

Precious Metals

Investor Education Basics

Precious Metals offered in HSBC Broking Services (Asia) Limited (“HSBC Broking Services”) refers to Loco London Gold and Silver, which are spot gold/silver trading contracts settled in London (“the Contracts”). The Contracts are not traded via an exchange, but traded over-the-counter. By opening the Contracts, you are investing on a margin basis in the expectation that the gold/silver price will rise or fall.

The Contracts are highly-leveraged products that are purely used for short-term speculation on gold and silver prices. Given that they involve very high risks, before you make any investment decision, you should assess your own willingness and ability to bear such risks and you should seek advice from an independent advisor.

Under the prevailing regulatory regime, trading of the Contracts is not regulated by any local regulators in Hong Kong, such as the Securities and Futures Commission or the Hong Kong Monetary Authority.

How does it Work?	
Maturity	No maturity date
Minimum Contract Size	100 troy ounces
Major Price Determinant of the contract	Intrinsic value: Spot gold/silver price
Two Way Quotation	In response to a request for quotation, HSBC Broking Services as principal will quote the bid and ask prices simultaneously. This is called a two-way dealing quotation. You can then decide whether to choose to buy (long) or sell (short) a Contract at the quoted prices.
Initial Margin Requirement	When you enter into a Contract, you are required to deposit an initial margin - a small percentage of the Contract’s nominal amount.
Maintenance Margin	This is the minimum level of net equity that is required to keep a Contract open.
Margin Call	If the subsequent price movement of a spot gold/silver is unfavourable to an open Contract, the floating loss may cause the net equity to fall below the maintenance margin thus giving rise to a margin shortfall. This will trigger a margin call and you will have to make up the margin shortfall. Any unsatisfied margin calls may result in forced liquidation without further notice.
Interest Calculation on Deferred Position	In case any Contract remains open beyond T+2, HSBC Broking Services from time to time will credit or debit (as the case may be) your account for interest by reference to the Gold Forward Offered Rate and Silver Forward Offered Rate quoted by the HSBC Bank USA, National Association, which is an affiliate of HSBC Broking Services.
Settlement/Delivery	No physical settlement/delivery is allowed. All Contracts are cash-settled in USD.

Scenario Analysis

Assuming a customer has a leveraged precious metals trading account and the customer bought 1 contract (contract size: 100oz) of Spot London Gold at the ask price of USD 1,500.05, while the bid price at that moment is USD 1,499.95. The initial margin and maintenance margin is USD 9,285 and USD 7,428 respectively. Below are examples to illustrate the investment returns based on different scenarios of Spot London Gold price movement. For simplicity, the below examples:

- exclude net position charges, interest, and custody fees on any deferred positions; and
- assume the customer only maintains a single Contract with initial margin of USD 9,285 in his/her account.

Scenario	1	2	3
Initial open position (USD)	+150,005 (1,500.05 x 100)		
Initial margin (USD)	9,285 (ie Leverage ratio = ~16)		
Maintenance margin (USD)	7,428	7,428	7,428
Spot London Gold price movement direction	No change	Favourable	Unfavourable
Spot London Gold price at close (bid price)	1,499.95	1,510.05	1,490.05
Spot London Gold price spread	-0.10 (1499.95-1500.05)	+10.00	-10.00
Theoretical profit/(loss) (USD)	-10 (100 x -0.10)	+1,000 (100 x +10.00)	-1,000 (100,000 x -10.00)
Return on investment in % (USD)	-0.1% (-10 out of 9,285)	+10.8% (+1,000 out of 9,285)	-10.8% (-1,000 out of 9,285)

From the above scenario, if the unrealised loss in the contract is more than USD 1,857 (ie initial margin minus maintenance margin required), margin call will be triggered. This can be further translated to a price drop of USD 18.58 of Spot London Gold as follows.

Latest Spot London Gold price (USD)	1,481.47
Spread (USD)	-18.58
Unrealised loss (USD)	-1,858 (-18.58 x 100)
Margin Call	Triggered

Margin calls are to be met by customers in order to maintain open positions. Any unsatisfied margin calls may result in forced liquidation without further notice.

Why consider Precious Metals trading?

You might consider precious metals trading if

- You are of speculative risk attitude.
- You are looking for leveraged investment in gold/silver. In other words, subject to the change in gold/silver price movement, both your potential trading profit and loss will be magnified.
- You have a directional view in gold/silver price movement.
- You are prepared to take the risk of this product due to the gearing effect on the trading profit and loss. It follows that the lower the margin amount is used to open a position, the higher will be the gearing. A relatively small price movement in gold/silver may result in profit or loss that is high in proportion to the minimum margin requirement.
- You are ready to pay any custody fee which may be charged to your account for maintaining an open position.

If you are in doubt, you should obtain independent professional advice.

Trading with HSBC Broking Services

HSBC Broking Services helps you to capture investment opportunities in the precious metals market whenever they arise. Our dedicated team of dealers is ready almost round the clock 5 days a week to provide you with an instant gold/silver quotation, and monitor market movements closely.

Flexible Fund Utilisation

Leverage ratio of up to around 16 times of initial margin to allow you to enjoy more investment opportunities.

Various Instruction Alternatives

You can choose at your own discretion to place a market order, limit order, fixing order, stop order, day order or GTE (up to two weeks) order, to best fit your needs in the London precious metals market.

Simple Fee Structure

The bid-ask price quoted by dealers is an all-in price and there are no other fee charges for precious metals transactions. The quotation provided to you is the exact amount your contract will involve. In addition, a custody fee will be charged on deferred position(s) and you may pay or receive interest on deferred position(s) depending on the carrying cost of the underlying precious metals.

Please feel free to contact our Relationship Managers for more details.

Risk Disclosure Highlight

You should carefully consider whether precious metals trading is suitable for you in light of your financial condition, experience and investment objectives. The following is a summary of some of the risks involving precious metals trading and it is NOT an exhaustive list and you are recommended to obtain independent professional advice before entering into any trade.

1. The risk of loss in trading in precious metal contracts can be substantial. In the case of margin transactions, you may sustain losses in excess of your initial margin funds.
2. You may be called upon at short notice to deposit additional margin deposits or interest payments. If the required margin deposits or interest payments are not provided within the prescribed time, your position or collateral may be liquidated without your prior consent. You will remain liable for any resulting deficit in your account and interest charged on your account. You should therefore carefully consider whether such trading is suitable in light of your own financial position and investment objectives.
3. Margin trading can involve a high degree of risk. Price changes of the precious metals can result in substantial losses to you that may in some instances exceed the amount of your initial margin funds, cash and other assets deposited as collateral with HSBC Broking Services. You should not participate in margin trading unless you understand and are willing to assume the risks associated with such transaction and are financially able to absorb such losses.
4. Market conditions may make it difficult or impossible for HSBC Broking Services to quote the bid and ask prices for a precious metal contract. Placing contingent orders, such as "stop-loss" or "stop-limit" orders, will not necessarily limit losses to the intended amounts. Market conditions may make it impossible to execute such orders.
5. The amount of initial margin is small relative to the value of the precious metal contract, such that transactions are "leveraged" or "geared". The lower the initial margin amount is used to open a position, the higher will be the gearing. The high degree of leverage which is often obtained in connection with margin trades can work against you as well as for you. The use of leverage can lead to large losses as well as gains.
6. Any precious metal received or held by HSBC Broking Services outside Hong Kong are subject to applicable laws and regulations of the relevant jurisdiction. Your assets may not enjoy the same protection as that conferred on assets received or held in Hong Kong.
7. Any transaction involving foreign currencies involves additional risks not common to transactions denominated entirely in your domestic currency. Forex rates can be highly volatile and can be affected by factors such as changes in political and economic policies (both domestic and overseas), political instability, wars, natural disasters and global market movements.
8. You should consider the possible risk inherent in giving instructions by facsimile. Non-original signatures on facsimiles may be forged and instructions given by facsimile may be transmitted to wrong numbers, may never reach HSBC Broking Services and may thereby become known to third parties thus losing the confidential nature. HSBC Broking Services accepts no responsibility for the occurrence of any such circumstances or for any action, claim, loss, damage, or cost incurred by you in connection with instructions given via facsimile. HSBC Broking Services shall not be held liable for acting in good faith on faxed instructions which emanate from unauthorized individuals or in any circumstances whatsoever.

Important Note

Before you trade, please read the Terms of Business which had been provided to you by HSBC Broking Services. In case of discrepancy between the Terms of Business and this document, the Terms of Business shall prevail.

In the event of conflict or inconsistency between the English and Chinese versions of this document, the English language version of this document shall prevail for all purposes.

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