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CME Increases Gold Margins as Investors Drive Record Rally (2)
2011-08-11 05:39:16.804 GMT

(Updates gold price in fifth paragraph.)

By Glenys Sim

Aug. 11 (Bloomberg) -- CME Group Inc., the world's largest futures market, raised the margins on gold contracts by 22 percent after prices surged to a record on increased haven demand amid a deepening rout in global equities.

The initial-margin requirement, or the minimum amount of cash that speculators must keep on deposit, will rise to $7,425 per contract from $6,075 from the close of business today, CME said in a statement. The margin for hedging will also increase 22 percent, rising to $5,500 from $4,500, it said.

Gold futures on the CME's Comex have rallied 26 percent this year as the escalating debt crisis in Europe, slowing economic growth in the U.S. and accelerating inflation in China boosted demand. The volume in Comex gold futures and options surged to a record on Aug. 9, according to the exchange.

"There's certainly a reasonably large volume on Comex and it will add some downward pressure, but it won't be sufficient to prevent gold from remaining at elevated levels," said Darren Heathcote, head of trading at Investec Bank (Australia) Ltd.

The December-delivery contract, currently the most active, gained as much as 1.9 percent to $1,817.60 an ounce, and traded at $1,795.70 at 1:08 p.m. in Singapore. The immediate-delivery price also rallied to an all-time high of $1,814.95 today.

CME will raise the maintenance-margin requirement for gold to $5,500 per contract from $4,500 for speculators and hedging after the close of business today. One gold contract equals 100 troy ounces. Margins for so-called e-mini and e-micro gold futures will also be increased.

Silver Margins

The CME's decision will boost the amount of cash investors need as they expand their gold futures holdings amid the market turmoil. Earlier this year, the CME announced five margin increases for silver after prices jumped to a 31-year high of $49.845 an ounce on April 25. In two weeks, it became 84 percent more expensive for speculators to trade the metal, triggering an exit by investors and sending silver down by the most since 1983.

"Silver was more of speculation at that time, but this time it's really driven by fear, that gold is where it is and all the fundamental reasons for holding gold are still there," said Investec's Heathcote. "It's really difficult to see it having much effect."

CME joins the Shanghai Gold Exchange in hiking margins.

China’s largest physical gold market will boost the trade-margin requirement to 11 percent from 10 percent for gold contracts from settlement today, the bourse said on Aug. 8.

Prevent Risks

Margins will be raised to prevent risks, keep the market stable and protect investors’ interests after the rapid increase in prices, according to the Chinese bourse.

Immediate-delivery gold of 99.95 percent purity on the Shanghai Gold Exchange, the benchmark cash contract, surged to a record 373.20 yuan a gram ($1,814.90 an ounce) today, while bullion of 99.99 percent purity touched 374.50 yuan a gram, its highest ever.

“There are many other areas where gold is being bought,” Heathcote said from Sydney. “The ETFs, pure spot, so it’s not really going to prevent gold from pushing higher through another new peak if the market gets spooked.” ETFs are the initials for exchange-traded funds.

Gold holdings in exchange-traded products climbed to a record 2,216.756 metric tons on Aug. 8, data compiled by Bloomberg show. Assets have expanded 5.4 percent this year and were at 2,209.526 tons yesterday.

CME last boosted gold margins on Jan. 20, then decreased them on June 20, according to data on its website.

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