

Fundamentals of
**TRADING
METALS
FUTURES**



Important Information About Trading Futures and Options on Futures

This communication is intended as a solicitation. Futures trading involves the substantial risk of loss and is not suitable for all investors. Trading advice is based on information taken from trades and statistical services and other sources which RJ O'Brien believes are reliable. We do not guarantee that such information is accurate or complete and it should be relied upon as such. Trading advice reflects our good faith judgment at a specific time and is subject to change without notice. There is no guarantee that the advice we give will result in profitable trades. All trading decisions will be made by the account holder. Past performance is not necessarily indicative of future trading results.

When analyzing option strategies, it is important to take into account the commission and fees associated with making a trade. Similar to trading futures, each contract executed in an option strategy is charged commission and fees. Commissions and fees from brokerage firms can be up to \$99 per round turn with the vast majority of people paying significantly less. Your actual charges may vary based on the service level you choose. The two primary factors investors tend to overlook when trading options include:

- Each contract traded is charged a commission. This is often misinterpreted as each spread or strategy that is charged a commission. If you trade one bull call spread, your account would be charged for 2 contracts rather than 1 spread.
- Customers often try to sell or collect premium on options that are far out of the money with the belief that they are collecting "easy money." The further away an option strike price is from the current market price, the lower the value of the option. Make sure that you are not paying more in commission and fees than what you are collecting. Keep in mind that until an option expires, you do hold risk in the positions. Is the net premium collected after paying commission and fees worth the risk?



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Metals Markets

The desire for and application of precious metals has continuously evolved throughout documented human history with significance dating from the earliest nomadic societies up through the global markets of today. During this span, metals adopted the characteristics of modern currency; that as a means of exchange, store of value and unit of account.

Beyond the traditional exchange and ritualistic value of precious metals, accumulations of these finite minerals have served as measures of political and economic influence, i.e. Mercantilism policy beginning in the 16th century. Gold, silver and copper retain symbolic value today, in addition to becoming essential raw material in both infrastructure construction and industry.

Global commodity exchanges offer standardized metal contracts to investors, and ultimately provide a means of price discovery and the maintenance of equilibrium among market buyers/sellers.

At the CME Group, NYSE Liffe and other international exchanges, metal futures are designated based upon contract size and expiration month. Although floor access continues, the vast majority of outright and option trade volume is executed via the electronic markets. Metals contracts are deliverable after the first notice day, and therefore, the exchange certifies warehouses to hold physical bullion – in case customers choose to accept delivery.



Gold

Since the late nineteenth century South Africa had traditionally led the world in gold mining and output. In the last decade this has changed where no single country supplies more than 14% of the global production. Primary sources in order of production are China, Australia, United States, Russia and South Africa.

Gold-buying peaks through the wedding season (from November to mid-December, mid-January to May) and during the Diwali festival, which falls between mid-October and mid-November. India remains the largest single consumer of gold, with approximately one quarter of sales. Gold demand by category shows jewelry at approximately 50%, technology 12% and investment at 38%.

While traditionally considered a precious metal, gold and its derivatives are utilized in numerous industrial capacities. Due to its ductile and malleable qualities, the raw metal is applicable in diverse manufacturing processes, especially electricity conduction. In finance, gold is traditionally considered an ideal hedge against inflation and currency depreciation. Due to finite reserves worldwide and perceived status as a “Flight-to Safety” source, gold futures tend to appreciate during trends of perceived global market weakness.

According to the International Monetary Fund, as of December 2011, the United States is the largest individual holder of gold bullion reserves, with roughly 8,100 metric tons, followed by Germany (3,400) and the International Monetary Fund (2,800). Emerging economies, predominantly China, India and the Russian Federation, have implemented economic policies focused upon steadily increasing their respective gold reserves.



Contract Symbol	Exchange	Contract Size	Tick Value
GGC	Globex	100 troy ounces	.1 = \$10
QO - miNY	Globex	50 troy ounces	.25 = \$12.50
MGC - Micro	Globex	10 troy ounces	.1 = \$1
ZG	ICE	100 troy ounces	.1 = \$10
YG - Mini	ICE	32.15 troy ounces	.1 = \$3.22



Silver

Silver has long maintained precious metal status, in addition to its applicability as a conductor of electricity and key component of industry. Mined primarily in Mexico (19%), Peru (15.75%) and China (15.15%), the majority of silver is the direct by-product of copper and lead refining.

The metal has extensive use in decoration, jewelry, dentistry and coin production. Boasting the highest level of electrical and thermal conductivity of any metal, silver is an essential ingredient in manufacturing, chemical and photographic processes. Much of the world's silver is a byproduct of mining and processing copper, lead, and zinc. When the prices of these three metals rise (particularly due to decreased production), silver prices are likely to rally.

Contract Symbol	Exchange	Contract Size	Tick Value
GSI	Globex	5,000 troy ounces	.005 = \$25
QI - miNY	Globex	2,500 troy ounces	.0125 = \$31.25
ZI	ICE	5,000 troy ounces	.001 = \$5
YI - Mini	ICE	1,000 troy ounces	.001 = \$1



Copper

Copper is a ductile metal with very high thermal and electrical conductivity. Pure copper is rather soft and malleable, and a freshly exposed surface has a pinkish or peachy color. It is used as thermal conductor, an electrical conductor, a building material, and a constituent of various metal alloys.

Mined around the globe, top production comes from Chile (34%), Peru (7.8%), China (7.58%) and the United States (7.5%). Roughly 34% of the overall production is currently utilized in China. COCHILCO, Chile's copper commission, estimates that due to its broad economic growth, India could move into second place for world consumption of copper. The construction, electronic and machinery industries are primary copper consumers, followed by retail products and transport.

Copper prices are susceptible to political and social strife, including labor issues and transport disruption. Markets tend to be higher in the summer months of June through September – ahead of consumer electronics-buying season and chief demand for housing construction.

Contract Symbol	Exchange	Contract Size	Tick Value
GHG	Globex	25,000 pounds	.0005 = \$12.50
QC - E-mini	Globex	12,500 pounds	.002 = \$25



Platinum

Nearly all of the world's supply of platinum comes from the Republic of South Africa (77%), Russia (13%), Canada (2%), and the US (1.7%). The market is heavily influenced by Japan where it is the precious metal of choice. It is also used in the automobile, medical, and dental fields. Economic strength in Japan in these areas can be major influences on the price of platinum. Political problems can also have a major impact on price because platinum is located in only a few countries.

Contract Symbol	Exchange	Contract Size	Tick Value
GPL	Globex	50 troy ounces	.10 = \$5

Palladium

Palladium is the other major metal of the platinum group. It is mined with platinum and resembles it in many aspects, including durability and color. Of the platinum group metals, palladium is the least dense and has the lowest melting point. Russia accounts for about 42% of production, South Africa for about 41% and North American less than 10%.

Automotive catalysts are the largest consuming sector, accounting for 2/3 of demand. Electronic equipment, dental alloys and jewelry manufacturing also account for palladium use.

Contract Symbol	Exchange	Contract Size	Tick Value
GPA	Globex	100 troy ounces	.05 = \$5



Additional Resources

Thank you for the opportunity to provide you with this educational material. Anyone can offer online trading in online markets, but RJO Futures is not just anyone. We are specialists devoted to delivering the best possible trading experience for our clients. Whether you want to trade on your own, tap into the experience of our brokers or let a professional money manager make the calls, you can do it all at RJO Futures, the premier provider of futures brokerage services.

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