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GOLD BULLION SPOT PRICES VS FUTURES PRICES v1

What Exactly is "Spot" Price?

It is important for one to understand what the spot price actually means. The spot price is simply the price at which a commodity could be transacted and delivered on *right now*. This is in contrast to futures or forward contracts. The spot price of gold refers to the price of one ounce of gold and the spot price of silver refers to the price of one ounce of silver. Gold and silver must be of specific fineness requirements.

What Are Futures Prices?

The **futures prices of a commodity** are contracts that designate a price for *future delivery* of the commodity. Commodities such as gold, silver, crude oil, wheat, corn and coffee all have futures contracts listed on them through various exchanges. These futures contracts may provide producers, end users and others involved in the commodity with a way to potentially help mitigate price risk. Futures contracts can extend quite far into time. For example, one could buy or sell a contract on crude oil that expires in several years. The futures contracts for gold and silver represent the futures price of one ounce of silver or gold.

How Exactly is the Spot Price Determined?

The spot price is determined by the front month futures contract with the most volume. Sometimes this contract may be the current month, and sometimes it may be two months or more out in time. Let's look at an example.

Currently, the gold spot price today on August 19th is ~$1295 per ounce. Now, if one were to look at the futures contract chain for gold, one will see that the August gold futures contract is trading at the same price. The August gold contract is the nearest month gold contract. One can also look at the October contract which is currently trading at about the same price as well.

October has a lot more volume than the August contract, because the August gold futures contract is expiring and those not wanting to take or make delivery have already rolled their positions out. The December gold futures contract has the most volume, and therefore would likely determine the spot price. This is because December is where the action is and the trading is taking place. Market participants are using the December contract for their purposes whether it be hedging or speculating. December would therefore be referred to as "the spot month."

What Drives Changes in Spot Price?

The price of gold, silver and other commodities are affected by numerous things. Gold prices, for example, go through periods of little movement and go through periods of a lot of movement and great volatility. Spot gold prices can potentially be affected by such things as economic data, geopolitical news or events, Federal Reserve action or comments and many other potential drivers.

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The laws of supply and demand for gold, silver or other commodities may be seen in world markets. The gold market is in a constant state of price discovery. In fact, all commodities could be said to be in a constant state of price discovery. This price discovery occurs virtually around the clock. Gold and precious metals are traded on exchanges all over the world. These exchanges include New York's COMEX, London, Hong Kong, Zurich, Australia and Shanghai. The New York COMEX exchange is perhaps the most well-recognized when it comes to gold trading. Spot gold prices are derived from futures contracts traded on the COMEX exchange.

When it comes to spot prices, the important thing to remember is that spot is simply referring to the price at which one could transact and take delivery on now as opposed to some date in the future.

What is Gold Spot Price?

The spot price of gold is the most common standard used to gauge the going rate for an troy ounce of gold. The price is driven by speculation in the markets, currency values, current events and many other factors. Gold spot price is used as the basis for most bullion dealers to determine the exact price to charge for a specific coin or bar. These prices are calculated in troy ounces and change every couple of seconds during market hours.

Gold as an Investment

Gold is available for investment in the form of bullion and paper certificates. Physical gold bullion is produced by many private and government mints both in the USA and worldwide. This option is most commonly found in bar, coin and round form with a vast amount of sizes available for each.

Gold bars can range anywhere from 1 gram in size up to 400 ounces while most coins are found in one ounce and fractional sizes. Like other precious metals, physical gold is regarded by some as a good way to protect themselves against the ongoing devaluation of fiat currencies and from volatile stock markets.

Buying gold certificates is another way to invest in the metal. A gold certificate is basically a piece of paper stating that you own a specified amount of gold which is stored at an off-site location. This is different from owning bullion unencumbered and outright because you are never actually taking physical ownership of the gold. While some investors enjoy the ease of buying paper gold, some prefer to see and hold their precious metals firsthand.

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Gold Spot Price FAQs

What is the gold price quoting exactly?

When you see the price of gold posted somewhere such as on a website or a dealer's page, it will usually be quoted as the spot gold price per troy ounce in U.S. dollars (USD). One can, however, also get the price of gold per gram or kilo as well.

What does the"spot price" mean?

The spot price of gold-or any commodity for that matter represents the price at which the commodity may be exchanged and delivered upon *now*. This is in contrast to gold or commodity futures contracts, which specify a price for the commodity for a future delivery date.

How are spot gold prices determined?

Gold is a commodity that is traded all over the world and as such it trades across many different exchanges such as Chicago, New York, Zurich, Hong Kong and London. The COMEX, formerly part of the New York Mercantile Exchange and now part of the CME Group in Chicago, is the key exchange for determining the spot gold price. The spot gold price is calculated using data from the front month futures contract traded on the COMEX. If the front month contract has little to no volume, then the next delivery month with the most volume will be utilized.

How does NMR determine gold spot prices?

We use an up to the second data-feed from **Xignite.com** to ensure our spot prices are always as accurate and up-to-date as possible.

What are Bid and Ask prices?

Bid prices represent the current maximum offer to buy in the market, and ask prices represent the current minimum offer to sell in the market. If you are a buyer, you will pay the Ask price, and if you are a seller, you will receive the Bid price. The difference between the two prices is the bid-ask spread, and the tighter the spread, the more liquid the product.

Why can't I buy gold at the spot price or below?

The gold spot price is the prevailing price for an ounce of .999 fine gold that is deliverable right now. It does not, however, take into account dealer or distributor markups or markups by the minting or manufacturing company. A precious metals dealer will buy products from a mint or manufacturer. These products are priced at the spot price plus a markup for the mint or maker to turn a profit.

The dealer then also has to make a profit in order to stay in business. The dealer will take their cost and then markup the products further to cover dealer costs and a profit margin. This is why dealers will typically buy from individuals at or below the spot gold price and they will sell above the spot gold price. The spread between their buy and sell prices represents the dealer's gross profit.

So if gold is quoted at $1320 per ounce, how much gold can I get for that price?

Spot gold prices are quoted as the price of 1 troy ounce of .999 percent fine gold deliverable now. This means you can usually purchase one ounce of gold bullion for right around this price plus the dealer's premium.

What currency is the spot gold price quoted in?

Gold is traded in U.S. dollars (USD) and is therefore quoted in USD. In areas outside of the U.S., the spot gold price is taken in USD and simply converted to local currency.

Is the price of gold the same all over the world?

The price for an ounce of gold is the same all over the globe; otherwise an arbitrage opportunity would exist. The world spot gold price is simply converted into local currencies to give market participants the price for 1 troy ounce of .999 fine gold in their respective local currency.

Gold Price Factors FAQ

The price of gold seems to move around quite a bit. What are some things that cause changes in the gold price?

Gold is a commodity that can have very rapid price changes during periods of high volatility and can also have very little price movement during quiet periods of low volatility. There are many different things that can potentially affect the price of gold. These issues include but are not limited to: supply and demand, currency fluctuations, inflation risks, geopolitical risks, and asset allocations.

Gold is viewed by some as a "safe-haven" asset for it is one of the only assets with virtually no counterparty risks (gold requires no performance by outside entities to retain its value). This is why gold's value may potentially rise during times of economic instability or geopolitical uncertainty.

Isn't the price of gold too volatile for most investors?

Gold can, just like any other commodity, become volatile with rapid price changes and swings. The gold market can also, however, go through extended periods of quiet trading and price activity. Today many financial experts see gold as being in a long-term uptrend and that may potentially be one reason why investors are buying gold.

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Markets do not usually go straight up or straight down in price, and gold is no exception. While gold can be volatile, gold prices are often no more volatile than the stock market or a particular equity. Large moves have been seen in almost every asset class, and almost all asset classes also exhibit periods in which they simply trade sideways.

Why does gold trade essentially 24 hours per day?

Gold is traded all over the globe through all different time zones. In addition, with today's markets running nearly around the clock, the need for constant price discovery has increased. Gold trades virtually around the clock to allow for banks, financial institutions and retail investors to access the gold market when they choose.

How often do gold prices change?

Gold spot prices change every few seconds during market hours and can fluctuate throughout the course of a day based on breaking news, supply and demand, and other macroeconomic factors. The gold spot price is determined by a variety of domestic and foreign exchanges, allowing the gold spot price to consistently update from 6PM EST to 5:15PM EST, Sunday to Friday (markets close from 5:15 PM to 6 PM EST each weekday). The changes in gold prices are due to supply/demand as well as order flow and other factors.

Gold Futures and Paper Gold FAQ

What is a gold futures contract?

A gold futures contract is a contract for the sale or purchase of gold at a certain price on a specific date in the future. For example, gold futures will trade for several months of the year going out many years. If one were to purchase a December 2014 gold futures contract, then he or she has purchased the right to take delivery of 100 troy ounces of gold in December 2014. The price of the futures contract can fluctuate, however, between now and then.

If I want to buy gold, couldn't I just buy a gold futures contract?

Technically, the answer is yes. One could purchase a gold futures contract and eventually take delivery on that contract. This is not common practice, however, due to the fact that there are only certain types of gold bullion products that are considered "good delivery" by the exchange and therefore one's choices are very limited. In addition, there are numerous fees and costs associated with taking delivery on a futures contract.

Isn't buying shares of a gold ETF the same thing as buying bullion?

Although one can buy gold ETFs, they are not the same as buying physical gold that you can hold in your hand. ETFs are paper assets, and although they may be backed by physical gold bullion, they trade based on different factors and are priced differently.

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Other Gold Price FAQ

I noticed gold is cheaper if I pay by bank wire or check rather than a credit/debit card or PayPal. Why is that?

Gold producers and dealers, such as Nevada Mining Resources, typically offer a discount for purchases made by bank wire, check or other means outside of credit card payments. This is because bullion dealers are usually working with very tight margins, and if they process credit card transactions they must pay the credit card company transaction fees.

When ordering from Nevada Mining Resources, purchases made with a paper check or bank wire you can receive a 2% discount over the credit card price. The credit/debit card surcharge helps dealers cover the costs associated with merchant processing fees. If bullion dealers did not add a surcharge on credit/debit card orders, bullion dealers would not be able to afford the option to buyers as they would be operating at a loss.

If a gold coin has a face value, shouldn't the coin be worth more money?

There are several gold bullion coins that have a face value. That is to say that they are considered good, legal tender in their respective country and could be used to make purchases just like cash. The fact is, however, that these coins are not often used to make purchases. They are worth more for their gold content than their face value.

Have you ever seen someone pay for items at the grocery store with a $20 Saint-Gaudens gold coin? Probably not. These coins, and others that carry a legal tender status, derive their value primarily from their bullion content and collectability or scarcity in the market.

If I am a new physical gold investor, what are some products I may want to look at buying if I am simply trying to acquire as many ounces of gold as possible?

If one is just trying to acquire as much gold as possible, then gold bars and standard gold bullion coins are likely your best bet. In this case, one is simply looking to purchase gold for the lowest price possible. Gold bars will often be the most cost-efficient way to purchase gold bullion. Bars and rounds carry lower premiums than coins because they have no face value and are easier to make.

For example, today a 1 oz American Gold Eagle coin may be bought from a dealer for $1355. That same dealer is also offering a 1 oz OPM gold bar for $1323. That's about a $30 difference per ounce of gold bullion! Gold bars can also be purchased in fractional sizes such as 1 gram, 2 gram, 5 gram, 20 gram, 50 gram and more. The fractional sizes, however, will typically carry larger premiums than a standard 1 ounce or 1 kilo bar due to higher manufacturing costs associated with producing smaller bullion items.

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If gold is priced at $1320 per ounce, why do I see gold coins selling for hundreds or even thousands of dollars over that price? Does the dealer make that much money?

Gold products, especially gold coins, are priced based on gold content and their collectability. The gold content is pretty straightforward. The collectability premium, however, is another animal. Gold coins with the same gold content may have wildly different market values based on such things as when or where they were minted, how many coins of that particular type were minted, what condition the coin is in and more.

Just because a dealer is selling that coin for hundreds over the spot price does not necessarily mean that the dealer is making hundreds of dollars on the coin. The dealer likely paid several hundred dollars over the gold spot price for the coin as well, and is now looking to sell it with his or her profit margin attached.

If the price of gold is constantly changing, how do I lock in a purchase price if I am buying gold?

Dealers have procedures for locking in a specific price on gold products based on current price levels. These procedures may vary from dealer to dealer. If one is looking to buy gold and lock in a price, one method is for the buyer to lock that price in once he or she reaches their checkout page when making an online purchase.

At that time, the investor will typically have a specified amount of time to complete their purchase and lock their price in. The amount of time given may be fairly short, however, such as ten minutes (as is the case with JM Bullion). Dealers do this to try and protect themselves from rapidly changing prices.

What is the gold/silver ratio?

The gold/silver ratio represents the price relationship between gold and silver. Some investors will analyze historical gold/silver ratios to see if the current ratio means gold or silver are under or overpriced relative to each other.

Aren't I better off buying from a local coin shop?

The fact is that gold and silver bullion are very competitive markets these days. Online dealers may offer buyers some advantages over local coin shops. One big potential advantage is lower prices. An online dealer does not have the overhead that a brick and mortar coin store does. Because an online dealer typically has lower overhead, they can offer products at lower premiums and still make a profit. In addition, online dealers will often have vastly larger selections than a local coin store.

Do dealers just charge a fixed amount over the spot price?

Yes and no. Dealers may charge a fixed profit markup on certain products and they may have varying charges on other products. A simple gold bar, for example, may be sold by a dealer for $20 over the spot gold price, while a graded Double Eagle coin may sell for a premium at the dealer's discretion based on condition, scarcity and other market factors.

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Does the price of gold go up if the stock market goes down?

The price of gold often exhibits a negative correlation to stocks. That is to say that yes, there are times when gold and equities may move in opposite directions. There are also times, however, that gold and stocks may both move in the same direction. Many consider gold to have little correlation to stocks and bonds, and therefore feel it can potentially be a wise investment to add to one's portfolio.

Is the gold market manipulated?

This has been a topic of great debate for some time. One can easily find plenty of information online about this topic and draw his or her own conclusions.

What is the gold "fixing?"

The gold Fixing refers to the price set by the London Gold Fixing Company twice a weekday at 10:30 AM and 3:00 PM GMT. This price is determined by certain LBMA market makers, including representatives from Scotiabank, Deutsche Bank, and HSBC.

Will I pay tax when I buy physical gold?

Certain states place sales taxes on physical precious metals, including gold. When buying online, Internet retailers will only charge you sales tax if you are an in-state customer, and if the state does indeed tax precious metals. Fortunately due to our location, Nevada Mining Resources does not have to collect sales tax, although consumers may be liable to pay local use tax. To learn more about your state, **read our local bullion guide**.

What is an Assay?

An assay is a certificate or encasing that guarantees the purity and authenticity of the accompanying gold piece. Assays typically include a serial number, which will match the serial number imprinted on the bar. Assays will also include a signature by the official assayer of the piece.

How many grams are in an ounce of gold?

Gold is always measured by the troy ounce which is equivalent to about 31.103 grams. This standard of measurement was created in France during medieval times and was later adopted by the United States in 1828 for standard coinage.

How many ounces are in a kilogram of gold?

There are 32.151 troy ounces in one kilogram of gold.

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What are the different types of gold bullion?

Gold bullion is available in the form of coins, rounds, and bars. Gold coins are different from the other two options in that they are produced only by government mints and carry a face value in their country of origin. Many countries throughout the world produce their own gold coins containing a wide range of designs and sizes. Gold bars and rounds are produced by private mints and are usually found in a wider selection of sizes than that of coins.

Where can I buy physical gold?

Right here on our website, of course. Nevada Mining Resources offers a wide variety of **quality physical gold products** at the lowest prices in the industry.

Can I put gold in my IRA?

Many of our gold bullion products are eligible for a gold IRA. Depending on whether you can allocate gold into your personal IRA account will depend upon the custodian you use. If your current IRA custodian does not offer gold IRA services you can transfer your IRA to a custodian who does offer gold IRA services.