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Gold May Get Boost From Collateral Use, MF Global Says

By Nicholas Larkin - Feb 8, 2011

Gold may get a boost as [JPMorgan Chase & Co.](#) joins the two biggest U.S. futures markets in allowing the metal to be used as collateral for trading, according to MF Global Holdings Ltd.

JPMorgan said yesterday it will accept bullion as more clients seek to use gold as an inflation hedge and to post as collateral. [CME Group Inc.](#) in October 2009 allowed bullion's use as collateral, and Intercontinental Exchange Inc. followed last year. LCH.Clearnet Group Ltd., Europe's largest clearinghouse, said today it plans to permit use of gold and London Metal Exchange industrial-metal warrants as collateral.

JPMorgan's "announcement should be slightly positive for gold prices, as it further grows the belief that gold is a currency and has more uses than simply acting as a safe haven or portfolio diversifier," Tom Pawlicki, an analyst at MF Global in [Chicago](#), said today in a report. "It would seem as though collateralization certainly hasn't hurt prices" since the CME permitted such usage, he said.

Gold advanced 28 percent since the change by CME, the world's largest derivatives exchange, climbing to a record \$1,431.25 an ounce in December. Investors accumulated assets in exchange-traded products worth about \$89 billion, holding more bullion than all but four central banks. The metal outperformed global equities and Treasuries in 2010, climbing for a 10th straight year, the longest winning streak since at least 1920.

Credit Default Swaps

New York-based JPMorgan said it will accept gold "to satisfy [securities lending](#) and repo obligations" and it expects to accept additional precious metals and commodities as collateral later this year. Intercontinental, the second-biggest U.S. futures market, in November allowed gold's use as collateral for energy and credit default swaps on its ICE Clear [Europe](#) clearinghouse. CME permits gold's use as collateral on all its markets.

“A major theme for the gold market is JPMorgan is accepting gold as collateral,” said [Adam Klopfenstein](#), a senior market strategist at Lind-Waldock in Chicago. “They feel gold is safe enough to use as a store of value and that the gold price is not going to fall out of bed. You’re going to get a whole new wave of investors.”

LCH.Clearnet is going through the approval process and is in contact with the U.K.’s Financial Services Authority, David Farrar, a director and head of commodities and metals, commercial services, said by phone today. It plans to permit use of gold and LME warrants this year.

‘Easy to Move’

The company has yet to decide which LME metal warrants it will accept, Farrar said. Copper, tin, aluminum, nickel, lead and zinc are traded on the exchange.

“Gold, from our perspective, is seen to be liquid and easy to move around and manage,” Farrar said. “Everyone’s looking for secure ways of handling collateral, and gold is just another asset that seems to be becoming more acceptable. I can see that expanding.”

Aurelie Leonard, a spokeswoman at [Barclays Capital](#), declined to comment on the use of gold as collateral.

Immediate-delivery bullion reached a two-week high of \$1,367.10 by 5:05 p.m. in London. The metal rallied 30 percent last year after governments spent trillions of dollars and kept [interest rates](#) low to bolster economies, while Europe’s sovereign-debt crisis also boosted demand.

Investors in ETPs own 2,025.4 metric tons of gold, even after cutting holdings by 4.2 percent since December, data compiled by Bloomberg show. The products accounted for 21 percent of investment demand last year, according to researcher GFMS Ltd.

“It may also prompt owners of gold who use it as collateral to become long-term holders of the metal, rather than trading in and out of it,” MF’s Pawlicki said. “A greater long-term commitment from them may keep the metal off the physical market.”

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