

Unveiling the Transformed Landscape of Japan's Precious Metals Futures Market with Osaka Exchange"

Mr Ryoichi Seki, General Manager, Osaka Exchange Inc.

Introduction

For more than four decades, Japan's precious metals futures market has served as Asia's leading commodity derivatives market accessible from around the world, providing trading opportunities and a platform for effective risk management to a global audience. To play an even greater role, Osaka Exchange (OSE) is focusing on strengthening the market's functionality to better meet the needs of its participants.



Transforming precious metal market

The precious metals futures market in Japan has undergone significant changes in recent years. Established in 1982 and formerly operated by the Tokyo Commodity Exchange (TOCOM), the precious metals market has undergone decisive changes, starting with the acquisition of TOCOM by the Japan Exchange Group (JPX) in 2019, followed by the transfer of products,

Mr Ryoichi Seki

OSE Gold - Contract Specifications

	Gold Standard	Gold Mini	Gold Rolling Spot
Type of Trade	Physically Delivered Futures Transaction	Cash-settled Futures Transaction	
Standard	Minimum 99.99% fineness		
Contract Months	All even months within a year (Feb, Apr, Jun, Aug, Oct and Dec)	n/a	
Contract Unit	1 kg (32.15 toz) / contract	100 g (3.215 toz) / contract	
Delivery	1 kg	n/a	
Price Increment	JPY 1 per gram	JPY 0.5 per gram	JPY 1 per gram
Trading Hours in JST (Japan Standard Time)	[Day Session] 8:45 am – 3:15 pm [Night Session] 4:30 pm – 6:00 am (T+1)		
Ticker Symbol	Refinitiv: JAUcn Bloomberg: JGA	Refinitiv: JAMcn Bloomberg: JGPA	Refinitiv: JAUCFD= Bloomberg: JGDDAILY

including precious metals, from TOCOM to OSE in 2020. JPX is an exchange group that, together with its subsidiaries Tokyo Stock Exchange (TSE), OSE, TOCOM and Japan Securities Clearing Corporation (JSCC), offers a comprehensive range of services, including market operations, self-regulation and clearing services, making it a one-stop shop for a diverse range of products from cash equities to financial and commodity derivatives. OSE, the derivatives arm of JPX, has been a provider of financial futures and options such as the Nikkei 225, and the recent product transfer has led to an expansion into commodities trading alongside financial derivatives.

Precious metals market under OSE

With OSE in charge of operations, the precious metals market has seen several developments. Firstly, there has been an influx of financial players into the market. Given gold's role as a safe-haven asset in times of economic uncertainty, financial players often use it in their portfolios, a trend that has also been observed in the OSE market. Global investors continue to expand their transactions in the OSE gold, while some trading participants are considering obtaining the OSE commodity qualification to access the market. Second, OSE introduced holiday trading in September 2022, which has been well received by market participants, leading to a broadening of the user base. The demand for trading outside Japan's regular business hours is particularly high among retail and global traders. In the case of the OSE gold, the period of increased liquidity often coincides with the opening of the US market, which in Japan corresponds to the overnight hours, a time often marked by the release of news on geopolitical and economic events that affect prices. The introduction of holiday trading, which allows products to be traded on Japanese public holidays, is an important milestone that goes a step further in meeting these needs. So far, the volume of gold traded on holidays has been much higher than we had expected, at just under 50% of weekday volume, and was particularly strong during the Golden Week holiday in May, one of the longest holiday periods in Japan.

Overview of OSE precious metals market

The OSE precious metals market comprises gold, silver, platinum, and palladium. Notably, gold is one of the world's largest markets open to global investors, and platinum ranks second in terms of volume, underscoring its significance in the global precious metals futures market.



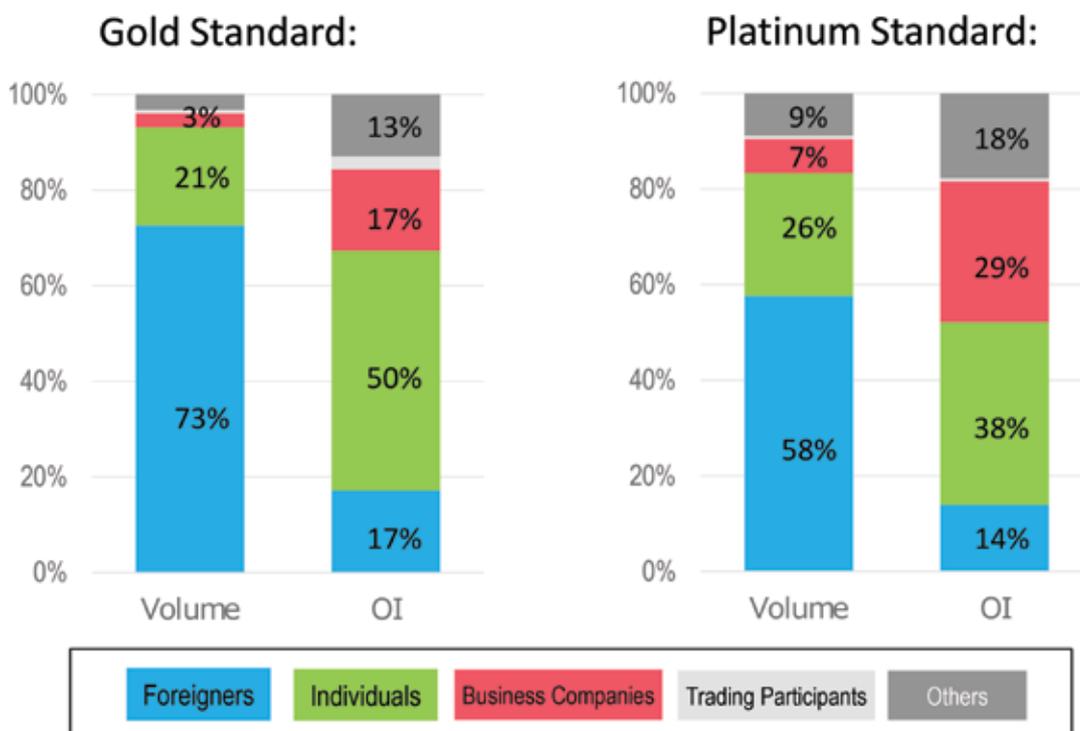
Within the OSE precious metals market, gold is the largest with 80% of the market volume, followed by platinum with 20%, and both are traded in three types: standard, mini, and rolling spot (RS) futures. The standard is a physically-delivered contract and has the highest trading volume with a wide range of participants, including overseas investors and individuals, as well as the firms that use it for hedging purposes. Mini and RS are cash-settled contracts that are one-tenth the size of the standard and are suitable for retail investors and those who wish to gain exposure to the price movements without the inconvenience of dealing with physical bars. Settled daily with positions automatically rolled over, RS functions as a futures contract with no expiration date, enabling participants to hold positions for extended periods and seek profit opportunities, resulting in the highest volume of open interest among the three types.

Features of OSE precious metals market

One key characteristic of the market is that OSE precious metals are denominated in Japanese yen. Recently, the OSE gold prices exhibited greater volatility

than their dollar-based counterparts, reaching new highs due to the weaker yen, while the global dollar-based gold prices have remained relatively elevated within a certain range. Another feature of the OSE market is that, unlike overseas markets where liquidity is typically concentrated in the front contract month, liquidity in the OSE market tends to be focused in the distant months. Contract months are set for six even-numbered months from the present to one year in the future, with the most actively traded contract month being the even-numbered month one year ahead.

Moreover, the OSE market stands out for its active participation of Japanese retail investors. Individuals contribute to 21% of the trading volume in gold standard contract and 26% in platinum standard contract. In terms of open interest, these figures are even higher at 50% for gold and 38% for platinum. These individual investors typically have trading behavior that differs from traders and hedgers, making them a crucial component of the OSE market's diverse customer base.



- 4th week of Oct. 2023 for volume
- Oct. 27, 2023 for open interest

Conclusion

The OSE precious metals market has a well-established history and is evolving rapidly as part of the JPX market ecosystem, offering participants a proven high level of reliability and convenience. Easily accessible from overseas and distinguished by unique features not found in its peers, OSE plays an important role as the risk management and trading venue for the precious metals industry.

