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# Loco London Liquidity Survey

## LBMA Gold Turnover Survey for Q1 2011

By Stewart Murray, Chief Executive, LBMA

### Background

At its meeting in April, the Management Committee agreed that the Executive should carry out a survey of Members' trading turnover in the loco London gold market. All members were asked to volunteer data, by providing, on a confidential basis, their turnover figures for spot, forwards and other transactions in the first quarter of 2011, with the data to be divided, if possible, between trades with other members and trades with non-members. As most readers will be aware, the LBMA is not an exchange and it does not require its members to report on turnover. The only statistics which are produced on a regular basis by the LBMA are the monthly clearing statistics, based on returns from the six clearing members which together form the London Precious Metals Clearing company. The only previous surveys of trading turnover were those carried out by the Bank of England in 1991, 1994 and 1996, and these were restricted to the LBMA's market makers.

So, why did the Management Committee decide to authorise a survey of members' gold trading? The answer lies in Europe or, more precisely, in the discussions within the Basel Committee on Banking Supervision on the new liquidity regulations for banks. The

issue is whether gold should be considered as a "high-quality liquid asset" so that it can be included in the liquidity buffers that banks must meet. Although the Basel Committee did not recommend the inclusion of gold in these liquidity buffers, the implementation of the Basel guidance by national legislators and the European Union legislators may still allow gold to be included if they can be persuaded that gold is, indeed, a high-quality liquid asset. The World Gold Council has been pursuing this goal over the past two years and it requested the LBMA to carry out a survey of turnover in order to strengthen its argument that the gold market is sufficiently deep and liquid to justify gold's characterisation as both high quality and liquid.

### Conduct of the Survey

All Members were sent the reporting form at the end of April, which asked for the data on spot and forward transactions to be divided into sales and purchases, and between members and with other counterparties. The third catch-all category of "other transactions" was also included to cover, for instance, options and bullion-related commodity swaps. The data to be included in the survey did not include deposits or loans.

From the outset, great care was taken to ensure the confidentiality of the data submitted. All Members were given an identifying code and asked to use that on the reporting form rather than their company name. The list of identifying codes was maintained in an encrypted file that only two members of staff had the password for. All members were given two data delivery points, which were the LBMA or the Bank of England.

### Results of the Survey

Ultimately, 36 of the 56 Full Members involved in trading gold submitted returns. These included all of the LBMA's spot and forward market makers.

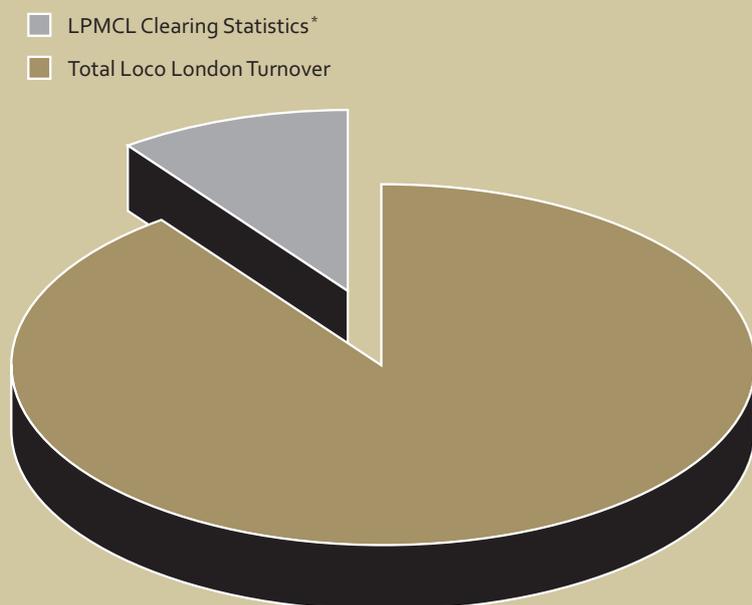
The results of the survey are summarised below in terms of daily averages during the period (Figure 1). Also shown for comparison are the clearing turnover statistics. It should be noted that the figures provided for trade between members were divided by two in order to avoid double counting. This is rather conservative in that many of the trades reported with members would be with members that were not themselves reporting. The figures for sales and purchases should be added to get an idea of the total trading turnover.

Figure 1 - LBMA Survey of Loco London Gold Turnover

	Q1 2011 Turnover*					
	'000 ounces		Number of trades		Total Value (Sales)	Total Value (Purchases)
	'Sales	'Purchases	Sales	Purchases		
London Turnover	5,593,743	5,350,183	201,713	184,140	\$7,754,438,081,578	\$7,416,798,373,170
Total Loco London Turnover	10,943,926		385,852		\$15,171,236,454,748	
LPMCL Clearing Statistics	1,183,459		122,303		\$1,640,689,519,546	
London Daily Avg	173,713		6,125		\$240,813,277,059	
Spot	89%	91%				
Forwards	5%	4%				
Other	6%	5%				

\*Source: LBMA, Comprised of data from 36 LBMA Members, including all spot and forward Market Makers, for spot and forward Loco London transactions

Figure 2 - LBMA Survey of Loco London Gold Turnover - Q1 2011  
 Loco London Q1 2011 Turnover compared to Q1 LPMCL Clearing Statistics



**LPMCL Clearing Statistics\***

These figures contain:

- Loco London book transfers from one party in a clearing member's books to another party in the same member's books or in the books of another clearing member
- Physical transfers and shipments by clearing members
- Transfers over clearing members' accounts at the Bank of England.

Excluded from these statistics are:

- Allocated and unallocated balance transfers where the sole purpose is for overnight credit
- Physical movements arranged by clearing members in locations other than London.

It can also be seen that there is an approximately ten to one ratio between the turnover figures and the clearing statistics (Figure 2). It can be seen that spot transactions form the large majority of the total (around 90%), with forwards and other transactions each representing around 5%. The average daily trading volume in the London market in this period was 173,713,000 ounces or \$240.8 billion (Figure 1).

**Basel III Implementation –European Parliament Update**

In July, the European Parliament voted unanimously to recommend that central counterparties accept gold as collateral, under the European Market Infrastructure Regulation (EMIR).

**Natalie Dempster, Director of Government Affairs at the World Gold Council, commented on the vote:**

*It is very significant that the European Parliament is putting its weight behind the argument that the unique characteristics of gold make it an ideal form of high-quality liquid collateral. We now look forward to the European Parliament and Council of the European Union upholding the inclusion of gold in the next stage of negotiations around EMIR, which will take place in September.*

“It is very significant that the European Parliament is putting its weight behind the argument that the unique characteristics of gold make it an ideal form of high-quality liquid collateral. We now look forward to the European Parliament and Council of the European Union upholding the inclusion of gold in the next stage of negotiations around EMIR, which will take place in September. The ratification would mark a significant step forward in redefining what constitutes a highly liquid asset under the Capital Requirements IV Directive too.

Market demand for gold to be used as a high-quality liquid asset and as collateral has been building for some time. In late 2010, ICE Clear Europe, a leading European derivatives clearing house, became the first clearing house in Europe to accept gold as collateral. In February 2011, JP Morgan became the first bank to accept gold bullion as collateral via its tri-party collateral management arm. Exchanges across the world, such as the Chicago Mercantile Exchange, are now accepting gold as collateral for certain trades and London-based clearing house LCH Clearnet has said that it also plans to start accepting gold as collateral later this year, subject to regulatory approval. As regulators from G20 countries demand that more OTC trading is centrally cleared and with the on-going world economic difficulties further eroding the creditworthiness of other forms of collateral, we expect to see increasing demand by clearing houses, exchanges and investment banks to use gold as collateral”.