MCX METAL & ENERGY
Trade with Trust

# GOLD



**Gold (Au) is primarily a monetary asset and partly a commodity. It is the world's oldest international currency and an important element of global monetary reserve.**

## APPLICATIONS

Gold has diverse applications being one of the most malleable and ductile metals with high melting point and easy recyclability. It is useful in medicine and dentistry and, lately, has emerged as a key nanomaterial. Global gold demand hinges on four main categories: jewellery, investment, central bank reserves, and technology.

## MARKET CHARACTERISTICS

- The gold market is highly liquid. Gold held by central banks and other major institutions and as retail jewellery is reinvested in the market.
- As the stock of gold outweighs its demand, it is argued that the core driver of the real price of gold is stock equilibrium rather than flow equilibrium.
- Gold has low or negative long-period correlation with other asset classes, and so stands out as an effective diversifier even during periods of financial instability.

## GLOBAL MARKET SCENARIO

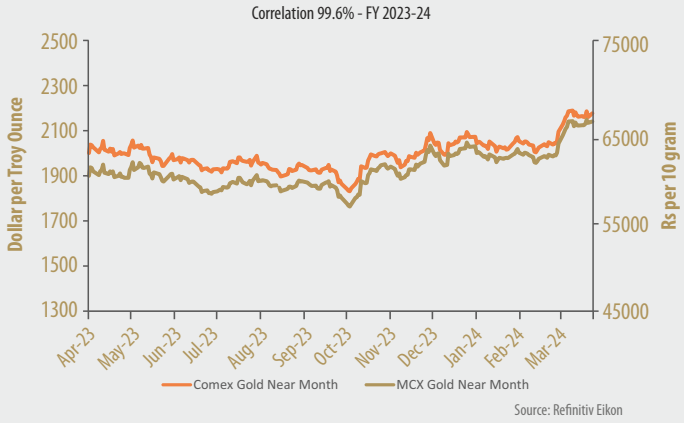
- The LBMA (PM) gold price ended 2023 at US$2,078.4/oz – a record high year-end close – generating an annual return of 15%.
- The average 2023 gold price of US$1,940.54 /oz – also a record – was 8% higher than 2022.
- Annual gold demand (excluding OTC) of 4,448t was 5% below a very strong 2022. Inclusive of significant OTC and stock flows 450t, total gold demand in 2023 was the highest on record at 4,899t.
- Central bank buying maintained a breakneck pace in 2023. Annual net purchases of 1,037t almost matched the 2022 record, falling just 45t short.
- Global gold ETFs saw a third consecutive annual outflow in 2023, losing 244t. The pace of outflows slowed markedly into year-end, but October's hefty outflows dominated the Q4 picture.

**WORLD GOLD DEMAND AND SUPPLY TABLE (TONNES)**

| SUPPLY | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| Mine production | 3,596.4 | 3,482.0 | 3,576.5 | 3,624.8 | 3,644.4 |
| Net producer hedging | 6.2 | -39.1 | -5.4 | -13.1 | 17.0 |
| Recycled gold | 1,275.7 | 1,293.1 | 1,136.2 | 1,140.1 | 1,237.3 |
| Total supply | 4,878.2 | 4,736.0 | 4,707.3 | 4,751.9 | 4,898.8 |
| **DEMAND** | | | | | |
| Jewellery | 2,152.1 | 1,324.0 | 2,230.3 | 2,195.4 | 2,168.0 |
| Technology | 326.0 | 302.8 | 330.2 | 308.7 | 297.8 |
| Total bar and coin demand | 871.1 | 902.3 | 1,180.3 | 1,222.6 | 1,189.5 |
| ETFs & similar products* | 403.6 | 892.5 | -188.8 | -109.5 | -244.4 |
| Central banks & other inst. | 605.4 | 254.9 | 450.1 | 1,081.9 | 1,037.4 |
| OTC and other | 520.1 | 1,059.5 | 705.1 | 52.8 | 450.4 |
| Total Gold demand | 4,878.2 | 4,736.0 | 4,707.3 | 4,751.9 | 4,898.8 |

*Source: Metals Focus, Refinitiv GFMS, ICE Benchmark Administration, World Gold Council*

**PRICE MOVEMENT**




Source: Refinitiv Eikon





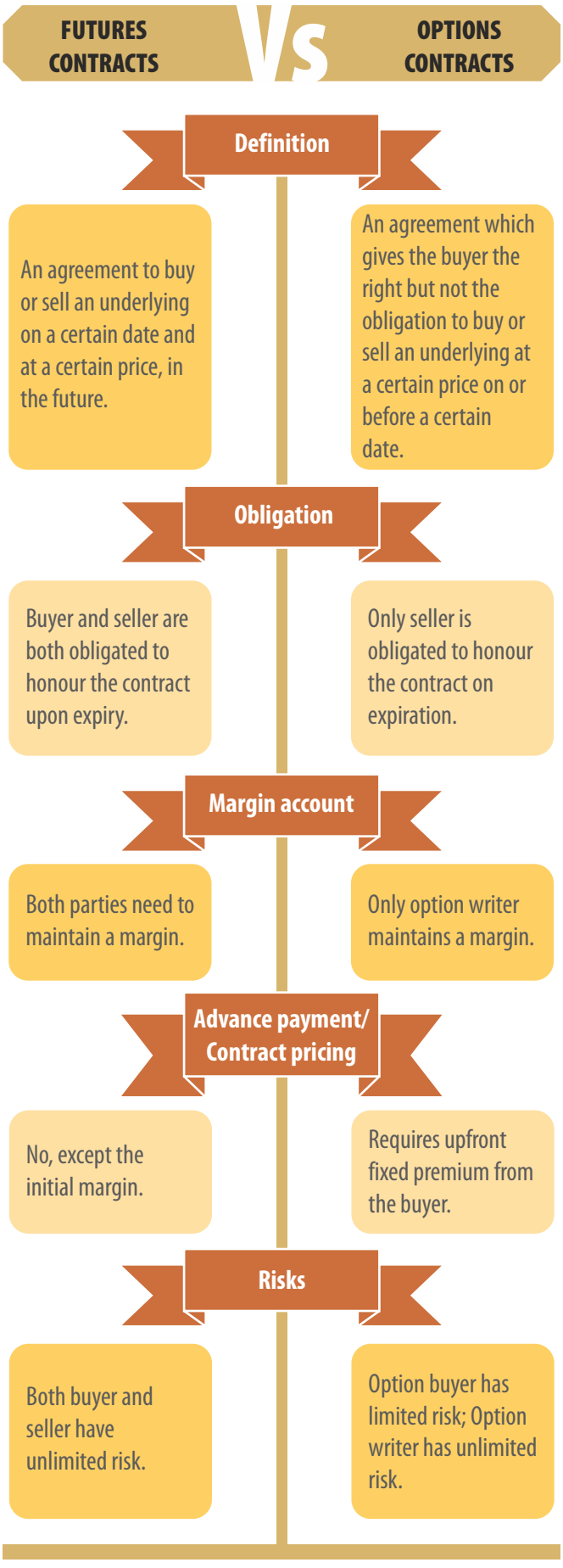

- Annual bar and coin investment saw a mild contraction (-3% y/y) in 2023 compared with 2022, as divergent trends in key Western and Eastern markets offset one another.
- Annual jewellery consumption in 2023 held steady at 2,093t, even in the very high gold price environment. China's recovery supported the robust global total.
- Despite a Q4 recovery in electronics, the annual volume in 2023 of gold used in technology fell below 300t for the first time
- Annual mine production increased 1% y/y in 2023 to 3,644t, but fell short of the 2018 record.
- Full year 2023 recycling responded to high gold prices, rising to 1,237t (+9% y/y), total gold supply was 3% higher y/y as a result.

## FACTORS AFFECTING MARKET FUNDAMENTALS

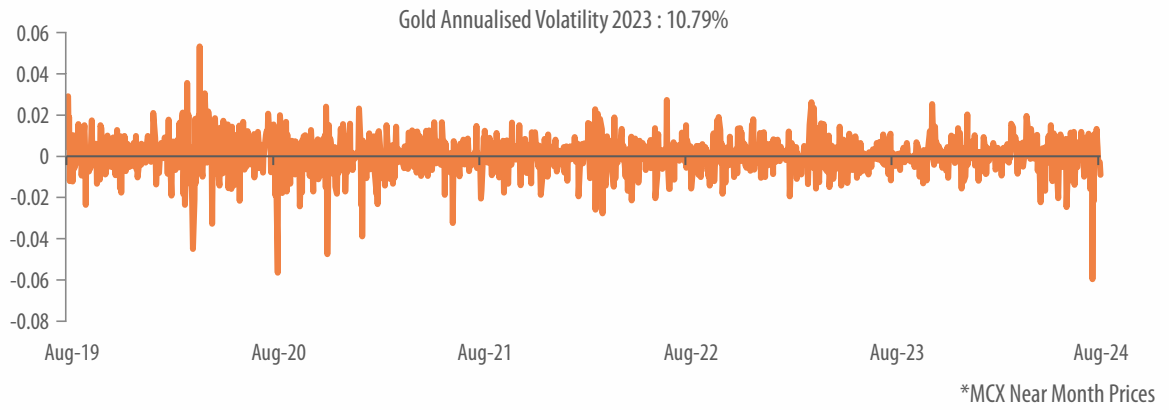
- Above-ground supply of gold from central bank sales, reclaimed scrap, and official gold loans.
- Hedging interest of producers and miners.
- World macroeconomic factors, such as movement in the dollar and interest rate, and economic events.
- In India, gold demand is also influenced by seasonality, that is, wedding and key agricultural operations such as harvesting.

## SPECIAL PLACE OF GOLD IN INDIAN SOCIETY

- Gold has been the oldest saving instrument and store of wealth for thousands of years in India.
- Being a highly malleable metal, small savers can save in gold in small quantities, and in times of need, can divide into smaller pieces and sell in a ready market .
- Gold's economic security translates into its high social and religious value. Indian scriptures are filled with references to gold possession as a sign of wealth and there are Hindu gods/goddesses associated with provision of gold.
- There is little paper-work in transferring gold's ownership. Holding of the asset is itself a claim to its ownership.
- Traditionally, the gold a bride receives as 'Streedhan' at the time of her wedding is a source of financial security to her as it remains directly under her control.
- Throughout the history of India, during unusual situations like wars, when the value of currency was under suspect, gold emerged as the *de facto* currency.
- Financial instruments like sovereign gold bonds, gold loans, bonds under the Gold Monetisation Scheme, etc. ride on the popularity of gold as a form of savings and wealth.



## AVERAGE DAILY VOLATILITY OF GOLD PRICES*




*MCX Near Month Prices

## SALIENT SPECIFICATIONS OF MCX GOLD FUTURES CONTRACTS

| Symbol | GOLD | GOLD MINI | GOLD TEN | GOLD GUINEA | GOLD PETAL |
|---|---|---|---|---|---|
| Contracts Available | Feb, Apr, Jun, Aug, Oct, Dec | Jan, Feb, Mar, Apr, May, Jun, Jul, Aug, Sep, Oct, Nov, Dec | | | |
| Last Trading Day | 5th day of contract expiry month. If 5th day is a holiday then preceding working day. | | Last calendar day of the contract expiry month. If last calendar day is a holiday then preceding working day. | | |
| Trading Period | 9.00 a.m. to 11.30 / 11.55 p.m.# | | | | |
| Trading Unit | 1 kg | 100 grams | 10 grams | 8 grams | 1 gram |
| Quotation/ Base Value | 10 grams | 10 grams | 10 grams | 1 gram | |
| Price Quote | Ex-Ahmedabad* | | | | Ex-Mumbai* |
| Maximum Order Size | 10 kg | | | | |
| Tick Size | ₹1/10 grams | | ₹1/10 grams | ₹1/8 grams | ₹1/1 gram |
| Daily Price Limit | The base price limit will be 3%. Whenever the base daily price limit is breached, the relaxation will be allowed upto 6% without any cooling off period in the trade. In case the daily price limit of 6% is also breached, then after a cooling off period of 15 minutes, the daily price limit will be relaxed upto 9%<br>In case price movement in international markets is more than the maximum daily price limit (currently 9%), the same may be further relaxed in steps of 3%. | | | | |
| Initial Margin | Minimum 6% or based on SPAN whichever is higher | | | | |
| Extreme Loss Margin | Minimum 1% | | | | |
| Additional and/ or Special Margin | In case of additional volatility, an additional margin (on both buy & sell side) and/ or special margin (on either buy or sell side) at such percentage, as deemed fit; will be imposed in respect of all outstanding positions. | | | | |
| Maximum Allowable Open Position** | For individual client: 5 MT for all Gold futures contracts combined together or 5% of the market wide open position whichever is higher, for all Gold futures contracts combined together.<br>For a member collectively for all clients: 50 MT or 20% of the market wide open position whichever is higher, for all Gold futures contracts combined together. | | | | |
| Delivery Unit | 1 kg | 100 grams | 10 grams | 8 grams | 1gram |
| Delivery Period Margin | Delivery period margins shall be higher of a. 3% + 5 day 99% VaR of spot price volatility or b. 25% | | | | |
| Delivery Centre | Ahmedabad | | | | Mumbai |
| Additional Delivery Centres | Mumbai & New Delhi | | | | Ahmedabad & New Delhi |
| Quality Specifications | 995 purity | | 999 purity | | |
| Delivery Logic | Compulsory | | | | |

*Note: Please refer to the exchange circulars for latest contract specifications.*

** Inclusive of all taxes and levies relating to import duty, customs but excluding GST, any other additional tax, cess, octroi or surcharge as may be applicable*

*** Genuine hedgers having underlying exposure that exceed the prescribed OI limits given in the contract specifications can be allowed higher limits based on approvals*

# SALIENT FEATURES OF MCX GOLD OPTIONS CONTRACT WITH GOLD (1KG) FUTURES AS UNDERLYING AND MCX GOLD MINI OPTIONS CONTRACT WITH GOLD (100 grams) FUTURES AS UNDERLYING

| Symbol | GOLD | GOLDI MINI |
|---|---|---|
| Underlying | MCX Gold Futures (1 kg) contract | MCX Gold Futures (100 grams) contract |
| Option type | European Call & Put Options | |
| Expiry Day (Last Trading Day) | • All Monthly Options contracts will expire on the last business day of the expiry month.<br>• All Bi- monthly Options contracts will expire on three business days prior to the first business day of the tender period of the underlying futures contract | 3 business days prior to the first business day of Tender Period of the underlying futures contract. |
| Trading Period | Monday to Friday 9.00 a.m. to 11.30 / 11.55 p.m.# | |
| Trading Unit | One MCX Gold 1 Kg futures contract | One MCX Gold Mini futures contract |
| Underlying Quotation/ Base Value | ₹/10 grams | |
| Underlying Price Quote | Ex-Ahmedabad (inclusive of all taxes and levies relating to import duty, customs but excluding sales tax and VAT, any other additional tax or surcharge on sales tax, local taxes and octroi or GST as applicable) | |
| Strikes | 50 In-the-money, 50 Out-of-the-money and 1 Near-the-money. (51 Call European and 51 Put European). Exchange, at its discretion, may introduce additional strikes, if required. | |
| Strike Price Intervals | ₹100 | |
| Tick Size (Minimum Price Movement) | ₹0.50 | |
| Daily Price Limit | The upper and lower price band shall be determined based on statistical method using Black76 option pricing model and relaxed considering the movement in the underlying futures contract. In the event of freezing of price ranges even without a corresponding price relaxation in underlying futures, if deemed necessary, considering the volatility and other factors in the option contract, the Daily Price Limit shall be relaxed by the Exchange. | |
| Margins | The Initial Margin shall be computed using SPAN (Standard Portfolio Analysis of Risk) software, which is a portfolio based margining system. To begin with, the various risk parameters shall be as under:<br>A. Price Scan Range – 3.5 Standard Deviation (3.5 sigma)<br>B. Volatility Scan Range – Minimum 4% or as decided by MCXCCL from time to time. For applicable VSR refer latest circulars issued by MCXCCL.<br>C. The Short Option Minimum Margin (SOMM) and Margin Period of Risk (MPOR) shall be in accordance with SEBI Circular no. SEBI/HO/CDMRD/DRMP/CIR/P/2020/15 dated January 27, 2020. For applicable SOMM and MPOR refer latest circulars issued by MCXCCL from time to time.<br>D. Extreme Loss Margin – Minimum 1% (to be levied only on short option positions) | |
| Extreme Loss Margin | Minimum 1% (to be levied only on short option positions) | |
| Premium | Premium of buyer shall be blocked upfront on real time basis. | |
| Margining at Client Level | Initial Margins shall be computed at the level of portfolio of individual clients comprising of the positions in futures and options contracts on each commodity. | |
| Maximum Allowable Open Position | Position limits for options would be separate from the position limits applicable on futures contracts.<br>For individual client: 10 MT for all Gold Options contracts combined together or 5% of the market wide open position whichever is higher, for all Gold Options contracts combined together.<br>For a member collectively for all clients: 100 MT for all Gold Options contracts combined together or 20% of the market wide open position whichever is higher, for all Gold Options contracts combined together.<br>Upon expiry of the options contract, devolvement of options position into corresponding futures, open positions may exceed permissible position limits applicable for future contracts. Such excess positions shall have to be reduced to the permissible position limits of futures contracts within two trading days. | |
| Settlement of Premium/Final Settlement | T+1 day | |
| Mode of Settlement | On expiry of options contract, the open position shall devolve into underlying futures position as follows:-<br>• long call (put) position shall devolve into long (short) position in underlying futures contract<br>• short call (put) position shall devolve into short (long) position in underlying futures contract<br>All such devolved futures positions shall be opened at the strike price of the exercised options. | |
| Exercise Mechanism at Expiry | All In the money (ITM)# option contracts shall be exercised automatically, unless 'contrary instruction' has been given by long position holders of such contracts for not doing so.<br>The ITM option contract holders, who have not submitted contrary instructions, shall receive the difference between the Settlement Price and Strike Price in Cash as per the settlement schedule.<br>In the event contrary instruction are given by ITM option position holders, the positions shall expire worthless.<br>All Out of the money (OTM) option contracts shall expire worthless.<br>All devolved futures positions shall be considered to be opened at the strike price of the exercised options.<br>All exercised contracts within an option series shall be assigned to short positions in that series in a fair and non-preferential manner<br># ITM for call option = Strike Price < Settlement Price; ITM for put option = Strike Price > Settlement Price. | |
| Due Date Rate (Final Settlement price) | Daily settlement price of the underlying futures contract on the expiry day of the options contract. | |

*Note: Please refer to the exchange circulars for detailed contract specifications. | #based on US daylight saving time period*

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