

# How does LMEprecious compliment the OTC market and meet the needs of its users?

David Mears – VP Precious Metals  
London Metal Exchange  
10 June 2019



# 1. Background to LMEprecious

# LMeprecious

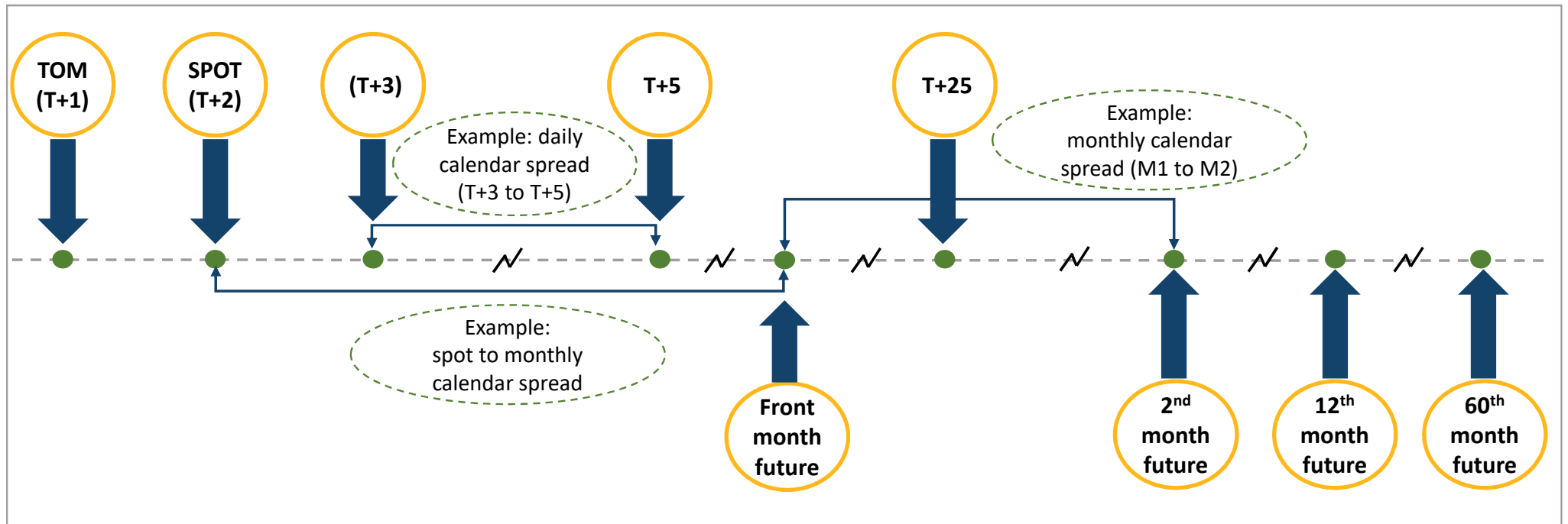
What is  
LMeprecious?

Gold

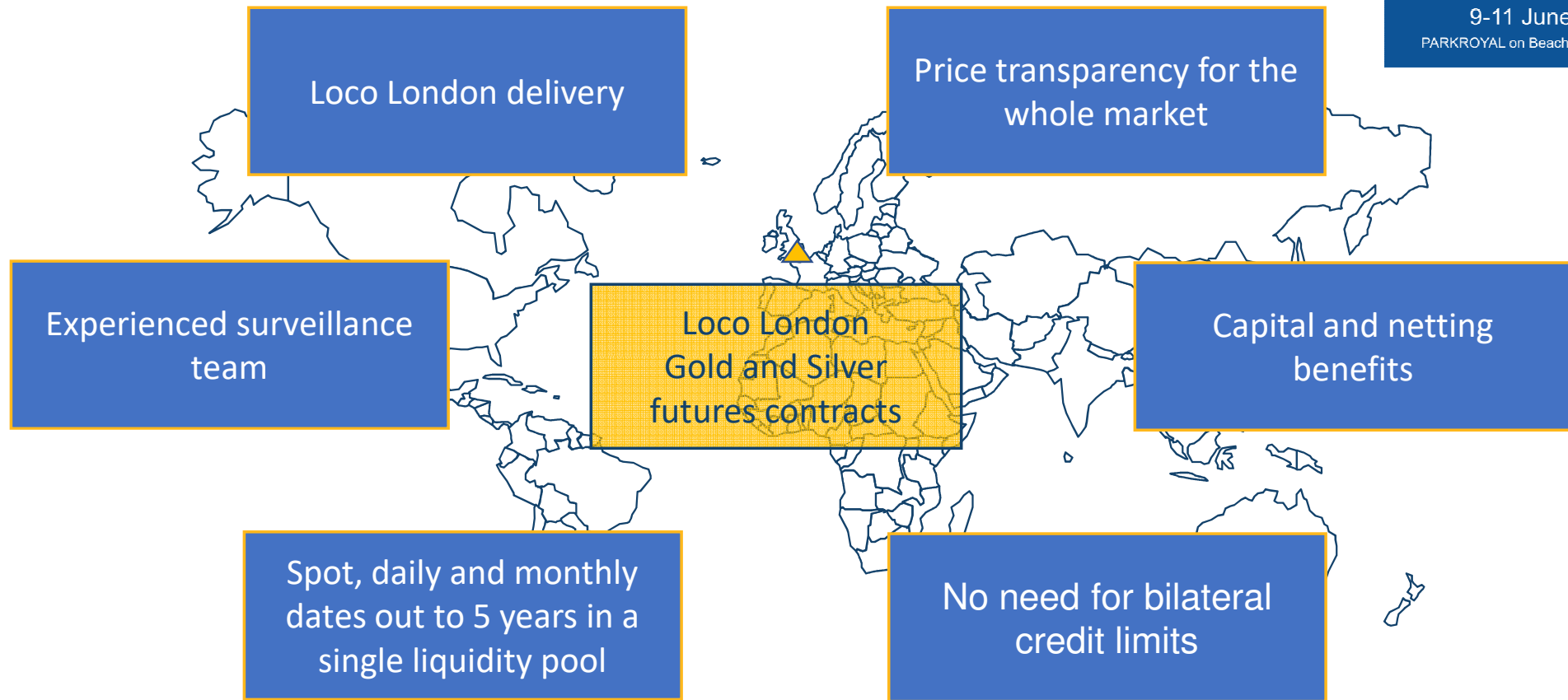
Silver

- Cleared in London
  - Gold and Silver exchange traded futures contracts
  - Settled loco London in unallocated bullion
  - On screen daily liquidity from spot out to five years
  - Launch date: 10 July 2017
- 
- 100 fine troy ounces – quoted in USD
- 
- 5,000 troy ounces – quoted in USD

# Trading LME precious contracts



# Benefits of LMEprecious

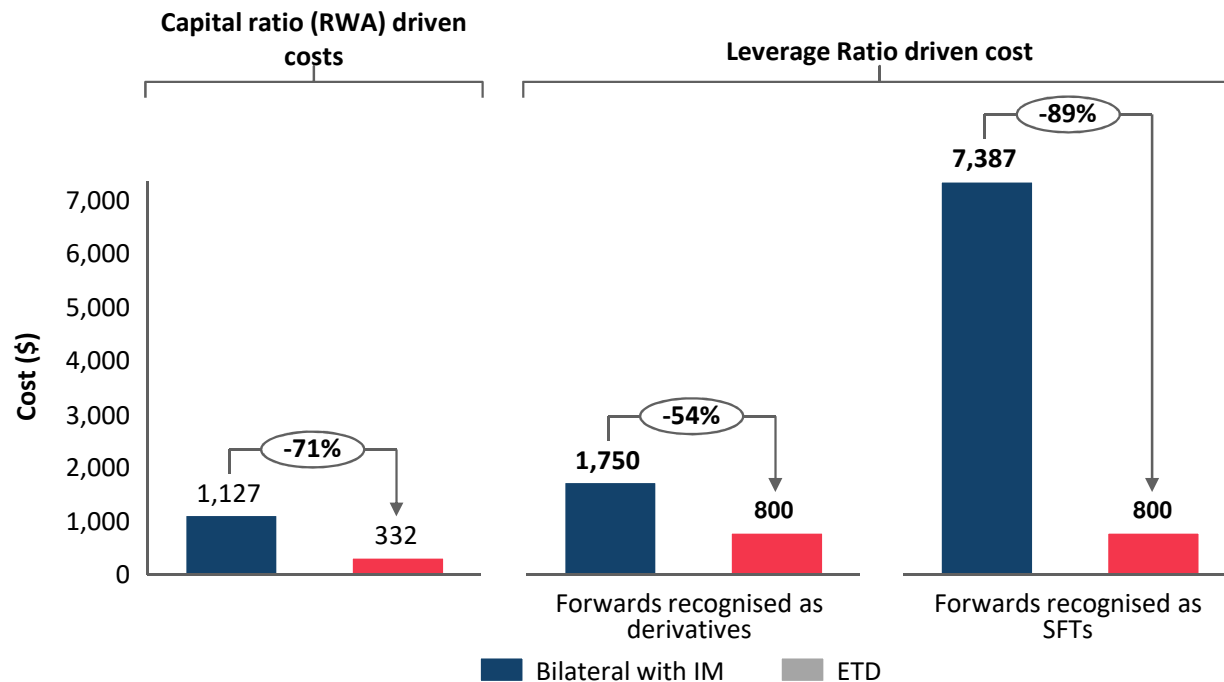


## 2. Regulatory drivers for clearing

# Potential reduction in capital costs

The World Gold Council commissioned an analysis of the impact on bank economics of trading gold (cost of a \$1m notional bank-to-bank trade)

## Annualised cost of \$1 MM notional gold forward/future - 10 day duration



- All-in cost savings from on-exchange trading could range from ~50% to ~90%
- Cost savings are driven primarily by lower capital
  - Lower counterparty risk weight
  - Lack of CVA and CVA VaR charges
  - Lower funding charges due to netting of trades
  - IDB fees for OTC exceeding clearing/on-exchange fees
  - Savings are somewhat reduced by clearing specific costs such as default fund contributions
- The extent of any savings depends on
  - The weighting in capital charges between RWA-driven regulatory capital and the leverage ratio
  - For leverage ratio constrained banks, the accounting treatment of gold forwards (as securities financing transactions or derivatives)
  - Parameters/key assumptions, most notably trade duration, netting benefit effects, target leverage ratio and the bilateral counterparty risk weight

Key assumptions: Principal clearing model; SA-CCR used for exposure calculation with 50% bilateral and 2% CCP risk weight; IM based on historical VaR model (bilateral) and LME parameters (cleared); 10% DF/IM ratio with 1.03% c-factor; 20% bilateral and 40% cleared netting benefit (0% for SFTs); VM exchanged in all cases  
Source: WGC, LME and Oliver Wyman analysis

# Bilateral margin requirements

## Timetable for implementation

### Variation margin

Date of Phase-in	Category
4 February 2017	Entities with group notional amount above EUR 3 trillion (entities with the largest portfolios on a group basis)
1 March 2017	All other entities (in scope)

### Initial margin

Date of Phase-in	Category
4 February 2017	Entities with group notional amount above EUR 3 trillion (entities with the largest portfolios on a group basis)
September 2017	Entities with group notional amount above EUR 2.25 trillion
September 2018	Entities with group notional amount above EUR 1.5 trillion
September 2019	Entities with group notional amount above EUR 0.75 trillion
September 2020	Entities with group notional amount above EUR 8 billion

In 2018 the first non-bank (buy side firm) came into scope\*

Additional firms will be caught by the next phases in September 2019 and 2020

\*<https://www.risk.net/risk-management/6647736/initial-margin-big-bang-could-be-deferred-says-ecs-pearson>



### 3. LMEprecious liquidity and access

# Onscreen liquidity

104	1	9	1315.200
95	1	9	1314.900
86	1	8	1314.600
78	3	25	1314.300
53	2	18	1314.200
35	3	21	1314.100
14	2	14	1314.000
Total	Ord	Size	Bid
7	1	7	1313.800
19	2	12	1313.700
35	2	16	1313.600
53	2	18	1313.500
78	3	25	1313.400
86	1	8	1313.100
95	1	9	1312.800
104	1	9	1312.500

Spot gold 20c wide top of book

LME Gold spot/monthly carries					
Leg 1	Leg 2	BPS	\$ Bid	\$ Offer	BPS
Spot	Jun-19	2.57%	- 1.232	- 1.211	2.53%
Spot	Jul-19	2.60%	- 3.932	- 3.848	2.55%
Spot	Aug-19	2.58%	- 7.220	- 7.079	2.53%
Spot	Sep-19	2.55%	- 9.772	- 9.681	2.53%
Spot	Oct-19	2.51%	- 12.208	- 12.061	2.48%
Spot	Dec-19	2.43%	- 17.427	- 17.228	2.40%
Spot	Dec-20	2.07%	- 42.671	- 41.222	2.00%
Spot	Dec-21	1.91%	- 64.785	- 62.300	1.83%
Spot	Dec-22	1.86%	- 88.585	- 84.498	1.77%
Spot	Dec-23	1.91%	- 116.367	- 107.995	1.77%

3 month gold forwards bid/offer spread 2bps wide (0.02%)

6 month gold forwards bid/offer spread 3bps wide (0.03%)

\*Snapshot of the order books, not a guarantee of spreads

# Increasing number of members and brokers



## Clearing members:

	GCM	Goldman Sachs International
<b>Morgan Stanley</b>	GCM	Morgan Stanley & Co. International PLC
	GCM	Société Générale
	GCM	MAREX Financial Limited
	GCM	Société Générale International Limited
	GCM	BOCI Global Commodities (UK) Limited
	GCM	ED&F Man Capital Markets Limited
<b>INTL · FCStone®</b>	GCM	INTL FCStone PLC
<b>COMMERZBANK</b>	GCM	Commerzbank AG
<b>ICBC</b> <b>Standard Bank</b>	ICM	ICBC Standard Bank PLC
	ICM	Natixis

## Brokers working LMEprecious:

	✓	Tradition
	✓	Tullet Prebon
	✓	BGC Partners
	✓	GFI Group
	✓	ICAP

## Non clearing members trading LMEprecious:

<b>Morgan Stanley</b>	✓	Morgan Stanley Capital Group Inc
	✓	OSTC Limited
<b>[XTX]</b> MARKETS	✓	XTX Markets Limited

## 4. Volume and open Interest

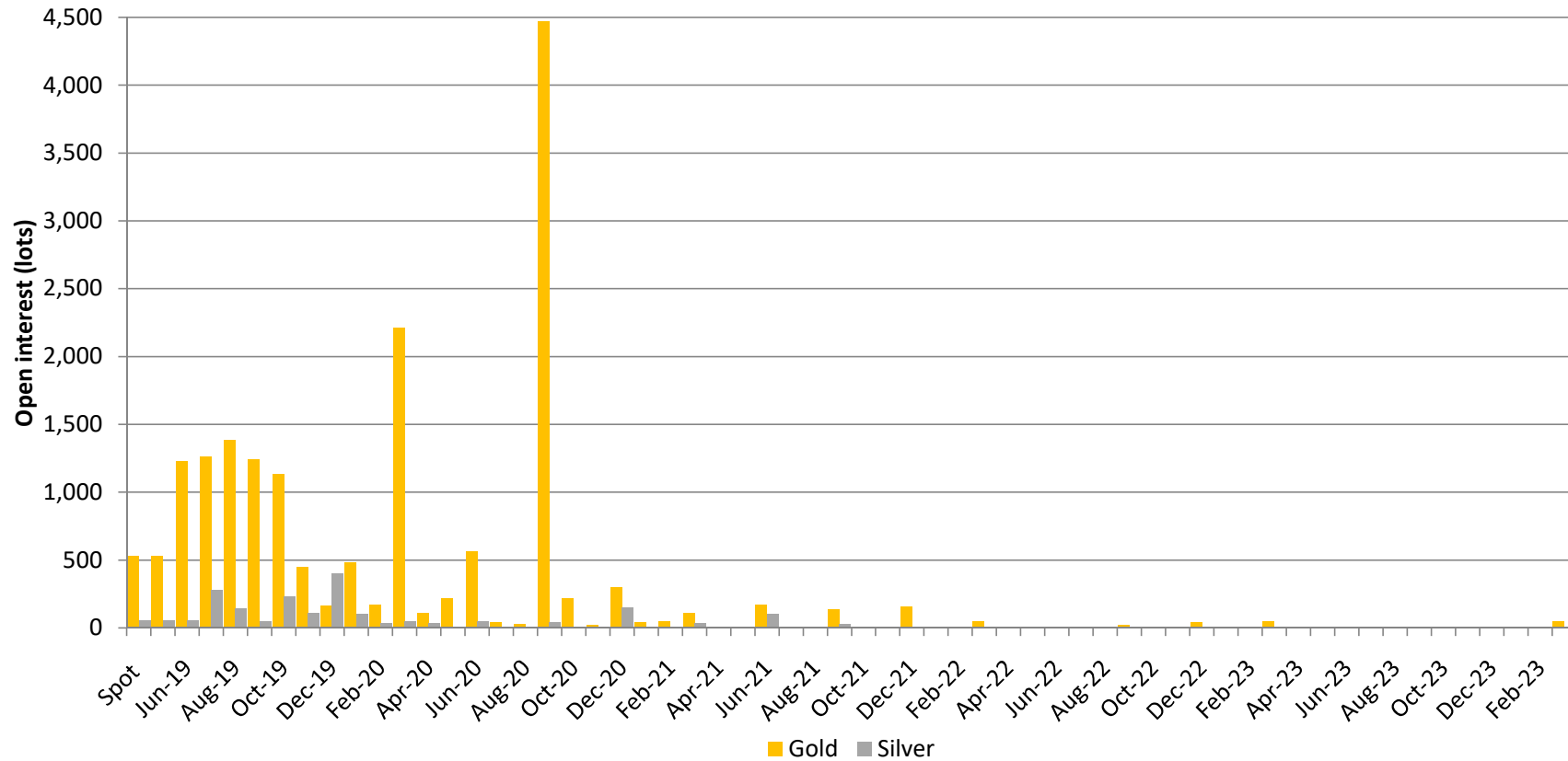
# Annual gold volume on exchanges

Annual turnover on major commodity exchanges (tonnes)		
Exchange	2017	2018
Comex	226,440	249,766
SHFE*	39,018	32,329
TOCOM	6,398	8,091
SGE T+D*	18,690	11,648
SGE Spot*	6,342	6,140
LME**	1,989	2,277
MCX	2,297	2,256
Borsa Istanbul	457	265
DGCX	306	231

\*Official numbers count buy and sell volume  
\*\*Launched 10th July 2017  
Source: Metals Focus - Gold Focus 2019

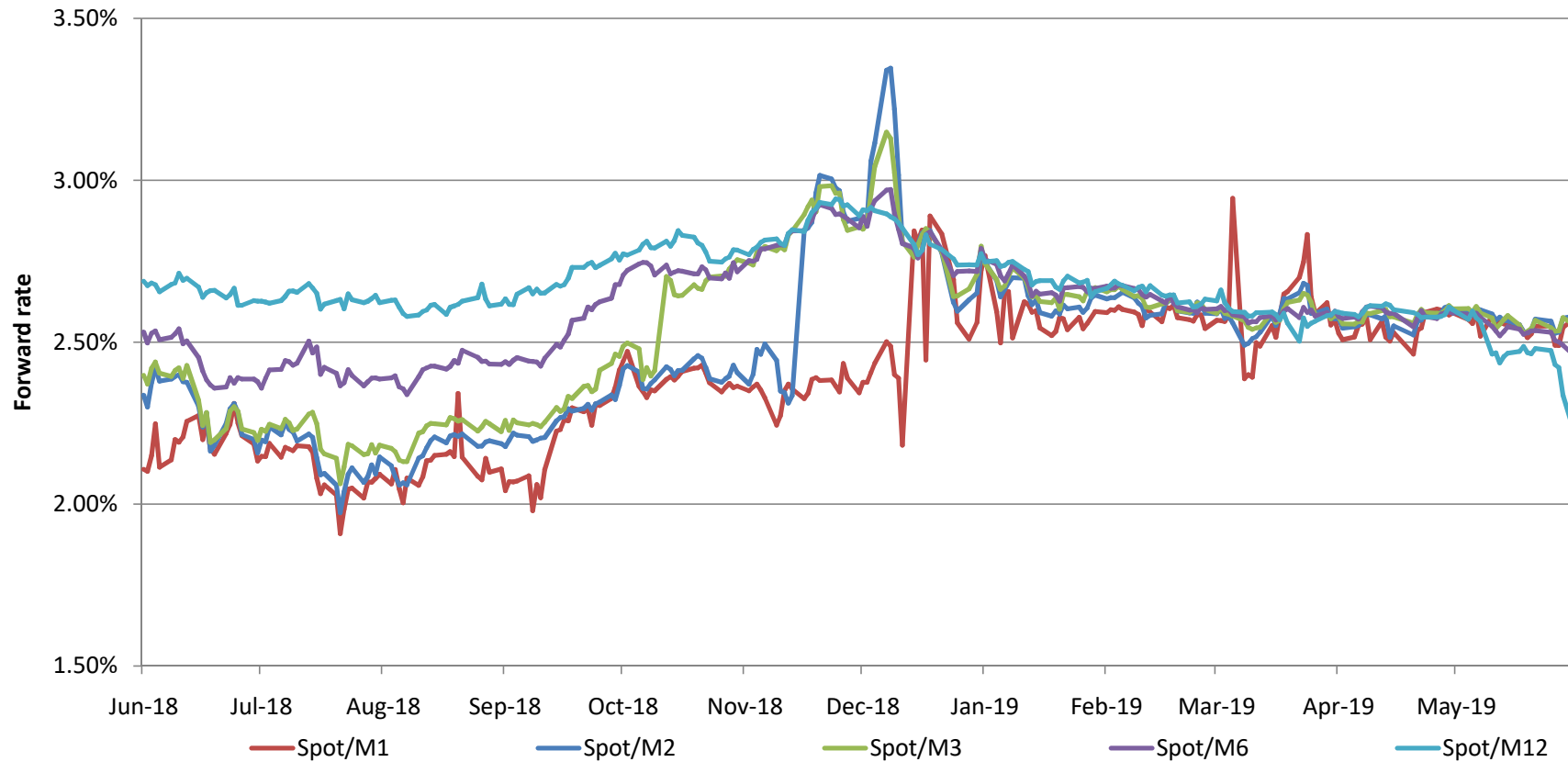
# LMEprecious Open Interest along the curve

LMEprecious Open Interest



# 5. Transparency for the gold forward curve

# LME Gold implied forward rates

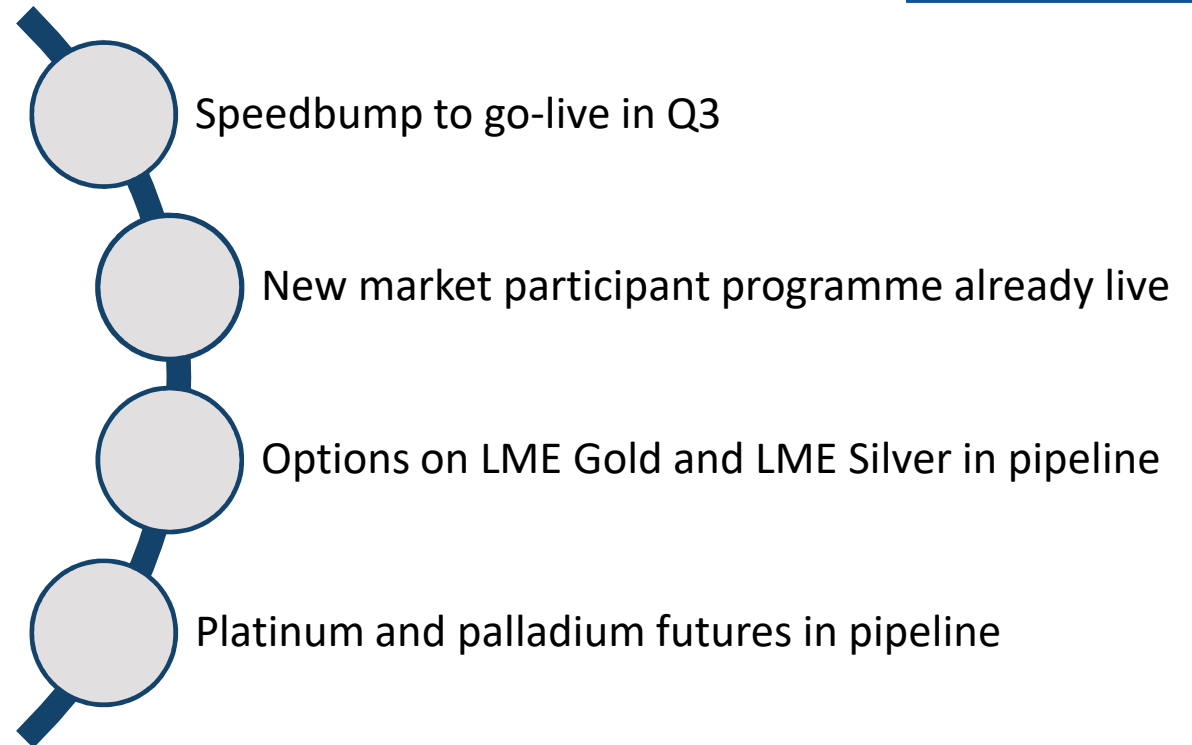
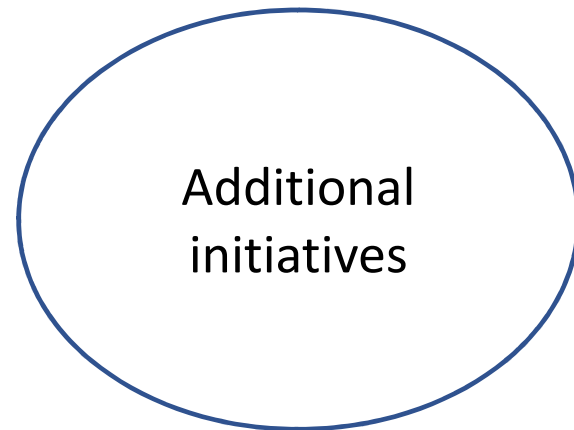


\*Calculated using the LME Gold spot closing price, and the mid price for each carry on LMEselect at 18.30 London time



## 6. Key developments for LMEprecious

# LMEprecious key developments



# LMElive – free access to live LMEprecious prices



LMEprecious - Composite

UTC: 09:09:40

Date: 02 Apr 19 Tom: 03 Apr 19 SPOT: 04 Apr 19

SPOT Quotes							SPOT Trades						
Metal	Time	Source	Vol	Bid	Ask	Vol	Source	Open	High	Low	Source	Last	Select Vol
AU	09:09:41	SELC	34	1286.900	1287.200	21	SELC	1286.400	1286.900	1286.400	SELC	1286.900	7
AG	09:09:36	SELC	7	15.03000	15.04000	12	SELC				--		

Tom/Next Quotes							Tom/Next Trades						
Metal	Time	Source	Vol	Bid	Ask	Vol	Source	Open	High	Low	Source	Last	Select Vol
AU	07:32:59	SELC	282	0.098c	0.089c	280	SELC	0.098c	0.089c	0.098c	SELC	0.089c	48
AG	07:32:29	SELC	185	0.00117c	0.00109c	185	SELC	0.00117c	0.00109c	0.00117c	SELC	0.00109c	60

LME Gold SPOT Market Depth				
Time	Vol	Bid	Ask	Vol
09:09:40	34	1286.900	1287.200	21
09:09:40	16	1286.800	1287.300	21
09:09:40	27	1286.700	1287.400	40
09:09:36	27	1286.600	1287.500	32
09:09:36	18	1286.700	1287.700	9

LME Silver SPOT Market Depth				
Time	Vol	Bid	Ask	Vol
09:09:36	7	15.03000	15.04000	12
09:09:40	24	15.02500	15.04500	19
09:09:40	22	15.02000	15.05000	22
09:09:25	33	15.01500	15.05500	33
09:09:40	33	15.01000	15.06000	33

LME Gold Monthly Quotes and Trades				
Month	Time	Bid	Ask	Last
Apr 19	09:09:40	1288.000	1288.400	
May 19	09:09:40	1290.600	1291.000	
Jun 19	09:09:40	1293.800	1294.300	
Jul 19	09:09:40	1296.300	1296.900	
Aug 19	09:09:40	1299.500	1300.200	
Dec 19	09:09:40	1310.400	1311.300	
Jun 20	09:09:40	1326.300	1327.800	
Dec 20	09:09:40	1340.400	1342.300	
Jun 21	09:09:40	1353.400	1356.200	
Dec 21	09:09:40	1367.000	1370.100	
Jun 22	09:09:40	1380.100	1385.000	

LME Silver Monthly Quotes and Trades				
Month	Time	Bid	Ask	Last
Apr 19	09:09:36	15.04000	15.06000	
May 19	09:09:36	15.07500	15.09000	
Jun 19	09:09:36	15.11500	15.13500	
Jul 19	09:09:36	15.15000	15.16500	
Aug 19	09:09:36	15.19000	15.21000	
Dec 19	09:09:36	15.33000	15.35500	
Jun 20	09:09:36	15.54500	15.57500	
Dec 20	09:09:36	15.74500	15.77500	
Jun 21	09:09:36	15.94000	15.98000	
Dec 21	09:09:36	16.12500	16.18000	
Jun 22	09:09:36	16.30500	16.39500	

LMEprecious reference prices  
Reference prices provided on lme.com



# Disclaimer



© The London Metal Exchange (the “LME”), 2019. The London Metal Exchange logo is a registered trademark of The London Metal Exchange.

All rights reserved. All information contained within this document (the “Information”) is provided for reference purposes only. While the LME endeavours to ensure the accuracy, reliability and completeness of the Information, neither the LME, nor any of its affiliates makes any warranty or representation, express or implied, or accepts any responsibility or liability for, the accuracy, completeness, reliability or suitability of the Information for any particular purpose. The LME accepts no liability whatsoever to any person for any loss or damage arising from any inaccuracy or omission in the Information or from any consequence, decision, action or non-action based on or in reliance upon the Information. All proposed products described in this document are subject to contract, which may or may not be entered into, and regulatory approval, which may or may not be given. Some proposals may also be subject to consultation and therefore may or may not be implemented or may be implemented in a modified form. Following the conclusion of a consultation, regulatory approval may or may not be given to any proposal put forward. The terms of these proposed products, should they be launched, may differ from the terms described in this document.

Distribution, redistribution, reproduction, modification or transmission of the Information in whole or in part, in any form or by any means are strictly prohibited without the prior written permission of the LME.

The Information does not, and is not intended to, constitute investment advice, commentary or a recommendation to make any investment decision. The LME is not acting for any person to whom it has provided the Information. Persons receiving the Information are not clients of the LME and accordingly the LME is not responsible for providing any such persons with regulatory or other protections. All persons in receipt of the Information should obtain independent investment, legal, tax and other relevant advice before making any decisions based on the Information.

LME contracts may only be offered or sold to United States foreign futures and options customers by firms registered with the Commodity Futures Trading Commission (CFTC), or firms who are permitted to solicit and accept money from US futures and options customers for trading on the LME pursuant to CFTC rule 30.10.