BMD GOLD FUTURES (FGLD)

Frequently Asked Questions (FAQs)

1. What is FGLD?

FGLD is a small-sized Ringgit Malaysia ("MYR") denominated gold futures contract traded on Bursa Malaysia Derivatives, providing market participants exposure to international gold price movements.

- **Contract Size:** Each FGLD contract is equivalent to 100 grams of gold.
- **Pricing:** The pricing of the FGLD contract is benchmarked against the London Gold Fix Price.
- **Cash Settled:** There is no physical delivery as it is cash settled contract. FGLD contract will be settled on expiry using the cash equivalent of the gold purchased (e.g. 100 grams), calculated using the London AM Fix price (in USD) on the final trading day converted into MYR.

Contract Months

The FGLD contract months will be listed over a period of 12 calendar months. The specific months covered will be the current month, the next three consecutive months and all even months (i.e. February, April, June, August, October and December) within the 12 month period commencing from the current month. The current month (also known as the "spot month") is generally the most active month in terms of price and volume movements but market participants can choose to also trade in contract months listed further in the future.

Trading Sessions

The FGLD contract can be traded over two sessions: 9:00am – 12:30pm and 2:30pm – 7:00pm.

2. Why trade FGLD?

a. Global Access

FGLD is traded on CME Globex®, a global electronic platform. CME Globex® provide access to professional traders anywhere around the world to trade Bursa Malaysia Derivatives products.

b. Regulated Trading

The trading of the FGLD contract on Bursa Malaysia Derivatives comes under the regulatory supervision of the Securities Commission of Malaysia pursuant to the Capital Markets and Services Act 2007.

Margin deposits and payments relating to settlement of futures contracts are guaranteed by Bursa Malaysia Derivatives Clearing while the conduct of the futures brokers is also regulated.

The regulatory framework provides added protection and comfort to market participants.

c. Leveraged Trading

In the futures market you will need to put up a small percentage of the notional value of the contract (known as Initial Margin). This margin will fluctuate according to volatility of the gold price. The "leverage" allows you to have greater exposure to gold at a fraction of the total value.

d. Benefit from Bull and Bear markets

Unlike purchasing an "asset" based on today's prices (eg. stocks or physical assets), a futures contract enables you to take a position now based on your view of the prices in the future. Traders have the opportunity to sell first in declining markets and this is the main trading advantage of futures contracts. It allows traders the flexibility in participating and taking opportunity in market trends and movements.

For example, if you wish to have exposure to gold and anticipate the gold price will go down in the future (e g in December), you could sell a December contract now to lock in today's prices, and take your gains in December when the contract expires at a lower price. This ability to "sell" a contract without first having to buy it enables you to benefit from both downward (and not just upward) movements in price.

3. **Where can I view FGLD prices?**

Clients may access FGLD from the following platforms:

- CME Globex®: BMD\FGLD\relevant contract month code. Example BMD\FGLD\OCT14
- Bloomberg: FGDA Cmdty CT (Go)
- Thomson Reuters: <FGLD> + <Month Code> + <Year Code>. Example <FGLDZ3> DEC3 contract
- Interactive Data: F:FGLD\Mnn, where M is month code and nn is year number. Example F:FGLD\Z13

Alternatively, you are advised to contact and enquire from your Futures Broker on how to access FGLD.

What are the approved currencies that I can deposit as Initial Margin?

Variation Margins are paid in Ringgit Malaysia (MYR). Initial Margins are accepted in various currencies listed below:

- Malaysian Ringgit (MYR)
- US Dollar (USD)
- British Pound (GBP)
- Euro (EUR)
- Hong Kong Dollar (HKD)
- Japanese Yen (JPY)
- Chinese Renminbi (RMB)
- Singapore Dollar (SGD)
- Australian Dollar (AUD)

Initial Margin is to be deposited with your licensed Futures Broker prior to trading. Please refer to your Futures Broker for other approved collaterals. All currency deposits for Initial Margin are subjected to hair cut rates as determined by Bursa Malaysia Derivatives Clearing from time to time.

4. How can I use FGLD?

The FGLD contract can cater to a variety of trading objectives and strategies. Examples:

Scenario 1: Protection of Asset Value

Simon has 1kg (1000g) of gold coins collected over the years. He observes that gold prices have declined and anticipates a further downtrend. He wishes to hold on to his physical gold portfolio for his retirement. To protect his asset value, he can use FGLD contract in the following manner:

Quantity of gold: **1000g**
Current Gold price: **MYR 130 per gram**
Scenario: Gold prices are expected to **FALL**

How can FGLD help in this scenario?

Step 1: Evaluate portfolio value = MYR130,000
(MYR 130 x 1000g)

Step 2: Evaluate hedging amount = 10 FGLD contracts
(100g = 1 FGLD contract, 1000g = 10 FGLD contracts)

Step 3: Execute the FGLD order with the broker

Sell 10 FGLD contracts at the current price of MYR 130

Assuming gold prices fall to MYR 100 per gram

Step 4:

i. Reevaluate portfolio value =MYR 100,000
(MYR 100 x 1000g)
Gross Loss (physical gold value) = (**MYR 30,000**)
(MYR 130,000 – MYR100,000)

ii. Gross Profit on FGLD = MYR30,000*
((MYR130 – MYR 100) x 1000g))
(Sell 10 FGLD contracts at MYR130
Buy 10 FGLD contracts at MYR100)

In this way, he **maintains the value of his gold coins in the event of downward price movement**.

* *Initial Margins are to be deposited prior to trading*
* *Transaction costs have been excluded in this example*

Scenario 2: Locking in the price of gold before it goes up

Madam Deepika's daughter is getting married in 6 months time. She intends to withdraw her Fixed Deposit sum to buy gold jewellery. However, the Fixed Deposit is not due until closer to the wedding. Madam Deepika notices the gold prices have been trending upwards and is concerned that this may reduce the amount of gold she can purchase. To lock in the current gold price, she can use FGLD contract in the following manner:

Quantity of gold: **200g**

Current Gold price: **MYR 130 per gram**

FD Value: **MYR 26,000**

Scenario: Gold prices are expected to **RISE**

How can FGLD help in this scenario?

Step 1: Evaluate portfolio value = MYR 26,000
(MYR 130 x 200g)

Step 2: Evaluate hedging amount = 2 FGLD contracts
(100g = 1 FGLD contract,
200g = 2 FGLD contracts)

Step 3: Execute the FGLD order with the broker
Buy 2 FGLD contracts at the current price of MYR 130

Step 4: **Assuming gold prices rise to MYR 160 per gram**

i. Reevaluate portfolio value = MYR26,000
(MYR 130 x 200g)
Gross Loss (physical gold value) = **MYR 6,000**
(MYR 32,000 - MYR 26,000)

ii. Gross Profit on FGLD = **MYR 6,000***
((MYR 160-MYR 130) x 200g))
(Buy 2 FGLD contracts at MYR 130, Sell 2 FGLD contracts at MYR 160)

She can then add the profit to her Fixed Deposit sum and **purchase the same amount of gold that she originally intended**. By using this strategy, she effectively **locked in the price of gold** at the time she bought the FGLD.

** Initial Margins are to be deposited prior to trading*
** Transaction costs have been excluded in this example*

Scenario 3: Taking advantage of gold price volatility

Suhaila is interested to have gold as an asset class in her investment portfolio. She observes that gold prices have been volatile recently, moving actively in both directions. She believes she can profit from the price fluctuations. To benefit from the volatile market, she can use FGLD contract in the following manner:

Quantity of gold: **100g**
Current Gold price: **MYR 130 per gram**

How to benefit from FGLD contract?

Scenario A: Gold prices are expected to **RISE**

Step 1: Buy one FGLD contract at MYR 130

Assuming gold prices rise to MYR 150 per gram
Step 2: Sell one FGLD contract at MYR 150
Gross profit on FGLD: **MYR 2,000*** (MYR 20 x 100 grams)

Scenario B: Gold prices are expected to **FALL**

Step 1: Sell one FGLD contract at MYR 130

Assuming gold prices fall to MYR 100 per gram
Step 2: Buy one FGLD contract at MYR 100
Gross profit on FGLD: **MYR 3,000*** (MYR 30 x 100 grams)

She can use **numerous strategies to maximise her trading opportunities** in the market, for e.g. spread trading, arbitrage trading and outright trading.

* *Initial Margins are to be deposited prior to trading*
* *Transaction costs have been excluded in this example*

5. What other facilities are available?

a. Exchange for Related Positions" (EFRP)

- Exchange your futures positions for physical gold
- Contact any physical gold supplier or your licensed Futures Broker to take over your long futures position
- Terms are privately negotiated between the two parties, e.g. quality, charges, delivery, etc
- This transaction is conducted outside the Exchange framework (off-Exchange)

Bursa Malaysia Derivatives is not involved and does not guarantee the transaction for either the buyer or seller of the physical gold but will facilitate registration of physical gold supplier as new holder of your futures position once the transaction is completed. You should therefore deal only with a reputable physical gold supplier to minimize the possibility of the supplier failing to honour his obligations.

b. "Negotiated Large Trade" (NLT)

- Arrange and transact orders outside the Exchange framework (off-Exchange)
- Allow large trades done at a single price
- Minimise possible price impact

6. How do I get started?

Step 1: Open a Futures Trading Account with a licensed Futures Broker of Bursa Malaysia Derivatives

Step 2: Deposit Initial Margin with your broker

Step 3: Start Trading FGLD

How do I learn more?

Please contact your preferred licensed Futures Broker who will advise and update you accordingly. You can also attend the various educational seminars listed on Bursa Market Place website or click HERE.