Paper Metal Prices Versus Physical Product Prices

Cost Advantages of Buying With Indigo

15th March 2019

By D Mitchell

Indigo Precious Metals

Clients have often come at us with several quite popular questions; today I will cover just two of them…..

1. Why are product prices not the same as the paper prices of the same metals, such as gold or silver etc..?
2. Why is Indigo so competitive in pricing compared to the market place and our direct competition?

1. Why Are Physical Products More Expensive Than Paper Prices?

Paper prices are derived from the futures exchanges predominately in USA and London. Paper metal futures are derivative instruments containing leverage that have pre-determined maturity dates, that allow for hedging and short term speculative trading.
Buyers are allowed to '**stand for delivery**'……

The paper futures exchange COMEX does not own any vaults, the COMEX is a futures exchange and not a storage provider. The paper prices are contracts that are being referred to are in no sense direct claims on physical gold, but claims on the future delivery of physical gold. The owner of a gold future contract (the buyer) is in the position, as soon as the contract expires, to request physical delivery. Standing for Delivery - the paper futures contract owner does not directly receive a physical gold bar, but rather a warehouse receipt with which they can then claim physical delivery.

However there is a charge for collection from the warehouse and also logistics costs which adds to the overall price, and more importantly the minimum bar sizes and refined quality are stated as below; are significant in size and US$ value ….

Gold bars

Fineness:	Minimum of 995.0
Marks:	Serial number, refiner's hallmark, fineness, year of manufacture
LBMA Good-Delivery Minimum:	Gold content: 350–430 troy ounces (11–13 kg)
Comex Good-Delivery Minimum:	Gold content: 100 troy ounces or 3 x 1 kilo [1]

Silver bars

Fineness:	Minimum of 999.0 parts per thousand silver
Marks:	Serial number, refiner's hallmark, fineness, year of manufacture
LBMA Good-Delivery Minumum:	Silver content: 750–1,100 troy ounces (23–34 kg); 900–1,050 troy ounces (28–33 kg) recommended
Comex Good-Delivery Minumum:	Silver content: Five (5 x) bars of refined silver cast bars of one thousand (1,000) troy ounces, weight tolerance of +/-10% [2]

For example official large scale gold buying from China takes delivery from these warehouses after ‘standing for delivery’ on their long futures contracts, they then logistically deliver the large gold bars to the Swiss refineries to have the bars melted, refined to a higher purity, re-cast as 1 kilo gold cast bars, packaged and delivered to China. All of this comes at great cost.

The smaller bar sizes and coins across the five classic investment precious metals costs are significant, the metal has to be sourced, melted, refined to a higher purity, product produced, stamped, packaged and logistically sent to the buying sources.
Coin production comes at great cost over and above bar price production costs.

All these product prices over and above paper metal prices are directly forwarded onto bullion dealers, even on our significant buying requirements. Nothing comes free in this world.

Source:

[1] https://www.cmegroup.com/content/dam/cmegroup/rulebook/COMEX/1a/113.pdf

[2] https://www.cmegroup.com/content/dam/cmegroup/rulebook/COMEX/1a/112.pdf

2. Cost Advantages Of Buying with Indigo

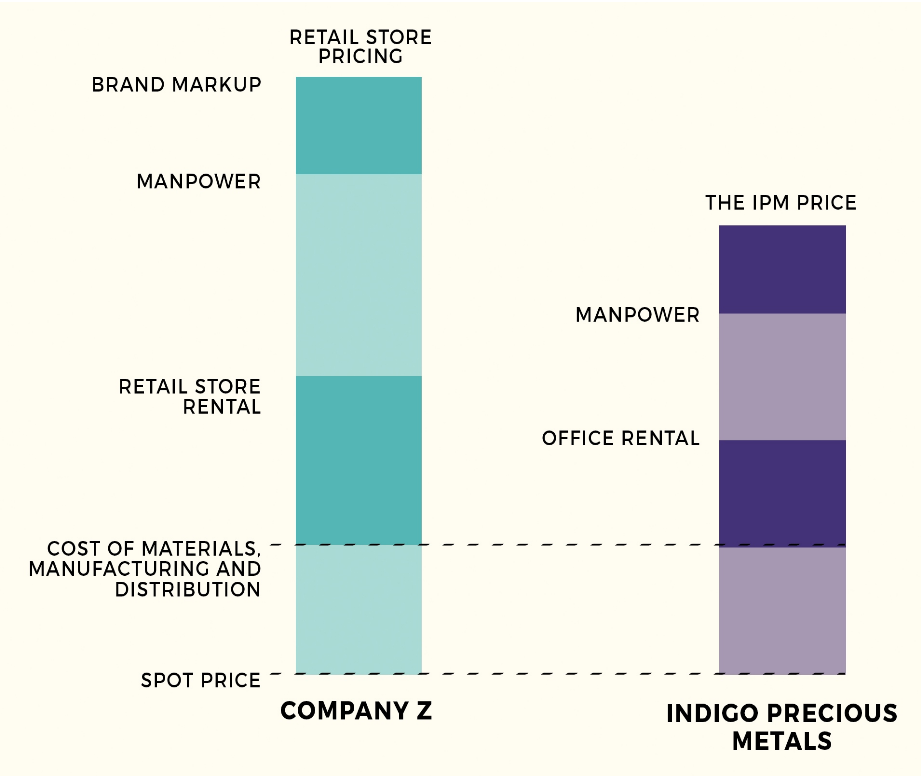
The prices of individual metals, like prices for any other commodity, are essentially determined by supply and demand. However, to assume the information on relevant supply (production and inventories) and demand (consumption) is readily available, accurate or transparent would be a huge mistake, regardless of the type of precious metal.
The retail prices depend on the depth of supply source costs and future supply, logistic delivery methods and hence costs.

The cost of the products to the retail investment market also relies heavily on the bullion dealer's business model, funding costs and funding availability, overall cost expenditure to run the business (at the highest quality), vaulting storage costs, employee expenditure, banking and regulatory requirement costs, accounting and overall management profit margin expectations.

Indigo works very hard on sourcing supply as cheaply as possible from multiple contracted sources, but all metals come at a premium for our company and every bullion dealer over paper prices (as explained in the first question).

The easiest way to understand this is way off a graphical diagram below. We bullion dealers work on micro-percentage profit margins, often around just 1%.

Indigo have built a very efficient, totally focused IT driven business model that effectively cuts down our reliance on manpower while pushing productivity and cost savings recognition. We also do not operate from over-priced retail store space like our competitors that have to be paid for by increasing their profit margins.



Our team also have extremely experienced individuals covering investment banking, asset class investment, logistics, vaulting, IT and sales.

Effectively, we are constantly working on managing our cost base down for the benefit of our client base, and we do believe we are already significantly cheaper in the market place compared to our bullion dealing competition, especially our significant wholly segregated vaulting solution.

We are always aspiring to make sure our clients receive the best professional experience possible.