Precious Metals and Price Discovery in Derivatives Markets

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**Recommended Citation**

DOI: [https://doi.org/10.59604/1046-2309.1039](https://doi.org/10.59604/1046-2309.1039)  
Available at: [https://collected.jcu.edu/jep/vol25/iss2/13](https://collected.jcu.edu/jep/vol25/iss2/13)

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Abstract

The precious metals derivatives markets are utilized by various market participants with varying needs. Producers, merchants and processors are using derivatives to manage risk while money managers are conducting trades for clients and swap dealers are managing swaps for speculators and hedge funds alike. Currency crisis, trade wars, sovereign currency manipulation, central bank monetary policy and sector rotation is a short list of dynamic events that may change the behavior of these market participants. This research project utilizes panel data that includes the Commodities Futures Trading Commission (CFTC) Commitment of Traders (COT) report with weekly metals prices, currency prices and macroeconomic data from 2006 to 2019. We specify a non-liner regression model to quantify the significance of producers and merchants, swap dealers, managed money and banks in price discovery of precious metals. Preliminary results indicate that swap dealers and managed money play a significant role in price discovery in gold and silver derivatives markets.