LBMA WEBINARS

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LBMA Trade Data, London V NYC & PGM Insights

Speakers:

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David Gornall, Senior Advisor, LBMA/ Speaker 3
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Summary:

This webinar focused on an analysis of the LBMA Trade Data, which is now live on Bloomberg terminals. Our panel explained how the data is useful for traders to gauge the size, shape and liquidity of the OTC market as represented by LBMA members as well as how it can support LBMA's dialogue with regulators on such matters as NSFR. They also considered the impact of COVID-19 on trade volumes. In what would have been Platinum Week, they also analysed the platinum and palladium data to reveal how traders can use it to monitor their market share.

Speaker 1:

Good afternoon and welcome to today's live LBMA webinar. We're delighted to welcome you to listen to Adrian Ash, Head of Research at Bullion Vault, David Gornall, Senior Advisor at LBMA and Ruth Crowell CEO at LBMA, as they talk about the recent insights coming from the LBMA's Trade Data with a particular focus on London overtaking New York City in trade volume and – as it would have been platinum week this week – an insight in PGMs. If you have any questions throughout this webinar, please feel free to write them into the chat function of the webinar and our panellists will try to answer them at the end, should there be time. But for now, I shall hand over to Adrian who'll begin by setting the scene for us. So, Adrian, whenever you're ready.

Speaker 2:

Thanks very much Tayler. Well good evening to our friends across Asia. Good afternoon to our friends across Europe and, of course, here in the UK, and good morning to those poor souls stuck on the wrong side of the Atlantic where according to headlines and market pricing, no one can settle a gold trade. Now looking at the data that we actually get from the London Gold Market and understanding a little bit about what goes on the other side, we're going to take a look at that issue today and see really what's going on in global gold trading and particularly through the central hub of London. Obviously this dreadful pandemic has affected every aspect of everyone's daily life for our own business, our own industry, the precious metals market, we've seen gold reach eight year highs in U.S. Dollar terms and fresh new record highs against the Euro, against the Pound, against the Chinese Yuan, the Indian Rupee of course. So, more dramatically, however, we have seen this big disconnect. And that's gathered a lot of interest between London Physical Spot OTC Trading – over the counter trading – and the New York COMEX CME market. So, to help us unpick this, we are joined today by David Gornall. David was chairman of the LBMA, 2011 through 2014. David? And was also, of course, Head of Metals Trading at Natixis and now he's a private consultant and has also been project leader on the LBMA trade volumes project – LBMA-i as it's known. So, yeah, as a – to kick off today, as Tayler mentioned, we have since been, not only in terms of pricing but also in terms of volume, trading volume, and David you are talking us through what this chart is showing us.

Speaker 3:
Yeah, thanks Adrian for that introduction. So, what this chart shows you is the end of March, where the futures EFPs were unwinding. If we had the benefit of the previous two years' charts, what we would see is that the CME, the Chicago Mercantile Exchange or COMEX as we often refer to it. It was predominantly the larger market of the two. Now the market share from on the orange side is the LBMA spot, forwards and swaps and that represents the LBMA members OTC market shares, not the whole of the OTC market, just to point out. But what we had seen in 2018 to 2019 was the Futures Market consistently larger than the OTC market. What has been uncovered as a result of this data now being made available on a daily basis on the Bloomberg terminals, that we can see the unwind at the end of March, and the CME volumes dropping off, and the OTC equivalent increasing. And I say equivalent because we have included spots, forwards and swaps. We've left out the rest of the data, of the options and the lease loans, otherwise we wouldn't have complete like for like. We've got a slight blip on the 7th of May; I think it's a UK Bank Holiday. So, otherwise, I think the 18th, even the 19th of May was quite a substantial difference in the volumes. I think COMEX was 21 million ounces and the London equivalent was over 40. So, it's really quite illuminating to see this data for the first time.

Speaker 2:
Absolutely. And I mean, the reason that we're looking at this just as a quick point, OTC meaning over the counter, so the London market and most of the bullion market worldwide trading on private contracts rather than exchange traded contracts such as the CME have. What really I think is most kind of urgent about this chart is the fact that if we can move to slide two, this does actually really reverse what we saw, when the LBMA Trade Volume Data first went live back in November 2018, and this caused something of an intake of breath across the market, because London seemed to be smaller than people had expected. If you look at the chart on your left, the orange bar there is from a chart that we did at Bullion Vault at the time, in tonnes – because we think in tonnes for some reason, at Bullion Vault. The orange bar there being London Trading Volumes as first reported when the LBMA-i project went live in November 2018 and the green bar there, the tall one, being what was then happening in COMEX futures plus options. So, the total volume going through COMEX and you can then see further to the right on that chart just how small Chinese volumes were; Shanghai growing much smaller at the time. This caused something of an intake of breath as I say, because people always assumed London was much larger than this. I mean, in terms of what the numbers of people that looked at, typically, it was clearing volumes between the clearing members of the LBMA – sized up by I don't know three, five, ten, whatever you like. And that meant that London was maybe half as small as people had assumed and the COMEX was bigger. Now, a couple of things have been going on there, I think David, obviously the COMEX had grown dramatically in volume from about 2016 through to 2018. Since then, however, if you look at your chart – on the pie chart on the right – you can see that so far in 2020 actually London has been neck and neck with CME COMEX volumes, now, on a value basis. And that, London has caught up and, as you say David, it's now beating it on a regular basis, really during the crisis. So, this dreadful virus crisis has done something to the gold market, particularly between London and New York, these two global centres. And I think what really comes out of this is, you know, this is one of the reasons that we have this LBMA Trade Data, isn't it? It's for insights, such as this, so people can understand where is the depth? Where is the liquidity? And where is the activity moving?

Speaker 3:
Well, you asked me the question earlier on, 'What did I expect when we first saw this data for the very first time?' I don't know, I think most of us looked at it and thought, well – surely it can't be that because, as you said, we've used the clearing data as a guide. So, this is one of the reasons why we had to do this. To go back to the very beginning, I think it's a good time to share the story of how this started. So back in 2015, through a membership review, it was decided that the market should make trades public – publicly available, post trade for price transparency. And I think that the market was also under pressure from another area, which was the Prudential Regulatory Area where you've seen the impacts on bank balance sheets taking quite a toll through all the new measures post-financial crisis. And the one that gold really got severely affected by was the Net Stable Funding Ratio. And one of the reasons that we've published the data was to demonstrate – looking at this pie chart on the right – that gold wasn't an ordinary asset class. We thought that it was not just a high quality asset class, but by looking at the data we could demonstrate that it was an extremely high quality asset and it was left out of that list, which is why we now have a problem with the NSFR. So that was the driver behind it, why this was launched in 15 or so, as a project, and now you're beginning to see the fruits of the labour project, just now.

Speaker 2:
Fantastic. Yeah, I mean it's, I think it's important to understand that the Net Stable Funding Ratio rules are basically trying to say if an asset doesn't trade very much or if it's illiquid, then banks need to set aside more capital against their positions. Well, as we can see there, that's $145 billion a day in global gold trading, be it OTC, London plus the CME volumes plus Shanghai as well. And I know that the World Gold Council have a data page comparing volume against other asset classes. I know it's something which people look at; I think this is important. If we go on to slide three then, and we have a look at well, okay, so what does this data actually show us then? What are we seeing? So this is the last two weeks daily average volume in millions of ounces, and you can see basically the relative size of each market, if you like, or each product effectively. And, again, this data comes from the LBMA-i. David, do you just want to run through it for us? You know, what the different products are here. Because I think a lot of people, even in the OTC market aren't necessarily thinking about well, actually, what all the different products that are being traded.

Speaker 3:
No, no that's a good point. So very basically, the first product is Spot. So, this is what we're going to look at when we're measuring liquidity. It's the largest amount on the list, as you can see but it's also the most important because it tells us how much is trading each day. And Spot is all trades that are settling and within our criteria, all trades that are settling within 48 hours. The next category are the Forwards, which is everything that settles beyond that. And, in the Options field, we're capturing, what we call, vanilla options. So vanilla calls, vanilla puts – the right to buy, the right to sell. We decided to leave out the, the complex options of barriers, compounds, contingent price options, because they were relatively small, and we didn't feel that they were that important for the market to see. But, of course, that may change as time goes on. Finally, this is a quite an interesting sub-asset class. The Loan, Lease, Deposit for the first time, highlights the amount that is traded between commercial banks, central banks, potentially, and their customers. So, that could be the jewellery sector that uses gold more like a currency where there's an interest rate paid in gold, normally. And, so, this is the first time we've been able to see this. You know, we've had guesses at what the size of the Spot Market is. We've had the BIS surveys about swaps and forwards – can give you a rough idea – but nobody's ever produced any data on the Loan, Lease, Deposits. So, this was another one that we thought would be highly interesting for the markets to see.

Speaker 2:
Very much. Just on that point, how is the data being reported? I mean, what's the actual mechanism by which this data is being gathered?

Speaker 3:
So at the moment, all of the members – the full members of the LBM – send in their data on a secured file to NASDAQ, who are the party that distribute this to on-sellers and vendors such as Bloomberg. And that data is a 24-hour capture, finishing up six o'clock in the morning London time, and then it's published later on the following day. So, it's T plus one. I was going to say, it's not just – I call them reporting entities, rather than members because we have found that some of the member banks have sister companies that have decided voluntarily not to report their data as well. So, we've got some of the banks with two, three, or even four separate legal entities reporting into this. We've got around 56 at the moment.

Speaker 2:
So, the picture then is really capturing the broadest measure of OTC. And it's comprehensive, it's methodologically sound, you know, it's well-structured data basically, and reliable. Right?

Speaker 3:
Yeah. So, the parameters that surround this are controlled within the NASDAQ system. I think it's fair to say this is open to anybody that wants to put data into it. I mean, why would they want to do that? But I think the benefits that the members have seen, although you can measure it yourself by taking away your own market share from the gross that NASDAQ do actually produce individual market share reports. So up until now you've been able to position yourselves and demonstrate to somebody else that you're number one, number ten, number three, whatever. So, it does help some of the members position themselves and see where they are.

Speaker 2:
Okay, I mean looking at the relative volumes that we're seeing going through in the different products there – obviously Spot is doing 18 you know, maybe 20 million ounces on average; Swaps and Forwards, about half of that; and then the Options and the Loan, Lease market then are about 5% relatively speaking. Let's compare that then to an issue regarding value and liquidity. If we can move on to the next slide. And this has been capturing a lot of attention over, well really the last six weeks/seven weeks now. Thanks to our friends at Bloomberg for putting this together for us. Now what this does is basically the white line there is tracking the gap between COMEX front month, futures prices and London's spot. So, what this is not showing you is an EFP, or the EFP, as many people like to call it. And I wondered David, I mean, I think it is important – there's been a lot of talk about the EFP. This doesn't show it and we were talking earlier, and David said, well, there is no "the EFP," there's no definite article on this. Do you want to explain a bit more – Exchange For Physical is what this contract is – and it isn't a contract, right? I mean, it's an OTC contract again, you know. It's like spot, it's a private contract. There's no exchange traded EFP right?

Speaker 3:
Yeah. I think you were quite interested in this. Cause, you put this in here, didn't you Adrian?

Speaker 2:
I did. I did. I actually worked for it. And they very kindly said, 'Yes, it'd be nice.'

Speaker 3:
I looked at that – so you jumped one, you need to go back. Yeah, I looked at that and thought, 'Really? What was going on there?' You've got some minuses in there as well. This is an implied EFP. So, what this, this chart is doing. I looked at and decided it's just plotting trades on CME, on the futures, and capturing the spots as price as gets published throughout the day on Bloomberg. So, I won't have too much of a go any 'cause I know – but thanks - the EFP, just to explain, the EFP is an OTC instrument. It's the simultaneous purchase or sale of OTC Bullion and the reverse on the futures on the CME. And we talk about it a lot recently because it highlights what has been the disconnect that we talk about because traditionally this has been $1 or $2. So, we talk about the EFP as the manifestation of that difference. It's rather hard to talk about when we don't have any data for it. And the whole point of this was bringing the data together

and there is no post-trade transparency on this as yet. So, these trends, they're all conducted between professionals, and predominantly amongst their brokers, so they don't actually come out in any form of charts. So that's why it's quite difficult to do. But I hope that it, sort of, uncovers something of what we call the EFP.

Speaker 2:
Absolutely. I mean, you know, what you can see where the story of the chart tells and which we know from EFPs anyway is this dramatic spike in – as Bloomberg labelled it – the premium for gold in New York. Another way of looking at that is a discount in London. Now, it's funny, we – people in the bullion market are very used to talking about China or India being at a discount or a premium to London – London being the central hub globally and therefore the kind of benchmark reference price. But to talk about that for New York is crazy. I mean in particular at 70 bucks. I think what this shows us is availability of metal and assumptions around that availability. I mean basically with the UK going into lockdown with Swiss refineries, three out of the big four suspending production. On the 23rd of March they announced that, and the next morning we saw this big spike in basically the premium for gold for the futures market in New York versus London at 70 bucks there. What that really tells you is that there is much more metal available easily in London than people think there is in New York. Similarly, Shanghai has been at a record discount to London – more than $50 the ounce – over the last couple of weeks, has come back in. India of course, is at a discount to London as well. And what that tells you is that, relatively speaking, on the ground there, there is more metal available than people need. You know, they are well supplied as is London. I think it's interesting that, you know, even with – we're still seeing this very volatile gap because London discount to New York if you like, or the New York premium. It's interesting that it's still going on even though COMEX depositories on the East Coast and now holding twice as much gold as they were before the lockdown in the UK. So, really, I think what that demonstrates is that people using the COMEX, the CME, particularly for hedging, I think their physical stockpiles elsewhere. I know we want to get on to, quickly. They're cautious about doing that now because what the crisis and the shut down in air freight and particularly in, you know, logistics capability has shown is that gold isn't a global market. There's many markets, and, you know, price is determined by how much is available where, in what form – we've seen this in the retail bar and coin market. The retail bar and coin is vastly more expensive than wholesale bullion by a gram, because there aren't many of those little units around right now. So, I mean, David, you know, in terms of the COMEX and people using the COMEX to hedge stocks piles elsewhere. I mean, talk us through the way that normally works, the way that people normally approach it.

Speaker 3:
The way people normally approach this is to look at a hedging medium. What you really want to be doing is looking at the deepest, most liquid market, that's where you're going to get the most effective price. And traders will gravitate towards the deepest pool of liquidity. And that has always been the futures market. But the problem is when we see these disconnections, that you have to maintain a negative variation margin. So, the exchange is going to call you on the difference between when you sold it and where the market closed that evening. So if it's $70 from the point where you've sold it and where they've marked it to market, they are going to call you for market, an ad valorem payment which is called a variation margin. And when you're talking about large volumes, this can be quite punishing, especially when there are other asset classes and other markets calling for cash in other ways. And, so, what you're probably seeing here is a bit more illiquidity, because we saw this go to flat not so long ago and then jump back up to $6 or $8. So it's telling us it's volatile, but it's also telling us that the users of the futures are becoming that much more cautious about going short of something that they may or may not want to be able to deliver. So, I think when we go back to the data story again, how does that impact our story on the forwards? When we looked at the forwards, the average since we started …

Speaker 2:
These are the forwards in London, right?

Speaker 3:
It's in London. So, we're trying to sort of come up with what's the equivalent, that we have in London that traders could use instead of a large margin call. And what we've seen is an average, I've looked back until the beginning of the data set in November 2018, and it was around about 8.8 million ounces of forwards trading. And today, it's running at 10 and a half million ounces of forwards and swaps. So, we've already seen a bit of a spill over coming away from, from COMEX futures as a natural hedge to the OTC. Well, because now you can measure the size of the OTC Market – you got published data every day – whereas beforehand, you couldn't, so you didn't really know what sort of quantities you were dealing with. So, this is why it's all so important for the London market to highlight.

Speaker 2:
Okay. That I think it's a very interesting insight, you know, that there is perhaps a change in the margin, in the market, that we want to be hedging their London stockpiles or elsewhere in the world via London. Moving on to the next slide, I think there's a couple of other insights now. This should have been platinum week, sadly. So, of course, everyone is feeling much better today here in the UK on this call than they would have been if we had have had dinner last night. David you had a look at what's going on with the PGMs – Platinum Group Metals – and it's got kind of interesting things there. Just in terms of again, what the data is revealing that people even in the market may not know.

Speaker 3:
I don't think they do. As this is relatively new. The Bloomberg Daily's only started this month. So I was just looking at a few things. I think, I'm aware that there's quite a healthy, loan/lease markets or activity in the PGMs – in Platinum Group Metals – and that's due to auto manufacturers, catalytic production, using the lease market to fund platinum and palladium as opposed to cash, ends up funding the platinum/palladium unit. This is a much better way of doing it. But what it didn't realize is the ratio. So, this is why we've got a slightly different breakdown here because the first thing that grabs me is that the loan lease market is 10%, uh, of the spot market. So just to give you...

Speaker 2:
Of the size? Not of the market but of the size of the market?

Speaker 3:
And if I was to do the same thing in gold, I tell you that's something around 5%, so again, in the palladium market, it's quite a healthy reflection on the size of the lease market. So it's fairly liquid. The other thing I would say is that illiquidity as well. If you're trading PGMs and you've been trading them recently, you're going to want to understand how to manage your risk and managing your risk isn't just about knowing where the points of liquidity exist. it's where the points of illiquidity may be. So further down that data would normally be where the liquidity runs out. So I think this is very, very helpful in assessing where you should be looking to place your hedges or whatever it is you're trying to do in the forward market, uh, as opposed to getting stuck in something long dated, you may not get a good price on. It may be difficult to unwind.

Speaker 2:
So, I mean, really the data set is now available on Bloomberg is useful for speculative money. You may be looking at precious metals market for the first time or thinking of expanding their activity, but also in terms of the, you know, the produce and sell side as well to the backside because you know, you don't really know what's going on if you're that deep in the market unless you have access to this data.

Speaker 3:
Oh, you're absolutely blindsided without it, Adrian. Yeah, that's true. I'm sure everybody will sort of beat a path to the last slide. So how do you get hold of this data. Well, currently it's available

electronically on your screens so you can subscribe via Bloomberg. If you want anything longer dated and you want something historic, then I'm sure that NASDAQ will be able to help you out. They have their various file delivery systems, but the access codes for each of the weekly's and daily's are along this slide and I think it's really going to give the market a much better chance, to promote themselves.

Speaker 2:
Great. Hey Ruth.

Speaker 4:
Hey guys, thanks so much for that. It was really enlightening, and I appreciate in particular, Adrian, you taking the time to put a tie on today. Um, I thought I joined you given it was Platinum Week.

Speaker 2:
I've got no t-shirts left. All I've got is a closet full of freshly ironed shirts. Do we have any questions?

Speaker 4:
We have a couple. So, beyond your tie, it was a question about prices. Does the data currently include prices? Will it include prices? What's happening there? And I think it's for David, this one.

Speaker 3:
Yeah, sure. Thanks Ruth. So, price is obviously one of the most important parts, if not the most important part of the data set to anybody that's trading it. So that's the next thing that's coming so watch this space. At the moment we collate volume in price charts. So, what we've tried to do is to capture bands of trading activity within a 0.25% range of the daily average. So, you will get piles of gold in different groups, we call them tranches. We're trying to develop that with Bloomberg, it's not easy because it changes the code every day. So, without getting too deep in the weeds, if it is going to come. The other thing that everybody mentions to me is when can we see some lease-rate data? They're never ever published, so we're working on that. So, I'm looking at some slides that the team at NASDAQ sent me earlier today on prices for loans and also we're having a look at the two locations that we gather data on – that's London and Zurich. So, we might be able to give a split on some of that as well. So, prices are coming.

Speaker 4:
Okay. I think I have two more questions just cause I'm conscious we're going up to the half hour. So, one I'll let you think about whilst we answer the second one. I'm asking both of you, your guesstimate as to how much of the OTC Market is not captured by this data? And sort of goes to the clearing stuff. I know others have taken a guess, so have a think about that one. And then the other is the real status of gold. Obviously, there's a lot of talk out there in terms of there's no more gold available and therefore the price is going to rocket, but that's not happening. I don't know, if you want to address that one Adrian?

Speaker 2:
Um, well, I mean I think, you know, back to what we discussed a little bit earlier around, if you look at pricing between the different global centres, Shanghai has been at a record discount to London – London is now, has been at a record discount to New York. It's really about availability by location and by form. There is plenty of gold around, I mean the fact that Shanghai has been at a $50 discount to London suggests that there is a lot of metal in China, relative to local demand. Same is definitely true in India and all reports from, you know, our friends and colleagues out in the subcontinent, which suggested, you know, demand is very poor relative to stockpiles that people have. So, I think anyone who's currently buying into gold, whether they're trading it short-term or as a long-term investment predicated on there being a shortage of metal. They may not be wrong on what happens to price, but I think they might be wrong on the

analysis. I think, you know, the fact that London; the volume has risen, as we've seen with the data today, in the LBMA-i project. You know, there is metal available, what there has been a shortage of is trucks and air freight. I mean that's what we've seen a shortage of and, of course, that does mean local premium and discounts will change.

Speaker 4:
So, I guess to add that, I mean certainly I'm happy to report that there are planes flying, so metal is moving. I think some of the feedback we've had from stakeholders is it's still costing a lot more than usual, but metal is moving around the world. And, actually, next week's webinar we're going to be talking about exactly that in terms of logistics. So, if you do have a wish list of questions you'd like to see answered – you can't have all of them for security concerns, but we're going to try to do our best. But you did bring on Asia, which is one of the other questions that came in is, we're talking about London, New York but you know, yes, Shanghai has been trading at a discount. That's come off a little bit now. I think it was perceived in China is that you're saving gold for a rainy day. That rainy day came, but now that people are going back to work and getting paid, there's that slowing down. I think we are still expecting India to come out of lockdown and there to be a rush of selling activity. So, I think we'll continue to monitor that as well as with members, um, and market participants around the world. David, do you wanna…?

Speaker 2:
There's an important point on that Ruth, I think, which a lot of people don't know. I mean, I didn't know it for many years until David pointed it out to me a while ago. In China and India, you cannot export gold bullion. Okay, and that's why you have these disconnects. That's why, you know, London is often at a premium or a discount relative to the big Asian market because you can't get metal out. So, it's a little like New York today. You have this arm effectively opened up, you can't exploit it very easily between Asia, the big Asian two and the London global hub. And I think it's, it's really weird to be in a period in the market's history where New York is also a bit like that now.

Speaker 4:
Well, that's very interesting. David, did you want to take a stab at the OTC guesstimate?

Speaker 3:
I'll have a go. I mean I tried to map this, I – when we started, and I'm just trying to get a handle on how you would do this, and it was a real challenge. But I think what I'm going to do, if we break this down into sub products, so in forwards loan/leases and options, I don't think there's too much outside of the LBMA arena. Pick a number of less than 5%. However, when we're talking about spot and the increase of spot streaming, what you have to remember is that if a non-member is streaming spot and the other side is a member, it will get reported. Cause the member reports the non-member trades. So, what we're saying is non-member to non-member trades. Now there must be quite an amount going on that, it's very, very difficult to tell if you, if I had to put money on it, I would say it would be between 5 and 15%. I don't think there's much left.

Speaker 4:
Well, thanks for taking a guess then. I think that's all our questions really come through. So, it's really just final comments. If you guys want to add anything further to what's already been quite informative remarks. If not, I'll leave you to say thank you very much.

Speaker 2:
We're all done here, Ruth.

Speaker 4:
Great, okay. Have a good Virtual Platinum Week. I'm glad that we were hang over free I guess at least today and until next time. Cheers guys.

Speaker 2:
Thanks Ruth.

Speaker 3:
Thanks Ruth.

Interested in contributing?

For information, suggestions, or comments about content of LBMA Webinars, or our Virtual Summit, please contact:

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