government Policy to Promote IME

The only opponents of IME are those whose benefits get hurt because of transparency and will be deprived of rent-seeking. That's why the government is about to support and promote IME, said the deputy of the minister of industry, mine and trade.

He said that the advantages of offering various commodities including steel and petrochemical products of IME as a transparent venue for trade has been to the benefit of both producers and consumers. If there are any objections, they are from those who are after rent-seeking.

He continued that as IME has been playing its constructive role in developing the market of various industries along with other measures done in various parts of Iran's capital market, we are about to help them and direct our policies so that there will be a synergy of efforts especially in areas like copper and steel.

He insisted on the fact that it's impossible to support production in a not transparent trading atmosphere. IME is the best way to make the balance between supply and demand. Currently the whole government and ministries of trade and economics are doing their best to make their share of contribution to promote IME.

He added that we cannot expect miracles



from IME. Actually IME is like a mirror showing what's happening in the real part of the economy. It is also related to foreign and domestic policies of the country as well as financial transactions and the rules and regulations pertinent to export and import. All these said I believe that IME has been successful; and has played a constructive role in regulating markets and promoting a healthy economy.



He also mentioned that IME has an important status in the countries' economy and we have the plans to offer new commodities on this trading platform.

He said that IME's performance reveals that this entity is about to become a bigger market; even an international one. Therefore we need to give it enough rein so that it can act based on the fundamentals of supply and demand and according to policies of the free economy. We have no other choice but to trust IME's decision makers and help them to act within a wider scope of activity and contribute to the economy more than ever.

Finally, he pointed out that the way out of rent-seeking and corruption is through

transparency. In modern countries, they make rules and regulation as plain as possible and less complicated, which blocks the way of rent-seeking. Contrary to this, in Iran we are dealing with complicated laws, which bring about rent-seeking. The more transparent the economy is, the less corruption we experience and more foreign capital will be absorbed to our economy from abroad in a stable and health economy.

### IME's Price Discovery Policy Should be Changed According to the New Currency Exchange Policy

Chief Executive Officer of Iran Mercantile Exchange, referring to the government's new currency exchange policy, said the IME's pricing policy based on the reference currency used for base commodities and the limitation on the price discovery for intermediate goods should be changed in line with new currency exchange policies. Hamed Soltaninejad said: the policy of curtailing commodity prices artificially does not help the market at all, and only allows arbitrage opportunities to provide some kind of misuse.

He added: "In the case of various commodities, including petrochemicals, steel sections and sheets, while manufacturers accepted prices lower than world prices on the IME as base prices, the control of the price of intermediate commodities does not lead to the control of the consumer goods' prices and it only provided arbitrage opportunities for some sham producers.

CEO of IME stated: now that the government only includes 25 essential commodities to receive foreign currency based on official





foreign exchange rate in its new currency exchange policy, we should change our pricing policy for the base commodities and the ceiling price for commodity competition according to the new currency exchange policy and the goods will be sold at their actual price.

Referring to a meeting of petrochemical market activists, he added that at the meeting with presence of Minister of Industry, Mine and Trade, and Minister of Oil and upstream and downstream industries, petrochemical associations and dairy industry, mineral water and beverage industry, textile and other market players in the petrochemical industry, the downstream industries ensured that, if the free exchange rates were to be used as the base price level, we would not witness any sudden growth in prices and excitement in the final goods market.

At the end, he said: the Behinyab system, the basis for allocating quotas to buyers of petrochemical products from the exchange, requires some reforms and improvements. The IME's suggestions would be solutions such as past years' purchases, controlling the social security insurance list of their employees and control of the electricity consumption of the producers. This way IME would come to a relatively better understanding of real buyer and allocation of purchase quotas.

## IME Trades Commodities on its Export Ring based on Secondary Forex Market Rates

Hereafter, the currency exchange rate for all transactions in export ring of the Iran Mercantile Exchange will then be based on the secondary forex market rates.

According to the governments new foreign exchange policy, the basis for calculating the exchange rate for commodities traded on the IME's export ring will be the rate discovered in the secondary forex market, and this policy has nothing to do with the commodities offered for the domestic market.

According to the announcement, this action was aimed at discovering the fair and real prices of goods for export, and thus the price discovered on IME can be used by foreign customers for some exported goods.

The announcement adds that this policy has no effect on domestic offerings and the base prices for goods traded in domestic market are announced by suppliers, which they also operate according to the instructions issued by the Ministry of Industry, Mining and Commerce.



## Abdoh Tabrizi: Protecting Industries by Changing Foreign Currency Policy in Discovering Raw Material Prices

The former Secretary-General of SEO said: "In the government foreign currency policy, basic goods contain 25 items such as food and medicine. Therefore, in order to achieve a one-price rate for products and reduce inflammation in the market, other commodities such as steel products should not be offered on Iran Mercantile Exchange based on the official currency market exchange rate.

Hossein Abdoh Tabrizi, emphasizing that the dual exchange rate for dollar means rents and corruption in the economy, said: the government should modify its approach. We cannot afford to have a price inside the country, and another price abroad, because we will face with many problems, such as overnight rents and big corruptions.

The economist pointed to the consequences of dual pricing for commodities resulted from official and unofficial exchange rates and added: "Rents would allow, for example, a company to sell its goods to its own people at a lower currency exchange rate inside, and those people would export the same product with lower currency exchange rate. The issue is, as long as two official and unofficial exchange rates remain for the currency, rent-seekers will still benefit from the situation."

This member of the High Council of the Exchange, saying that we have experienced foreign exchange market fluctuations in the IME, noted that we have faced such problems in the past, too, but now, due to the difference in price between 4200 IRR/

USD and 1,000 IRR/USD, the challenges have become more acute. The cause of the problems should be sought not in the exchange, but in other factors; otherwise we will go to the wrong place.



The former Secretary-General of SEO stressed that, as long as the dual pricing system dominates the market, corruption will exist in the market, and no organization is able to prevent rent-seeking. Therefore, to curb corruption, commodities must be priced at a single price and the domestic prices of goods must comply with global prices, in order to create real competition in the exchange, in the absence of rents. Abdoh Tabrizi added that the government was concerned that the goods will reach the end users at high prices and that's why the dollar with official rates had been allocated to all commodities. But, observing the market situation, the government realized that this decision unwittingly resulted in corruption, thus restricted the allocation of foreign currency with official rates to basic goods.

This capital market expert emphasized: "With all these interpretations, the rent seekers challenge, without the removal

of the dual pricing system, will continue to affect the Iranian economy. Meanwhile, as the problem is obvious, some people with different intentions blame the IME, while the only reason for the growth of the buyers on the exchange is the low price of commodities due to official exchange rate." Abdoh Tabrizi stated that if the government insists to pay subsidies and low rate foreign currency to producers, it can trade commodities through the IME at unofficial exchange rates, but allocate the difference after the transactions to the producers, as has been the case for agricultural products in the past.

### **IME's PR Manager: By Obtaining Consent from Buyers, their Names will be Released within Next Few Days**

The name and specification of purchases of the IME's customers having completed Purchase Information Disclosure Compliance in recent weeks will be released through the Iran Mercantile Exchange within next few days with the permission of the Securities and Exchange Organization (SEO).

The IME's public relations and international affairs manager stated that, more than any other regulatory body, IME supports transparency and market surveillance and in this regard, related information is constantly sent for regulatory and governance decision-making bodies.

Mohammad Hasani Sa'adi added that from the beginning of the IME's activity as yet, purchaser's information has been submitted to regulatory and governance authorities. In this regard, the Consumers and Producers Protection Organization affiliated to the Ministry of Industry, Mine and Trade, as

well as the Iranian National Tax Admission Organization affiliated to the Ministry of Economic Affairs and Finance, are now receiving information on transactions from buyers and sellers on a weekly basis.

Hasani Saadi emphasized: "Moreover, the information of buyers and sellers of the goods is always available to policy makers on the Behinyab System of the Ministry of Industry, Mine and Trade, along with that, some institutions separately receive the required information from the exchange, which can be made public.



He said: "However, given the consent of customers and buyers of goods in recent weeks, in order to disclose their names and their purchase information, within the next few days, the names of these buyers will be published through the official website of the Iran Mercantile Exchange.

The director of public relations and international affairs of the IME stated: "The Iran Mercantile Exchange is a market and does not have the authority to check the qualification and to announce the quotas of buyers before introducing to the exchange, as well as the type of consumption of purchased commodities after purchasing from the exchange. This is within the authority of other institutions.



## Change in IME' Priorities in Derivatives Market

Following the issuance of IME's notice for the implementation of clause 10 of the Execution of the Supplementary Article of the Futures Contract on Gold Coin Futures trading symbols, IME's derivatives market development manager announced changes in IME's priorities in the derivatives market. Alireza Naserpour said: "This decision has been taken with regard to the gold coin prices in the cash market and the unusual fluctuations in cash prices and in support of the derivatives market investors." He added: "the change in the IME's priorities in derivatives market towards agricultural products has been made after the success in the saffron futures market, and considering that so far more than 2.2 million contracts have been traded in Saffron futures market, IME's successful policy in changing the direction of future contracts towards agricultural products has led to the adoption of this decision."

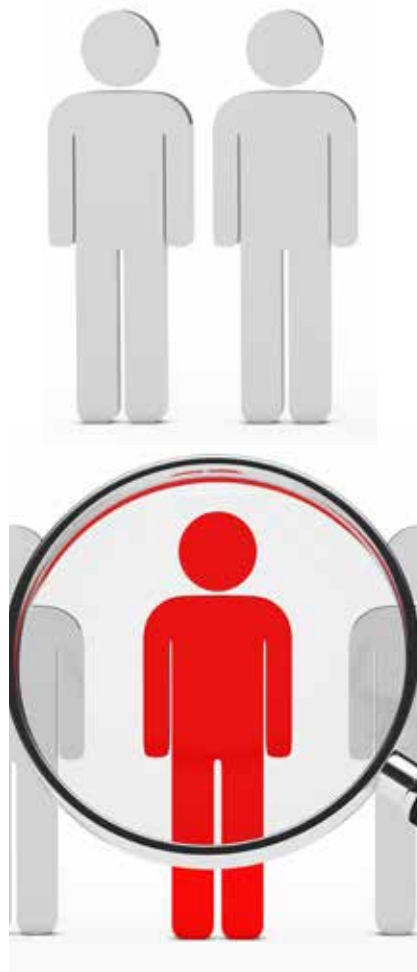


IME's derivatives market development manager, also referring to the demands of derivatives market participants, said: "This measure is a good response to market

players, and the IME's future plans in this market is to extend the future contract on export products, for which appropriate price discovery through the exchange will enhance the transparency of the export market."

"This measure, in addition to helping to branding the products, reduces the cost of exchanging this commodity for foreign customers," he said.

In the end, Naserpour emphasized: "Restarting gold coin futures trading with the approach of increasing the depth of the market and the presence of financial institutions and market players along with the expansion of new base assets such as melted gold and some export-oriented industrial products that will be notified in due course."



# بورس کالای ایران





IME's Agricultural  
Trading Floor





## Deputy Minister of Agriculture Jihad; Formation of a "Production Chain" in Agricultural Sector through IME



According to the Ministry of Agricultural Jihad, in order to support small producers, a production chain in the agricultural sector should be formed and Iran Mercantile Exchange seems to be a good place to form the production chain.

Mohammad Ali Tahmasbi, Deputy Minister of Agricultural Jihad, referred to the role of IME in the agricultural sector and said: "Regarding efficiency and increasing agricultural productivity as well as modernizing operations, the Ministry of Agriculture Jihad is looking for different routes to employ IME's capacities, as the recent years' experience has shown that transactions through IME is beneficial to farmers and the agricultural sector.

Stating that IME is the most transparent way for price discovery and determining the price floors, client-orientedness, and guaranteeing product quality, he added: "Recently, saffron is hugely being offered on IME, in order to control the price of the commodity through the IME's transparent

transactions.

Deputy Minister of Agriculture Jihad stated: "The Ministry of Agricultural Jihad has established a very good relationship with IME, and we will witness completion of the supply chain for farmers in the near future in the exchange."

According to him, farmers who are able to trade their commodities through the exchange certainly won't be harmed, therefore, economically, this will be in the interests of the manufacturer and the buyer. If the producer enters the exchange in the form of a product chain, he can provide a great product basket to customers.

Emphasizing that non transparent and unprofessional behaviors are not allowed in the IME, and because of the transparency of transactions, all market participants can benefit from the IME's advantages, Tahmasbi added that since farmers, being petty traders, most of the time face losses to deliver their products to the markets; according to the ministry, a production



chain should be formed, Iran Mercantile Exchange seems to be a good place to form the production chain, in order to support small producers.

At the end, the deputy minister of agricultural Jihad stated: "Iran Mercantile Exchange is a place in which not only the producer won't sell its product underpriced, but also the buyer won't purchase the product at a high price, hence, justice will be brought to the market."

### Presence of the Iranian Parliament's Agriculture Committee in IME

Through a visit to Iran Mercantile Exchange, members of Iranian Parliament's Agriculture Committee met with Hamed Soltaninejad, CEO of IME and a group of senior deputies and managers of IME.

During this visit, the position of IME in the capital market of was described, and in addition to introducing trading mechanisms in this market, strategic proposals and new financial instruments used in the field of agricultural transactions were analyzed. The participants also discussed the agricultural sector's challenges and reviewed the existing rules and practices in the agricultural sector. At the beginning of this meeting, Hamed

Soltaninejad, CEO of Iran Mercantile Exchange, appreciating the special attention of the members of the Parliament to the IME, said: "Over the past few years, with the support of the parliament and the government, we have witnessed development of agricultural products ring and large supply of agricultural commodities such as wheat, maize, feed barley, saffron, sugar, chicks and chicken on the exchange and this trend is still upward. Moreover, Mohammad Eskandari, IME's Market Development and Economic Studies Deputy, presented the history and structure of the IME, in expressing the functions of this market, said: "Fair price discovery based on the market mechanism, facilitating trade and market development, and reducing trading costs as well as creating a transparent market based on the desirable level of supply and demand are the most important functions of the Iran Mercantile Exchange. He continued: "Guaranteeing obligations of the parties to the transactions, guaranteeing the quantity and quality of goods, guaranteeing payments and employing financial instruments and risk management are also other functions of this market that can be used for agricultural products."

He explained the possibility of using premium contracts, futures, options, SALAM, debt contracts, and ETCs, and said: "With the

help of a financial tools, various types of transactions, including cash, credit, SALAM, futures, options, certificate of deposit and standard parallel SALAM can be defined for various commodities, and, along with financing and short-term transactions, long-term contracts such as forward contracts and premium discovery can be employed to finance and cover long-term risks.

Eskandari referred to commodity-related laws, especially in the field of agricultural products. The role of IME in implementation of the law of increasing agricultural productivity, the law on the elimination of barriers to competitive production, the laws and regulations of the government, the law of the Sixth Five-year Development Plan of the Islamic Republic of Iran, the Law on Comprehensive System of Animal Husbandry, as well as the law on the development of financial tools and instruments were examined by the participants.

IME's Market Development and Economic Studies Deputy added that according to the existing legal provisions, many commodities, including agricultural commodities, should be traded on the IME; but for example, Note 4 of Article 6 of the law of increasing agricultural productivity has not yet been implemented. However, according to the law, any agricultural commodity tradable on the IME should be traded through this exchange.

At the end of the meeting, members of Iranian Parliament's Agriculture Committee visited the virtual and physical trading floor and were familiarized by trading mechanisms in the exchange.

## Saffron Futures Trades and New Participants

As the Aban month, the harvest time for saffron, is approaching we will most probably be witnessing new trading codes entering saffron futures trades, said the CEO of Zarin Saffron Company in a meeting on spot and futures price of saffron in Iran Mercantile Exchange.

In the meeting issues like prices for saffron futures market and certificates of deposit on saffron, items affecting the planting of saffron, its demand by importing countries, smuggling of saffron corms and its effects on prices and also the impact of international sanctions on the product's market were investigated.

### Factors affecting prices

In the meeting the CEO of Zarin Saffron said that unlike gold coin and foreign currencies market, saffron is like a living creature which is under the effect of issues like the weather, precipitation, area of the land under its planting and the quality of its corms, which have a big role in its pricing. He added that currently there are 30,000 hectares of land under the planting of saffron in South Khorasan and Razavi Khorasan provinces which produce 300 tonnes of saffron each year, but there is no regulated market for it neither inside nor outside of Iran. One cannot see the regulation of pistachios market in the market of saffron. Yet, there has been positive measures in this regard among which are offering of saffron on IME within the futures contracts and certificates of deposit.

He also believes that the biggest issue in saffron market is that unlike pistachio the farmers- about 90 percent- of saffron





are not big ones with large areas of land under their control. There are 1400 farmer in this sector and account for situation we are dealing with today.

#### **Iran saffron in Europe through listing standard warehouses**

Karimi also talked about the plans to list warehouses in Europe to store saffron there and sell this product in their own countries. He said that this plan is going to be carried out with the IME. This way, we will not be limited by the sanctions as our products are kept in foreign countries under standard conditions and Iranian saffron could be the price reference all over the world via this plan saffron.

#### **Sanctions and the market of red gold**

Karimi also stated that sanction might have destructive effects on pistachio as its pricing is within the power of America and that is because Iran has lost its first place in the production of it due to weak management

and the effects of imported fertilizers. But this is not the same for saffron as Iran has the first place and America is in need of our saffron. As you know, saffron has never been in the list of boycotted products and we do not let it go the way as pistachio with the help of warehouses we are to list for storing this product in European countries. He continued that those who are interested in investing in saffron market can receive the product at maturity or by submitting the certificate of deposit to the listed warehouses which have been approved of by IME.

As to the predictions about the amount of saffron to be produced this year he added that due to the drought we might have less saffron than the previous years although a larger area of land has been under the planting of this product. He pointed out that with dollar rate of 42,000 rials saffron was traded 70,000,000 rials per kilo and now that dollar is two times more valuable compared to rila saffron is still traded the same price. We believe that it is the main shortcoming of saffron market that it is traded in rial.

### How traditional participants of saffron market reacted to IME's trading board

After the launch of saffron futures market, market participants of saffron in Torbat Heydariyeh and Kashmar as the main markets of this product refer to prices on IME's board. Daily price of saffron could be discovered based on its certificates of deposit and Zarin Saffron Company is capable of buying 1.5 million tonnes of saffron at the harvest time.

He explained that Negin saffron accounts for a quarter of the whole saffron produced in Iran and added that saffron planting is for 5 years and each hectare produces 32 kilos and after 5 years the farmer can sell the corms which will be 40 tonnes per hectare.

Karimi also mentioned that Afghanistan buys the saffron corms 30,000 rials per kilo from Iranian farmers and the same corms are sent to Europe by them 7 euros per kilo. As you know we can benefit from selling the corms ourselves or the government needs to buy them from farmers to prevent the smuggling. Of course the best policy is to increase the area of land under the cultivation of this product and partly solve the problem of unemployment in the agriculture sector.

### New market participants in saffron futures market from November

He also added that we will most probably have new trading codes issued for farmers from November which is the harvest time. That means that we need to train brokers and farmers for such trades so that the prices discovered will be real and balanced. As our share of the 8 billion dollar turnover of saffron all over the world is only 260 million dollars, we have to work hard to have a bigger share and be recognized as the price reference for this product.

### Within IME's 2nd Analytical Summit Saffron Real and Fair Price Discovery in Iran Mercantile Exchange/ Sanctions Not Working for Saffron

Saffron is in need of price discovery to be done within a transparent atmosphere in Iran Mercantile Exchange. This provides the saffron industry to get closer to real mechanisms of market in price discovery and be able to export the product at a fairer price with a higher quality as IME paves the way for participation of the private sector in this industry and also with provision of standardization methods.

IME held the 2nd analytical summit to investigate saffron spot and futures prices and the factors affecting them in current year. In this meeting CEO of Novin Saffron Company, Shari'ati Moghadam, and Head of economic studies and market development of IME, Eskandari, answered both in-person and on-line questions of brokers, analysts and market participants.

Shariati said that the whole amount of saffron produced in 1396 hijri year was 338 tonnes and that Iran produces more than 90 percent of world's saffron. The prices is discovered based on supply and demand and always the product of last year is considered as old the new year's product is always more expensive.

### 30 tonnes of saffron in the hands of farmers

He added that out of the 60 to 70 tonnes of saffron is smuggled or sent to foreign countries as souvenir. According to statistics it is estimated that farmers have 30 to 40 tonnes of it available in their warehouses.



### **We need to provide incentives for the private sector to participate in saffron market**

Referring to the warehouse inventories of the Central Organization for Rural Cooperatives of Iran, he insisted on the role of this organization in supporting the private sector so that they invest in this market with lower risk of losing their money.

### **Better quality saffron is achievable with a higher production cost of 5%**

He continued that with spending more money on packaging and quality with would be able to sell our saffron 50 percent higher than the current prices, so we need to pay attention to quality issues of Negin saffron at the harvest time.

As to the efficiency of production for saffron he said that we need to do more precise studies as we have farmer with 3.2 kilos of production hectare and an outstanding farmer with kilos per hectare. This affects the average rate of production in the country. As to the effect of production cost on the final price of saffron he mentioned that in 1371 hijri year the exchange rate of foreign currencies against rial was downward and Spain lost its advantage of production because there was a lot of investment on saffron in Iran; he insisted that we 55 more money to be spent on saffron production we will harvest better quality saffron which lead to more benefits. To reach this goal, we need to take some measures in education, investment and irrigation systems and also supporting initiatives of the government.

### **Hygienic and quality issues in need of more attention**

Shari'ati also talked about the need in revising IME's standards. He continued that saffron storage and the methods of processing and drying has got a lot of impact on its aroma



and color. Hence we need more investment in this regard so that the customer receives the final product with no external materials or hair. This way the efficiency increases and we can sell our product at a higher price: up to 50 percent higher than now.

#### **No investment no increase in demand**

As to the new wave of demand created in for saffron in European countries he said that I agree that its real but a meaningful change in demand only happens after purposeful investment. To reach this goal we need to introduce saffron to European people so that they come to realize the difference between saffron and edible colours and accept the higher price of saffron when they realize its medical uses and its nutritional value.

#### **Price change up to 20 or 30 percent is natural**

He stated that saffron is a product with severe volatility of price and last year because of cold weather we witnessed a 2 to 3 fold increase in value of saffron which had bad results for the market. 20 to 30 percent of increase is tolerable but not more than that. This year we are most probably not going to see severe changes. Yet, weather change might affect the harvest and lead to price fluctuations.

#### **Red gold need transparency in pricing**

Currently, we are in need of transparency in saffron market which is to be taken care of by IME. We need to plan in order to reach this goal so that the exchange standards are met and with the participation of the private sector we move from a prescriptive price setting method to a logical one which is scientific and based on the fundamentals of supply and demand. This way, saffron will be produced taking into consideration the mechanisms of the market and better quality will be achieved.

#### **Futures trades of saffron affect domestic and exports price of saffron**

He pointed out that the futures market for saffron will provide a protective instrument for its market as part of our sales belongs to a time in the future. Until now we did not have a method for this but now participants can refer to saffron futures market. It's worth noting that this market is not yet popular and we have to hold more educational courses and do our best to introduce it to market participants. We need more participants to make the prices real and logical.

#### **Entering futures market in the not too distant future**

As to participation of Novin saffron Company in IME's futures market Shari'ati said that in private sector futures market of saffron has not become that popular but a team is studying the subject and in case we come to the conclusion that this market will bring about a logical profit we will definitely participate in this market. Currently participation in saffron market is based on mutual trust and we need to have more education by IME and brokers so that participants are convinced to attend the new market.

### Marketing at destination

As to the planting of saffron in other countries he said that Netherlands has set up a few centers to export saffron corms and we have invited them to invest in Iran. Moreover, countries like Afghanistan, Morocco, India and maybe China are kind of our rivals in this regard. That's why we need to do more effective marketing in countries we export saffron to; the final market and destination.

### Saffron in need of setting up a consortium

He referred to the fact that in the previous hijri year the whole amount of saffron exported was 200 tonnes, which was sent to 50 countries in the world. UAE, Spain, China and Italy are on the top of the list. We need to carry out studies on the benefits of saffron and the bad effects of using artificial edible colors so that more countries decide to add this product to their basket of spices. All in all, we need to introduce this product to the whole world and make new customers for it. It will lead to a more stable status for saffron market. I think the best way is to set up a consortium with the help of the private sector to support saffron market and prices.

### We will find the best way for exportation

Shari'ati added that the exportation of saffron is exclusively in the hands of Iran. Even if USA boycotts this product we will find the way to export our saffron. But we need to mull over who should be involved in the exportation and how. Apart from the sanctions there are some vague points as to exportation and the currency exchange rate which are in need of transparency. He continued that after caviar, saffron was the second product boycotted by USA and if we calculate the exchange rate 5 percent lower than the market price, it will lead to a lot of smuggling. That's why I insist that we are in dire need of transparency in our policies as to exportation of saffron.

### IME to export 20 percent of the whole saffron produced in Iran

Finally he talked about some private corporations who have stepped forward to invest on saffron. Due to lack of information or the unstable market some made losses. I think it's the government and IME's job to support the private sector and think about how much of the whole saffron produced each year in the country to be offered and sold on IME. I personally believe that with a proper plan and strategy during 2 or 3 years we can reach the goal of selling about 20 percent of our yearly production of 350 tonne on Iran Mercantile Exchange. He also said that launching the export ring for saffron is a bit harder but with help of Central Organization for Rural Cooperatives of Iran and IME and also making some facilities in collaterals accepted by IME we can both reach the goal of standard quality and ease of access to trading saffron on IME, which in turn will lead to the introduction of saffron to the world and expansion of its market globally.

## | No More Monopoly Pricing for Saffron



Measures taken on IME including negotiated pricing for saffron and its transparent trades on this exchange is not only a support for producers but also is an end to the monopoly, or maybe oligopoly, in saffron.

As a highly precious product, saffron is called the red gold, but in Iran it is only a name. This product has never reached the unique place it deserves. That's why the officials are trying to use new models for producing it despite the structural problem we are witnessing in this regard.

IME has also decided to step in and pay its share by launching the spot market for saffron and after that the futures market in order to solve the problem of pricing for saffron. Actually IME held the first futures trades on saffron in the history and it is expected to help Iran's saffron reach the place it deserves and Iran will become the price reference for this product. Deputy of the Rural Cooperative Organization of Iran, Hasan Sheybani, believes that futures trades will be the best option of price discovery for saffron and contributes to its price predictability.

### **How is the price set for saffron currently?**

There has never been a well-known price reference for saffron neither in Iran nor overseas. It has been mostly under the influence of fundamentals of supply and demand and global events. Another influential factor is the production capacity of the country. That is to say that if we produce it as a raw material the added value will be in the pocket of those countries which process it. No matter it will be Spain or the UAE. They will get most of the profit due to their technologies in processing and packaging.

### **Is it true that a specific group in saffron traditional market set the price currently?**

I can neither affirm nor deny this. All over the world lobbies have a say in such things. Before the Rural Cooperative Organization stepped in with the help of IME to implement the negotiated price policy, the price setting used to be within the bounds of an unclarified framework. Now, due to the transparency that IME has brought about and with support that we are witnessing of farmers in the harvest time, the monopoly has been eradicated and real prices are real.

### **How the negotiated price policy and its price discovery on IME can contribute to solving this product's problems and its branding all over the world?**

The ministry of agriculture has prepared a package for saffron in which we are about to investigate in upstream industries relating to saffron so that we will be witnessing a bigger share of saffron's global turnover to get circulated in Iran as the added value of the product. In this regard, we are preparing the infrastructure and the modern technologies for proceeding of saffron inside the country with the help of the private sector. IME will also play a critical role here with offering this product on its export ring as global platform, which also prevents the negative competitions that sometimes occurs in the market of saffron.

### **What are the benefits of trading saffron on IME for farmers?**

It not only provides an equal opportunity for everyone interested in investing in the business of saffron but also it creates a transparent and profit-making market for the producers. The futures market defined on saffron can direct capitals to be invested in this market which would be otherwise in other places, creating economic problems. It'll also decrease rent-seeking in market intelligence and market finance altogether or up to a big amount. Moreover, saffron futures trades will be a harbinger to the same scenario for other agro-products.

### **Who do you think the futures market on saffron will affect the transparency of the market for it and also its price predictability?**

In today's world the trend is toward new and modern modes and methods of trade. Futures trades are also among them and initiation of this financial instrument in Iran's agricultural products has been on saffron. This could be a good start and we can define contracts like this on other agro-products as well. Thanks to such instruments available on IME and benefiting from new technologies, those with financial resources could invest in this area with the lowest rate of risk possible.

### **What do you presume to be the impact of such futures market on the status of Iran's saffron globally**

Taking into consideration this fact that Iran is the biggest producer of saffron in the world, launching futures trades on this product could lead to a strong status for our country in this

regard. This way we could take effective steps in exporting this product in a more systematic way. It is also worth noting that the world prefers to move toward transparent markets which make use of new technologies. This is of great importance to our agriculture sector as well. It started in IME and I hope the benefits of this plan will be in the pocket of real producers. It gives them hope to stay in the production sector, which is in line with resistive economy policies.

### **How capable do you think is the private sector to enter investment plans in agriculture and rural economy?**

There is no doubt that with the help of the private sector saffron could reach the position it deserves as it will be sold at the real price which is beneficial to farmers and gives them enough incentive to keep staying in this sector. Another merit would be production of saffron with higher quality and more profitability. All these will be of great impact on our rural economy and in turn on our national economy.

### **For the First Time This Year; Wheat Flour Traded on IME**

Four types of flours with different tonnages were offered in Iran Mercantile Exchange, which eventually 5 tonnes of it were traded for 13,250 Rials per kilogram in the agricultural trading floor.

Sales and Marketing Manager of Taban Flour Company as the flour supplier on Iran Mercantile Exchange, said: "Today, for the first time this year, the product of Taban Flour Company was offered on the IME and was traded successfully.

Alireza Yazdjerdi added: "Since last year, measures have been taken to offer and trade flour on IME that eventually today,



five tonnes of this products was traded through IME's agricultural trading floor at the price of 13,250 Rials per kilogram, which we hope to witness more offering of this product on IME.

He said the aim of offering flour in the IME is to discover the transparent price for this product because the exchange is an appropriate market for the supply of all products especially flour because major markets suffer from corruption and intermediation due to the lack of a systematic structure for transactions that by entering the IME, these problems will be resolved. The Sales and Marketing Manager of Taban Flour Company said: "Therefore, when flour enters a market such as IME, its market will become transparent because the buyer and seller are identified in this market and prices are based on supply and demand mechanism; while entering the exchange security of transaction and product quality are guaranteed, which is greatly important for the buyer and seller."

"Therefore, we hope that offering flour on the IME's market will make other flour mills also offer this important product on the exchange and benefit from it, especially from the discovery of fair and transparent prices." He added.

### Head of Dry Nuts and Fruits

#### Traders Union of Iran:

### Necessary Measures Taken to Offer Dry Nuts and Fruits on IME

Head of dry nuts and fruits traders union of Iran announced that the necessary measures are being taken to trade dry nuts and fruits on Iran Mercantile Exchange.

Alireza Arzani Mamaghani said that if some mass produced commodities such as pistachios and dates enter the IME's market, it will play a pivotal role in the growth of the dry nuts and fruits market and discovery of real prices.

He explained that so far, measures have been taken to offer dry nuts and fruits on the IME's market, but when it comes to action, there are obstacles due to the state of the economy, which results in neglecting the measures taken to offer this commodity on the exchange.

According to the Head of dry nuts and fruits traders union of Iran, this year, it was decided to offer dates, pistachios and saffron on the exchange, which is now being traded on the IME.

He mentioned the consequences of arbitrary pricing on each market, and said: "Arbitrary pricing is the most wrong action that can be taken to regulate a market. If arbitrary pricing is an appropriate action, why is it only done in Iran, and other countries do not impose this trend? Where in the world does the government price all commodities

from bread to dollars? This action has no effect, except for the situation that currently prevails in the country."

Pointing to the fact that the government should have a supervisory role and provide the basis for price discovery on the basis of supply and demand, which is the only and most effective formulation for market regulation, he added that the government should only monitor the market conditions in order to prevent sellers from overcharging and hoarding. When the government sets prices arbitrary, due to the small profitability of the producers, it will kill producers' incentives to produce, and the market will suffer from a shortage of goods.

Arguing that unplanned and decommissioning decisions would hit the market and the economy, he stated that arbitrary pricing would definitely lead to rents and corruption on the market. The arbitrary pricing caused some people to receive foreign currency based on official prices but not import the commodity. Why should the government allocate low price foreign currency to import sunflower seeds, while no imports are made? This will ultimately lead to some special persons' profits and the loss of the people of the country.





## Dry Tea Offered on Iran Mercantile Exchange

The director of Iran Tea Organization said that we are about to offer dry tea on IME in order to reach transparency in supply and pricing.

In line with the Tea Organization of Iran's policies to develop the culture of consumption of Iranian tea in the country, Habib Jahansaz said that our problem in the industry of tea is that we have not yet believed that Iranian tea is of high quality and we need to work on people's taste in this regard and little by little replace it with the foreign tea which is consumed currently and in turn make our share of contribution in job creation and preventing our currency resources to exit the country.

added that the factories have to accept the farmer has the greatest say in this chain. This support for the farmer will lower the rate of risk.

He proposed to set up a fund to support investment in tea industry which would be a big leap in developing the Iranian tea industry. This fund has got 56 billion rials of capital in it and can be very effective in supporting tea farmers.

Hahansaz also talked about negotiations with IME in line with launching a tea exchange in Gilan province. He said that it will be very helpful in moving towards a transparent atmosphere in supplying and the pricing of tea.

Based on this report, within the recent years the Tea Organization of Iran has been taking some supportive measures like



He pointed to the fact that in Iran the farmer, processing factories and the market of tea are not connected to one another and act like separated islands. We are planning to get them connected and create the tea chain in the country so that they work in harmony with one another. He also

providing low interest rate facilities for tea farmers to renew their farms which has led to more green leaves per hectare and better quality tea due to enhancement of quality of processing with better technologies in factories which in turn resulted in production of teas which seem tasteful to Iranians.







IME's Metals and Minerals  
Trading Floor





## IME to Keep Market in Balance by Aluminum Offerings

In recent years the increase in production of steel and copper has put the market in balance. Moreover with productions of Al-Mahdi and Hormozal Companies we witness the same balance in aluminum market as well, said Mehdi Karbasiyan, head of board of directors of Imidro.

As IME is trying to find out who the real customers of raw materials are,

Mehdi Karbasiyan insisted

that the aluminum

industry is also in

need of such

change and

the offerings

of aluminum

to be done

completely

on IME.

Karbasiyan

said in a

meeting with

board members

of Aluminum

Industries said

that our domestic

production in Aluminum

covers out downstream

sector's needs and the problem

of unnecessary middlemen is to be resolved by the private sector and the government.

Referring to the 80,000 tonnes of demand for aluminum on IME, he said it's a false demand as the previous year the figures were 20,000 tonnes.

He finally ask the participants to actively in sending their suggestions Imidro and the Ministry of Industry, Mine and Trade.

## Buyers of Copper Cathode Should Offer their own products on IME

CEO of Iran Mercantile Exchange announced that, in order to meet the domestic market demand, the IME's customers buying copper cathode from the exchange are obliged to offer their produced copper rod on this exchange.

Hamed Soltaninejad stated that copper cathode buyers are required to offer their

copper rod on the IME; otherwise,

their next purchases will

be prevented by the

exchange.

Referring to the

measure taken

to segregate

copper

buyers

on IME,

he said:

after the

official

currency

announcement,

base prices

on the IME

are set based

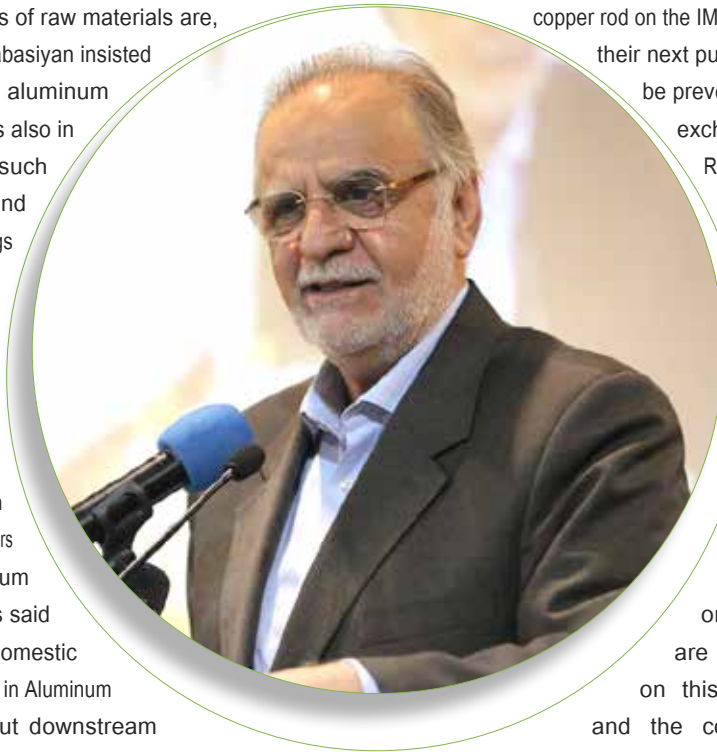
on this new rate

and the competitions

are based on the same basis.

This has led to prices discovered on the IME to be often lower than prices on the markets out of the exchange, which resulted in increased demand for products traded on the exchange.

He stressed that in order to eliminate artificial demand from the market, through coordination among the Ministry of Industry, Mine and Trade, the Suspending Organization Of Iran, the Consumers and Producers Protection Organization and other relevant associations



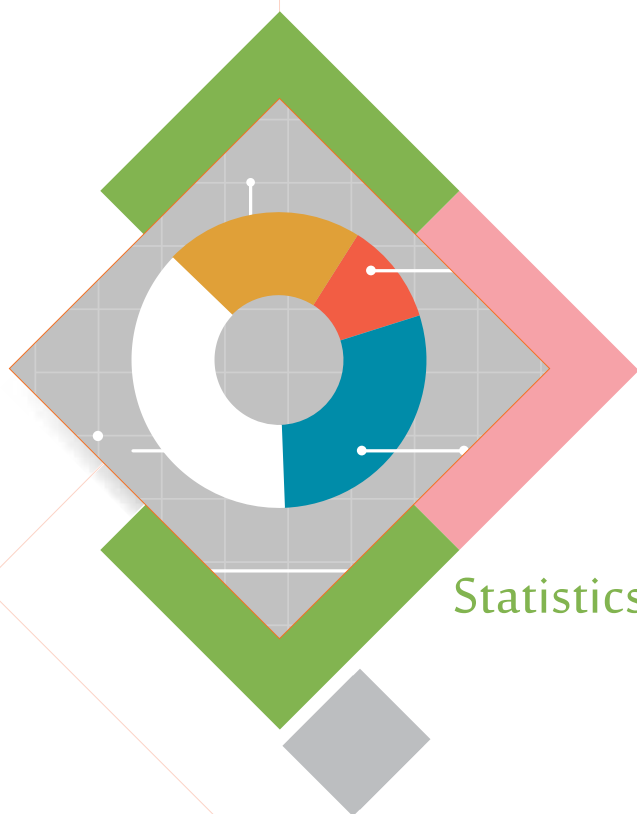
some measures are being taken to segregate copper applicants in order to minimize speculation and, storing and hoarding the raw materials required by actual producers.

Soltaninejad emphasized: "In this regard, we will ensure the consumption of commodities offered by the IME in the downstream industry, but if anyone wants to purchase the goods from the exchange and do not enter it into the production cycle; we will definitely deal with the violators by suspending their codes and preventing fake demands in cooperation with the Ministry of Industry, Mine and Trade, and the Consumers and Producers Protection Organization.

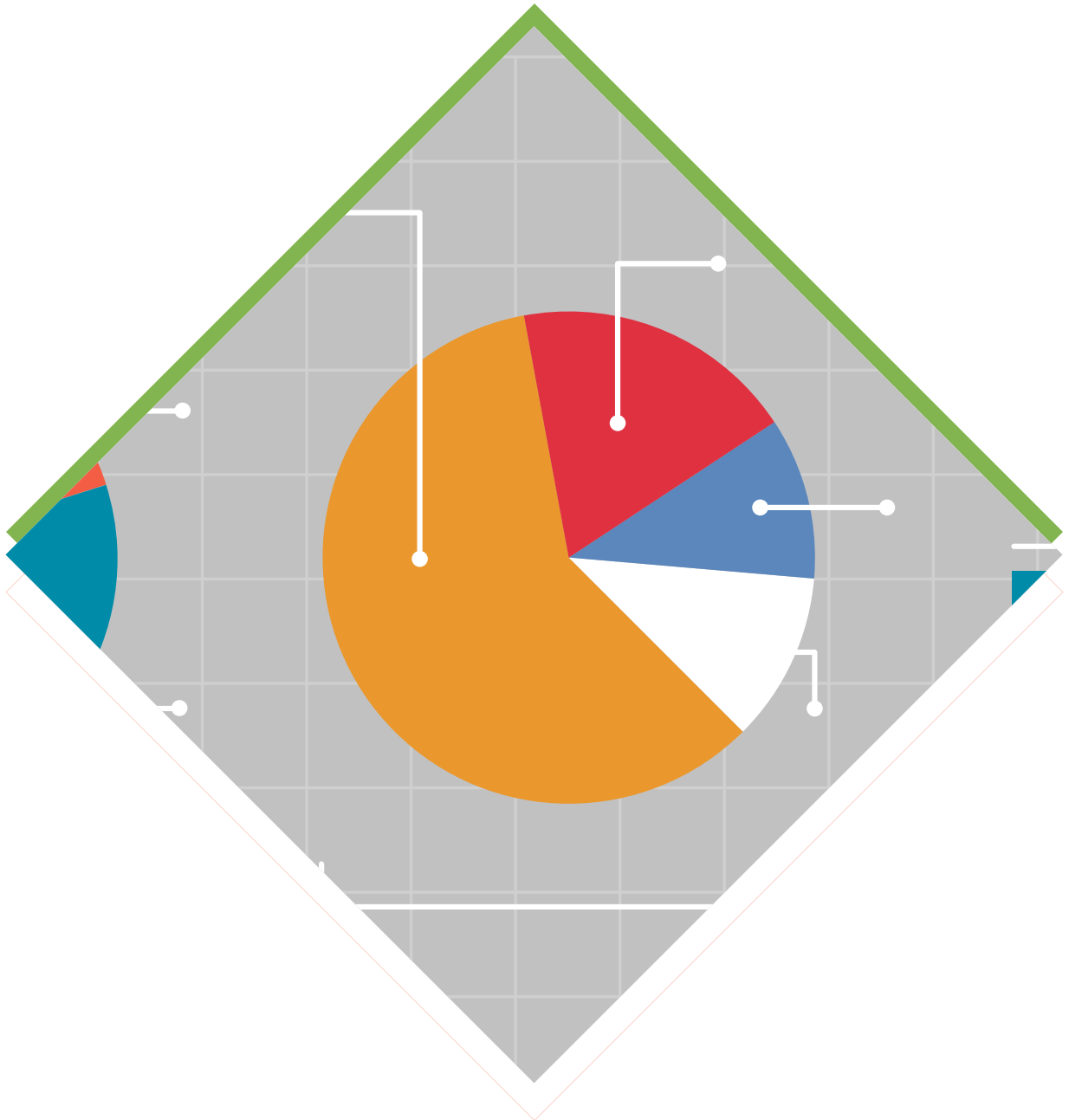
He emphasized that although the foreign currency gained through export and export commitments are important for economic policymakers and IME as well, meeting domestic demand is the IME's first and foremost priority.





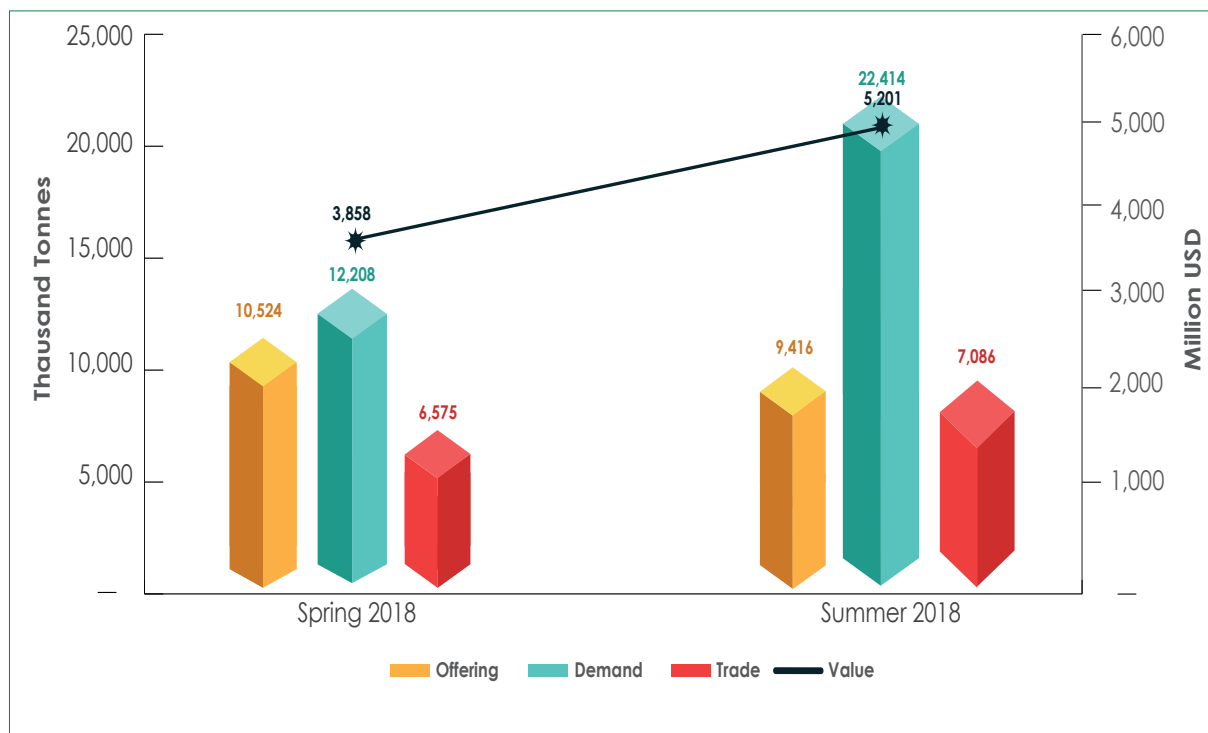


Statistics of IME Business



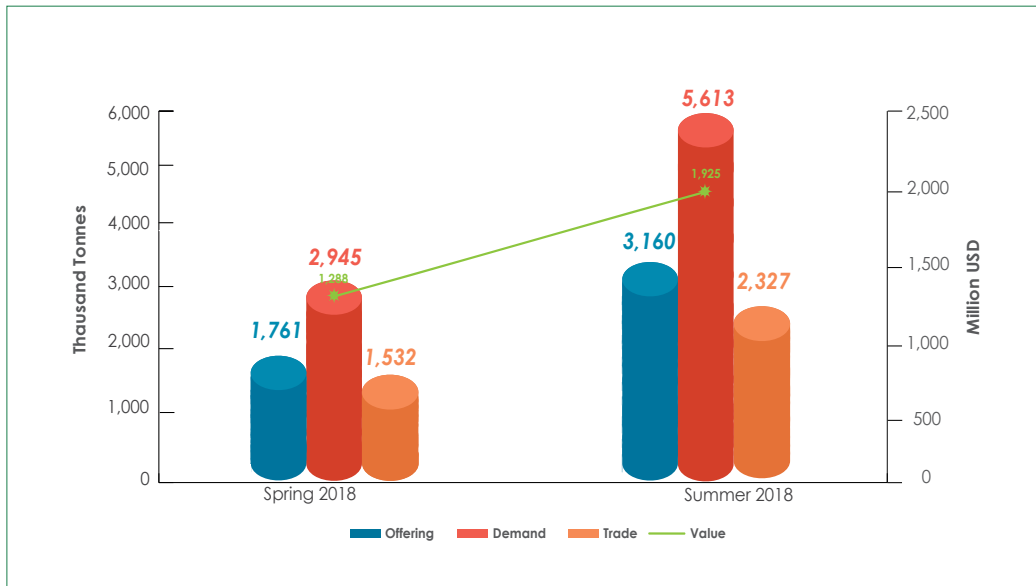
## An Overview of IME's Physical Market

Within the second quarter of 1397 hijri year (22 June, 2018– 22 September, 2018), IME saw trade of a total 7.1 million tonnes of commodities on its physical market, the value of which stood at 5,201 million USD. The figures show an upward trend as compared to the first quarter of the year with 8 percent growth in trading volume and 35 percent in trading value.

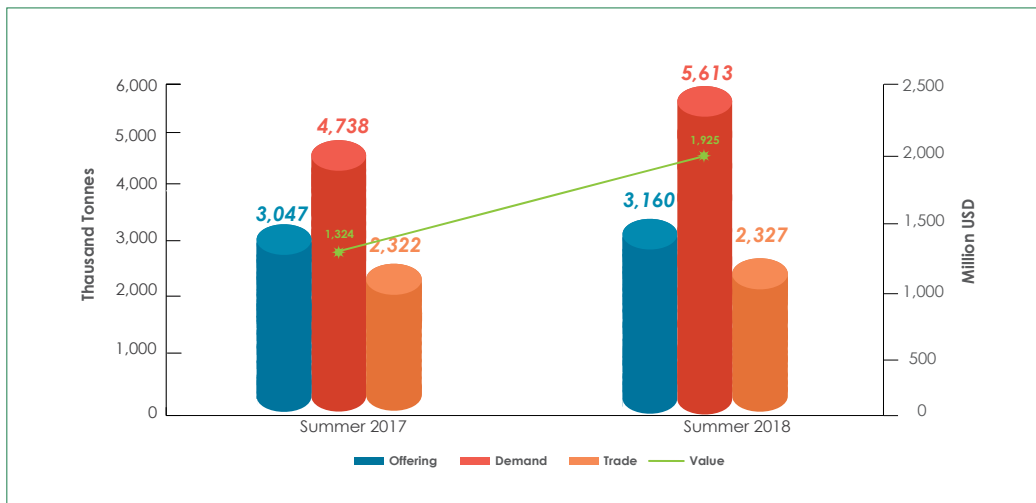


## Industrial Products

Among the whole commodities traded on IME's physical market, industrial products occupy the second place with a trading volume of 2.32 million tonnes valued at 1,925 million USD in the second quarter of 1397 hijri year (22 June, 2018– 22 September, 2018), showing 52 and 49 percent growth in volume and value, respectively, as compared to a 3-month period before that.

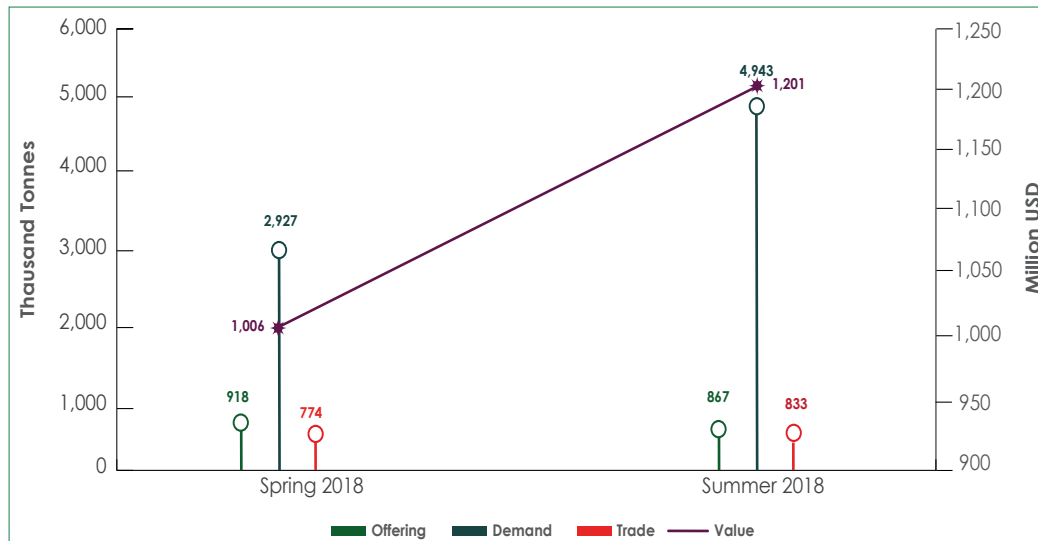


Moreover, comparing volume and value of trades between the second quarter of 1397 hijri year (22 June, 2018– 22 September, 2018) and the same period in the previous year reveals that IME saw 63 percent growth in trading value.

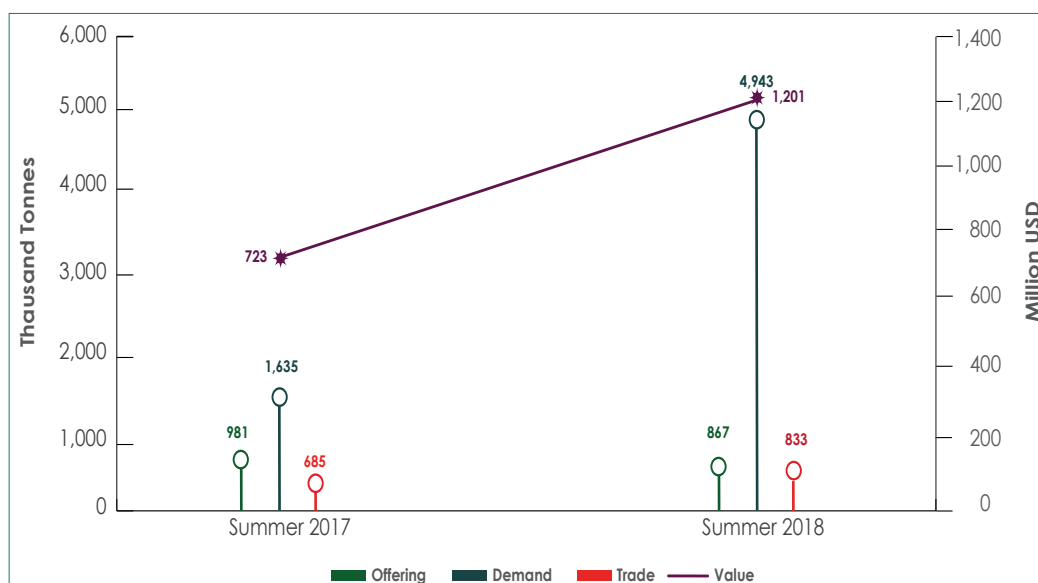


## Polymeric Products

In the 2nd quarter of 1397 hijri year (22 June, 2018– 22 September, 2018), volume and value of trades on IME's physical market for polymeric products stood at 833 thousand tonnes and 1,201 million USD respectively, witnessing a growth of 8 and 19 percent in trading volume and value, respectively, comparing to the first quarter of the year.



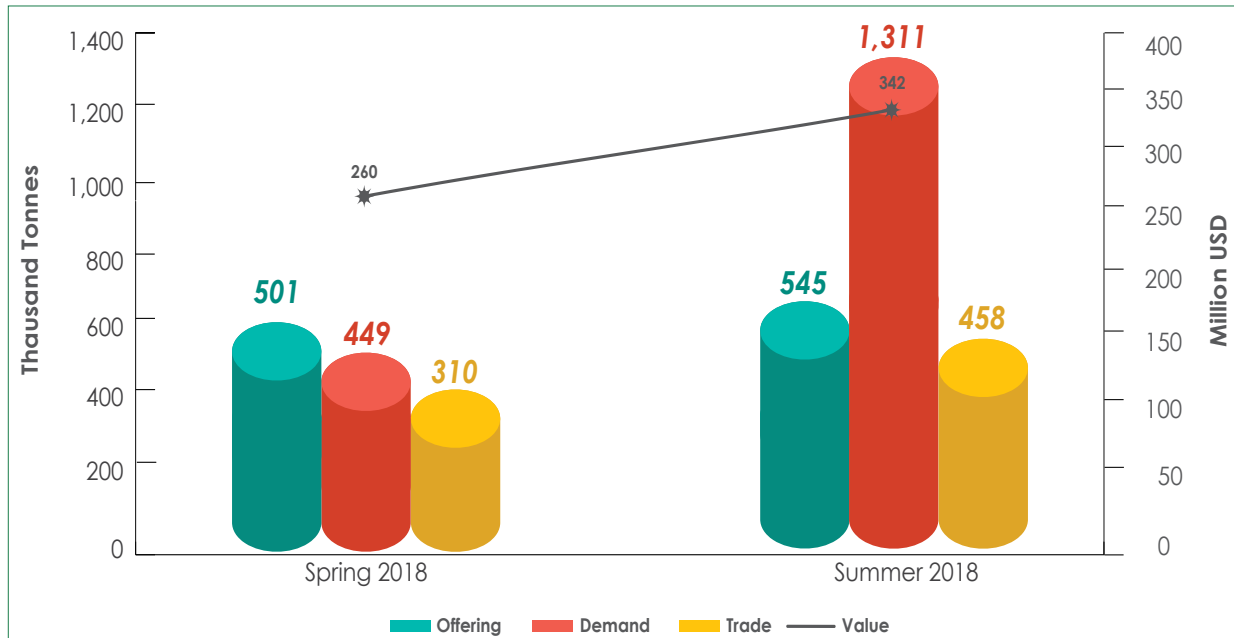
Moreover, comparing volume and value of trades between the 2nd quarter of 1397 hijri year (22 June, 2018– 22 September, 2018) and the same period in the previous year reveals that IME saw 22 and 66 percent growth in trading volume and value, respectively.



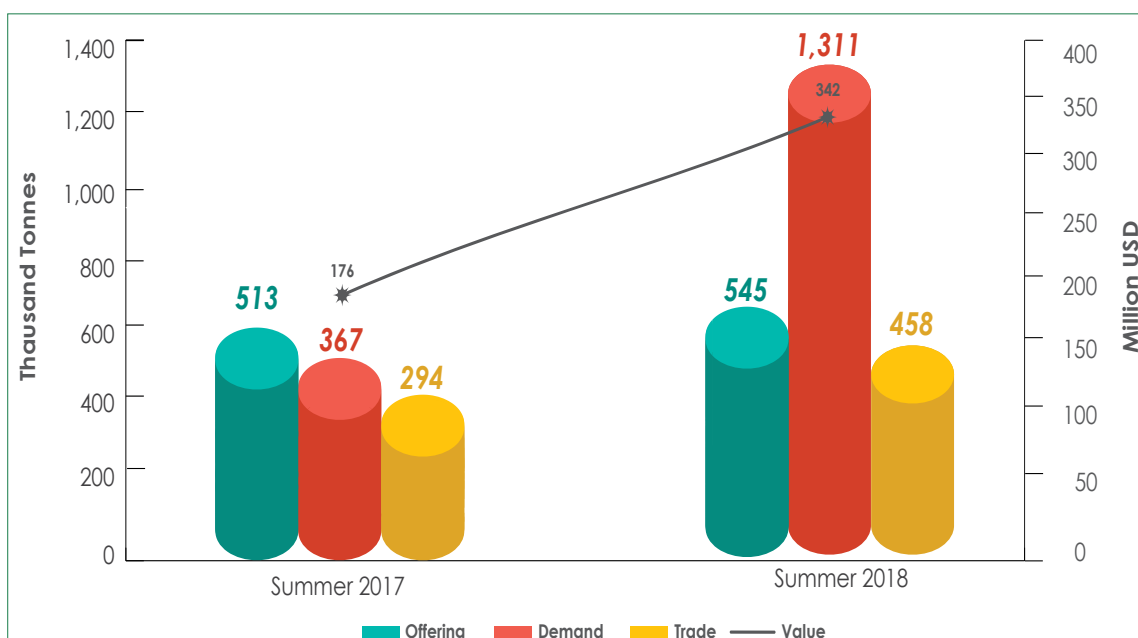


## Chemical Products

Within the 2nd quarter of the current hijri year(22 June, 2018– 22 September, 2018), IME traded 458 thousand tonnes of chemicals valued at 342 million USD, showing 48 and 32 percent growth in trading volume and value, respectively, in comparison to the first quarter of the current hijri year (21 March, 2018– 21 June, 2018).

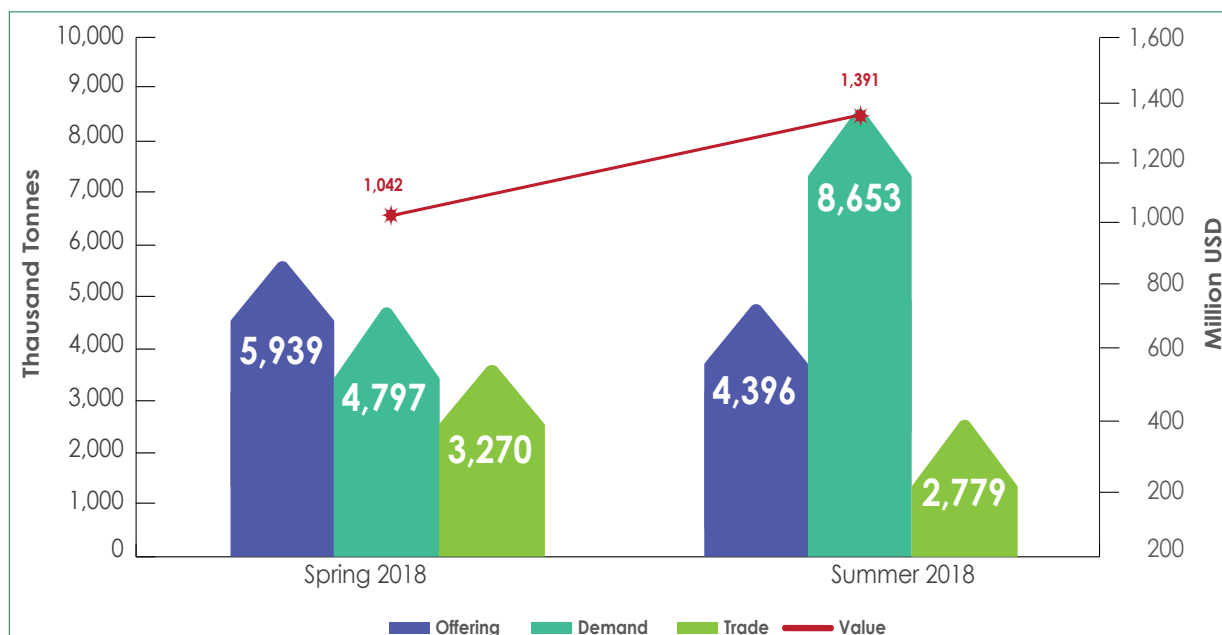


As to the same period in the previous hijri year (22 June, 2017– 22 September, 2017), volume and value of trades of chemical products shows 56 and 95 percent of growth respectively.

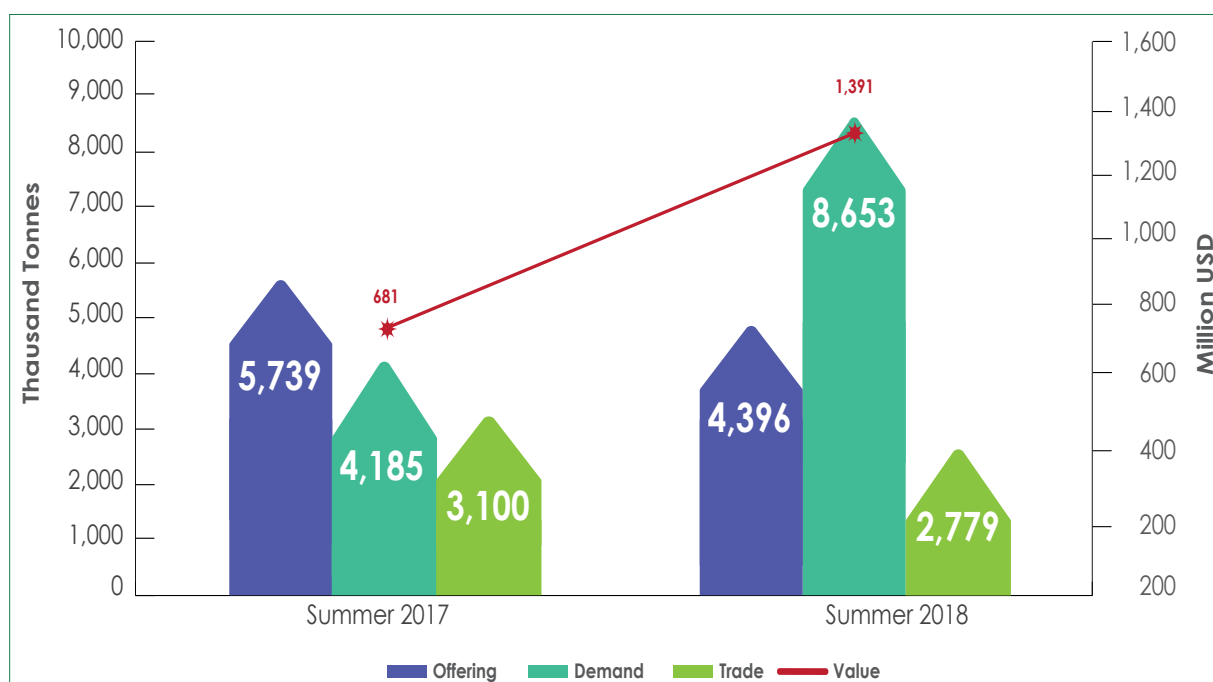


## Oil Products

Within the 2nd quarter of the current hijri year (22 June, 2018– 22 September, 2018), there were 2.77 million tonnes of oil products traded on IME in total, including bitumen, vacuum bottom, lube cut etc., valued at 1,391 million USD, which showed a 15 percent decrease in volume and a 34 percent increase in value as compared to the previous quarter of the same hijri year (21 March, 2018– 21 June, 2018).

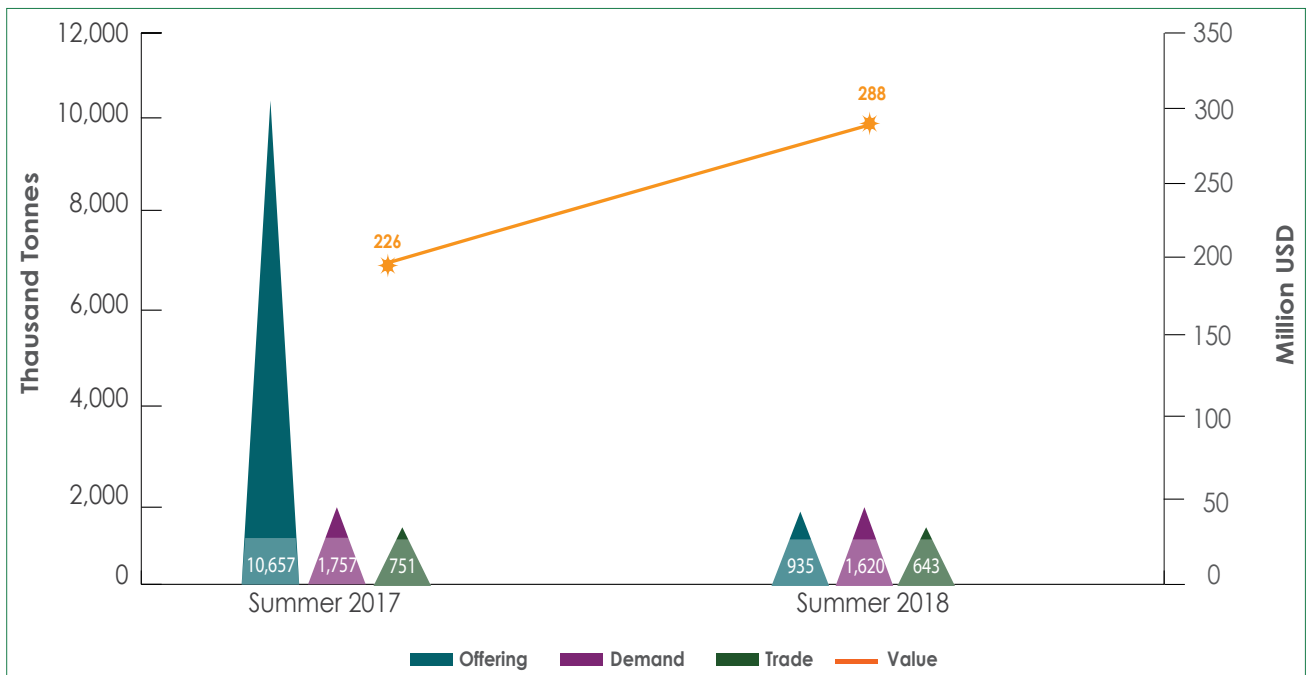


The figures for the same period in the previous hijri year are more than 10 percent decrease in trade volume and 104 percent of growth in trade value. The growth in crude oil prices in the world and, consequently, the growth of the prices of oil products were the main reason for the growth in value of transactions during this period.



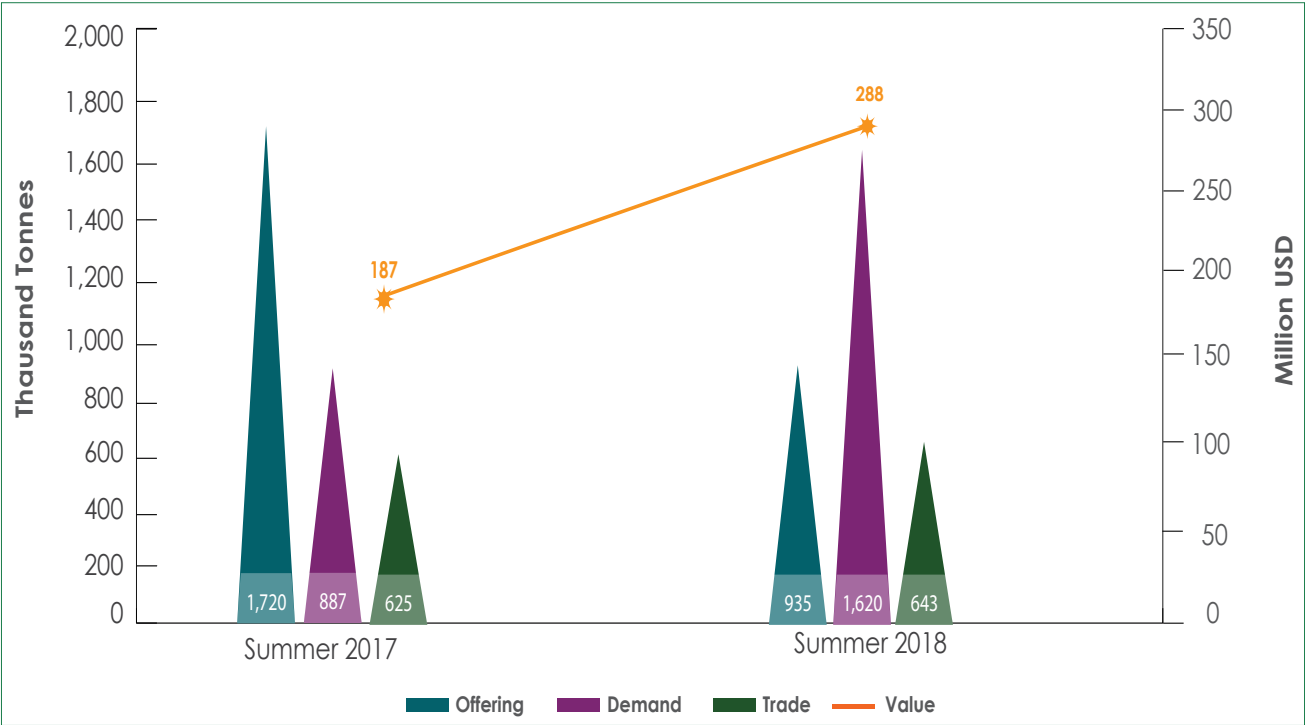
## Agro-products

In the 2nd quarter of the current hijri year (22 June, 2018– 22 September, 2018), IME witnessed in total trade of 643 thousand tonnes of agricultural products valued at 288 million USD; a 14 percent decrease in trading volume and a 28 percent growth in trading value compared to the same quarter of the previous hijri year (22 June, 2017– 22 September, 2017).



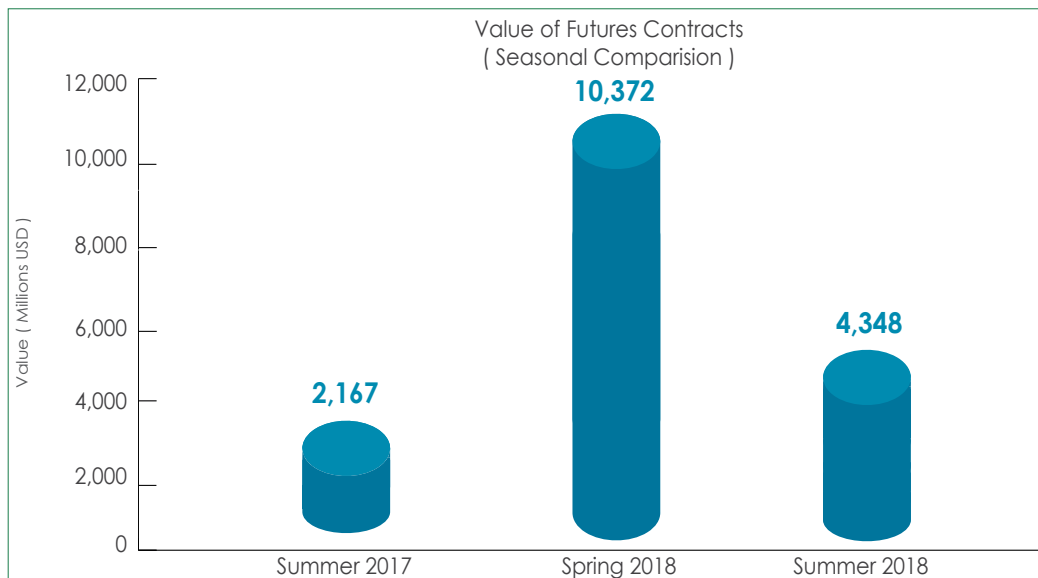
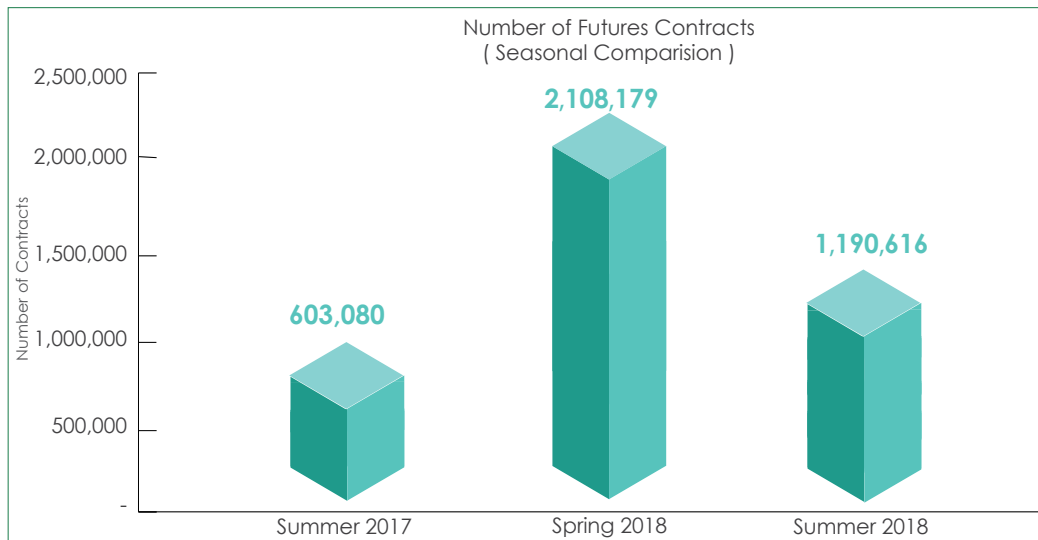


As to the previous period in the same hijri year (21 March, 2018– 21 June, 2018), volume and value of trading shows 3 and 54 percent of growth, respectively.



## Derivatives Market

Within the 2nd quarter of the current hijri year (22 June, 2018– 22 September, 2018), IME traded 508,054 gold coin futures contracts valued at 4,097 million USD as well as 682,562 saffron futures contracts valued at 251 million USD, showing 44 and 58 percent decrease in volume and value, respectively, in comparison to the first quarter of the current hijri year (21 March, 2018– 21 June, 2018).



## International Relations Department

**Dr. Hossein Mohammadi**

Senior Advisor to CEO and CBDO

Tel: +98 21 85 64 1002-1003

Email: mohammadi@ime.co.ir

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**Mohammad Hasani Sa'di**

International Affairs and PR Manager

Tel: +98 21 85641020

Email: hasani@ime.co.ir

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**Mohammad R. Tahmasbi**

International Relations Expert

Tel: +98 21 85 64 1022

Email: tahmasbi@ime.co.ir

---

**Amin Najari**

International Relations Expert

Tel: +98 21 85 64 1029

Email: najari@ime.co.ir

---

**Zahra Rahmati**

International Relations Expert

Tel: +98 21 85 64 1028

Email: rahmati@ime.co.ir

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No. 351, Taleghani St., Vali Asr Ave., Tehran, Iran  
Tel: +98(21)8564000-2  
[www.ime.co.ir](http://www.ime.co.ir)