

# CBOT<sup>®</sup> Precious Metals

AN INTRODUCTION  
TO TRADING  
CBOT GOLD  
AND SILVER



 **Chicago Board of Trade**



# Introduction

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The Chicago Board of Trade offers two of the world's most commonly traded precious metals futures contracts: Gold and Silver. Whether you are looking for an inflation hedge, a pure speculative product, an alternative investment asset class, or a commercial hedge position, CBOT Gold and Silver futures contracts are viable products to meet your needs.

Traded exclusively on the CBOT's premier electronic trading platform, these markets are liquid, efficient and transparent. In other words, the CBOT provides the speed and quality of execution that all hedgers, traders and speculators in precious metals want and deserve.



# Trading in CBOT Precious Metals

## The Benefits of CBOT Precious Metals

- **100% Electronic Markets**—With a relatively simple point and click, you receive near instantaneous trade execution.
- **100% Transparent Markets**—By seeing the entire market book (bids, offers and quantities) you will appreciate the efficiency and quality of execution.
- **Long Trading Session**—With almost 21 hours of continuous trading, you will have an opportunity to trade these markets, when you want or as your needs arise.
- **Superior Financial Integrity**—Straight-through clearing and processing via the world's premier clearing system provides a seamless trading environment.
- **World Class Trading Platform**—With worldwide distribution and easy market access, the CBOT precious metals markets are truly the markets that meet the needs of our global customers.
- **Two Contract Sizes**—With full- and mini-sized contracts, you can choose the product size that best meets your needs.
- **CBOT Brand**—With the strength, integrity and transparency behind the CBOT name, you can be assured that the markets will be continuously monitored to ensure the best service for our customers.

## What are Precious Metals Futures Contracts?

A CBOT precious metals futures contract is a legally binding agreement to buy or sell gold or silver at some later time at a price agreed upon in the current time period. Futures contracts are standardized with regards to the quantity, quality, time and place of delivery. The only negotiable variable in a specific futures contract is price.

This provides customers with a risk management tool to protect the price of their expected purchase or sale of physical precious metals. It also provides other types of customers with the opportunity to participate in the precious metals markets without a position in the physical metals markets.

A **long (buy) position** in futures is a market obligation to accept delivery of the physical metal and a **short (sell) position** in futures is a market obligation to make delivery of the physical metal. Although the CBOT precious metals contracts are obligations for the delivery of the physical commodity, the great majority of futures contracts (and their implied delivery obligations) are **offset** prior to the delivery period, with the market participant taking a position opposite to their initial position.

## Advantages of Futures Contracts

Financial leverage, flexibility, transparency and financial integrity are probably the most important advantages of trading CBOT precious metals futures rather than the physical commodities or futures from another exchange.

The ability to trade and manage a product with a high market value at a fraction of the total value is **financial leverage**. Trading of futures contracts is done on a *performance margin* basis, which requires considerably less capital than trading the physical metals.

Initiating a short position in precious metals futures is just as easy as initiating a long position. Therefore, regardless of the physical metals position you want to protect or the type of market expectation you have, you will have the **flexibility** to take either side of the market.

A market that offers a free flow of information and access is considered **transparent**. All market participants deserve the fair and efficient treatment provided by the CBOT electronic trading platform.

Trading a product without the worry of counterparty risk is the **financial integrity** ensured by the CBOT clearing services provider.

### The Products

The CBOT offers trading in Gold and Silver futures contracts in **two sizes**: full- and mini-sized. CBOT Gold futures are traded in 100 ounce and 33.2 ounce contracts. CBOT Silver futures are traded in 5,000 ounce and 1,000 ounce contracts. So whether you are a commercial or institutional customer who prefers the larger full-sized contracts or a retail trader who prefers the smaller mini-sized contracts, the CBOT provides the flexibility the market needs.

#### Gold

The **pricing unit** for CBOT Gold futures is dollars and cents per ounce in multiples of \$0.10/ounce. If Gold futures are trading at \$405.50/ounce, CBOT 100 ounce Gold futures has a **contract value** of \$40,550 (\$405.50/oz. x 100 oz.) and the CBOT 33.2 ounce Gold futures contract value is \$13,462.60.

The **tick size** (minimum price fluctuation) for CBOT Gold futures is \$0.10 per ounce, which

equates to \$10 for the 100 ounce Gold contract (\$0.10/ounce x 100 ounces) and \$3.32 for the 33.2 ounce Gold contract (\$0.10/ounce x 33.2 ounces). Although a Gold futures contract price can't trade in a smaller increment, depending on market conditions the contract price may change by several ticks, but always in multiples of the 10-cent increment (e.g., the market may change from \$405.50 to \$405.80 per ounce).

The delivery requirements for both CBOT Gold contracts are **physical delivery** with New York area vaults regular for delivery and a variety of brands and markings acceptable for delivery. As vaults and brands may be added or deleted from the list, you should always refer to the CBOT Website at [www.cbot.com/metals](http://www.cbot.com/metals) for the most current list or contact your commodity broker.

Although CBOT Gold futures contracts are traded in all calendar months, usually the most active **contract months** are the nearby months. Additionally, the even calendar contract months for CBOT Gold futures (February, April, June, August, October and December) traditionally have the greatest interest and liquidity.

To maintain orderly markets, the CBOT will often set position limits. A **position limit** is the maximum number of contracts that may be held by a single market participant. While position limits typically apply to speculators, hedgers must also abide by position limits that are related to their physical metals position. For the most current position limits on CBOT precious metals contracts, refer to [www.cbot.com](http://www.cbot.com).

The **ticker symbols** are ZG for the CBOT full-sized (100 ounce) Gold futures contract and YG for CBOT mini-sized (33.2 ounce) Gold futures contract. Please contact your quote vendor for the specific contract symbols and their site location for the CBOT Gold futures contracts.

## CBOT Gold Futures

### Salient Features

	Full-sized Gold Futures	Mini-sized Gold Futures
➤ <b>Contract Size:</b>	100 ounce	33.2 ounce
➤ <b>Ticker Symbol</b>	ZG	YG
➤ <b>Tick Size:</b>	\$0.10/ounce (\$10/contract)	\$0.10/ounce (\$3.32/contract)
➤ <b>Trading Hours:</b>	7:16 p.m. – 4:00 p.m. Central time	7:16 p.m. – 4:00 p.m. Central time
➤ <b>Delivery</b>	Physical Gold basis New York or other Exchange designated locations	Physical Gold basis New York or other Exchange designated locations
➤ <b>Trading Platform:</b>	100% Electronic	100% Electronic

### Silver

The **pricing unit** for CBOT Silver futures is dollars and cents per ounce in multiples of 1/10 of a cent/ounce (\$0.001). If Silver futures are trading at \$5.251, CBOT 5,000 ounce Silver futures has a **contract value** of \$26,255 and the CBOT 1,000 ounce Silver futures contract value is \$5,251.

The **tick size** (minimum price fluctuation) for CBOT Silver futures is \$0.001 per ounce, which equates to \$5 for the 5,000 ounce Silver contract (\$0.001/ounce x 5,000 ounces) and \$1.00 for the 1,000 ounce Silver contract (\$0.001/ounce x 1,000 ounces). Although a CBOT Silver futures contract price can't trade in a smaller increment, depending on market conditions the contract price may change by several ticks, but always in multiples of the 1/10 of a cent increment (e.g., the market may change from \$5.255 to \$5.260 per ounce).

The delivery requirements for both CBOT Silver futures contracts are **physical delivery** with New York area vaults regular for delivery and

a variety of brands and markings acceptable for delivery. As vaults and brands may be added or deleted from the list, you should always refer to the CBOT Website at [www.cboc.com/metals](http://www.cboc.com/metals) for the most current list or contact your commodity broker.

The CBOT Silver futures contracts are traded in all calendar months with the most active **contract months** usually being the nearby months. Additionally, certain contract months for CBOT Silver futures (March, May, July, September and December) usually have greater customer interest and liquidity. CBOT Silver futures contracts also have specific **position limits** which are listed on the CBOT Website.

The **ticker symbols** are ZI for the CBOT full-sized (5,000 ounce) Silver futures contract and YI for CBOT mini-sized (1,000 ounce) Silver futures contract. Please contact your quote vendor for the specific contract symbols and their site location for the CBOT Silver futures contracts.

## CBOT Silver Futures

### Salient Features

	Full-sized Silver Futures	Mini-sized Silver Futures
➤ <b>Contract Size:</b>	5,000 ounce	1,000 ounce
➤ <b>Ticker Symbol</b>	ZI	YI
➤ <b>Tick Size:</b>	1/10 cent (\$.001)/ounce (\$5/contract)	1/10 cent (\$.001)/ounce (\$1/contract)
➤ <b>Trading Hours:</b>	7:16 p.m. – 4:00 p.m. Central time	7:16 p.m. – 4:00 p.m. Central time
➤ <b>Delivery</b>	Physical Silver basis New York or other Exchange designated locations	Physical Silver basis New York or other Exchange designated locations
➤ <b>Trading Platform:</b>	100% Electronic	100% Electronic

### Market Participants

A variety of market participants, with a variety of objectives, will be involved in the CBOT precious metals markets.

The primary function of any futures market is to provide a service to those who have an interest (buying or selling) in the physical precious metals at some time in the future.

**Hedgers** are those participants who use futures contracts to eliminate or reduce the risk associated with adverse price changes in the physical precious metals. Examples of precious metals hedgers include bank vaults, mines, manufacturers and jewelers.

A hedger initiates a position in the futures market as a temporary substitute for their eventual cash market activity (expected purchase or sale). At any point in time during a hedge, the futures position is opposite to the cash (physical) market position. Due to the price correlation between the futures and the cash market, a gain in one market will be used to offset the loss in the other. Since the amount

of change in the futures price may be different than the amount of the cash market change, the gain may not completely offset the loss in the other market or it may exceed the loss. Nevertheless, the hedge does offer significant price risk protection for both the buyer and seller of precious metals and, thereby, allows the hedger to lock-in or establish a purchasing or selling price in advance of the physical metal transaction.

A **speculator** is another primary category of traders. Unlike the hedger, speculators usually don't have any interest in owning or selling the physical commodity. Instead, their objective is to make profits by assuming market risk.

Speculators come in all shapes, sizes and forms. Speculators can be in the market for different lengths of time. The *scalper* is in and out of the market frequently within a trading session while the *day trader* holds positions longer than a scalper, but usually not longer than one trading session. The *position trader* keeps a position over multiple trading sessions.

Some speculators will trade precious metals futures as an *outright position* depending on their market expectations. For example, if a speculator believes gold is going to move higher, they may buy (go long) CBOT December Gold futures at \$410 per ounce. If at a later time, CBOT December Gold futures are trading at \$425 per ounce, they could offset (sell back) their initial futures position and realize a \$15 per ounce gain. On the CBOT 100 ounce Gold futures contract, they would have a gain of \$1,500. If they had traded the CBOT 33.2 ounce Gold futures contract, the gain would be \$498.

Conversely, if a speculator believed that gold was going to decline, the speculator could just as easily, sell (go short) CBOT December Gold futures at \$410 per ounce. If the market declines to \$400 at a later time, the speculator could offset (buy back) their initial futures position and realize a \$10 per ounce gain.

Speculators need to be aware that if the market moves in an opposite direction to their expectations, their initial positions may result in market losses.

Another category of traders, who are more concerned with price relationships than with a specific price direction, are referred to as **spread traders**. Spread traders can be either speculators or hedgers. Speculators, who believe the current price relationship between two or more related commodities is abnormal, can buy one of the contracts and sell the other contract to gain from the expected change in the price relationship.

Examples of potential spread trades are CBOT Gold versus CBOT Silver, CBOT full-sized Gold or Silver versus CBOT mini-sized Gold or Silver, CBOT Gold or Silver versus Gold or Silver from another exchange, CBOT Gold or Silver versus Interest Rate products and CBOT Gold and Silver versus foreign currency products.

Hedgers can also use spreads when moving their futures positions from one contract month

to another as their cash (physical metals) position or needs change. This is often referred to as rolling the hedge.

In addition to the margin benefits of trading CBOT precious metals futures rather than physical metals, certain spread transactions receive even greater margin benefits. Check with the CBOT Website for the most current margins and spread margin breaks at [www.cbot.com](http://www.cbot.com).

### Electronic Trading Platform

The CBOT's electronic trading platform is one of the world's best with global distribution and open access. With its enhanced technology, the CBOT electronic trading platform is one of the fastest, most efficient and user-friendly systems. Offering almost 21 hours of trading time, market users around the world can participate in the CBOT metals markets, regardless of the time zone they are in. The transparency provided by the electronic platform lets all market participants see the depth of the market via the entire market book (bids, offers and quantities). The CBOT's electronic platform enables straight-through processing and clearing which enhances the market's efficiency and provides customers with peace of mind.

### Recognized Strategies

There are numerous types of orders and strategies that are recognized and acceptable on the CBOT electronic trading platform. In addition to specifying whether you want a long, short or spread position, you will have to specify the type of order for execution. Some of the more common orders include market and limit orders.

**Market orders** are the most common type of order and are executed immediately at the best available price. **Limit orders** specify a price at which the order must be executed at or better. Market or limit orders can be used to either enter or exit (offset) the market.

The duration that an order stays in the market depends on the customer's choice and

preference. Most orders, unless specified otherwise by the customer, are referred to as *day orders*. **Day orders** are active for one trading session and will expire at the end of a trading day. If you want to keep an order active for a longer period of time, you would request a ***good-til-cancelled*** order.

### **How to Participate in CBOT Metals Markets**

There are a variety of ways for you to participate in the CBOT precious metals markets.

*Contact a commodity broker and open a trading account.* Interview several brokers to determine which one best meets your requirements. Make sure they have access to the CBOT electronic trading platform and that they understand your objectives for using the markets.

*Participate in the futures market using professional money management.* Perhaps you are interested in participating in the futures market, but not actually managing your account. One alternative is to select a Commodity Trading Advisor (CTA) to manage your funds. Another alternative is to select a commodity pool or fund whereby the Commodity Pool Operator (CPO) chooses the positions to take or they may elect to use a third party CTA.

*Purchase a CBOT membership and connect to the CBOT electronic trading platform.* The cost of the membership varies everyday, so be sure to check the CBOT Website or call the CBOT Membership Department at 312-435-3499 for more information.

### **For More Information**

If you would like additional information on the Chicago Board of Trade precious metals markets, contact your broker, visit the CBOT Website at [www.cbot.com/metals](http://www.cbot.com/metals) or call a CBOT Product Manager at 312-341-7955.

If you would like information on the CBOT's electronic trading platform, contact your broker, visit [www.cbot.com/ecbot](http://www.cbot.com/ecbot) or call 312-341-7955.





**Business Development**

141 W. Jackson Boulevard  
Chicago, IL 60604-2994  
312-341-7955 • fax: 312-341-3027

**New York Office**

One Exchange Plaza  
55 Broadway, Suite 2602  
New York, NY 10006  
212-943-0102 • fax: 212-943-0109

**European Office**

St. Michael's House  
1 George Yard  
London EC3V 9DH  
United Kingdom  
44-20-7929-0021 • fax: 44-20-7929-0558

**Asian Market Contact**

312-341-7955

**Latin American Contact**

52-55-5605-1136 • fax: 52-55-5605-4381

[www.cbot.com](http://www.cbot.com)

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