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UNDERSTANDING PLATINUM FUTURES

Many investors choose to gain exposure to the most precious of metals by accessing the futures market

CME Group platinum futures contracts recently reached record levels of average daily volume in the third quarter, with 37,000* contracts traded per day. This is an increase of more than 20 percent in a platinum market that is sized at roughly US$4.3 bn* (91,799 contracts).

Platinum futures were launched by the New York Mercantile Exchange (NYMEX), now part of CME Group, in 1956. They are financial products that allow participants, including individuals as well as asset managers and corporates, to lock in a future platinum price by entering into a binding contract that commits them to buying an amount of platinum at a fixed price at a future date.

Investors can then either exercise the contract on its expiry date or - depending upon their view of the market - trade the underlying contract, allowing them to potentially make a profit, subject to market movements. Precious metals futures can also be traded on the Shanghai Futures Exchange and Tokyo Commodity Exchange.

The futures market works by matching investors prepared to take on risk (with a view to generating a return based on price fluctuations) with other traders who are looking to avoid risk by having certainty over future prices, for example to manage supply chain costs, avoiding volatility.

Traders typically make a return from futures trading by buying platinum futures when they believe that platinum prices will go up and selling them when they think that platinum prices will fall. However, more sophisticated and experienced traders can employ a multitude of trading strategies aimed at maximising gains and minimising losses.

Unlike other types of investment in platinum such as exchange traded funds, futures are not physically backed. However, platinum futures contracts do allow for the delivery of physical platinum, although in practice only some 2 per cent of futures contracts result in the delivery of a physical commodity. The principle of physical delivery helps to ensure that there is convergence in pricing between the physical market and the futures market upon maturity of the futures contract.

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*as at 5 November 2019

Why futures?

Futures enable traders to take a view on the future price of platinum, either to make a profit by potentially benefiting from price fluctuations or to protect themselves against price fluctuations.

Similar objectives can be achieved through other instruments, such as options, swaps, forwards or contracts based on the difference between two prices. Some of these products may not be regulated by an exchange.

However, many investors choose to trade on a regulated futures market such as CME Group for several reasons, including price transparency and deep liquidity.

Furthermore, certain exchanges like NYMEX are fully electronic, operating in real time and able to execute millions of trades per second. They also provide secure clearing services, giving investors further peace of mind regarding settlement and mitigating counterparty risk.

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