

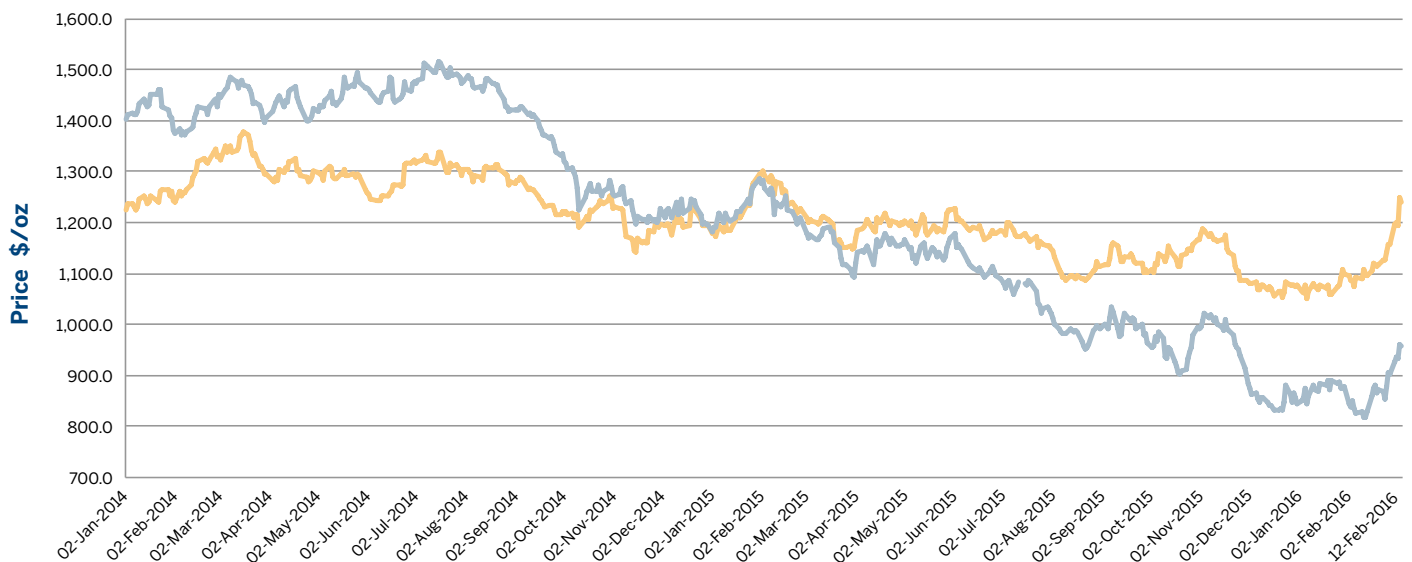
Platinum and Gold Spread Trading

A CASE STUDY

PLATINUM-GOLD SPREAD

- Platinum is trading at the largest discount to gold in over 30 years. The record spread was seen on 11 February 2016 at \$290/oz. Platinum price has been trading at a premium to gold for most of the last three decades.
- This provides spread trading opportunities using CME's flagship Gold (GC) and Platinum (PL) futures.

GCc1 & PLc1 Price (2 Jan 2014 – 12 Feb 2016)



Platinum-Gold spread since 1985 – 16 Feb 2016



PLATINUM-GOLD SPREAD P&L EXAMPLE

A trader takes a view that the platinum-gold spread is likely to increase in the short term.

She buys two Jan-16 Platinum futures contracts (PLF6) at \$1,027.60/oz and simultaneously sells one Dec-15 Gold futures contract (GCZ5) at \$1,159.60/oz (because the platinum contract is half the size of the gold contract).

The resulting notional amounts for the legs are quite similar, at \$102,760 and \$115,960, respectively. The trader thus has entered the spread of -\$132/oz and is buying the platinum-gold spread.

The following tables show the trader's realised P&L should the spread increase (in favour) and decrease (against).

PLATINUM – GOLD SPREAD INCREASE (IN FAVOUR)

	GCZ5	PLF6
Trade Exit Prices	\$1,134.0	\$1,022.1
Liquidate Spread@	\$-111.9	
Notional Amounts	\$113,400.0	\$102,210.0
Strategy Leg P&L	\$2,560.0	\$-550.0
Total P&L	\$2,010.0	

PLATINUM – GOLD SPREAD DECREASE (AGAINST)

	GCZ5	PLF6
Trade Exit Prices	\$1,077.9	\$858.1
Liquidate Spread@	\$-219.8	
Notional Amounts	\$107,790.0	\$85,810.0
Strategy Leg P&L	\$8,170.0	\$-16,950.0
Total P&L	\$-8,780.0	

MAIN ADVANTAGES OF SPREAD TRADING

Spread trading offers some key advantages over outright futures trading:

- **Reduced volatility and lower margin requirements.**
Traders entering a spread can access these benefits because the legs are generally in related markets.
- **Potential to deliver better risk-adjusted returns.**
The smoother and longer-term trends that spreads can exhibit are what many market participants find beneficial.
- **Extended trends.** Compared to outright futures that can go through significant price swings, spreads can demonstrate extended trending price moves, making it easier for traders to visualise patterns and thereby take a directional view or implement a technical trading strategy.

- **Opportunities from fundamentals.** Particularly for the precious metals markets, where the underlying commodities not only demonstrate close economic linkages but also distinct fundamental drivers that can create profitable spreading opportunities using the associated futures contracts.

WHY CME GROUP?

The precious metals futures markets at NYMEX and COMEX (operated by CME Group) offer highly liquid and deep markets that enable the fast, efficient execution of spread strategies with the additional benefits of considerable margin savings (as all trades are centrally cleared through CME Clearing) and significantly mitigated legging risk. More importantly, these futures contracts are predominantly electronically traded (90%+) on CME Globex, allowing easy access for participants across the world and high-quality trade executions around the clock.

	Gold Futures(GC)	Platinum Futures(PL)
Product Code	GC	PL
Exchange	COMEX	NYMEX
Contract Size	100 troy ounces	50 troy ounces
Trade Venues	CME Globex, CME ClearPort	
Trading Hours	Sunday - Friday 6:00 p.m. - 5:00 p.m. (5:00 p.m. - 4:00 p.m. Chicago Time/CT) with a 60-minute break each day beginning at 5:00 p.m. (4:00 p.m. CT)	
Contract Listing	Current calendar month; the next two calendar months; any even month falling within a 23-month period; and any June and December falling within a 72-month period	Trading is conducted over 15 months beginning with the current month and the next two calendar months before moving into the quarterly cycle of January, April, July, and October.
Settlement	Physical	
Margin Offset	60% margin offset for opposite positions in Platinum and Gold futures on 2:1 basis.	
2015 ADV	165,404 lots	14,392 lots
2014 ADV	160,789 lots	12,841 lots
2015/2014	+2.9%	+12.1%
2015 Open Interest	415,636 lots	65,383 lots
2014 Open Interest	371,646 lots	64,119 lots
2015/2014	+11.8%	+2.0%

MARGIN REQUIREMENTS

CME Clearing currently offers a significant 60% margin offset for opposite positions in Platinum and Gold futures on 2:1 basis. The initial margin requirements per contract for Platinum and Gold futures, as of mid-December 2015, are \$2,090 and \$4,125, respectively.

Having accounted for the offset, the initial margin requirement equals \$3,322, instead of \$8,305 for a long position in two NYMEX Platinum futures contracts and a short position in one COMEX Gold futures contract.

Questions on the CME Group Precious Metals products? Contact metals@cmegroup.com.



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