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CENTRE FEATURE

APEX: LEADING DERIVATIVES INNOVATION

By Asia Pacific Exchange

Established in 2018, Asia Pacific Exchange (APEX) and Asia Pacific Clear Pte. Ltd. (APEX Clear) are Singapore's third regulated derivatives exchange and clearing house. APEX is regulated by the Monetary Authority of Singapore (MAS) and holds an Approved Exchange licence.

Eugene Zhu, founder and Chief Executive Officer (CEO) of APEX, is a prominent figure in the early development of the futures industry in China. He previously served as the CEO of Dalian Commodity Exchange (DCE) and China Financial Futures Exchange (CFEX). Leveraging Zhu's expertise and Singapore's stature as a global financial hub, APEX aims to establish itself as a leading venue for commodity and financial derivatives trading in Asia. Zhu's visionary leadership has been instrumental in shaping APEX's strategic direction and fueling its growth.

In recent years, APEX has expanded its suite of products, introducing innovative solutions such as the perpetual contract. This derivative departs from convention by allowing indefinite holding without fixed expiration dates, eliminating the hassle of rolling over positions to the next calendar contract. Another notable feature of the perpetual contract is the inclusion of funding rates, facilitating the exchange of overnight position borrowing costs between long and short position holders. This ensures that there

is no significant deviation between the derivative price and the spot price of the underlying asset over time. APEX takes pride in being among the first regulated exchanges to introduce the perpetual contract in the traditional derivatives space. Its popularity has surged due to its flexibility and ability to accommodate both short-term and long-term strategies.

GOLD'S ECONOMIC RESILIENCE

Gold has long historically served as a cornerstone of economic stability, revered as a reliable investment and symbol of wealth and prosperity. During periods of economic volatility and uncertainty, investors often turn to gold as a hedge against inflation and market volatility, drawn to its intrinsic value and stability. In a surprising turn of events in 2023, gold emerged as one of the top-performing assets, reaching a historic peak of US\$2,078.40/oz on the final afternoon auction of the year. This surge was fuelled by heightened geopolitical tensions and a pessimistic global economic outlook, reigniting interest in gold as a safe-haven asset.

Closer to home, Singapore’s central bank ranked third globally in gold purchases between January and September 2023, following closely behind China and Poland, according to World Gold Council (WGC) data. Globally, central banks continued to accumulate gold at an unprecedented pace, driving demand in the third quarter of 2023 to 1,147 tonnes – and 8% increase over the five-year average.

WHY GOLD PERPETUAL FUTURES?

APEX Gold Perpetual Futures were introduced to address concerns among gold spot traders regarding the prevalence of unregulated brokers in over-the-counter (OTC) transactions. These gold perpetual futures, offered by a regulated exchange, provide a safer avenue for investors to engage in gold trading. As a regulated exchange in Singapore, APEX adheres to rigorous standards set by the MAS, implementing strict protocols to minimise counterparty risk arising from broker insolvency. Overall, the introduction of gold perpetual futures enhances the security and stability of gold trading, providing greater confidence and assurance to investors seeking an alternative to gold spot trading.

CONTRACT SPECIFICATIONS

In May 2023, APEX launched Gold Troy Ounce Perpetual Futures in denominations of:



1 OUNCE



10 OUNCE



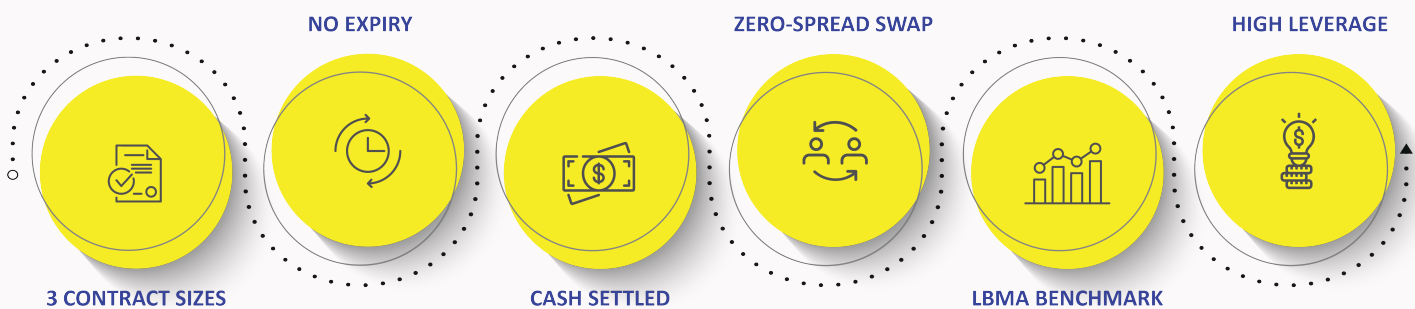
100 OUNCE

CONTRACT SIZES

The introduction of different contract sizes is particularly relevant amid an observed increase in retail participation. It enables broader client participation and caters to diverse trading preferences, reflecting the evolving dynamics of the market.

PERPETUAL CONTRACT

APEX’s rollout of gold perpetual contracts in 2023 was timely, reinforcing its position as a pioneering regulated exchange to introduce a range of perpetual contract products since 2021.



Diverging from traditional futures contracts, perpetual contracts do not have expiration dates, eliminating the need to rollover positions to the next calendar contract. This unique attribute empowers market participants to capitalise on gold positions with the flexibility to maintain their positions indefinitely, allowing for a more strategic and long-term approach to gold trading.

CASH SETTLEMENT

The gold contracts, denominated in USD, offer market participants convenience, cost-effectiveness and flexibility in alignment with their investment objectives. They also expose market participants to gold spot market movements and price fluctuations. More market participants now have the opportunity to engage with gold not merely as a physical asset but also as a dynamic element in the futures trading space.

LONDON BULLION MARKET ASSOCIATION (LBMA)

The contract is settled daily using the LBMA Gold AM prices, ensuring fair mark-to-market valuation. Administered by ICE Benchmark Administration Limited, the LBMA Gold Price benchmark represents the standard for unallocated gold prices in London.

SWAP RATE

A distinctive feature of APEX Gold Perpetual Futures is its zero-spread swap rate. This rate, also known as an overnight financing rate or rollover rate, represents the interest paid or earned for holding a position overnight. The term “zero spread” indicates that APEX does not apply an additional spread or mark-up to the swap rate, which is aligned with prevailing market interest rates. This introduction aims to compensate market participants for the opportunity cost associated with holding a position overnight, as it is applied uniformly to all open positions at the close of each trading session.

LEVERAGE

Margin requirements for the gold contracts are continuously monitored to maintain a fair and effective risk management approach, particularly during periods of volatile price fluctuations. As of the end of February,



the prevailing margin rate slightly exceeds US\$50/contract, offering a leverage of about 40 times. This feature enhances the appeal of trading by enabling market participants to efficiently utilise their capital.

APPLICATIONS IN THE GOLD MARKET

Derivative contracts are versatile tools that serve various functions in the gold market.

RISK MANAGEMENT

In today's dynamic financial landscape, derivatives play a crucial role in risk management strategies, particularly for entities vulnerable to fluctuations in gold prices. Acting as a safety net, derivatives effectively mitigate potential losses by hedging against adverse movement in gold prices. The use of LBMA Gold AM prices for daily settlement ensures that market processes are executed with a fair and transparent benchmark. This reliable pricing mechanism facilitates equitable contract settlements and acts as a deterrent against market manipulation. It enables market participants to make well-informed decisions about their positions and adeptly manage the impact of sudden market fluctuations.

ARBITRAGE

Market inefficiencies create opportunities for arbitrage, allowing market participants to capitalise on price disparities between different gold markets or products. This approach enables traders to maintain a neutral stance on market direction, focusing on exploiting price differentials. Additionally, market participants can optimise their portfolios more cost-effectively by taking advantage of the zero-spread swap fee. This is particularly beneficial for extended positions held over a prolonged period, regardless of direction.

SPECULATIVE

Derivative contracts provide speculative traders with a platform to benefit from potential volatility in the gold price, enhancing returns during favourable market conditions. This flexibility allows traders to navigate both bullish and bearish scenarios seamlessly. With no expiration date in perpetual contracts, extended holding periods are permitted, allowing market participants to capitalise on potential market trends without the necessity of owning the physical gold asset.

GOLD'S PROMISING FUTURE

Amid a shifting financial landscape, gold remains a beacon of stability and resilience that offers a hedge against inflation and market fluctuations. Gold's intrinsic value and historical role as a wealth preserver continue to attract investors amid persistent global economic uncertainties. Moreover, advancements in financial innovation, such as the introduction of APEX Gold Troy Ounce Perpetual Futures, provide investors with new avenues to engage with the gold market. These innovative derivatives offer flexibility, liquidity, and transparency, empowering investors to navigate the intricacies of gold trading with confidence.

For more information, please visit:

<https://www.asiapacificex.com/>

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