Gold Futures Contract Hikes by Daily Cap on Debut

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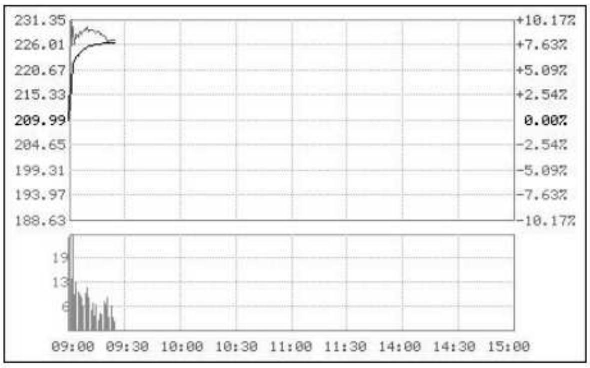

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Gold Futures Exchange Go Public

by Xinhua writer Wu Qiong

China gold futures trading made a strong debut in Shanghai on Wednesday, raising the city's prospects of becoming another key player in the world gold market.

China gold futures contracts surged to the daily 10 percent limit on Wednesday, minutes after trading started at 9 a.m. on the Shanghai Futures Exchange (SFE).

Seven contracts were traded, with the benchmark price set at 209.99 yuan (28.8 U.S. dollars) per gram by the SFE a day earlier, at a level lower than world prices.

The key contract for June delivery was the first to rocket as it climbed 9.98 percent to 230.95 yuan per gram. This was followed by the daily limit rise of other contracts for July-to-December delivery.

The contract size was set at 1,000 grams, larger than the originally expected 300 grams, to discourage individual investors who lacked the ability to take risk.

Trading had been set at 9 a.m. to 11:30 a.m. and 1:30 p.m. to 3 p.m. Beijing time each weekday.

Analysts believed investors would need at least 24,000 yuan to secure a futures contract, as most futures brokers would ask for a 12 percent cash deposit for each contract.

The most active June contract closed the morning session at 224.63 yuan per gram, up 14.67 percent, with a turnover of 16.5 billion yuan, according to the SFE website. The total turnover of the seven contracts was registered at almost 20 billion yuan in morning trade.

China gold futures trading was launched at a time when international gold prices have repeatedly been hitting new highs. Global prices jumped more than 30 percent throughout last year, representing the biggest increase since 1979.

Gold prices climbed more than two percent on Tuesday against strong oil prices and a weakening U.S. currency. A troy ounce of gold for February delivery added 18.30 U.S. dollars to settle at 880.30 U.S. dollars on the New York Mercantile Exchange (NYMEX).

Shang Fulin, China Securities Regulatory Commission (CSRC) chairman, stressed the financial nature of the precious metal and called for "joint efforts for the stable operation" of the new futures product at the launch ceremony in Shanghai.

He said the gold futures would improve the country's domestic gold market and pricing mechanism and gave options for financial institutions, gold producers and consumers to ward off market risk. It also further explored the relatively underdeveloped futures services.

Zhang Yingying, a Galaxy Futures Broker gold researcher, said most newcomers in futures investment would be institutional, using it as a hedging tool.

She said the enlarged contract size could adversely affect individual investors, but in the long run both would play an equal role.

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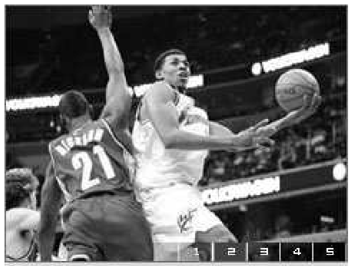

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Zhao Yuanlin, a Guotai Jun'an Futures analyst, said the brokerage had received mounting enquiries over gold futures from individual stock investors. The China Securities Journal also reported people lining up outside futures brokers to open new accounts in eastern Zhejiang Province.

However, he planned to first offer risk education to such veteran stock investors as they lacked the relevant experience for such risky investment.

Chinese stock investors, who saw the key stock index nearly double last year, had demonstrated strong enthusiasm for the new investment product.However, the regulatory body was trying to discourage such investment as the Chinese authorities feared it would leave inexperienced players exposed to greater risks.

The SFE said earlier it would impose strict risk controls on gold futures. It would also set a minimum margin requirement of seven percent of the contract value.

The elevation of contract size from 300 grams to 1,000 grams was another attempt made to this end.

In the meantime, CSRC said individual investors were barred from physical delivery of gold in futures trading and could buy gold only via banks or the spot market.

Last month, the CSRC approved the launch of gold futures trading. It was the fifth new futures products approved last year after zinc, rapeseed oil, polyethylene and palm oil.

The SFE, one of China's major futures trading venues, currently traded copper, aluminum, zinc, natural rubber and fuel futures.

RISING STAR IN WORLD MARKET?

The trading volume of China futures would likely expand quickly, and could, in a short term, rank top among global exchanges; it could even beat NYMEX trading in the long run, a senior official at the exchange told Xinhua's International Herald Leader reporter.

Zheng Xueqin, a Chicago Board Options Exchange senior counselor, agreed Shanghai could emerge as a third center of world gold exchange after New York and London.

He said the SFE would first become a center for Asian trade, given the country's large reserve and consumption and the traditional fervor of Chinese for gold.

Domestic analysts were confident of good prospect for gold futures, with some citing robust investment registered in simulated trade between Jan. 2-8.

China was the world's third largest gold producer in 2006 after South Africa and the United States. The country's gold consumption in the manufacturing sector was about 9.2 percent of the global total, according to official data.

Sun Zhaoxue, China Gold Association head, said on Wednesday the country's gold output reached 270 tons in 2007, only 20 tons short of that of South Africa, the world's largest producer.

(Xinhua finance reporters Huang Tingjun in Shanghai and Ren Fang in Beijing contributed to this story)

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