

ASIA PACIFIC
PRECIOUS METALS
CONFERENCE

3-5 June 2018

PARKROYAL on Beach Road, Singapore

LMEprecious update – how the initiative supports the Asian market

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3-5 JUNE 2018

PARKROYAL on Beach Road, Singapore

Agenda

1. Background to LMEprecious
2. How LMEprecious contracts trade
3. Volumes and Open Interest
4. Price discovery and the forward curve
5. Relevance to the Asian market
6. Access to trade LMEprecious contracts
7. Summary – LMEprecious for Asia

1. Background to LMEprecious

LMEprecious

What is LMEprecious?

- Gold and Silver exchange traded futures contracts
- Cleared in London
- Settled loco London in unallocated bullion
- On screen daily liquidity from spot out to five years
- Launch date: 10 July 2017

Gold

- 100 fine troy ounces – quoted in USD

Silver

- 5,000 troy ounces – quoted in USD

The changing face of the London market

- Traditional bilateral trading market
- Profound regulatory change
- Increased cost of capital
- Increased cost of trading non-cleared OTC derivatives
- Vaulters, Banks and Traders leave the bullion market
- Increased pressure on bilateral credit lines



Need for liquid trading venue with multilateral netting and central clearing

The market drive for LMEprecious

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Goldman
Sachs

SOCIETE
GENERALE

WORLD
GOLD
COUNCIL

Morgan Stanley

OSTC

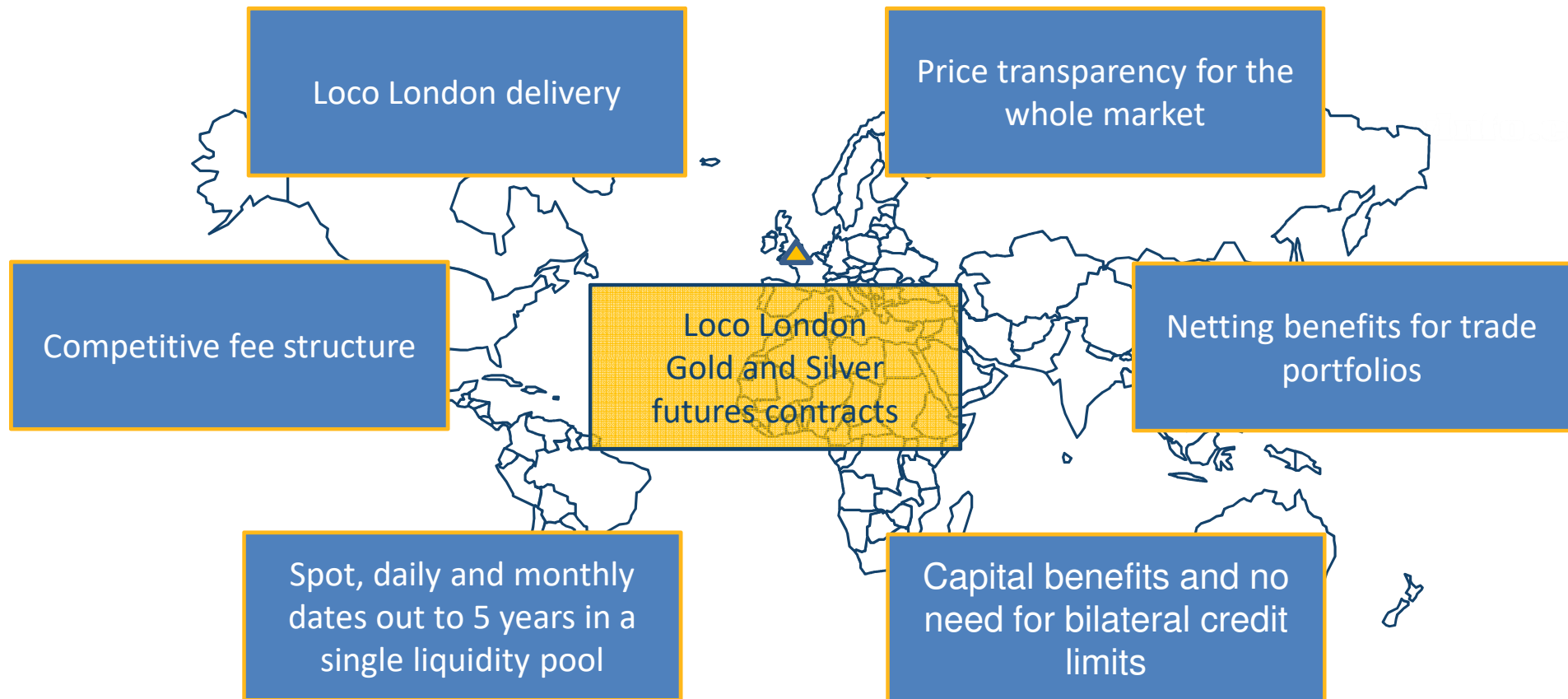
NATIXIS

ICBC 中国工商银行 Standard Bank

Contract design requirements

- Combines spot liquidity with futures on the same venue
- On-screen tradeable calendar spreads
- Easy to arb against existing liquid contracts
- Continuous pricing provision at depth
- Ability to execute trades on-screen or phone-brokered

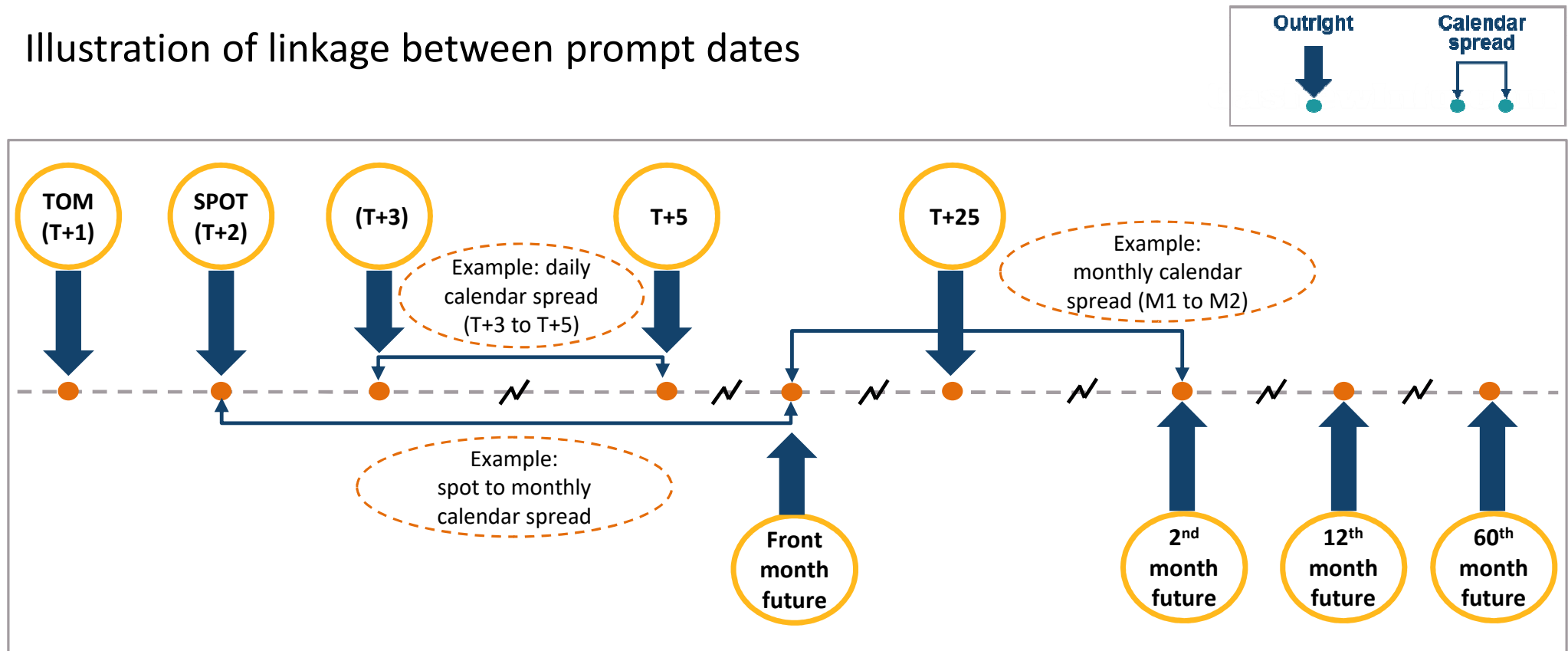
Benefits of LMEprecious



2. How LMEprecious contracts trade

Trading LMEprecious contracts

Illustration of linkage between prompt dates



Tight pricing on-screen out to 5 years

LME Gold spot/monthly carries								
Leg 1	Leg 2	BPS	\$ Bid	\$ Offer	BPS	Last	Last BPS	Volume
Tom	Next	1.58%	0.170	0.155	1.44%	0.156	4.33%	14.00
Spot	Oct-17	1.51%	0.108	0.104	1.45%	0.107	1.49%	80.00
Spot	Nov-17	1.51%	1.625	1.586	1.47%	1.612	1.49%	460.00
Spot	Dec-17	1.52%	3.542	3.456	1.48%			
Spot	Jan-18	1.57%	5.223	5.073	1.52%	5.160	1.54%	400.00
Spot	Feb-18	1.60%	7.330	7.142	1.56%			
Spot	Mar-18	1.62%	9.070	8.861	1.58%			
Spot	Apr-18	1.65%	10.859	10.628	1.61%			
Spot	May-18	1.66%	12.638	12.315	1.62%	12.445	1.63%	1,000.00
Spot	Jun-18	1.68%	14.880	14.451	1.63%			
Spot	Jul-18	1.70%	16.749	16.207	1.64%	16.471	1.66%	500.00
Spot	Aug-18	1.71%	18.578	17.982	1.66%			
Spot	Sep-18	1.72%	20.863	20.299	1.67%			
Spot	Oct-18	1.74%	22.842	22.085	1.68%			
Spot	Nov-18	1.75%	25.192	24.432	1.70%			
Spot	Dec-18	1.76%	27.093	26.316	1.71%			
Spot	Jan-19	1.77%	29.013	28.205	1.72%			
Spot	Feb-19	1.78%	31.439	30.594	1.73%			
Spot	Mar-19	1.79%	33.400	32.511	1.74%			
Spot	Apr-19	1.80%	35.381	34.435	1.75%			
Spot	May-19	1.81%	37.410	36.402	1.76%			
Spot	Jun-19	1.82%	39.976	38.869	1.77%			
Spot	Jul-19	1.84%	42.054	40.850	1.78%			
Spot	Aug-19	1.85%	44.681	43.334	1.79%			
Spot	Sep-19	1.86%	46.807	45.329	1.80%			
Spot	Oct-19	1.88%	49.216	47.329	1.81%			
Spot	Dec-19	1.89%	53.855	51.764	1.82%			
Spot	Mar-20	1.91%	60.665	58.223	1.84%			
Spot	Jun-20	1.93%	67.606	64.924	1.86%			
Spot	Sep-20	1.95%	74.676	71.746	1.88%	73.739	1.92%	2,500.00
Spot	Dec-20	1.98%	82.290	78.138	1.88%			
Spot	Mar-21	2.00%	89.573	84.887	1.90%			

1 year gold: 1.67%/1.72%
5 BPS wide

3 year gold: 1.88%/1.95%
7 BPS wide

5 year gold: 1.97%/2.09%
12 BPS wide

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Spot prices

Gold Outright

Contract	BQty	Bid	Offer	OQty
AUDC	26	1305.80	1306.00	7
	29	1305.70	1306.10	19
	27	1305.60	1306.20	29
	27	1305.50	1306.30	27
			1306.40	27
AUDJUN18	20	1307.00	1307.40	7
AUDJUL18	20	1309.40	1309.80	7
AUDAUG18	20	1311.90	1312.30	7
AUDSEP18	20	1315.10	1315.50	7
AUDOCT18	20	1317.70	1318.20	7
AUDDEC18	20	1323.80	1324.40	7
AUDDEC19	20	1360.30	1362.10	7
AUDJUN20	20	1379.80	1382.30	7
AUDDEC20	20	1399.60	1402.50	7
AUDJUN21	20	1419.70	1423.10	7

Spot top of book 1-3 ticks wide (10c – 30c)

Implied pricing combines top of book spot with spreads to create outright prices

Tight on-screen Gold forward spreads

Gold Carry		Add instrument		
Contract	BQty	Bid	Offer	OQty
AUDTOMNEXT	185	0.290c	0.200c	510
AUDC-050618	40	0.078c	0.077c	20
	20	0.079c	0.076c	40
AUDC-JUN18	20	1.292c	1.262c	20
	20	1.293c	1.260c	20
	20	1.297c	1.258c	20
AUDC-JUL18	20	3.724c	3.653c	20
	20	3.737c	3.644c	20
	20	3.749c	3.629c	20
AUDC-AUG18	20	6.212c	6.148c	20
	20	6.237c	6.085c	20
	20	6.304c	6.056c	20
AUDC-SEP18	20	9.435c	9.310c	20
	20	9.487c	9.260c	20
	20	9.542c	9.203c	20
AUDC-OCT18	20	12.069c	11.939c	20
AUDC-NOV18	20	15.459c	15.291c	20
AUDC-DEC18	20	18.249c	18.016c	20

Daily roll quoted at \$0.001
bid / offer spreads

LME charge \$0.02 for
daily roll of 100 oz. gold

All forward spreads
quoted on screen at least
60 lots either side

Note: LMEselect GUI Screen grab c. midday 31 May 2018

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Tight on-screen Silver forward spreads

Silver Carry		Add instrument		
Contract	BQty	Bid	Offer	OQty
AGDTOMNEXT	144	0.00330c	0.00260c	210
AGDC-050618	30	0.00102c	0.00098c	30
AGDC-JUN18	10	0.01696c	0.01628c	10
	10	0.01698c	0.01625c	10
	10	0.01699c	0.01622c	10
AGDC-JUL18	10	0.04891c	0.04715c	10
	10	0.04907c	0.04710c	10
	10	0.04917c	0.04689c	10
AGDC-SEP18	10	0.12216c	0.11758c	10
	10	0.12226c	0.11736c	10
	10	0.12238c	0.11726c	10
AGDC-OCT18	10	0.15688c	0.15087c	10
AGDC-NOV18	10	0.20145c	0.19407c	10
AGDC-DEC18	10	0.23749c	0.22945c	10

Daily roll top of book c.150
lots either side

All forward spreads
quoted on screen at least
30 lots either side

Rapid refresh when prices
hit, with replacement
within spread range

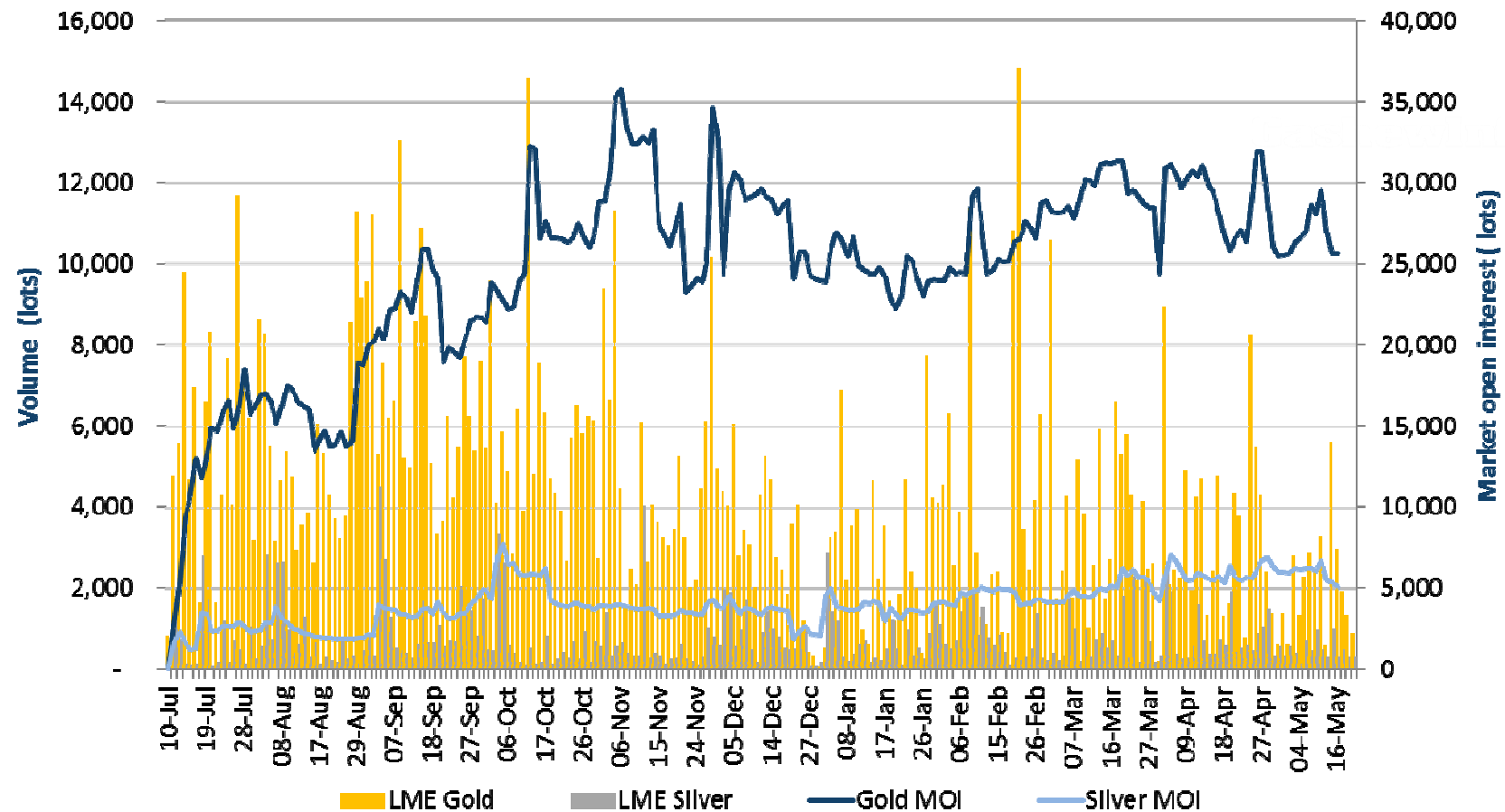
Note: LMEselect GUI Screen grab c. midday 31 May 2018

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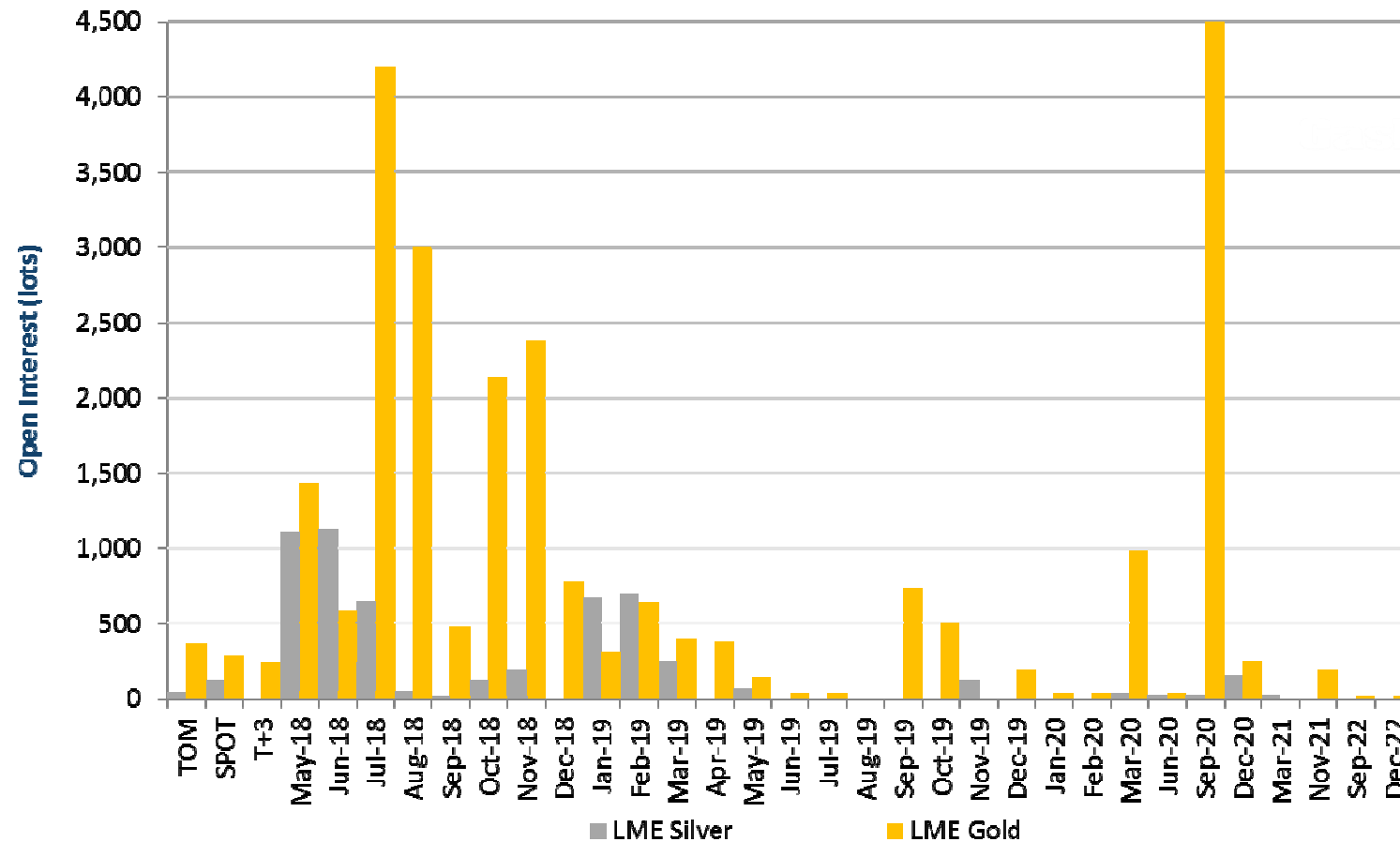
3. Volume and Open Interest

LMEprecious Volume and Open Interest



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LMEprecious Open Interest along the curve



4. Price discovery and the forward curve

LMEprecious - Metal Summary - LME Gold

UTC: 11:14:19

Date: 03 Apr 18 TOM: 20 Mar 18 SPOT: 21 Mar 18

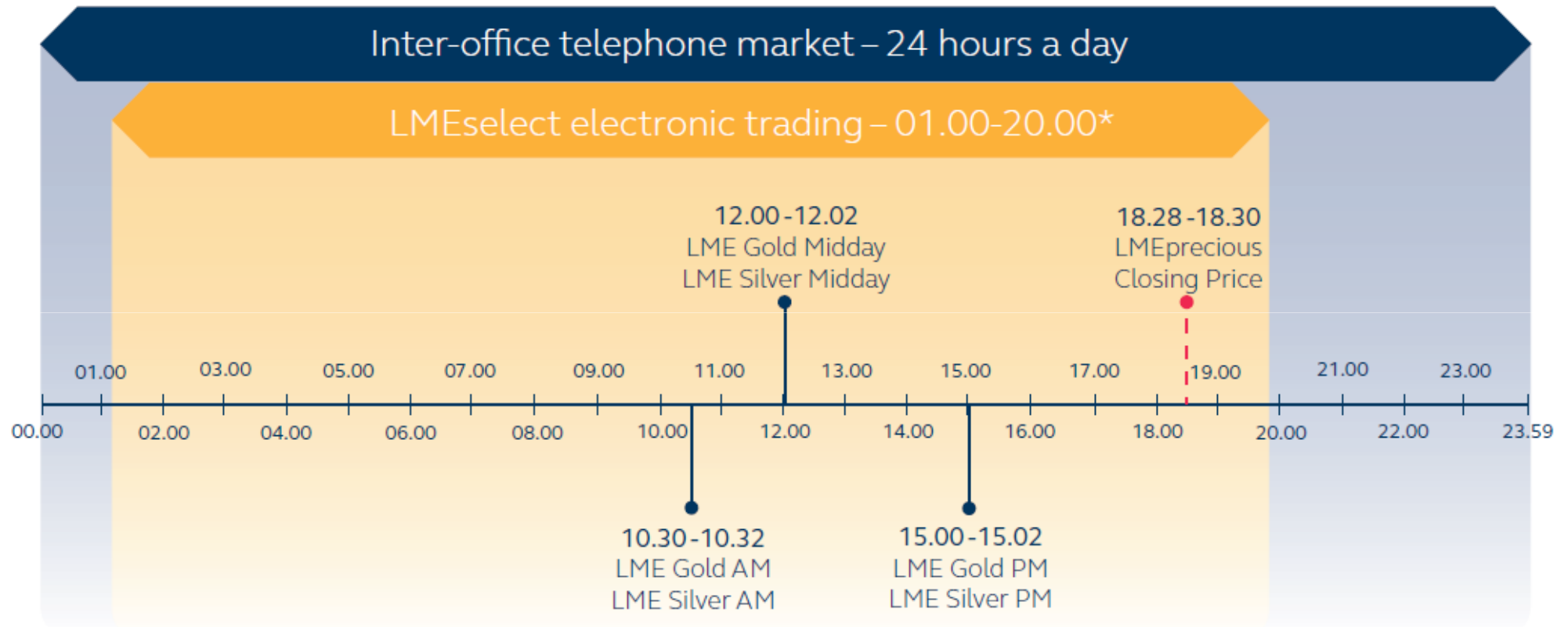
Commodity LME Gold ▾

Quotes								Trades					
	Time	Src	Vol	Bid	Ask	Vol	Src	Open	High	Low	Src	Last	Vol
SPOT	09:09:46	SELC	3	1320.50	1321.50	4	IO	1320.00	1322.00	1319.50	SELC	1321.00	500
Mar 18	09:09:46	SELC	3	1320.50	1321.50	4	IO	1320.00	1322.00	1319.50	SELC	1321.00	500
Apr 18	09:09:46	SELC	3	1320.50	1321.50	4	IO	1320.00	1322.00	1319.50	SELC	1321.00	500
May 18	09:09:46	SELC	3	1320.50	1321.50	4	IO	1320.00	1322.00	1319.50	SELC	1321.00	500
Jun 18	09:09:46	SELC	3	1320.50	1321.50	4	IO	1320.00	1322.00	1319.50	SELC	1321.00	500
Jul 18	09:09:46	SELC	3	1320.50	1321.50	4	IO	1320.00	1322.00	1319.50	SELC	1321.00	500

Carry Quotes								Carry Trades					
	Time	Src	Vol	Bid	Ask	Vol	Src	Open	High	Low	Src	Last	Vol
TOM - NEXT	09:09:46	SELC	3	1.00b	1.50b	4	IO	1.25b	1.25b	1.25b	SELC	1.25b	70
Mar 18 - Apr 18	09:09:46	SELC	3	1.00b	1.50b	4	IO	1.25b	1.25b	1.25b	SELC	1.25b	70
Apr 18 - May 18	09:09:46	SELC	3	1.00b	1.50b	4	IO	1.25b	1.25b	1.25b	SELC	1.25b	70
May 18 - Jun 18	09:09:46	SELC	3	1.00b	1.50b	4	IO	1.25b	1.25b	1.25b	SELC	1.25b	70
Jun 18 - Jul 18	09:09:46	SELC	3	1.00b	1.50b	4	IO	1.25b	1.25b	1.25b	SELC	1.25b	70

Spot-Monthly Carry Quotes and Trades						
	Time	Bid BPS	Bid	Ask	Ask BPS	Last
TOM - NEXT	13:14:06	2.45%	0.75c	0.50c	1.36%	0.60c
SPOT - Mar 18	13:14:06	2.45%	0.75c	0.50c	1.36%	0.60c
SPOT - Apr 18	13:14:06	2.45%	0.75c	0.50c	1.36%	0.60c
SPOT - May 18	13:14:06	2.45%	0.75c	0.50c	1.36%	0.60c
SPOT - Jun 18	13:14:06	2.45%	0.75c	0.50c	1.36%	0.60c
SPOT - Jul 18	13:14:06	2.45%	0.75c	0.50c	1.36%	0.60c

LMEprecious reference prices



Trade at settlement basis reference prices

TAS order book snapshot

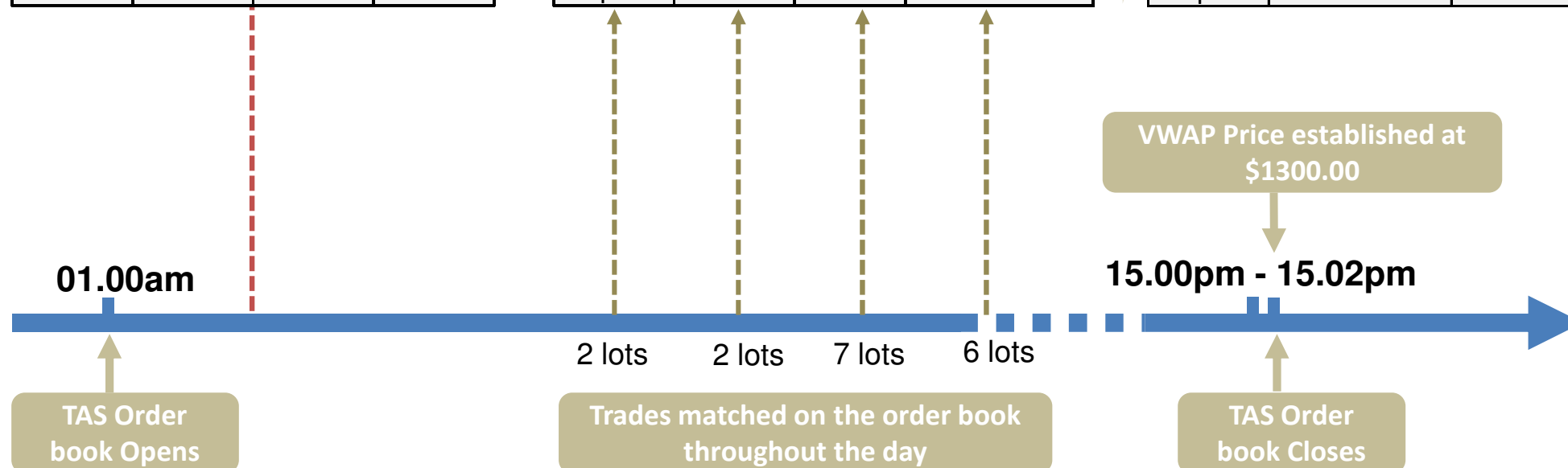
TAS on spot (\$)			
Volume	Bid	Ask	Volume
8	0	0.10	3
6	-0.10	0.20	6
4	-0.20	0.30	4

TAS trade blotter view

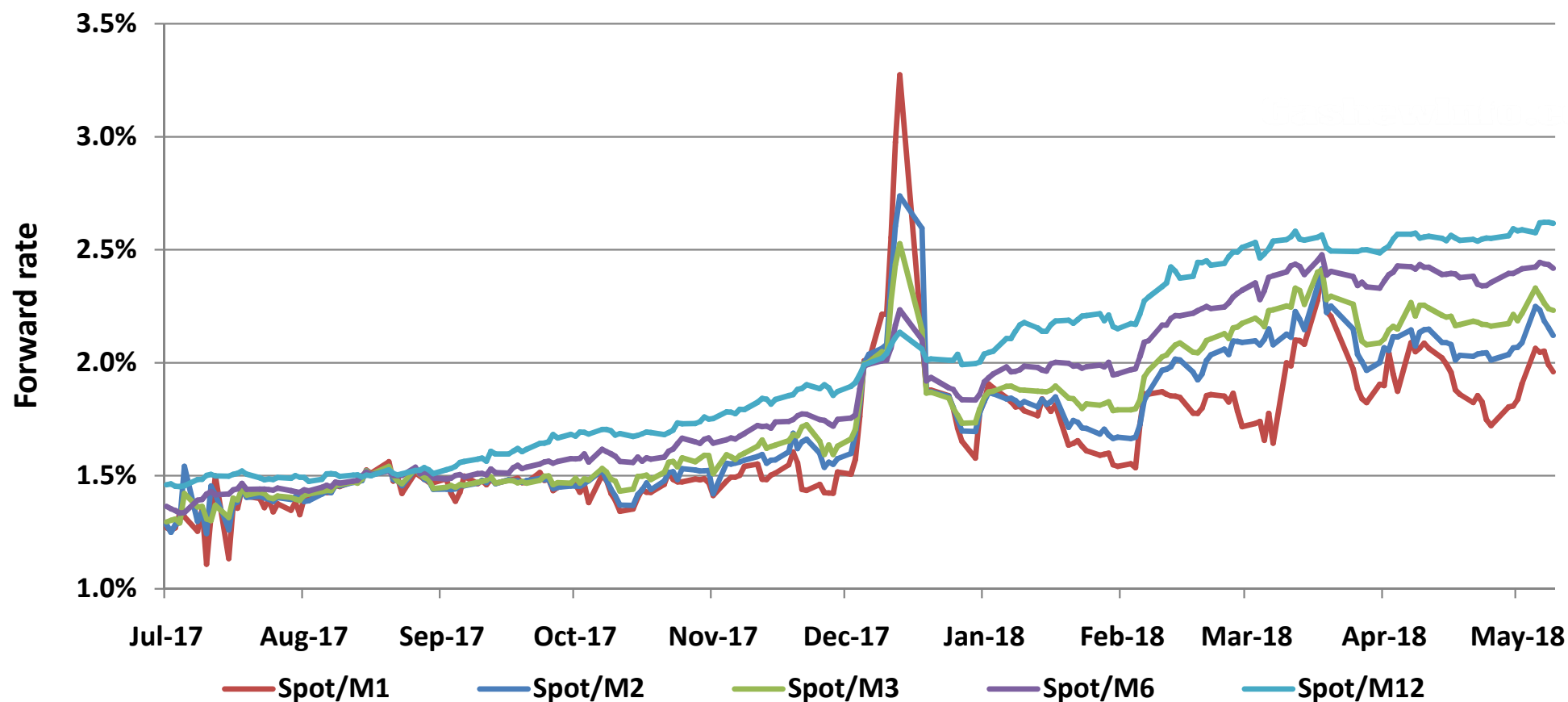
Market	Price	Volume	Time of trade
Spot	0.30	6	11:12:00 AM
Spot	0	7	10:02:24 AM
Spot	0.10	2	08:09:36 AM
Spot	-0.10	2	06:09:36 AM

Resulting spot positions

Market	Futures price	Volume
Spot	1300.30	6
Spot	1300.00	7
Spot	1300.10	2
Spot	1290.90	2



LME Gold implied forward rates

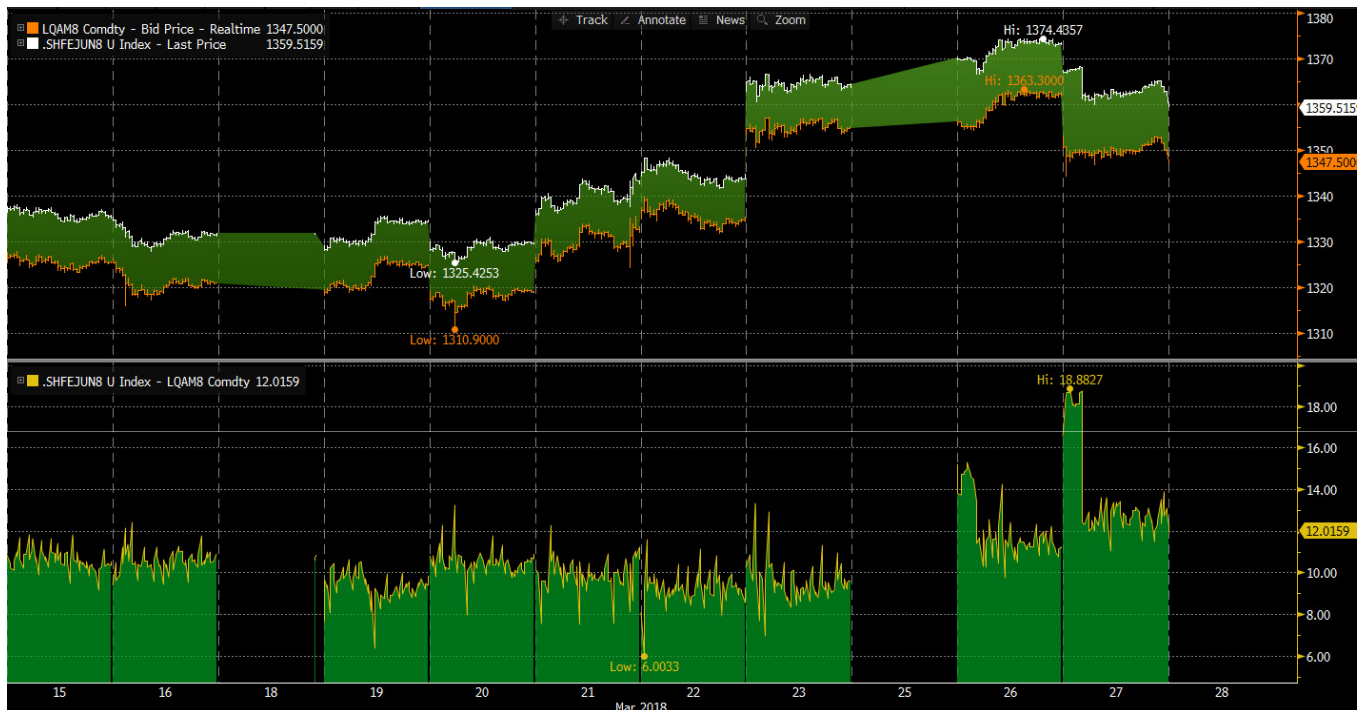


*Calculated using the LME Gold spot closing price, and the mid price for each carry on LMEselect at 18.30 London time

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5. Relevance to the Asian market

Arbitrage opportunities between exchanges



Above: SHFE premium observed ranging from \$6-18 during London afternoon / Shanghai night session

- Ability to manage basis risk or trade regional supply and demand dynamics
- Potential margin offsets against gold positions on other exchanges

Increased liquidity in Asian trading hours



To: All members
Ref: 18/133
Classification: Trading
Date: 14 May 2018
Subject: **LMEPRECIOUS ASIAN HOURS LIQUIDITY PROVIDER
PROGRAMME – APPOINTED LIQUIDITY PROVIDERS**

Summary

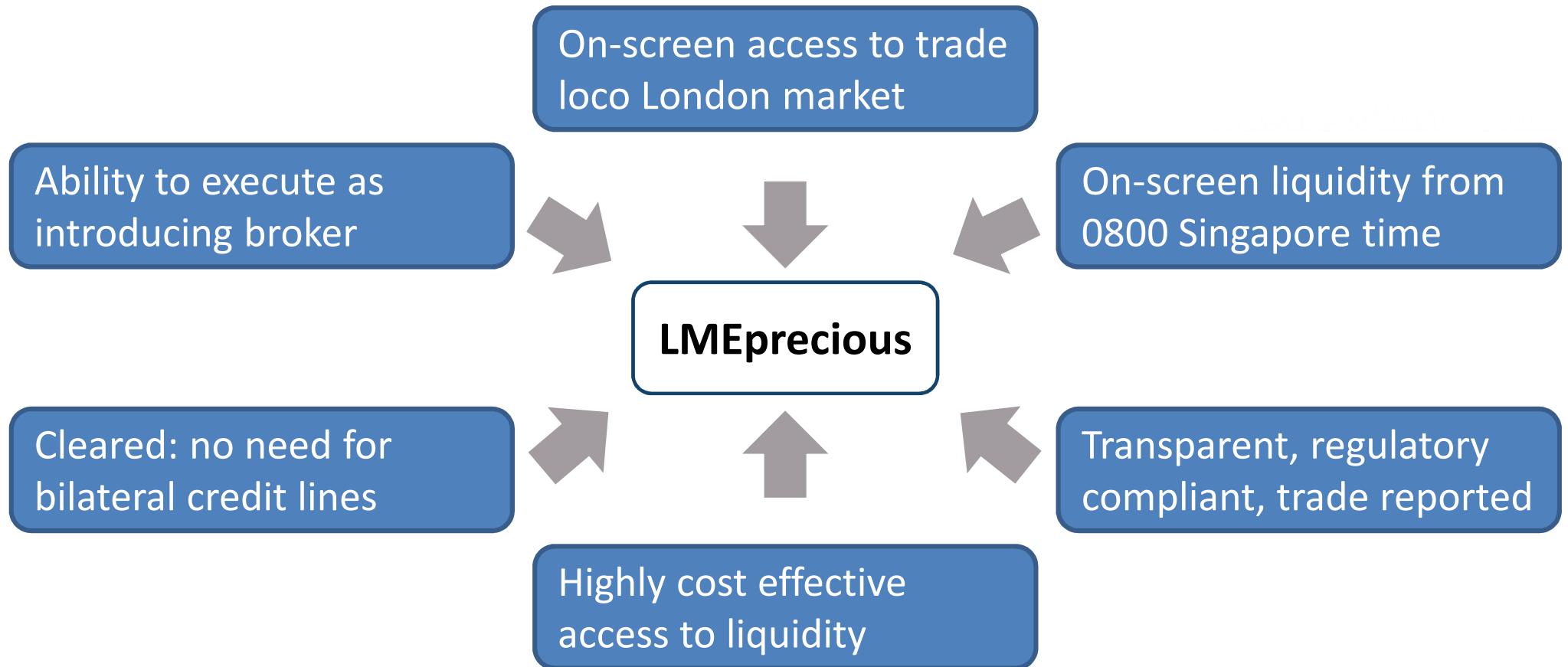
1. This Notice sets out details of the Liquidity Providers (“LPs”) on the new LMEprecious Asian Hours Liquidity Provider Programmes (“LP Programmes”) for the LME Gold and LME Silver contracts (together, the “Products”).

Background

2. Notice 18/093 issued on 9 April 2018 announced: (i) the launch of a tender process for those wishing to participate in the LP Programmes and included details of the relevant criteria for qualification, the commencement date, the relevant incentives, the tender and application process, the rebate process and certain other information.

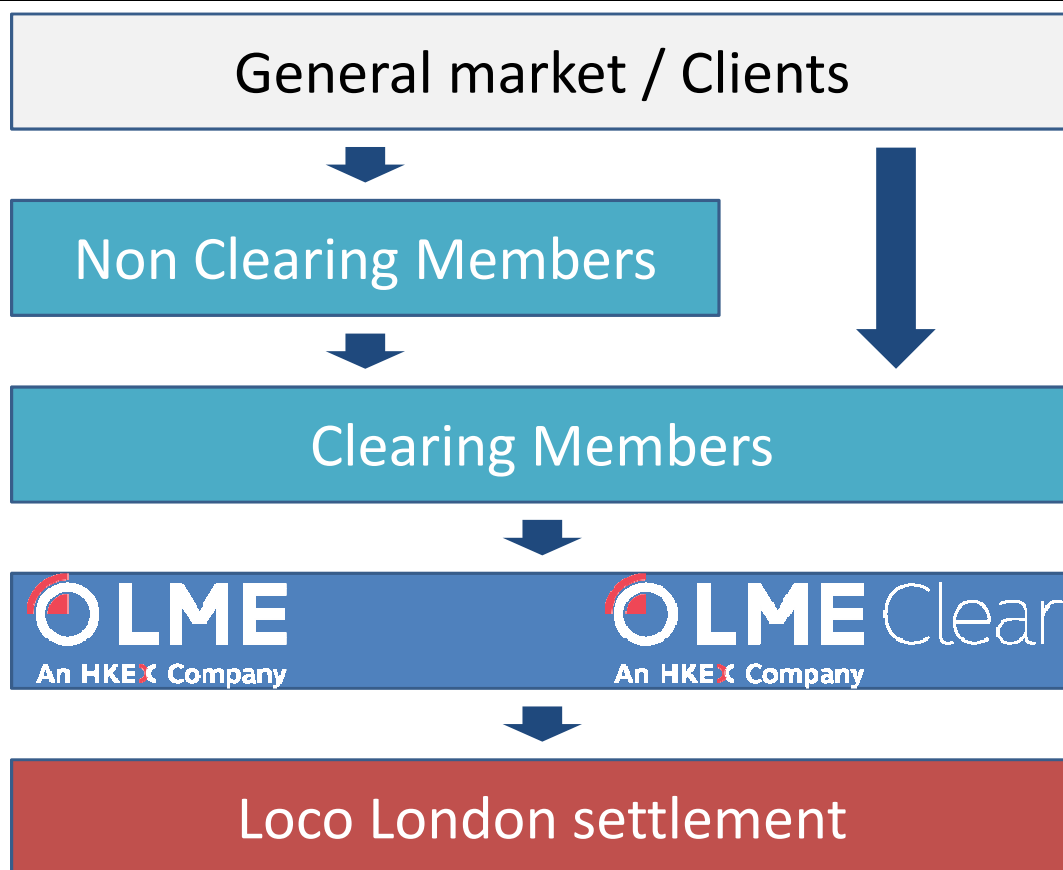
- Expansion of on-screen liquidity provision across “Asian hours” from 1 June 2018
- Additional Asian market Clearers due to go live in late June 2018
- LMEprecious data free on LMElive Summer 2018

Significance for the Asian bullion market



6. Access to trade LMEprecious contracts

Trading LMEprecious contracts



- Access via LMEprecious Member
- \$0.90 per cleared trade

- No joining fees
- \$0.50 per cleared trade*

- Default fund contribution
- “B share” purchase requirement

- LME provides Member interface
- ISVs can provide user interface

- Unallocated bullion settlement (as per OTC loco London trading)


Note: * Further reductions available

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Access LMEprecious via Members & Brokers




Clearing members:

	GCM	Goldman Sachs International
	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
	ICM	ICBC Standard Bank PLC
	ICM	Natixis

Brokers working LMEprecious:

	✓	Tradition
	✓	tullett prebon
	✓	BGC Partners
	✓	GFI Group
	✓	ICAP
	✓	Sunrise Brokers

Non clearing members trading LMEprecious:

	✓	Morgan Stanley Capital Group Inc.
	✓	OSTC Limited
	✓	XTX Markets Limited

7. Summary

Summary – LMEprecious for Asia

- Liquid tradeable loco London spot prices and forward curves
 - LMElive – free real time price access
 - Free data tools available (contact LMEprecious@lme.com)
- Central Clearing via CCP and cross-margining of positions
- “Asian hours” market making from 1 June 2018
- One stop shop for precious metals:
 - Spot
 - Futures
 - Tradeable reference prices*
 - Options*
 - Traded on-screen and broked vs. anonymous counterparty*

Note: * Target go-live Q4 2018 subject to regulatory approval

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