

The Non-Existence Of A London Gold Forward Backwardation

There are stories circulating among gold mining executives, fund managers, and other gold market participants at present that there is a backwardation the London gold forward market. The rumor is being promulgated by groups that market physical gold to investors based on conspiracy theories and fear, the suggestion being that the physical gold market is so tight that traders are having to pay a premium for spot gold over gold for future delivery.

The problem with this theory is that no such backwardation exists.

*These stories and rumors are part of a broader effort by gold promoters to inaccurately lead investors into thinking that the gold market is tight and prices are about to 'explode' to the upside. A separate **Market Commentary** CPM will release later today will address the inaccurate commentary about how Comex's gold futures contract is facing a shortage of physical gold relative to its open interest.*

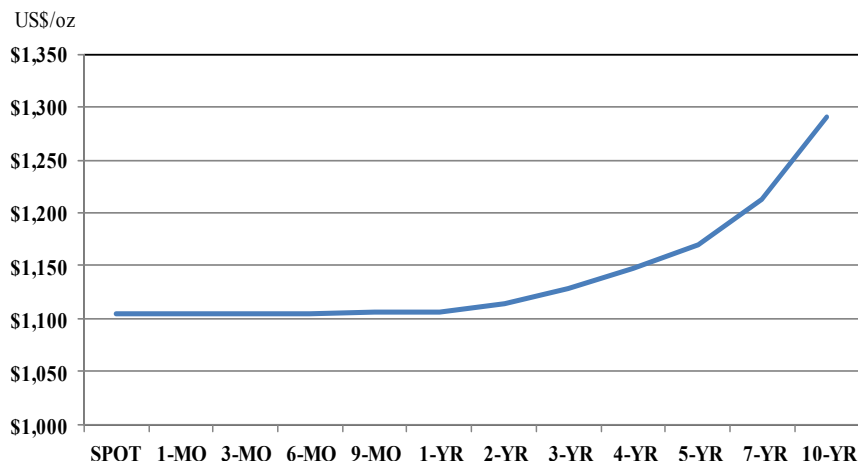
Actual London gold forward prices based on real transactions never really have been published. These are principal-to-principal transactions between banks and customers or counterparties. As such, they have always varied, in part depending on the customer. There have been published data on forwards, but these numbers were indicative forward quotes calculated using the Libor interest rate rather than being actual quotes at which trades had been made. The fact that these indicative quotes widely misrepresented actual forward markets led to the quotes being suspended on 30 January this year.

Since 2009 the CME Group has operated a system allowing for London over the counter forwards to be cleared through the CME Clearinghouse, and publishes a daily curve of Cleared OTC London Gold Forwards (ftp.cmegroup.com/settle/Section68_OTC_LGF.pdf). Few London forwards actually are cleared via CME's contract, but the CME gathers actual forward quotes from banks and dealers every day and publishes a forward price curve based on these actual quotes, in contrast to the indicative quotes elsewhere. These quotes show a clear positive forward carry, or contango.

Part of the problem was that the indicative quotes were so clearly not representative of the market that regulators asked the London banks to fix the quote system. Rather than fix the forward quoting system, the banks chose to discontinue releasing such data, as of the end of January, as mentioned above. This took the forward market from being grossly misrepresented to being totally opaque. The only way a producer, user, investor, or other market participant can learn what an actual forward price is today is to ask one or more banks making forward quotes.

CME Cleared OTC London Gold Forwards

11 September 2015



68

CLEARED OTC LONDON GOLD FORWARDS

68



2015 DAILY INFORMATION BULLETIN - <http://www.cmgroupp.com/dailybulletin> CME Group Inc. A
 CME/Chicago Board of Trade/NYMEX Company, 20 South Wacker Drive, Chicago, Illinois 60606-7499
 Customer Service: (312) 930-1000


PRELIMINARY

PG68 BULLETIN #1758

CLEARED OTC LONDON GOLD FORWARDS

Fri, Sep 11, 2015 PG68

FOR PRODUCTS THAT ARE TRADED IN BOTH REGULAR TRADING HOURS (RTH) AND ELECTRONIC TRADING HOURS (ETH) THE INFORMATION REPRESENTED ON THIS PAGE FOR OPENING RANGE, HIGH, LOW, CLOSING RANGE, SETTLEMENT PRICE AND VOLUME REPRESENTS RTH ACTIVITY ONLY. NOTE: LIFE OF CONTRACT HIGH AND LOW REPRESENTS BOTH RTH AND ETH. RTH VOLUME REFLECTS PFT TRADING, BLOCK TRADES AND CASH-FOR-FUTURES ONLY. ETH REPRESENTS GLOBEX VOLUME TRANSACTIONS FROM THE GLOBEX® ELECTRONIC SESSION ONLY. VOLUME OR OPEN INTEREST (BOTH BEFORE AND AFTER THE LAST DAY OF TRADING) MAY BE AFFECTED BY: CASH FOR FUTURES, SPREADS, AND PRIOR DAYS' CLEARED TRADES (OUT-TRADES), POSITION ADJUSTMENTS, OPTION EXERCISES, POSITIONS IN DELIVERY, OR POSITIONS IN A CASH SETTLEMENT CYCLE. PRODUCT LISTINGS REPRESENT CONTRACTS WITH PRICE/VOLUME ACTIVITY AND/OR HAVE ESTABLISHED OPEN INTEREST. PRODUCTS THAT ARE ELIGIBLE TO TRADE, BUT ARE INACTIVE, DO NOT APPEAR IN THIS REPORT. LEGEND: #WEEK, #MONTH, #YEAR, #POST SETTLEMENT SESSION, #MIN CONTRACT HIGH PRICE, #MIN CONTRACT LOW PRICE, #RECORD VOLUME OR OPEN INTEREST. SETTLEMENT PRICES ARE DETERMINED BY CME RULE 513.

CLEARED OTC LONDON GOLD FORWARDS - Collateral Margined

	TRADE DATE	Sep 11, 2015
DAILY MARKET VOLUME		0
AGGREGATE OPEN POSITIONS		0

	SETTLEMENT PRICE	CONTRACT DATE
SPOT	1104.290	09/15/2015
1-WEEK	1104.242	09/22/2015
2-WEEK	1104.231	09/29/2015
1-MONTH	1104.170	10/15/2015
3-MONTH	1104.234	12/15/2015
6-MONTH	1104.751	03/15/2016
9-MONTH	1105.593	06/15/2016
1-YEAR	1106.732	09/15/2016
2-YEAR	1114.885	09/15/2017
3-YEAR	1128.624	09/17/2018
4-YEAR	1147.118	09/16/2019
5-YEAR	1169.159	09/15/2020
7-YEAR	1213.315	09/15/2022
10-YEAR	1290.861	09/15/2025