A Supplier's Guide to AHCX Forwards

Soya beans

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1. Introducing Forward Contracts

A forward contract is an “OTC agreement” between two parties to exchange an underlying asset. Thus

- ✓ for an agreed upon price (the forward price)
- ✓ at a given point in time in the future (the expiry date)

Example:

- ✓ On Oct, 2014, Party A signs a forward contract with Party B to sell 200mt of soya at 1.60 USD per Kg. Today (Oct, 2014), sign a contract, shake hands. No money changes hands.
- ✓ In December, 2014 (the expiry date), Party A pays contract value to Party B, and receives 200mt of soya from Party B in return.
- ✓ Currently (Oct 2014), the spot price for the Soya is 1.52 USD per Kg three months later (December 2014), the Price can be anything (unknown).

While futures and forward contracts are both contracts to deliver an asset on a future date at a prearranged price, they are different in two main respects: futures are exchange traded while forwards are traded over the counter. Futures are in this case standardized and rigid in terms of conditions on the contract. Forwards on the other hand are privately agreed

AHCX has taken a hybrid approach considering the growth of our market, the challenges faced on the ground and the benefits clients would wish to derive from such instruments.

2. Benefits of AHCX Forward Contracts

Some of the benefits of AHCX forwards are listed below:

I. AHCX forwards provide the comfort to financial institutions to lend money to various clients who have taken up such contracts. The financiers find comfort in lending against a contract with a guaranteed price and off taker.

II. Clients and members of an exchange find comfort in investing their hard earned money to procure commodities to deliver on a contract that has specific price fixed. Similarly commercial farmers find comfort in growing commodities that already have a ready market with a known price.

III. Processors can plan accordingly: knowing guaranteed deliveries at specific times and therefore cash flow, as well as raw material input creates a big advantage to a processor who can now take up contracts to supply processed products in advance.

3. Step by Step Process of AHCX Forwards

AHCX contracts follow specific steps which are laid out below.

a) Contract Initiation

Contract initiation involves the Exchange taking up an agreement with a processor or buyer to procure the commodity through the exchange on forward contract basis. The buyer will have to successfully commit to the contract including its conditions of Price mode, payment modes, and performance bonds e.t.c.

The exchange then initiates an offer to suppliers broken into delivery periods. The Exchange determines the Contract Volume, Expiry/maturity date, launch date, and specifications. E.g. 5000mt, Soya beans Lilongwe for 30th May 2015 (SB5000B12015) launch date 1st May 2015.

Members of the Exchange and public at large are then invited to express interest to supply.

b) Expression of Interest

Clients and organisations willing will express their interest to supply the offered volume by filling in the EOI form at the exchange also available online and at Exchange regional Offices in Mzuzu, Balaka, and Limbe.

On expressing interest the clients will fill the form and provide the following:

- ✓ Copy of business registration certificate
- ✓ Proof of Physical address
- ✓ Business profile
- ✓ Individuals will be asked to provide acceptable personal identification and Proof of residence.

The Expression of interest and its attachments must be submitted to the Trade and investment manager through its regional offices, Head office within 5 days of offer or contract launch. Scan copy of expression of interest may also be submitted via email EOI@ahcxmalawi.com .

c) Contract Awarding

Priority of Contracts is to members of the Exchange on first come first serve basis. Should members of the Exchange fail to take up all the volume on offer for the month, the general public will be considered on first come first serve basis as well.

Contract awards will be done 5 days after contract launch date. Those awarded contracts will be able to collect them from our head office, or can be sent accordingly to facilitate performance bond.

A Kwacha 5% performance bond must be provided to the Exchange within 5 days after contract award, failure to produce a valid bond within the stipulated time frame could result to cancellation and relocating of the volume to another qualifying member. Performance bond must cover the period of not less than 4 months.

Failure in providing a valid performance bond on a previous attempt will be considered in awarding subsequent contracts.

Note that the Exchange will only sign and put a seal on the contract when the valid performance bond has been provided.

d) Contract Terms (highlights)

I. Delivery locations

The Exchange has set specific warehouses to which soya beans under this contract may be delivered as below

Soya beans Type	Delivery Location	Symbol	Grade
	Mzuzu, Karonga Kasungu; Mponela; Lilongwe Balaka; Limbe; Luchenza AHCX Community Warehouses	SB1,SB2,SB3	ALL

II. Grading parameters

All Soya beans under this contract must conform to one of the two grades as stated below:

Parameters	Grade 1	Grade 2	Grade 3
Moisture content	Up to 11.5%	11.6 to 12.5%	12.6 to 14.00%
Total Impurities, max % by weight	6.5	9.5	12
Of Which:			
Under developed, damaged & broken kernels, max % by weight	2.5	3.5	4.5
Foreign matter, max % by weight	1.5	2.5	3.0
Other grains, max % by weight	0.5	1.0	1.0
Contrasting Color, max % by weight	2.0	2.5	3.5
Condition	Sweet, odor free	Sweet, odor free	Sweet, odor free

Soya beans falling outside of the set parameters above will be rejected.

e) Maturity of contract

All suppliers must supply by the 25th of the month of delivery contracted. Failure to do so in full will be considered as default on the part of the supplier.

f) Settlement of Contracts

Suppliers will be paid within 24hrs of delivering against the said contracts within the allocated month. Early deliveries may be settled on the same day through cheque or bank transfer. Over delivery must be approved by the exchange prior.

4. Procuring commodities for forwards

Commodities intended for the contract supply may be procured in many ways some of which are explained below

a) Direct procurement from farming communities

Members and clients with contracts may buy commodities directly from farmers in their respective communities. In most cases such procurement will entail grading services to be applied before the commodity is deposited with the exchange.

Though this method may be financially rewarding with the expected margins, the risk of quality differential cannot be emphasised more. Clients and members purchasing commodities this way are advised to take into account the risk associated with Quality, Weight loss and financial exposure.

b) Procuring through the Exchange spot platform

Clients and members may procure commodities through the exchange spot market in order to fulfil their contractual obligations. Buyers are assured of Quality and Quantity when they buy receipts on the spot market to transfer to their contracts.

Though competition may mean the margins are not as high as the above method, this is the most convenient and financially secure way to buy commodities to satisfy contractual obligations.

c) Procuring through AHCX Community Warehousing schemes

Members of the exchange may procure commodities through Community warehousing schemes. The Exchange has gone into some agreements with communities owning warehouses in rural areas, to aggregate commodities for supply to exchange members. Members can directly negotiate with the owners of the commodities in order to buy and supply on their contractual obligations. The communities are trained in commodity handling and therefore it is expected that the quality differential is minimal.

5. Depositing Commodities for forward Contracts

Every contract has a unique identification number e.g. (FWD45Limbe), this contract number must be quoted at the time of the deposit in any exchange warehouse. A Commodity Deposit acknowledgement will be given to the depositor acknowledging receipt of the commodity and where it's linked to a contract the contract number shall be quoted.

In cases where the commodity has been purchased on spot market the buyer will provide the exchange with intention to transfer the commodity to his contract. Note that the contract owner must be the same as the buying client.