

# The Gold/Silver Ratio:

While the financial media tends to focus its discussion on gold, serious investors are also interested in silver. One “tool” historically used by hedge funds and precious metals trading desks to monitor the direction of both gold and silver is the gold/silver ratio. Traders and prognosticators alike look at this ratio for various reasons, but at the end of the day it simply provides insight into how the price of silver is behaving relative to the price of gold.

Although both gold and silver are deemed “Precious” metals, gold is also seen as a form of currency and safe haven in times of political uncertainty where silver is increasingly used as an industrial metal. These distinctly different fundamentals can, at times, make this a dynamic market to watch/trade.

Choosing a vehicle to express your opinion on the relative value of these two metals is not as simple as it seems. Traditionally traded through forward contracts one not only had to settle on price, but also had to calculate the overnight lending rate to determine the cost of capital used to fund the position.

Cash Market Gold/Silver



COMEX GCJ4/SIK4



Source: Bloomberg

As firms become increasingly sensitive to capital requirements COMEX futures are now viewed as cost effective alternative to OTC cash markets. As seen in the charts above, a 1:1 spread of front month April gold (GCJ4) against May Silver (SIK4) is highly correlated with the underlying cash market and as a trading vehicle, futures have distinct advantages over Forwards, ETFs etc.

- **Cost effective** – Inexpensive to execute cost of carry embedded into futures price
- **Highly liquid** – Broad participation generating 150K ADV in gold 50K ADV in Silver
- **Electronically traded** – 95% electronically executed
- **Centrally cleared** – Safe, fair and transparent marketplace
- **Capital efficient** – 75% margin offset available between gold and silver futures

So if you have an opinion on the direction of gold relative to silver, you might want to consider executing the trade using COMEX Gold and Silver Futures available from CME Group, the world's leading derivatives marketplace.

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