



C-TRADE COMMODITIES TRADING

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EXECUTIVE SUMMARY

SALIENT FEATURES

This document provides an introduction to commodities in Zimbabwe, including an overview of what commodities are, why they are important to the Zimbabwean economy, and the different types of commodities produced in the country. The document also discusses current market trends and the outlook for commodities in Zimbabwe, highlighting the potential benefits and risks associated with investing in this sector. Additionally, the document explores the role of the Zimbabwe Mercantile Exchange (ZMX) in developing the commodity market in Zimbabwe.

Zimbabwe's economy is heavily dependent on the production and export of commodities, particularly in the agricultural and mining sectors. Commodities such as tobacco, gold, platinum, and diamonds are major contributors to the country's export earnings. However, the commodity sector has faced a number of challenges in recent years, including fluctuations in commodity prices, political instability, and a lack of investment in infrastructure.

The ZMX was established in 2020 with the aim of creating a transparent and efficient market for commodities trading in Zimbabwe. The exchange provides a platform for buyers and sellers of commodities to trade in a regulated and secure environment. The ZMX currently trades in a range of commodities.

Investing in Zimbabwean commodities can provide diversification for investment portfolios, as well as the potential for high returns. However, there are also risks associated with investing in this sector, including price volatility, geopolitical risks, and regulatory uncertainty. The ZMX plays a critical role in mitigating these risks by providing a transparent and regulated market for commodities trading.

HISTORY OF COMMODITIES TRADING

Commodities trading has a long and storied history that dates back to ancient civilizations. The earliest forms of commodity trading can be traced back to ancient Mesopotamia, where traders exchanged goods such as barley, wool, and copper. Over time, the practice of commodity trading evolved and became more sophisticated, as traders began to use standardized units of measurement and established trading routes.

During the middle Ages, European traders established trade routes to Asia, where they traded spices, silk, and other luxury goods. This led to the development of commodity markets in Europe, where traders would gather to buy and sell commodities such as grain, textiles, and metals. These markets played a crucial role in the development of European economies, as they provided a means for merchants to finance their businesses and for farmers to sell their crops.

In the 19th century, the Industrial Revolution led to a surge in demand for raw materials such as coal, iron ore, and cotton. This led to the development of new commodity markets, such as the Chicago Board of Trade, which was established in 1848 to trade agricultural commodities such as wheat and corn.

The 20th century saw the rise of commodity trading as a global business, with the establishment of commodity exchanges in major financial centers around the world. These exchanges provided a means for investors to trade commodities using standardized contracts and for producers and consumers to hedge their risk against price fluctuations.

Agriculture has always been an important sector of Zimbabwe's economy. Prior to independence in 1980, the agricultural market was dominated by large commercial farmers and state marketing boards that set prices for major commodities. Smallholder farmers were marginalized and had limited access to markets.

After independence, the government sought to integrate smallholder farmers into agricultural markets. The Grain Marketing Board expanded its depot network into communal areas, allowing more smallholder farmers to sell maize and other grains. However, smallholder farmers still faced challenges accessing markets, including a lack of knowledge about grading standards, inability to meet minimum quantity requirements, late payment, and perceived unfairness in the system.

HISTORY OF COMMODITIES TRADING CONTINUE...

Liberalization in the 1990s

In the early 1990s, Zimbabwe began liberalizing agricultural markets. The government commercialized state marketing boards and deregulated some commodities. While the GMB remained the main buyer of maize and other grains, prices became more market-based. However, smallholder farmers continued to face constraints accessing markets, including poor infrastructure, lack of storage, lack of transport, and a «seller's mentality.»

The Zimbabwe Agricultural Commodity Exchange

In response to market liberalization, the Zimbabwe Agricultural Commodity Exchange (ZIMACE) was established in 1994 to facilitate the free trade of agricultural commodities. ZIMACE provides a market where commodities can be traded based on supply and demand, allowing farmers to potentially receive higher, market-based prices. However, smallholder farmers face challenges accessing ZIMACE, including high costs of becoming a broker member and minimum volume requirements. Some smallholder farmers have sold through ZIMACE using brokers but at lower prices than the GMB due to paying transport costs.

In the 1990s, the Zimbabwean government introduced economic reforms aimed at liberalizing the economy and attracting foreign investment. This led to the establishment of the Zimbabwe Stock Exchange (ZSE) in 1993, which provided a platform for trading equities and other financial instruments. However, commodity trading remained largely unregulated, with most trading taking place on an informal basis.

In 2020, the Zimbabwean government established the Zimbabwe Mercantile Exchange (ZMX) with the aim of creating a transparent and efficient market for commodities trading in Zimbabwe. The ZMX provides a platform for buyers and sellers of commodities to trade in a regulated and secure environment, with a focus on agricultural commodities such as maize, soya beans, and wheat.

The establishment of the ZMX has helped to increase transparency and efficiency in the commodity market, and has helped to attract foreign investment to the sector. The exchange has also implemented strict standards for the issuance and trading of warehouse receipts, which has helped to address the issue of fraud and corruption associated with these documents.



TERMS INVOLVED IN THE COMMODITY MARKETS

A commodity is a basic physical good or a raw material that is

- Uniform in nature (although there can be differences in quality)
- Used as inputs to create finished goods and services

A warehouse receipt - is a document that serves as proof of ownership of a commodity that is stored in a warehouse. The receipt provides information about the quantity, quality, and location of the stored commodity, and it can be used as collateral for a loan or as a means of transferring ownership. Warehouse receipts are commonly used in commodity trading, as they allow traders to buy and sell commodities without physically handling them, which can be useful for managing risk and reducing transportation costs.

Quality- The standard or grade of a commodity, which affects its price and marketability

Supply and demand- The fundamental economic principles that determine the price of a commodity based on the availability of supply and the demand for it.

Storage costs- The costs associated with storing and storing a commodity, such as warehousing, insurance, and financing costs.

Spot price- The current market price of a commodity at which it can be bought or sold for immediate delivery.

Transportation costs- The costs associated with moving a commodity from one location to another, such as shipping, handling, and insurance costs.

Production costs- The costs associated with producing a commodity, such as labor, equipment, and raw materials

Participant- means a person or entity entitled, through admission on the Exchange, to use the services and facilities thereof



TYPES OF COMMODITIES



METAL COMMODITIES

include things like gold, silver, platinum, and copper. During uncertain times, people may choose to invest in precious metals like gold because they are seen as valuable and reliable. People may also invest in precious metals as a way to protect their money from losing value because of things like inflation.

ENERGY COMMODITIES

include things like crude oil, heating oil, natural gas, and gasoline. When there is less oil available, the price of oil goes up because people still need it to power their cars and heat their homes. New technology that might replace oil, like wind power or solar energy, can also affect the price of energy commodities.



LIVESTOCK AND MEAT COMMODITIES

commodities include things like pork, cattle, and hogs. These are animals that are raised for food.

AGRICULTURAL COMMODITIES

include things like corn, soybeans, wheat, and coffee. These are crops that are grown and harvested for food or other uses. The prices of these commodities can change a lot based on things like weather, population growth, and changes in supply and demand.



COMMODITIES TRADING IN ZIMBABWE

TOP 10 COMMODITIES AVAILABLE IN ZIMBABWE

Gold - Zimbabwe is one of the largest gold producers in Africa, and gold is one of the country's top export commodities.

Platinum - Zimbabwe has one of the world's largest platinum reserves, and platinum is another top export commodity for the country.

Tobacco - Zimbabwe is one of the top tobacco producers in Africa, and tobacco is a major export commodity for the country.

Diamonds - Zimbabwe has significant diamond reserves, and diamond mining is a growing industry in the country.

Ferrochrome - Zimbabwe is a major producer of ferrochrome, which is used in the production of stainless steel.

Nickel - Zimbabwe has significant nickel reserves, and the country is a major producer of nickel ore.

Coal - Zimbabwe has significant coal reserves, and coal mining is a growing industry in the country.

Cotton - Zimbabwe is one of the top cotton producers in Africa, and cotton is a major export commodity for the country.

Maize - Maize is the staple food crop in Zimbabwe, and it is traded on the commodities market

Soya beans - Soya beans are a major cash crop in Zimbabwe, and they are traded on the commodities market as well.

ZIMBABWE MERCANTILE EXCHANGE

ZMX is an end-to-end commodities marketplace. The company is a Private Limited company registered under Zimbabwe's New Companies Act [Chapter 24:31] of 2020. The company is structured as a joint venture between the Financial Securities Exchange (FINSEC) and TSL Limited. We are there to bridge the gap between commodity buyers with sellers and commodity holders with finance by offering a platform that brings fair price discovery and convenience into trading, and pledging of commodities.

SERVICES OFFERED BY ZMX

Buy & Sell Order Management

The exchange enables commodity buyers and seller to post their buy and sell orders using multiple digital platforms. These orders are matched on the Automated Trading System using time-price priority principle. All orders must have appropriate

Order Matching & Price Discovery

ZMX is an automated digital market place where local and international buyers and sellers of commodities meet to transact. Orders accepted on the ZMX central order book are matched on a time-price priority. Matching is continuous throughout the trading session. Price movements are subject to price protection limits to ensure market stability.

Clearing & Settlement

Clearing and settlement is done on a Delivery versus Payment basis and settlement account are maintained at a designated settlement bank. Cash and securities are held at Custodian banks pending settlement to ensure no settlement

Dispute Resolution

ZMX operates a platform that has rules governing the admission and conduct of participants. These rules also guide the issuance, trading and settlement of Warehouse Receipts

Rules Enforcement

Trading on ZMX is governed by Gazetted rules under Statutory Instrument 184 of 2021. [CAP. 18:24 Agricultural Marketing Authority (Zimbabwe Mercantile Exchange) Rules, 2021. This provides ZMX with the legal instruments to enforce lawful contact in the activities of all participants on the Exchange.

FUNCTIONS OF ZMX

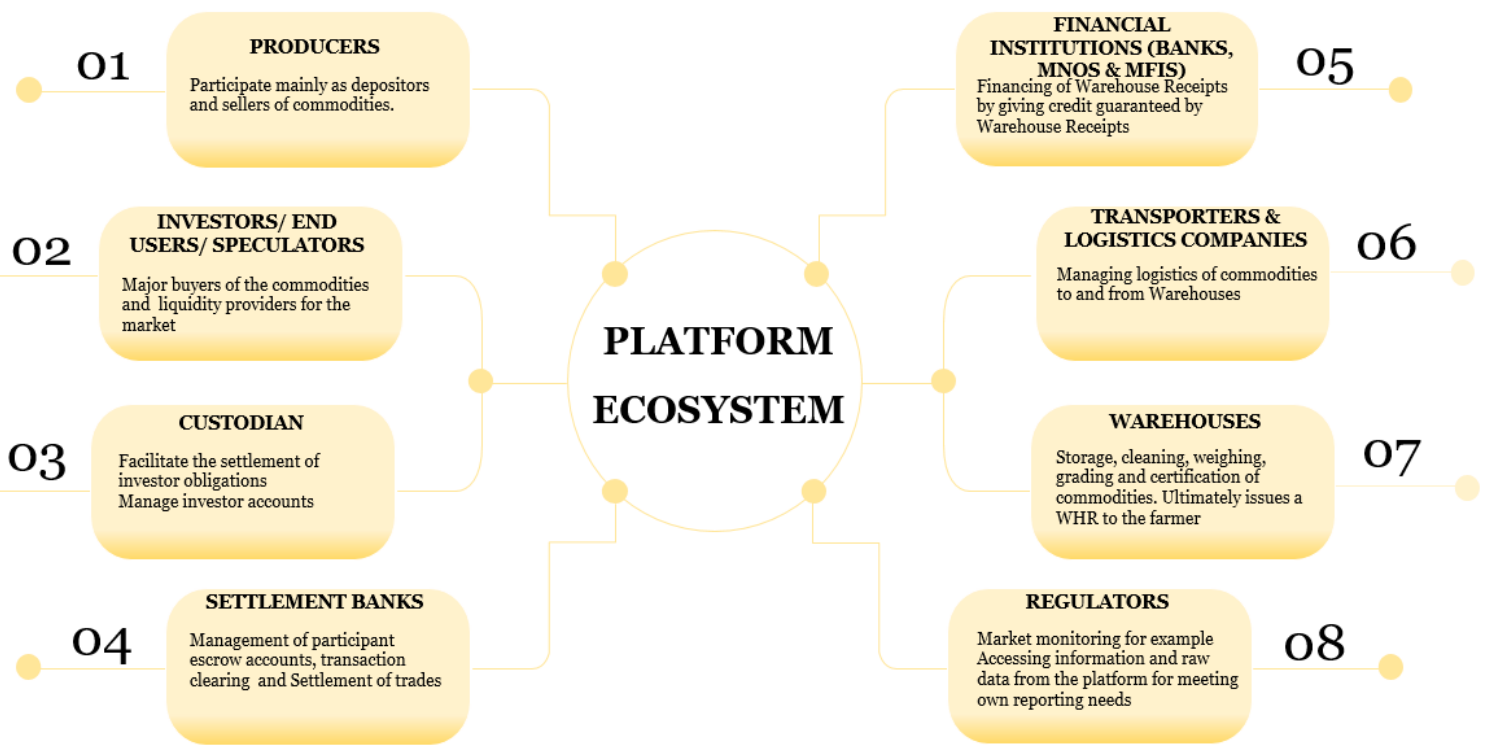
- (a) To provide a marketplace and associated facilities for producers commodities traders and other participants to trade in an efficient, transparent, and orderly manner;
- (b) to reduce systemic risk, that is to say, a risk that a failure on the part of one or more admitted participants to meet their obligations may result in other admitted participants and other commodity traders being unable to meet their respective obligations;
- (c) to promote market integrity and public confidence;
- (d) to promote public education;
- (e) to disseminate market information and price information;
- (f) to deploy mechanisms for dispute resolution

ZMX monitors and regulates the trading and dealing of warehouse receipts; by

- admitting, training, supervising and regulating admitted participants in order to ensure high standards of professionalism and integrity on their part;
- certifying warehouses for the purposes of receiving commodities, testing, grading, weighing, re-bagging and storing;
- undertaking surveillance of all warehouses;
- accepting lawfully issued warehouse receipts for the purpose of trading and financing commodities using the Exchange facilities;
- Encourage the development of free, fair and orderly commodities markets in Zimbabwe;
- Exercise any other function that may be conferred or imposed upon the Exchange by or under these rules or any other enactment.



KEY PARTICIPANTS INVOLVED IN THE COMMODITIES EXCHANGE



HOW TO TRADE COMMODITIES

REGISTER VIA USSD

- Dial *#727 and select Register
- Enter Surname
- Enter Name
- Enter ID number
- Confirm
- Set PIN
- Enter Confirm

REGISTER VIA MOBILE

- Download the ZMX App on the Google Play store or Apple App store
 - Click the do not have an account area, fill in all the fields
 - Click submit
 - To log in enter your email address and password to start trading
- Registration Complete

REGISTER VIA THE WEB PORTAL

- On the login ZMX website - Create an account
- Fill all the fields and when done click submit
- To start trading return to the login page using the above link
- Enter your email address and password and start trading.

BOOK A DELIVERY

- Click deliveries on your menu
- Enter commodity type
- Enter quantity
- Select region
- Enter the pick-up location
- Select the Warehouse location

You will receive a notification on the status of the booked delivery

SELL COMMODITIES • DIAL *#727

- Select commodities
- Select Buy/Sell
- Select Sell Commodities
- Select the commodity name
- Enter quantity
- Choose to either (1) sell at market price or (2) enter your own price
- If (2) was chosen in step 8 enter price and Confirm

You will receive a notification on the status of your sell order

BORROW USING USSD • DIAL *#727

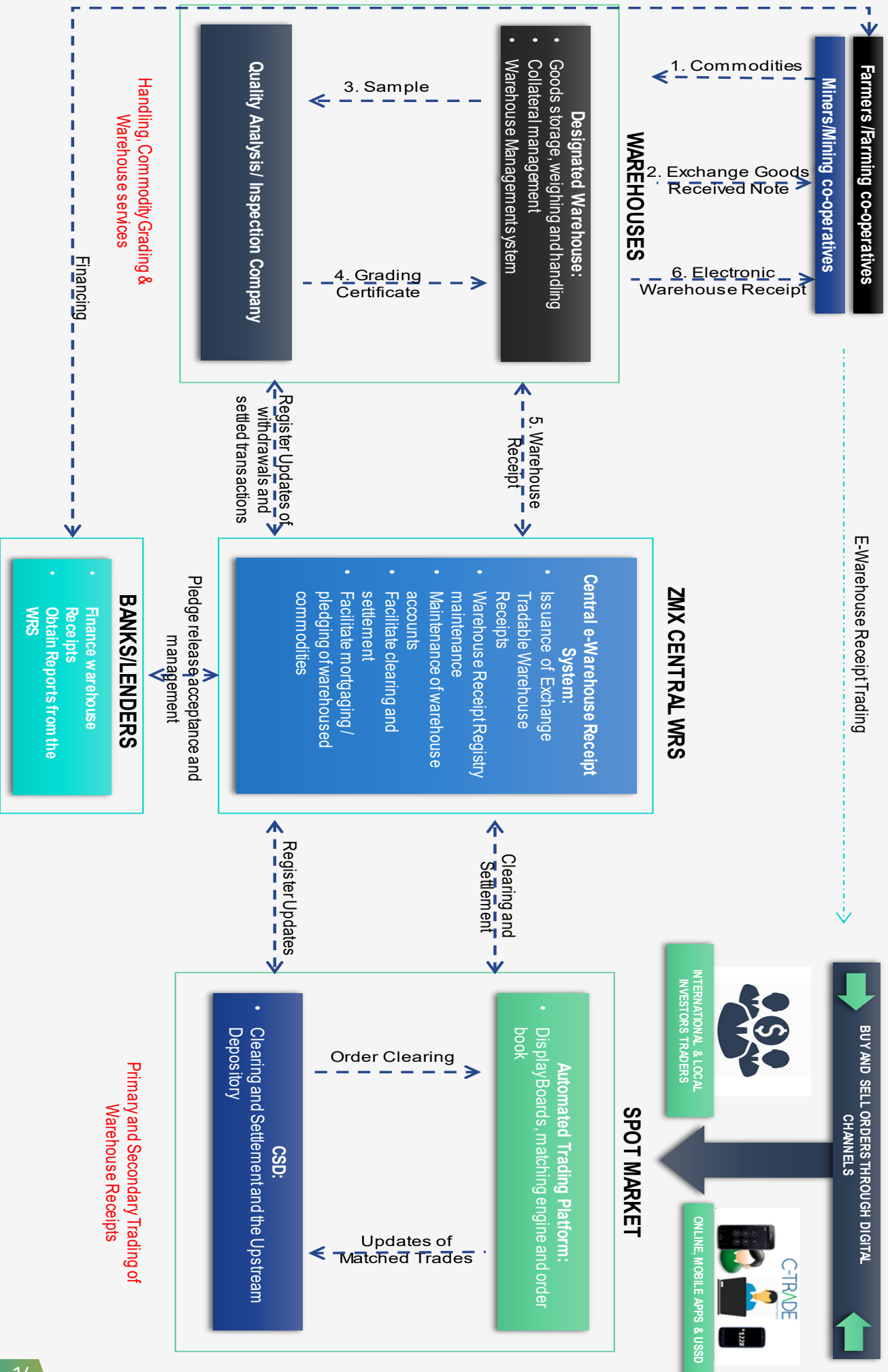
- Select commodities
- Loan
- Select product
- Enter quantity
- Enter the loan amount
- Enter tenure
- Enter lender

WITHDRAW CASH

- From my account
- Initiate withdrawal by selecting
- Cash withdrawal option
- Cash is sent to the farmer's Bank
- Account or mobile wallet

HOW ZMX WORKS

Primary Commodity Producer



PROCESS FLOW

PROCESSES	ITEM	ACTIVITIES
1. Handling,	1	Producer delivers commodity to the Designated Warehouse (DEW) in standard minimum quantities.
	2	Receives Goods Received Note.
2. Grading,	3	DEW broadcasts the delivered commodities to Quality Inspection Companies (QICs) for bidding to carry out the assessment job or appoints an already contracted QIC or does the job with its capacity.
	4	The winning QIC carries out the job and issues a Grading Certificate to the DEW in soft and hard copies.
	5	DEW produces the Electronic Warehouse Receipt (E-WHR) which is a combination of the GRN and the grading certificate.
3. Inventory and Storage Management	6	DEW will send the E-WHR to the producer via Digital Channels (Online, Mobile & USSD) platforms.
4. Issuance of Electronic Warehouse Receipts E-WHR	7	DEW sends the E-WHR to the Central Securities Depository System (CSD) (The ATS is automatically updated about the new listing)
5. Order Management	8	Brokers View on the broker's terminal (on ATS or Broker Office System) will show all details of the commodity apart from the name of the QIC and the Location.
	9	Broker posts a bid on the trading platform
6. Matching & Clearing	10	The broker makes a payment
	11	Funds are cleared and transferred into the Exchange or Clearing House Account
7. Settlement	12	The Central Securities Depository System (CSD) transfers ownership of the commodity and produces a new E-WHR in the buying broker's name and a Release order containing the details of the commodity (Location, quantity, collection code, last date of collection)
	13	CSD notifies the DEW of the new owner and the collection code (Release Order)
8. Delivery of Goods	14	Buying broker must collect the commodity within 10 days of the purchase
	15	Failure to collect within 10 days will attract demurrage (storage fees)
9. Display Boards	17	ATS to show real-time commodities prices



COMMODITIES AVAILABLE FOR TRADING ON ZMX

ZMX has a number of commodities currently trading on the exchange these include;

1. Cow Peas
2. Ground
3. Maize
4. Millet
5. Red Sorghum
6. Round Nuts
7. Soya bean
8. Sugar Beans
9. Sunflower
10. Wheat
11. White Sorghum

THE POTENTIAL BENEFITS AND RISKS ASSOCIATED WITH INVESTING IN COMMODITIES.

Investing in the commodities sector in Zimbabwe can offer potential benefits, such as diversification, inflation protection, and the potential for high returns. However, there are also risks associated with this type of investment, which investors should be aware of.

Potential benefits

1. **Diversification:** Investing in commodities can help diversify an investor's portfolio by adding an asset class that is not correlated with traditional investments such as stocks and bonds. This can help reduce overall portfolio risk and volatility.
2. **Inflation protection:** Commodities can offer protection against inflation, as the prices of commodities tend to rise when inflation is high. This can help investors maintain the purchasing power of their investments.
3. **Potential for high returns:** The commodities market can offer the potential for high returns due to the volatility of commodity prices. If an investor is able to time their trades correctly, they may be able to make significant profits.

Potential risks

Market volatility: The commodities market can be volatile, with prices fluctuating rapidly due to changes in supply and demand, geopolitical events, and other factors. This can result in significant losses for investors who are not able to manage their risk effectively.

Weather Risk: Agricultural commodities are particularly vulnerable to weather-related risks, such as droughts, floods, and other natural disasters. These events can impact crop yields and result in losses for investors

ROLE OF THE ZMX IN DEVELOPING THE COMMODITY MARKET IN ZIMBABWE

The ZMX plays a critical role in developing the commodity market in Zimbabwe in several ways:

1. Price discovery: The ZMX facilitates price discovery by bringing together buyers and sellers of commodities in a transparent marketplace. This helps ensure that prices are fair and reflective of market conditions, which can benefit both producers and consumers.
2. Risk management: The ZMX provides a platform for managing risk associated with commodity trading by offering hedging and other risk management tools. This can help reduce price volatility and protect against losses.
3. Market organization: The ZMX helps organize the commodity market in Zimbabwe by providing a central platform for trading, storage, and delivery of commodities. This can help improve market efficiency and reduce transaction costs.
4. Infrastructure development: The ZMX helps drive infrastructure development in Zimbabwe by creating demand for storage, transportation, and processing facilities. This can help improve logistics and supply chain infrastructure, which can benefit other sectors of the economy as well.
5. Market Education: The ZMX plays a critical role in educating market participants about the commodity market, including the risks and benefits of trading commodities. This can help increase awareness of the commodities market and promote its development over the long term. Moreover, the ZMX can help promote the development of small and medium-sized enterprises (SMEs) in the commodity sector by providing access to financing, market information, and other resources. This can help support the growth of local businesses and create new job opportunities in the country.

QUESTIONS

1. What is a commodity
2. When did commodity trading start and which were the major commodities traded?
3. When was Zimbabwe Agricultural Commodity Exchange (ZIMACE) was established
4. What is a warehouse Receipt?
5. What is Settlement?
6. What are the different types of commodities available in the following classes

Metal commodities

Energy commodities

Livestock and meat commodities

Agricultural commodities

7. What is ZMX
8. What are some of the services offered by ZMX
9. What are some of the functions of ZMX
10. What are the roles of the following participants
 - a. Farmers/ Producers
 - b. Investors
 - c. Custodians
 - d. Settlement Bank
 - e. Financial Institutions
 - f. Transporters
 - g. Warehouses
 - h. Regulators
11. What are the digital channels used to trade commodities



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