

EXPERT GUIDE

PRECIOUS METALS FORWARD PRICES

Brought to you in plain English by Triland Metals



Precious Metals Forward Prices

Precious metals are traded Over the Counter (OTC) as a bilateral agreement between two counterparties. This agreement is private and can be tailor-made to suit any size or date, unlike futures contracts on exchanges. The interdealer forward market for precious metals is an OTC market that is only accessible by banks and financial institutions. Non-banks and non-financial institutions need intermediaries like Triland to access liquidity in the forward markets.

Information stemming from exchanges on bids/offers as well as executed trades are publicly available; all trades are registered and declared. On the OTC market bilateral trading goes unreported but indications are still available by calling your broker. You can also find forward indications on Bloomberg or Reuters 'contributed' feeds, but these spreads are likely to be interbank indications on large size transactions.

Terminology

The mechanisms of the precious metals market mirror those of the foreign exchange market. Take for example the 'ISO 4217' commonly used currency code standards of XAU/USD (gold in dollars), XAG/USD (silver in dollars), XPT/USD (platinum in dollars) and XPD/USD (palladium in dollars). The format is the same as EUR/USD (euro/dollar exchange rate). As in the FX market, liquidity for buying and selling centres on the spot date (two business days from the trade date or 'cash' in the LME market). Forward liquidity for borrowing and lending metal centres around the 1 month, 2 month, 3 month (and so on) dates.

Furthermore, the default for quoting forward borrowing and lending rates in precious metals is in % interest rates. Fortunately for the LME-minded this can be converted into \$ and ¢ using the current basis price of the metal. This calculation can also be made in reverse as set out below.

Components of the forward rate

Forward rate = US dollar interest rate – metal lease rate

Traditionally the metal lease rate is less than the US dollar interest rate equating to a positive forward rate. In this case the forward rate is positive, or what is known in commodities as a 'contango'.

Forward rate calculation

(a) Using the % interest rate to get the \$/¢ rate

$$\text{Price} \times \text{days in period} \div \text{days in US calendar year} \times \text{rate (\%)} = \text{rate (\$/¢)}$$

$$\$1,250 \times 30 \div 360 \times 0.01 (\sim 1.00\%) = +\$1.04$$

(b) Using the \$/¢ rate to get the % interest rate

$$\text{Contango} \div \text{days in period} \times \text{days in US calendar year} \div \text{Price} = \text{rate (\%)}$$

$$\$1.04 \div 30 \times 360 \div \$1,250 = 0.01 (\sim 1.00\%)$$

Below is a typical forward run for gold and silver expressed in both % and \$/¢

XAU/USD	Bid %	Bid \$/¢	Ask %	Ask \$/¢
1M	0.81	\$0.0135	1.28	\$0.0213
2M	0.81	\$0.027	1.28	\$0.0426
3M	0.82	\$0.0405	1.28	\$0.064
6M	0.81	\$0.081	1.28	\$0.128
9M	0.81	\$0.1215	1.28	\$0.192
12M	0.87	\$0.174	1.27	\$0.254

XAU/USD	Bid %	Bid \$/¢	Ask %	Ask \$/¢
1M	0.78	\$0.88	1.03	\$1.16
2M	0.78	\$1.75	1.03	\$2.31
3M	0.78	\$2.63	1.04	\$3.50
6M	0.79	\$5.32	1.05	\$7.07
9M	0.80	\$8.08	1.06	\$10.7
12M	0.77	\$10.37	1.02	\$13.74

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