

Date of the event:

On Tuesday 11th May 2010
From 01:00 PM to 2:00 PM

Location:

Luxembourg School of Finance
University of Luxembourg
4 Rue Albert Borschette
2nd Floor
Modigliani Miller Auditorium (E02-003)
L-1246 Luxembourg

Registrations:

- Free seminar (with lunch included)
- Registrations by email before May 7th, 2010
- At the following address : lsf-events@uni.lu

Information:

Ms Deborah Marx
Tel : +352 46 66 44 6873

<http://www.lsf.lu/eng/Research/Seminars-and-Conferences/Seminars-Workshops>



The LSF is pleased to invite you to the following lunch seminar:

On the Lease Rate, the Convenience Yield and Speculative Effects in the Gold Futures Market

By John Theal
Banque Centrale du Luxembourg



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On the Lease Rate, the Convenience Yield and Speculative Effects in the Gold Futures Market

By John Theal

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LSF Seminar

By examining the gold leasing market and employing data on the gold forward offered rate (GOFO) and derived lease rates, we propose that rather than using the interest-adjusted basis as a proxy for the convenience yield of gold, the convenience yield is better approximated by the derived gold lease rate. Additionally, using the interest-adjusted basis as opposed to the lease rate can lead to incorrect inferences pertaining to the convenience yield. Using the lease rate, we study the relationship between gold leasing and the level of COMEX discretionary inventory. The results suggest that the lease rate has an asymmetric relationship with the level of discretionary inventory, which we calculate using weekly inventory data obtained from the COMEX futures trading exchange. Linear regressions of the level of discretionary inventory on lagged lease rates reveal that lease rate tenors of 1, 3 and 6 months have a negative effect on the level of discretionary inventory. After controlling for speculative effects we find that for bullion leases exceeding one month in duration inventory levels are dominated by speculative effects rather than lease rates. Furthermore, this speculative activity acts to increase the amount of bullion available to the gold futures market by decreasing the repayment effect. Finally, we show that the presence of speculation in gold futures contracts can be associated with increased futures contract returns and that this effect increases with increased futures contract maturity. These results suggest that speculation plays a significant role in the COMEX gold futures market.

