

Market Update

Increased transparency on gold trading

December 2018

www.gold.org

On 20 November, LBMA published for the first time weekly trading volume data through LBMA-i – its new reporting service, which delivers greater transparency and insight into the over-the-counter (OTC) gold and silver markets. The report includes weekly trading volumes of the OTC Loco-London and Loco-Zurich markets. LBMA has announced that this service will provide daily volumes starting Q1 2019.

We believe that this new data, in conjunction with our revised estimates of global trade volumes, will help investors better understand the dynamics of the highly liquid gold market.

Overview of LBMA-i

LBMA-i was formed in direct response to the LBMA's demand for a trade reporting service. The service, managed by Simplitium, collates reported trade data from LBMA members and anonymises and aggregates them for publication. Initially, all 13 market makers and 29 reporting member entities reported volumes; a further 15 are to begin reporting in early 2019. Reported figures include volumes from spot, forwards and options trades but do not include more complex derivative structures nor trades done through certain trading platforms.

Since its first report, LBMA-i data from 12 November to 14 December 2018 indicates average daily gold trading volumes of 29 million ounces, with a value of US\$35.8 billion.

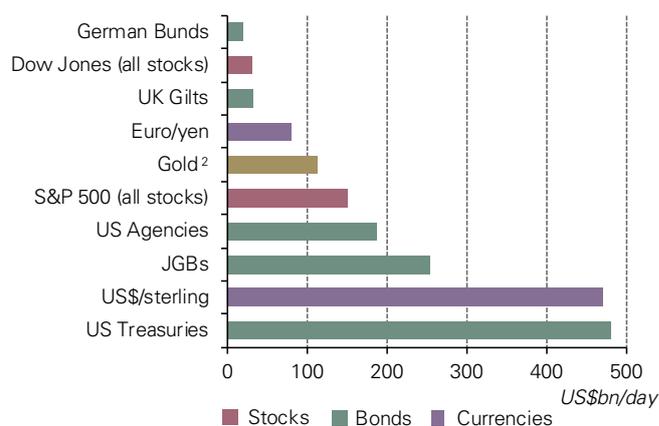
The relevance of gold as a highly liquid asset

Clarity and transparency in financial markets is beneficial to investors as it increases their level of comfort and their understanding of an asset. And gold is no exception. The new regular reporting measures by LBMA-i and its OTC volume statistic should reduce uncertainty about the gold market's liquidity.

The revised OTC trading volumes for gold are substantially lower than previous estimates, which were based on best available but incomplete information. Even with these downward revisions, gold remains a highly liquid market, with notional volumes greater than any individual stock, most stock baskets, multiple bond markets – including medium- and long-dated US Treasuries – and most non-US dollar currency pairs (**Chart 1**).

Chart 1: Gold trades more than many other financial markets

Average daily trading volumes¹



¹ Based on 1-year average trading volumes as of 14 December 2018, except for currencies that correspond to full-year 2016 volumes due to data availability.

² Gold liquidity includes estimates on over-the-counter (OTC) transactions, and published statistics on futures exchanges, and gold-backed exchange-traded products. For methodology details visit Goldhub.

Source: BIS; Bloomberg; Germany Finance Agency; Japan Securities Dealers Association; LBMA; UK Debt Management Office (DMO); World Gold Council

Comparing the new reported volumes

The previous estimated volume of the Loco-London OTC market was based on two inputs: 1) net trading activity, which represents the net volume of Loco-London gold transfers settled between the five clearing members of the London Precious Metals Clearing Limited (LPMCL); and 2) an estimated, implied multiplier. The first input came from monthly net clearing statistics published by LBMA. The implied multiplier was estimated by looking at the reported volumes published in the one-off LBMA survey in 2011 relative to the value of the net transactions in one quarter.

Using this methodology, for example, we previously estimated that OTC volume in September – the latest data available prior to the release of LBMA-i – was between 94.5 and 189 million ounces (US\$113-US\$226 billion).

We believe that the significant difference between new reporting data and our earlier estimates can be explained by a combination of factors linked to changes experienced within the gold market over the past decade. The most important are:

- In 2011, at the time of the previous estimate of liquidity in the OTC gold market based on the LBMA's one-off survey, the gold price was at its all-time high and there was considerably more interest in gold than there is now.
- The Volker Rule prohibits banks from taking proprietary risk, so many of the largest traders within banks no longer run prop positions. Additionally, many of the commodities funds and trading shops that existed 5-10 years ago have closed or exited the market.
- Regulation has driven trades on to exchanges – notably the Comex Division of the Chicago Mercantile Exchange (CME) – that in the past might have been executed OTC. Many traders now execute business on COMEX, often directly, thus reducing OTC trading and liquidity.
- Not all OTC traders are members of LBMA and some banks that used to be part of the association back in 2011 still retain large OTC trading businesses today. This data and other data from non-LBMA-member trading platforms are not captured in the LBMA-i service.
- Finally, not all LBMA members are yet contributing to the report. Reported volumes will likely increase from January 2019 when those members' contributions are added. We believe, however, that this effect may be minimal as the largest trading LBMA members already contribute to the new data set.

Adjusting our global trade volume estimates

As part of our comprehensive offering of data and insight through [Goldhub](#), we periodically update our overview of global traded volumes. This includes gold traded through OTC, spot and derivative exchanges, and gold-backed ETFs.

We have now adjusted our OTC estimates to reflect LBMA-i reported volumes in loco-London and loco-Zurich, and provide an estimated figure for other OTC not captured by the LBMA-i data set – intended to account for trading by non-LBMA members or by platforms not included. Based on anecdotal evidence, we estimate that other OTC could range from 50% to 100% of the volume captured by the new LBMA-i service.

For example, between 12 November and 14 December 2018, LBMA-i data indicates that members traded 29 million ounces (901 tonnes) a day, with a notional value of approximately US\$35.8bn a day. We estimate that other OTC volume not included in LBMA-i may range between US\$17.8bn and US\$35.6bn. This suggests that the total estimated trading volume on the OTC market ranges between US\$53bn and US\$71bn. It also suggests that OTC trading represents approximately 50% to 66% of the global daily trading volume in the gold market.

As we continue to monitor data from LBMA-i over the coming months we will start to see trends developing. Reporting of weekly data – and ultimately daily – may indicate more volatility in average numbers; it is important to realise that these first reported figures are representative of only a few weeks. We will continue to monitor the data set as it expands over time, and we may revise the implied multipliers in order to provide as accurate an estimate of actual volumes as possible.

Table 1: 2018 average daily trading volumes (US\$bn)¹

	Jan–Oct	Nov–Dec
Total OTC	62.1	62.2
Pre-LBMA-i (mid) ²	62.1	
LBMA-i ³		35.6
Non-LBMA-i (mid) ³		26.7
Total commodity/gold exchange ⁴	52.2	43.9
Total gold-backed ETFs ⁵	1.3	1.4
Global gold market	115.6	107.5

¹ As of 14 December 2018. For methodology details visit [Goldhub](#).

² Estimates based on clearing statistics published by the LBMA.

³ LBMA-i and non-LBMA-i OTC estimates start 12 November 2018.

⁴ Includes COMEX, SHFE, SGE, LMEprecious, Dubai Gold & Commodities Exchange, ICE Futures, US Metals, Borsa Istanbul, Bursa Malaysia, Moscow Exchange, Tokyo Commodity Exchange.

⁵ A list of physical gold-backed ETFs (and similar) is available in [Goldhub](#).

Source: Bloomberg, COMEX, LBMA, LME, SGE, SHFE, World Gold Council

About the World Gold Council

The World Gold Council is the market development organisation for the gold industry. Our purpose is to stimulate and sustain demand for gold, provide industry leadership, and be the global authority on the gold market.

We develop gold-backed solutions, services and products, based on authoritative market insight, and we work with a range of partners to put our ideas into action. As a result, we create structural shifts in demand for gold across key market sectors. We provide insights into the international gold markets, helping people to understand the wealth preservation qualities of gold and its role in meeting the social and environmental needs of society.

Based in the UK, with operations in India, the Far East and the US, the World Gold Council is an association whose members comprise the world's leading gold mining companies.

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