

To: All members

Ref: 17/229

Classification: Trading

Date: 6 July 2017

Subject: **PRECIOUS METALS MARKET MAKING PROGRAMME – PRICE STREAMING OBLIGATIONS**

Summary

1. LMEprecious is the new initiative created by The London Metal Exchange (the “LME”), LME Clear and the World Gold Council together with Goldman Sachs, ICBC Standard Bank, Morgan Stanley, Natixis, OSTC and Société Générale, introducing a suite of exchange-traded and centrally-cleared precious metals products.
2. The LME has entered into contractual arrangements with the above entities such that it is anticipated that at any given time at least three of those entities will provide market making services (i.e. price “streaming”) for gold and silver futures at agreed bid/ask spread and depth across the curve, for 80% of the time between 08.00 and 18.30 London time.
3. This means there will be quotes down the curve providing liquidity to execute orders, roll positions and close out existing positions where required.
4. Capitalised terms not otherwise defined in this Notice have the meaning ascribed to them in the LME Rules.

Contracts

5. The LMEprecious Service will initially include centrally cleared gold and silver futures contracts. There are streaming commitments for both gold and silver, the details of which are laid out below.



Streaming commitments

LME Gold:

6. For the “spot” contract¹ the obligation is for a total of at least 99 lots each side at a maximum of \$0.90 bid/ask spread. These commitments will be for 80% of the time between 08.00 and 18.30 London time each day. For the avoidance of doubt a subset of this will be at a tighter bid/ask spread than the maximum stated above.
7. The market makers will also provide calendar spread quotes from spot to each monthly date down the curve to five years. Market maker commitments for the calendar spreads will be defined in basis points.
8. **Examples:** For the purposes of the examples in this Notice we assume spot gold is \$1200/oz. There will be at least 60 lots of volume available each side in every spot-monthly date spread in the following maximum bid/ask width:
 - \$0.75 for a spot to 1 year spread trade
 - \$2.00 for a spot to 2 year spread trade
 - \$3.80 for a spot to 3 year spread trade
 - \$6.00 for a spot to 4 year spread trade
 - \$10.00 for a spot to 5 year spread trade(All basis Spot gold at \$1200/oz)

LMEprecious utilises implied pricing in LME Select so that explicit outright quotes and calendar spread quotes combine to create new tradeable implied outright prices. This means there will be outright prices available down the curve with the following maximum bid/ask width:

- \$1.65 for a 1 year outright trade
 - \$2.90 for a 2 year outright trade
 - \$4.70 for a 3 year outright trade
 - \$6.90 for a 4 year outright trade
 - \$10.90 for a 5 year outright trade
- (All basis spot gold at \$1200/oz)

LME Silver:

9. For the spot contract the obligation is for a total of at least 120 lots each side at a maximum of \$0.055 bid/ask spread. These commitments will be for 80% of the time between 08.00 and 18.30 London time each day. For the avoidance of doubt a subset of this will be at a tighter bid/ask spread than the maximum stated above.

¹ Meaning contracts with a Prompt Date of T+2, as defined in Part 13 of the LME Rules.



10. The market makers will also provide calendar spread quotes from spot to each monthly date down the curve to five years. Market maker commitments for the calendar spreads will be defined in basis points.

11. **Examples:** For the purposes of the examples in this notice we assume spot silver is \$17/oz. There will be at least 30 lots of volume available each side in every spot-monthly date spread with the following maximum bid/ask width:

- \$0.020 for a spot to 1 year spread trade
 - \$0.045 for a spot to 2 year spread trade
 - \$0.080 for a spot to 3 year spread trade
 - \$0.140 for a spot to 4 year spread trade
 - \$0.260 for a spot to 5 year spread trade
- (All basis spot silver at \$17/oz)

There will be outright prices available down the curve with the following maximum bid/ask width:

- \$0.075 for a 1 year outright trade
 - \$0.100 for a 2 year outright trade
 - \$0.135 for a 3 year outright trade
 - \$0.195 for a 4 year outright trade
 - \$0.315 for a 5 year outright trade
- (All basis spot silver at \$17/oz)

Limits, term and termination

12. The Exchange reserves the right to amend the details of the programme or include other such limits, restrictions, conditions or clarifications as it may specify by Notice from time to time.

13. The commitments outlined in this notice are effective from the 10 July 2017.

14. Without prejudice to the above paragraph, the Exchange reserves the right to alter, restrict, suspend or terminate the programme with or without notice at any time, if it deems it is in the best interests of the market to do so.

Questions

15. Members or other interested parties with any questions in respect of the programme are invited to contact the LMEprecious team by email at lmeprecious@lme.com.

Kate Eged
Head of Precious Metals

cc: Board directors