

## DGCX Opens Doors for North American Traders

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Contributor Alan Mammoser - October 28th, 2018

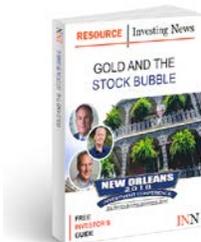


*Here's a list of the gold products on the DGCX platform and how traders might use them to maximize access to international precious metals markets.*

**North American traders and investors seeking to maximize access to international [precious metals](#) markets may want to look at the Dubai Gold and Commodities Exchange (DGCX).**

It opens a door to offshore access to specific regional markets, especially in India and China, two of the largest bullion-trading hubs in the world. Its contracts create hedging and arbitrage opportunities across a broad range of global timezones.

The market offers standard contract specifications with no local application of capital gain or corporate tax. Most products are traded in US dollars. Traders interested in accessing the market can enter through US-based futures merchants with third-party relationships to clearing members such as Société Générale (EPA:[GLE](#)), UOB Group and others.



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With its location in a Dubai tax-free zone, traders can execute tax free in a timezone midway between the Far East and Europe. DGCX's differing gold contracts offer hedging opportunities and allow suppliers in Africa and other gold-producing regions to efficiently supply gold to private and sovereign purchasers in South Asia and the Far East through Dubai.

Clearing is provided by the Dubai Commodities Clearing Corporation, with margin offsets for inter-commodity spreads. Live prices may be viewed on the DGCX website.

Here's a list of the gold products on the DGCX platform and how traders might use them.

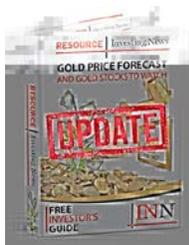
### **Spot gold**

Dubai has long been a center of gold trading in the Middle East with its famous Gold Souq filled with gold shops and jewelers. Local dealers with close knowledge of over-the-counter spot prices use various strategies to hedge and arbitrage with DGCX contracts, especially using the Shari'ah Compliant Spot Gold (DGSX) contract and the US-centric gold futures contract (DG).

The DGSX contract requires physical delivery to approved vault locations within Dubai, according to Shari'ah principles for the ownership of gold. The contract, denominated in dollars, is based on a regionally relevant benchmark price. One kilogram is one lot for this contract.

### **Gold futures (DG)**

DG is the exchange's flagship gold product and a key gold contract for investors, speculators, hedgers and arbitrageurs. It is often paired with other precious metals contracts on DGCX. It was the first contract launched on the DGCX platform in 2005, and has traded more than 5.4 million lots since then. There are six contract months, with all trades cash settled in US dollars.



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By pricing US markets, DG makes it relatively easy for traders to establish spreads between Indian, Chinese and US gold prices using correlated products listed on DGCX, including Indian and Shanghai gold. Thus they can seek arbitrage opportunities with these gold contracts based on Indian, Chinese and other benchmarks.

### **Shanghai Gold Futures Contract (DSGC)**

DSGC tracks and prices the largest gold market in the world (as measured by production and consumption), as the Chinese government has encouraged its public to invest in gold for savings. The Shanghai exchange's deep liquidity pools had been difficult to access by foreign participants. But this

contract opens direct access for those who want to access the Chinese bullion market, and to trade views on the Chinese gold market and the spread between Shanghai gold and correlated gold products. They no longer need to go to China.

Settlement is based on the gold benchmark price as declared by the Shanghai Gold Exchange. It is traded and cash settled in Chinese yuan.

### **India Gold Quanto Futures Contract (DIG)**

DIG provides a price discovery and trading avenue for gold traded in India, where there is a well-developed gold cash market with households estimated to be holding 22,000 metric tons of gold. It gives direct exposure to benchmark prices set in India, allowing the price of gold including taxation to be traded in dollars in Dubai.

This contract allows trades before start and after closure of Indian market hours, such that traders can discover price and trade in the contract according to domestic and international events, with all trades cash settled in US dollars.

Sanjeev Vohra, head of precious metals at DGCX, offers insights on how these products are used based on his interactions with traders. He says that traders can leverage the exchange's location in the center of Eurasia, with its timezone (GMT+4) and its 17 open hours per day for trading, five days a week. The timezone encompasses markets across Asia, the Middle East, Europe and the Americas.

"It all depends on what product a trader is trying to execute or their outlook on the markets," says Vohra. "Apart from typical hedging and speculation, traders also look at price discrepancies, known as arbitrage, which arise due to locational factors of different markets in the Middle East, Europe, Asia and the Americas."

Strategies frequently used include the US-centric DG contract in conjunction with Shanghai Gold and DIG, in spreads established to take advantage of the aforementioned price discrepancies.

"It's relatively easy for market participants to make a decision on the spread between Shanghai gold prices, Indian gold prices and US gold prices," says Vohra. "DG-DIG is a popular combination that a number of traders look at, followed by DG-DSGC."

"With respect to the spot gold contract (DGSG), spread trades are usually with DG," he adds.

Beyond gold contracts listed on DGCX, Vohra has seen inter-exchange spreads, including: the DG contract vs. the COMEX gold contract; DGCX Shanghai gold vs. the Shanghai Futures Exchange gold; and any of the DGCX gold futures vs. Tokyo Commodity Exchange gold, Thailand Futures Exchange gold contracts and others.

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