FAQs on MCX METLDEX

1. **What is the MCX METLDEX?**
   MCX METLDEX is the name of the MCX iCOMDEX Base Metal Index

2. **When was MCX METLDEX launched?**
   MCX METLDEX was launched on 20[th]December 2019. The index history (daily closing prices) is available from 31[st]December 2015. The open, high, low and close prices of the indices are available from 20th December 2019.

3. **What are the constituents of MCX METLDEX?**
   The MCX METLDEX includes aluminium, copper, lead, nickel and zinc futures listed on MCX. Each commodity within the index is weighted three-fourths by its liquidity and one-fourth by its physical market size in India, determined by local production and imports.

4. **What is the inception date of MCX METLDEX and what is the base value?**
   31st December 2015 is the inception date of MCX iCOMDEX series of indices, which includes MCX METLDEX, with base value as 10,000.

5. **What is the concept of 'rollover' in the commodity indices?**
   Rollover refers to the period when index computation shifts from one set of contract expiry months to the next set of contract expiry months. This is necessary as each futures contract has an expiry date, while the index has to be computed continuously.

   The rollover of MCX METLDEX occurs over two business days, when the index computation shifts to the next expiry months. The rollover for the Index takes place over a period of two business days just prior to the first day of Staggered Delivery Tender Period of the underlying constituents. Thus, the rollover days for the five constituents of the MCX METLDEX during September 2020 are 22 and 23 September 2020.

   The rollover days have been fixed in a manner that ensures that the index value is ordinarily computed using the nearest expiry futures prices of the index constituents. This ensures that prices of the most liquid contracts are used for index construction.

Base Metal Index		**SEPTEMBER 2020**						

Underlying Expiry: 30-Sep

Staggered Delivery (5 trade days): 24-Sep to 30-Sep

Rollover: 22-Sep to 23-Sep

SUN	MON	TUE	WED	THU	FRI	SAT
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30			

6. MCX iCOMDEX indices are 'excess returns' indices. What does that mean?

The return generated by an excess returns index such as the MCX METLDEX comes from not only the changes in the price of base metals commodity futures (the 'price return'), but also the profits /losses realised by rolling commodity futures (the "roll return") from near to subsequent month futures contract. The sum of the price return and the roll return associated with investment in the MCX METLDEX is the 'excess return' of the index.

7. How are constituents of the MCX METLDEX determined?

The individual index constituents of MCX METLDEX are futures contracts of aluminium, copper, lead, nickel and zinc, traded on MCX. The Index constituents meet the following criteria to be eligible for inclusion as a new selection or to continue as a selection at a rebalance in the Base Metal index:

1. They are in existence on MCX for at least previous twelve months.
2. They have a traded history for at least 90% of the trading days during preceding twelve months.
3. Average daily turnover during the previous twelve months is at least Rs 500 Crore.

Further details on methodology is provided in Index Methodology Document available on MCX website.
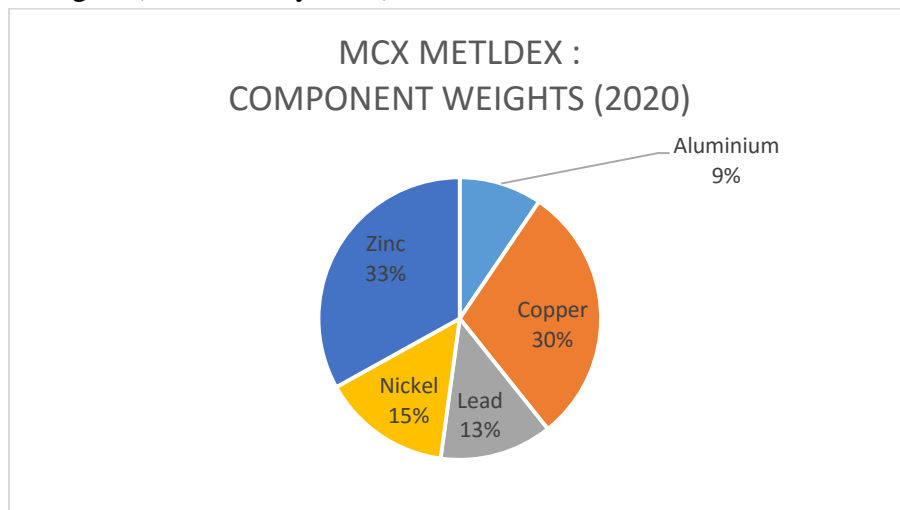
8. How are constituent weights determined?

The weights of the MCX METLDEX constituents are determined based on two factors: their economic significance to India and the liquidity of the futures contracts listed on MCX.

1. Economic significance is assessed using the market size in India, determined as the average of the value of deliverable supply (production and imports) of constituent commodties for past five financial years.
2. Liquidity Value is assessed as the total traded value in the preceding twelve months of the respective commodity futures contract on MCX.

3. Initial weights are then arrived based on weighted average of these two factors, with the production value weighted at 1/4th and the liquidity value at 3/4th.
4. Starting with the initial weights so obtained, the final weights are arrived at by excluding constituents whose weights are below a threshold, assigning caps and floors to individual constituents and re-distributing the excess/ shortfall to/ from the other constituents.

Details on methodology is provided in the Methodology Document available on MCX website.

The weights (from January 2020) of the constituents of MCX METLDEX are as below:

MCX METLDEX :
COMPONENT WEIGHTS (2020)

- Aluminium 9%
- Zinc 33%
- Copper 30%
- Nickel 15%
- Lead 13%

Note: Figures are rounded off

9. How is the MCX METLDEX rebalanced?
The MCX METLDEX is rebalanced annually before the start of the January roll period. MCX announces the weights in October every year to ensure that the weights are known to the public at least three months in advance to the actual rebalancing of the Index.

10. Does the rebalancing of MCX METLDEX have an impact on commodity index movement due to changes undertaken in constituent weights?
No, rebalancing of index does not have any impact on commodity index movement on account of the changes in weights. As is globally practised, the impact of weight change of underlying constituents on index is taken care by appropriately applying the 'Divisor' or the 'Normalization Constant'.

11. How are Index values determined?

The calculation methodology of MCX METLDEX is provided below:

1. Single commodity indices are calculated using the relevant commodity futures contract. Index on business day t, is calculated with reference to the previous business day t-1 as

$$SINGLECOMINDEX_t = SINGLECOMINDEX_{t-1} * \frac{CSR_t}{CSR_{t-1}}$$

where CSR is the price of the front expiry month of the relevant futures contract or, if day t falls within the two day roll period then CSR is the weighted average price of the front and immediate back expiry months

2. MCX METLDEX is calculated as weighted average of single commodity indices i.e.

$$MCX\ METLDEX = \frac{\sum_{i=1}^{n} SINGLECOMINDEX_t^i * W^i}{Divisor}$$

where W_i is the weight of each individual commodity within the base metal index and the summation is over all n individual commodities belonging to the index.

12. Who manages the MCX METLDEX?

The MCX iCOMDEX family of indices are managed by a dedicated Index Administration team in MCX. The Index Administration team is supported by an Index Action Committee and an Index Advisory Committee, the latter consisting of external subject matter experts.

13. Does the Index follow any international index in design or administration?

The MCX METLDEX is an indigenously created index, whose constituents are futures contracts traded on MCX. The index adheres to the SEBI-prescribed guidelines for the design of commodity indices and also conforms to the financial benchmarks set by the International Organization of Securities Commissions (IOSCO) in construction, administration and governance, as certified by an independent external assurance firm.

14. Which are some of the major global commodity indices?

There are several commodity indices traded across global markets, of which the popular ones include the S&P Dow Jones/ S&P GSCI Commodity Indices, Bloomberg Commodity indices, Refinitiv CRB/ CoreCommodity CRB indices, etc.

15. What are the different ways in which an index like the MCX METLDEX can be used?

An investor can use commodity indices to trade in derivative products on these indices, investing in products such as Exchange Traded Funds (ETFs) on these indices or using the indices to benchmark the performance of their commodity investment portfolios.

16. What does the MCX METLDEX futures track?

The underlying for **MCX METLDEX** futures is the MCX iCOMDEX Base Metal Index, or the MCX METLDEX, which tracks the real-time performance of flagship near month MCX Aluminium (5 MT), Copper (2.5 MT), Lead (5 MT), Nickel (1.5 MT) & Zinc (5 MT) futures contracts.

17. What is the trading unit of MCX METLDEX futures?

50 times the Index Value (With approx. 16,000 as Index Value, Trading Value ~ Rs 8 lakh)

18. What are the trading timings?

The trading timings are from 9:00 a.m. to 11:30 p.m. / 11:55 p.m.

19. How many futures contracts will be available for trading on a given day?

There will be at least three futures contracts (All calendar months) available for trading at all times.

20. What is the tick size?

This means that the minimum price fluctuation in the value of a contract. The tick size is presently "1" or 1 rupee. In Rupee terms, this translates to a minimum price fluctuation of Rs. 50 for a single transaction of MCX METLDEX Futures contract (Tick size X Contract Multiplier = 1 X Rs. 50).

21. How is the final settlement price (FSP) determined?

The final settlement price (FSP) will be the underlying Index price arrived at based on Volume Weightage Average Price of the constituents of the underlying Index between 4:00 p.m. and 5:00 p.m. on the expiry day of the Index futures contract*.

22. When is the contract start day?

15th day of contract launch month. If 15th day is a holiday then the following working day.

23. When is the contract last trading day?

The contract last trading day is one business day prior to the start of rollover period in the underlying constituent/(s) index.

24. How are MCX METLDEX futures settled?

All contracts are settled in cash at expiry on the basis of final settlement price (FSP) as described above on that day.

25. What are the benefits of MCX METLDEX futures?

Market participants can get the following benefits using the MCX METLDEX futures:
- The index mirrors the performance of key industry/ infrastructure sectors of the economy
- Optimization of asset allocation
- Portfolio diversification due to low/ negative correlation to equity
- Ease of trading in a basket consisting of 5 metals
- Availability of monthly contracts
- Liquid underlying constituent (futures) contracts
- Cash settled at expiry and devoid of delivery/tender period margins
- Ease to replicate with minimal tracking error

*Note: For more details, may refer relevant contract specification document available on www.mcxindia.com