

LMEprecious gold and silver take off

By Hawk Namiki

On 10 July 2017, LMEprecious launched exchange-traded and centrally cleared precious metal products, which comprise spot (\$) and an array of 5-year monthly futures for gold and silver. The volume of LMEprecious contracts traded in July alone totalled 9,154,400 ounces, with an average daily volume of 572,150 ounces.

London's precious metals market

London is a major market for price discovery, and the majority of gold trades take place over-the-counter (OTC), which means they are conducted bilaterally among brokers, banks and traders, and cleared through an electronic clearing platform that is operated by London Precious Metals Clearing Limited (LPMCL). The average daily volume cleared in London is about 18~20 million ounces.

Displaced Market Participants

Following the collapse of Lehman Brothers and the LIBOR scandal, regulators increased their scrutiny on financial institutions and placed higher capital requirements to ensure a safer financial system. This has raised the costs of trading precious metals, and has forced some players to exit the market.

Exchange trading as part of the solution

Exchange-traded contracts reduce capital charges for banks, and improve market access and transparency, which price discovery is done in the London OTC market. Besides, tradable spot prices and monthly futures give buyers additional information, such as implied gold forward rate up to 5 years, which helps them to manage risk.

Many other market participants may be still sceptical about those contracts as many products introduced before have not been successful nor sustainable, but a further increase in the volume of LME contracts will attract more participants to come on board, which will capture or provide liquidity and create momentum in the market.

Currently, Goldman Sachs, Morgan Stanley, Natixis, ICBC Standard Bank, Societe General, and OSTC are clearing their transactions using LME clear.