

LBMA Precious Metals Market Volumes and their Significance

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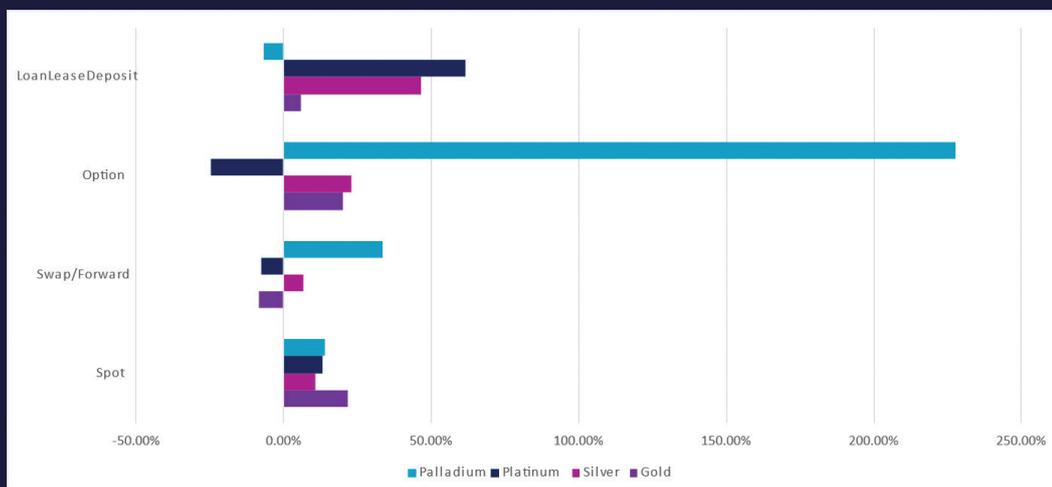


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Welcome to our monthly round-up of the LBMA OTC trading volumes in gold, silver, platinum and palladium, as recorded on a daily basis by the Association. These are split into spot, swap/forward, options and LoanLeaseDeposit (LLD) and give a flavour of the markets' activity and how they were influenced by external forces and news items.

All references to COMEX or NYMEX positioning refer to Managed Money, not commercial positions.

Daily March average compared with daily average for 2023



Source: LBMA

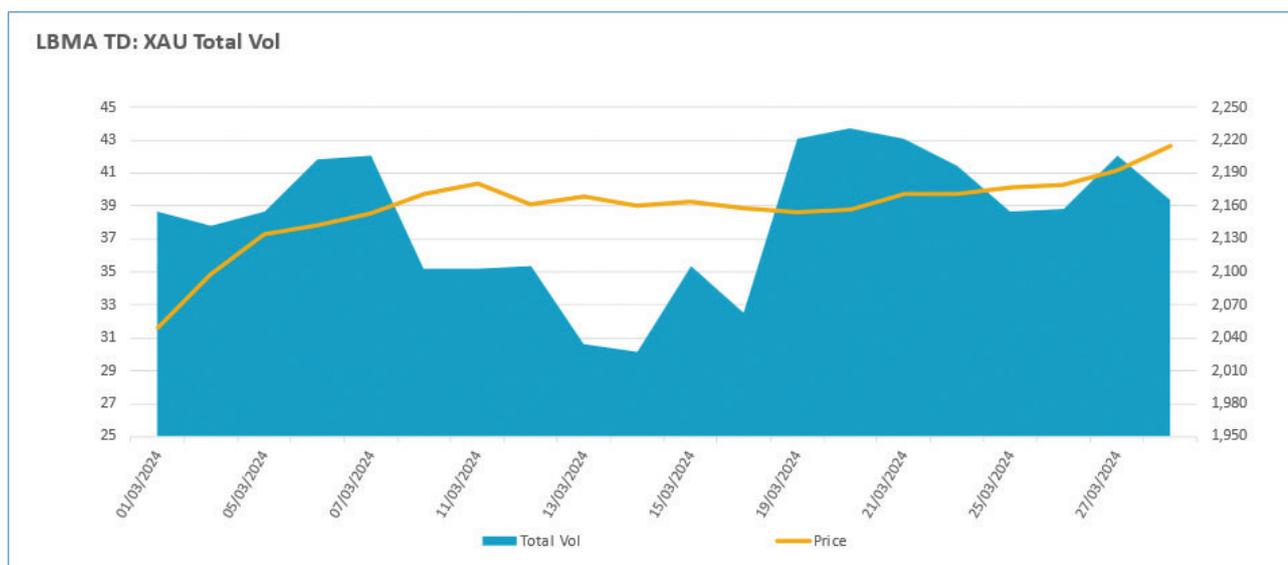
Volume changes; daily average spot and forwards vs the averages over 2023				
	Spot	Swap/Forward	Option	Loan Lease Deposit
Gold	21.80%	-8.53%	20.03%	5.71%
Silver	10.82%	6.68%	22.75%	46.44%
Platinum	13.08%	-7.50%	-24.70%	61.48%
Palladium	14.00%	33.53%	227.83%	-6.94%

Source: LBMA

General introduction: -

After a couple of quiet months in January and February, things really took off in March with gold bursting onto the scene, silver following not long after and outperforming as usual. Platinum and palladium joined the party, with each posting a rally through to mid-month – but then retreating. Even so, platinum posted a net gain of 9.7%, and palladium, 5.4%; gold put on 10.0% after an initial bull run then consolidation; and silver, 11.9%. Volumes were up substantially almost across the board (see above table), certainly in spot, but the really interesting numbers are those for the gold and silver options. Palladium options look spectacular, but this is from a very low base.

GOLD Total gold volumes, March, M ounces



Source: LBMA

After a flat period in January and February, gold took off in the first half of March, then spent a period again in a narrow range, consolidating and forming a base for its next aggressive leg in April, with a series of fresh record highs. The trigger for the move was weaker-than-expected economic numbers from the United States at the end of March, which yet again brought the outlook for the Fed's rate cycle into the crosshairs, but there was a lot more to it than that, with a series of background factors all contributing to what became an increasingly excited, if not overheated, market.

These background factors are:

- ❖ Growing international geopolitical tensions
- ❖ also the majority of ACCA (Association of Certified Chartered Accountants) members in the banking sector are concerned that the high number of elections around the world this year adds to geopolitical risk and this element was by far the element that was giving them the most concern
- ❖ Small-to-medium banking stresses also in the spotlight
- ❖ and of course the inevitable focus on the Fed...

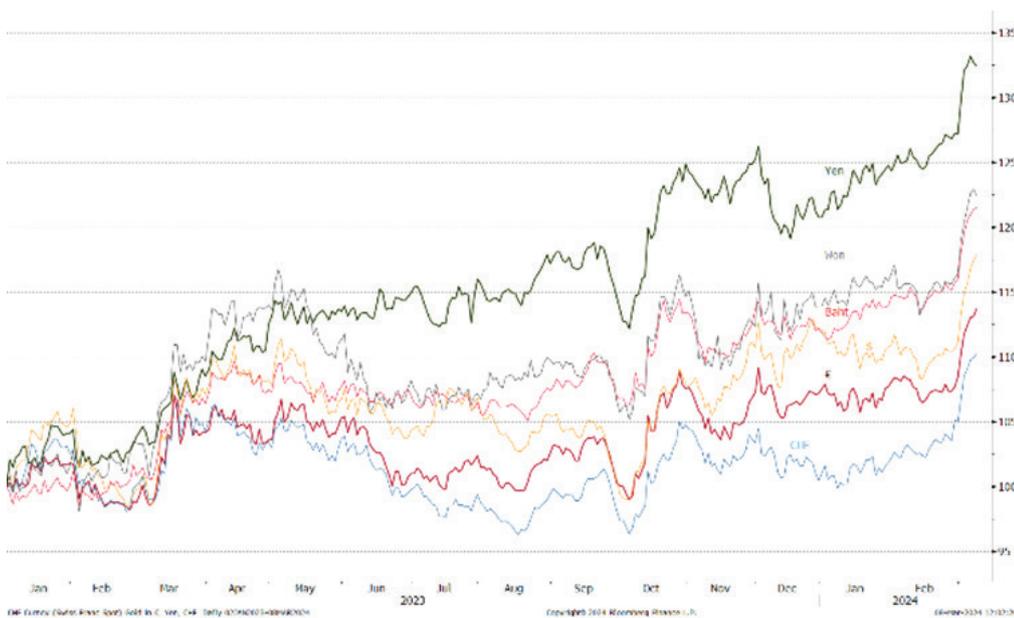
...but there is more to it than that. While the physical market for coins and bars, and price-elastic investment-grade jewellery, has evaporated (and some coins are trading at a discount to spot and returning to refineries accordingly), the professional market has been firmly on the bandwagon and the rise in price has become self-fulfilling as not only are momentum traders and CTAs involved, but as well as technical stop-driven trading, there has been evidence of fresh investors.

In other words, the initial rise in price deterred some buyers and generated some profit taking, but as it gathered speed, every-one appeared to want to join the party.

The period of stabilisation in the second half of the month was also triggered to some extent by US numbers; this time the US CPI and PPI were, for the second successive month, higher than expected and poured some cold water on the bond markets' over-benign view of the Fed's likely future course of action. Some profit taking appeared but gold had grabbed the markets' attention and the bull run resumed towards month-end.

The move was accelerated by the action in the options markets. Anecdotal evidence had already suggested that there was some high volume option trading going through and after a period of relatively narrow horizontal ranges in January and February, premia would have been low. The gearing on the delta of these options also contributes to the self-fulfilling nature of the move.

Gold in key local currencies, January 2023 to date



Source: Bloomberg, StoneX

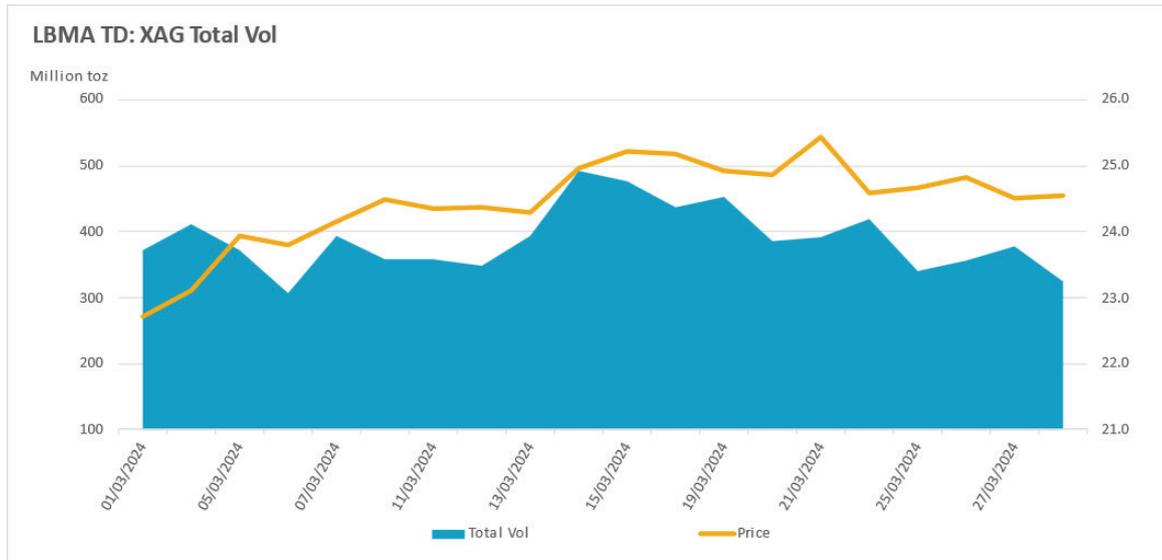
Meanwhile the Exchange Traded Products remained continued to see net redemption despite the febrile atmosphere elsewhere. For the whole of 2023, the World Gold Council (the most reliable source) shows a fall of 244t (funds exodus of \$14.7Bn), leaving holdings at yearend of 3,226t, AUM \$214.4 Bn. In 2024 to end-March there were fresh redemptions, although the pace was also slowing, with just 13.6t leaving the funds; and over the month overall, all of this came out of Europe, with a drop of 1.6% or 22t. North America bought 4.8t (+0.3%) and Asia, 3.1t or 2.2% with 0.5t going into other areas. This left holdings at month-end of 3,112.4t with \$222.2Bn in Assets Under Management. World mine production is roughly 3,650t. The net change over

the quarter was -113.23t, with 68.,2t (4.1%) and 54.2t (3.9%) from Europe, while Asia took in 9.6t (7.1%) and a minor loss of 0.4t (0.7%) from elsewhere.

The Money Managers' activity on COMEX largely reflected the OTC activity, with outright longs gaining 215t or 67% and shorts contracting by 46%, taking the net position up by factor of 1.6. At the close of business on 2nd April, therefore, the outright long was 538t compared with a twelve month average of 405, pointing up the possibility of sizeable liquidation should the surrounding financial and geopolitical environment change, substantially – which looks unlikely.

SILVER

Total silver volumes, March, M ounces



Source: LBMA

Silver, gold and copper; , the correlations and the gold:silver ratio, January 2023-to-date



Source: Bloomberg, StoneX

Many of the influences on gold applied to silver as the markets sprang to life, but there are other elements involved here also. As we have often noted before, while silver is often thought of as being in the same stable as gold because of its history in coinage and the use in jewellery and for silverware and decorative ware, we must always remember that 60% of silver's fabrication demand (i.e. exclusive of -investment activity) is in the industrial sector; when gold prices are not

doing anything of note silver will often turn to copper for guidance. Remember also that silver does usually tend to piggy-back on one or other of these metals because of its own fundamentals; the demand side tends to be the key river here because the majority of supply is price-inelastic; only roughly 28% of silver mine production is from primary silver mines with the balance coming very largely from copper, lead-zinc or gold operations. Add to this the return from industrial scrap which - except in

extremis - is also price-inelastic and the price-sensitive element of silver mine production drops to roughly 25% of total silver supply.

Also the primary silver mines' cost curve means that at prices above \$22, as they were for all of March, no primary silver mine is under threat. Metals Focus' analysis puts global average cash costs at just under \$5/ounce with all-in sustaining costs between \$14 and \$15. These figures come from last year and inflationary forces will have boosted those numbers this year, but by nowhere near enough to put production under threat.

Meanwhile in the first week of March silver did move with gold, but not with it relatively reluctantly. By this we mean that when gold is moving with conviction – either up or down – then silver will take the same direction but will move by at least twice as much as gold. It took until April for silver to catch up with and then overtake gold; in March gold rallied by 8.7% and silver, by just 11.2%. This most likely reflected two elements; firstly a lack of belief that gold's rally would persist as there didn't seem (erroneously, as we can see above) to be any visible triggers for gold's move; and secondly the fact that economic uncertainties were at that point keeping copper firmly on the back foot.

As far as trading patterns are concerned, silver options were also lively, in fact posting a 22.5% gain on average over the 2023 daily average, compared with gold's 20% uplift. LoanLeaseDeposit volumes were also up by a thumping 46%, suggesting that some base metal (and possibly primary miners also) were locking in some by-product credits. We should look at this with caution, though, as there was one massive outlier on 14th, with 35.9M ounces going through against an average over Jan/Feb of 14.6M ounces, suggesting a hedge programme / financing exercise underway.

Breaking down the volume patterns, the highest spot turnover came in the third week of the month, as a battle royal developed between bulls and bears, keeping prices in a very narrow range of just 70 cents centred on \$25, until a push towards \$26 followed by an equally aggressive retreat. As prices slipped thereafter volumes dwindled, with participants standing back and looking for direction.

The \$25 level was also the arena for the swap/forward market with a big boost in volumes suggesting that this was a key target on both sides of the market and the LLD figure underpins this.

As far as options are concerned there was here, too a big outlier with 19M ounces in one day against a Jan/ Feb average of 6.0M ounces, although it is fair to say that silver options volumes are highly variable. On this occasion the big outlier was the 13th, the day when silver rallied from \$24 to \$25, suggesting some sizeable call activity.

Exchange Traded Products saw increased buying although it remained sporadic; of 21 trading days only nine saw net creations, while the cumulative activity over the month saw a net increase of 24t as most of those nine creating days saw heavy volume going through. On COMEX there was a massive 78% increase in outright longs, up from 5,352t to 9,302t by 2nd April. There was some sizeable short covering in the face of the rising price, coming down by 2,060t or 34.3%. Whereas at end- February silver looked vulnerable to a short-covering rally, by early April the heavy outright long position was looking menacing.

