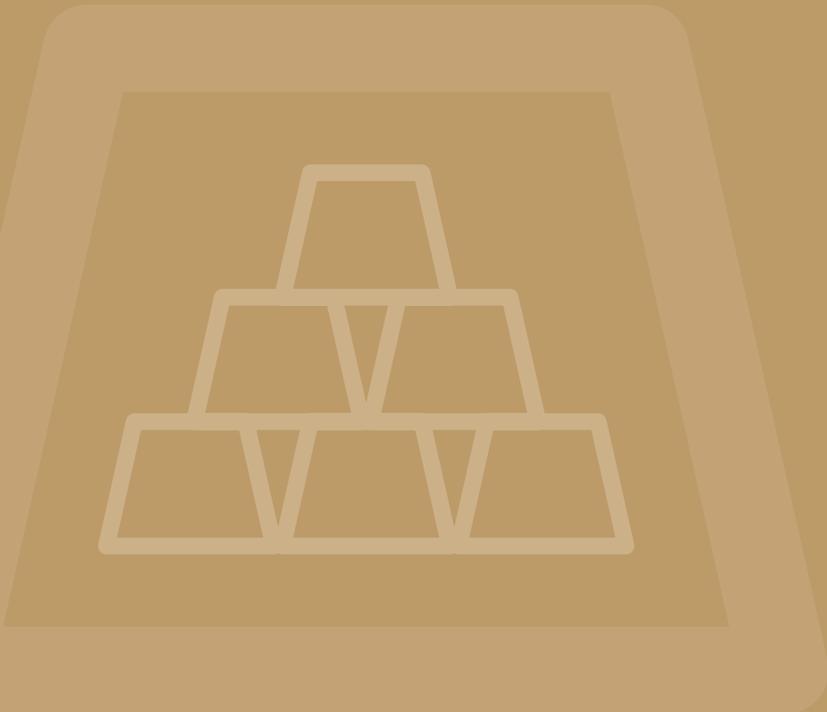


FORTS

Gold Futures Contract
on the RTS Derivatives Market



A gold futures contract is a unique financial instrument that provides access to the gold market for a wide range of market participants. Working with futures for gold is actually the best way of trading gold at fair prices; it provides an important alternative to traditional means of investing in gold such as bullion, coins, and mining stocks.

Futures for gold can be used for investment purposes, serve as a means of savings and a speculative instrument. They are also valuable tools for commercial producers and users of the metal who wish to hedge their price risks. The simplicity of trading and low transaction costs make futures for gold one of the most attractive means of investment.

A cash-settled futures contract is a standard exchange-traded agreement to buy/sell some underlying commodity in the future for a specified price. In accordance with the agreement the parties undertake to pay the difference between the contract price and the settlement price of the underlying asset at a certain date in the future. Contract settlement is guaranteed by the exchange.

Contract settlement procedure

Cash-settled futures contracts on gold do not imply actual delivery of the underlying commodity. Settlement is performed in cash based on the results of the afternoon London gold fixing.

London gold fixing is the main benchmark for all gold market participants – mining companies, industrial users, banks, jewelry makers and others. London gold fixing provides a recognized rate used for pricing the majority of gold products and derivatives throughout the world's markets.

Gold Futures: New Opportunities for Investors

- Simplicity of financial operations with gold.
- Having gold in the investment portfolio can significantly reduce portfolio volatility and improve its investment characteristics.
- Gold prices are insignificantly correlated with the securities markets so gold can greatly diversify an investment portfolio. It can substantially stabilize the portfolio during the times of high inflation and political/economical instability.
- Gold prices are independent of the state of each national economy, so gold can provide the shield against hard currency fluctuations.
- Gold is a very liquid instrument compared to, say, real estate since it can be bought/sold quickly and cheaply practically at any given moment.
- Unlike other commodities, gold is capable of keeping its value intact long-term.

Specification for a Gold Futures Contract

Underlying Asset	Refined gold bullion
Contract Size (lot)	1 oz
Price Quote	\$ per oz
Tick size	\$ 0.1
Tick size price	\$ 0.1
Settlement	Financial Settlement
Contract months	12 calendar months
Last Trading Day	The business day immediately preceding the 15 th of the contract month
Settlement Date	The business day immediately following the last trading day
Initial Margin Requirement	5 % of the contract value
Trading Hours	10:30–18:45 Moscow time
Ticker Symbol	GOLD- $\langle mm \rangle \langle yy \rangle$, where $\langle mm \rangle$ – settlement month, $\langle yy \rangle$ – settlement year (all coded with digits)
Short Ticker Symbol Used in Trading System	GD $\langle m \rangle \langle y \rangle$, where $\langle m \rangle$ – settlement month, $\langle y \rangle$ – settlement year The following codes are used for the settlement months: January – F, February – G, March – H, April – J, May – K, June – M, July – N, August – Q, September – U, October – V, November – X, December – Z. Settlement year is coded with one digit (for instance, 2006 – 6).

Exchange Fees (including VAT charged to each counterparty)

Transaction Registration Fee	1 ruble/contract
Scalping Transactions*	0.5 ruble/contract
OTC Transaction Registration Fee	1 ruble/contract
Settlement Fee	1 ruble/contract

* Position opening and closing within one trading session

Gold Futures: Possible Strategies

Strategy	Description
Gold Price Increase Hedging	A hedger who wishes to buy gold in the future and believes in the gold price increase can buy the appropriate gold futures contract with the required settlement date (long hedging). The futures contract will fix the contract price and provide insurance from the potential price increase.
Gold Price Decrease Hedging	A hedger who wished to sell gold in the future and believes in the gold price decrease can sell the appropriate gold futures contract with the required settlement date (short hedging). Selling the futures contract will fix the contract price and provide insurance from the potential price decrease.
Margin Trading	Gold futures are attractive instruments to play the market; they provide a significant financial leverage 1 : 20 (minimum initial margin requirement equals 5 % of the contract value).
Short-Selling	Gold futures allow market participants to realize profits from the bearish market.
Calendar Spread	Holding a number of gold futures contracts allow participants to take advantage of price spreads between the contracts.

Gold Futures as a Price Risk Hedging Tool

A futures price is not just an arbitrary price; it results from current supply and demand for the underlying commodity and reflects future expectations. The spot and the futures markets exist in parallel and on the date of contract expiration all price differences between them disappear. These markets move in parallel since the factors that might influence the price for the underlying commodity will also affect the futures price in a similar way. This relationship between the spot and the futures market prices allows market participants to perform hedging operations.

Hedging is a way of reducing risks of losses related to the unfavorable movements of prices of the goods that will be purchased or sold at a future date.

Example 1 Hedging Against a Price Decrease

Let us take a look at hedging strategy that might be used by a company – gold producer that wants to hedge its risks on the RTS Derivatives market.

Date	Current Gold Price, \$/oz	Gold Futures Price, \$/oz	Strategy
15.01.2005	625.5	624.5	Sell futures contracts at 624.5
15.06.2005	620.5	619.5	Sell gold on the spot market at 620, buy futures at 619.5
Result	-5		+5

Gold price decrease would lead to a loss of \$ 5 per oz during the non-hedged sale of the underlying commodity. Selling futures would allow the company to fix the settlement price at \$ 624.5 per oz regardless of the price movements.

Example 2 Hedging Against a Price Increase

Let us take a look at hedging strategy that might be used by a company – gold producer that wants to hedge its risks on the RTS Derivatives market.

Date	Current Gold Price, \$/oz	Gold Futures Price, \$/oz	Strategy
15.01.2005	620.5	621.5	Sell futures contracts at 621.5
15.06.2005	625.5	626.5	Buy gold on the spot market at 625.5, buy futures at 626.5
Result	-5		+5

Gold price increase would lead to a loss of \$ 5 per oz during the non-hedged sale of the underlying commodity. Buying futures would allow the company to fix the settlement price at \$ 621.5 per oz regardless of the price increase.

Market participants wishing to trade the gold futures contract are required to deposit an initial margin equal 5 % of the contract value. When a position is closed the initial margin is returned to the market participant.

Profits from the exchange-traded futures contracts aimed at reducing the risks of price fluctuation of the underlying asset are included in the consolidated taxable income; the appropriate losses are deducted from the taxable income of the company.