

Global Research - Commodities

London's Role in the Silver Market

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PREPARED FOR: The LBMA

Historical silver

Why London?

History

- The decline of the Spanish Empire and eventual cessation of the Spanish colonies helped establish London as the center for world silver commerce
- The effective mobilization of bullion played a crucial role in wartime and government finances, as well as facilitating international trade, making Sterling the world's first reserve currency
- British financial and commercial relationships in Spanish America, the financing of the great mining houses (and railways) in North America, Australia and British rule in India as well similar influence in China, helped solidify London's position in the world silver markets
- Instrumental in supporting the bimetallic monetary system in the United States, which the US eventually abandons
- Some rivalry with New York in the early 20th century but London regains its position as the world's principal silver market despite two world wars and market interruptions
 - No significant domestic silver production
 - No significant refining presence
 - No significant consumption

Servicing a global market

Loco London

- The success of London lies in high-quality facilities, clearing, vaulting, personnel, legal and financial services, mine financing, standards of good delivery, policing and networking; nowhere are these services provided to the degree that they are in London
- The overwhelming majority of silver trading is done on the OTC markets which are cleared in London
 - Dollars are settled in New York
 - Yen are settled in Tokyo
 - Silver is settled in London, much like a current or checking account at a local bank
- Bullion traders from all over the world have traditionally maintained precious metal accounts with members of the LBMA, allowing for dealers around the world to settle bullion transactions between each other by transfers between London dealers
- This puts loco London at the center of world silver trading and the price quoted for loco London is the world price for silver; i.e. the “benchmark” for silver just as West Texas Intermediate is the benchmark for world oil

HSBC 

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This market is “Fixed”

A good fix London

Benefits

- The 6 clearers HSBC, JP Morgan, Deutsche Bank, Barclays, UBS, Scotia Mocatta,
- The advantages of the London OTC market as compared to the futures are in the tailor-made agreements as to size and delivery dates that can be accommodated
- The first Silver Fixing took place in 1897 at the office of Sharps & Wilkins
- Although silver has only one fixing as compared to gold which has two, it offers undeniable benefits
- International benchmark
 - Universally recognized by dealer, banks, merchants, producers,
 - Most producer and consumer contracts are benchmarked to loco Londons
- Published price
 - Full disclosure publicly verifiable
- Narrow dealing spread
 - Due to ample liquidity and market participation
- Any quantity may be dealt
 - Ability to accommodate any amount required by participants

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Stand and Deliver, getting what you pay for with the LBMA

- Good delivery**
 - Anonymity
 - Clients identity protected
 - LBMA Good Delivery List is a de facto world standard for refined silver.
 - The LBMA is a trade Association and should not be confused with an exchange
- Benefits**
 - Established in 1987
 - Caters to wholesale not retail markets
- Function**
 - Over the Counter (OTC)
 - Working to maintain and safeguard the efficiency of the London silver market
 - Uphold the quality of the product
 - The Good Delivery System
 - Probity – Membership
 - Maintain high standards

LBMA

- Functions**
 - Contacts with Regulators
 - Little need for regulatory intervention because of the high level of professionalism in the market
 - Statistics, Documentation and Information
 - The London Precious Metals Clearing Limited (LPMCL) developed from a telephone clear to an electronic mechanism that provides allocated and unallocated accounts
 - Provided monthly by the clearing members
 - Tabulating the values, quantities and number of transfers
 - Note the clearing volume does not equate to the trading volume, but is only a fraction of trading; c100moz
 - Most producer and consumer contracts are transacted in London
 - London offers vaulting facilities that are unrivaled

London's role in the silver market

EFP

- London plays an important role in the EFP or Exchange for Physicals market

& ETF

- The silver ETF's or Exchange Traded Funds are held in London
 - This helps secure London's position as the ETF market grows, massive consumer markets, helped solidify London's position in the world silver markets

Reduced credit risk

- The central clearing mechanism, and vast pool of allocated and unallocated silver reduces credit risk and
 - Massive pools to offset liabilities

Netting

- Allows for greater efficiency and lower costs

Vaulting

- Extensive vaulting facilities

Conclusion

- London will remain the focal point of the world's silver market due to physical infrastructure, delivery system and deep pool of silver and talent



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