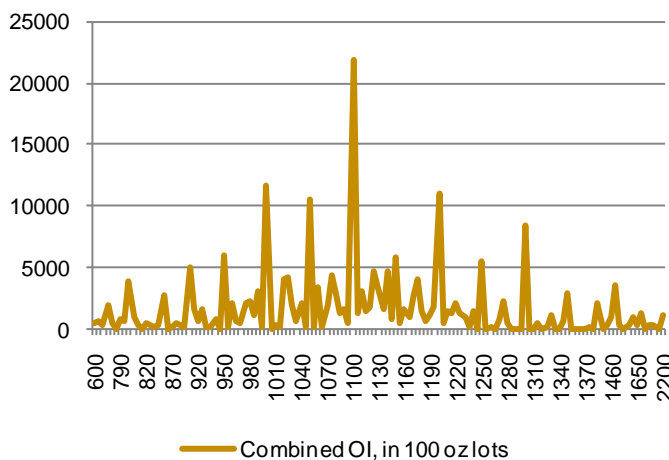




Comex Feb Gold Options, Combined OI (C+P)



GOLDESSENTIAL (London) – COMEX February Gold Options (EGCG10) are expiring in 5 days (LTO: January 26<sup>th</sup>), with open interest in the \$1,100 an ounce strike currently drawing the most attention.

Combined open interest (call + put) at the \$1,100 an ounce strike price as per Tuesday January 19<sup>th</sup> stood at 21,830 lots, of which 60.44 pct were puts, 39.56 pct calls.

Since December 31<sup>st</sup>, 2009, the EGCG10P1100 (put) contract has seen open interest rising 31.55 pct to 13,196 lots (equivalent to some 41 metric tons), whereas the EGCG10C1100 (call) has seen open interest declining 5.58 pct, to 8,634 lots.

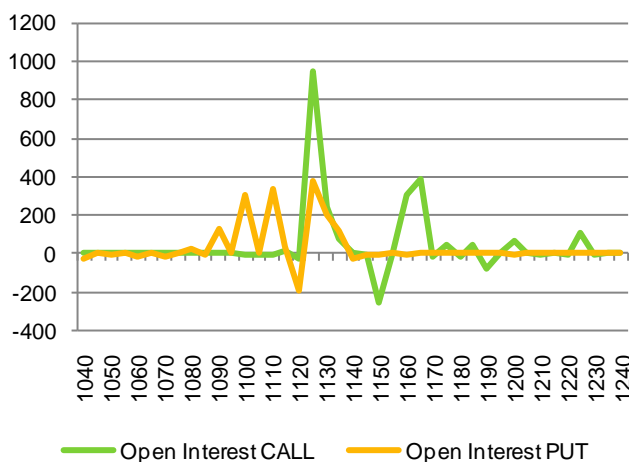
Chart 1: Combined Open interest in Feb Gold Options (Tue Jan 19)

The underlier, the benchmark COMEX February gold futures contract over the same time span rose 4.0 pct to settle at \$1,140.00 on January 19<sup>th</sup>, but fell back significantly on January 20<sup>th</sup>.

The magnitude in the open interest in the \$1,100 an ounce put option may continue to evoke gravitational forces on prices over the next days, as the buyers of these puts try to push the put option into the money. This may also partially explain Wednesday's (January 20<sup>th</sup>) over 2 pct price drop in the underlying contract.

Holdings of call options at the \$1,100 strike price – although smaller in size – may however try to put up a fight if prices slip towards this area to avoid the loss of current intrinsic value on their instruments. They may also prematurely exercise their options, which in turn may cause additional downwards price pressures on the underlying contract.

COMEX Feb Gold Options, Change in OI on Tuesday, Jan 19



Writers or sellers of these calls, often bullion banks may furthermore try to push prices below the strike price to avoid having to sell gold cheaper than the market price upon expiration.

As such, further price weakness seems very likely, and a test of the \$1,100 mark nearly unavoidable.

Activity in open interest on Tuesday January 19<sup>th</sup> (chart 2) – for which final data is delayed by one day - has shifted towards the \$1,100-\$1,125 an ounce interval, with the most notable increase in open interest shift seen in the \$1,125 call option, as the underlying contract rose to \$1,140 an ounce.

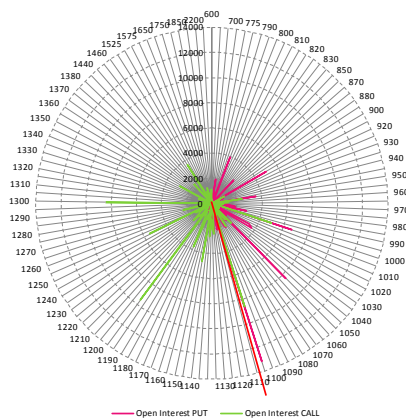
Chart 2: Evolutions in Feb Gold Options open interest (Tue Jan 19)

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However, COMEX February gold futures were seen tumbling on Wednesday, January 20<sup>th</sup>, which will likely show a shift back in favor of the \$1,100 put option as final open interest data becomes available on Thursday (January 21<sup>st</sup>), and which - as mentioned earlier - has set the focus for the underlying futures contract on the \$1,100 an ounce mark ahead of expiry. **A break below the mark may fortify the case for additional weakness.**

Estimated volumes on both EGCG10P1100 (put; \$1,100) and EGCG10C1125 (call; \$1,125) were peaking on Wednesday, respectively at 1,350 and 1,699 lots.



**Chart 3: Open interest in February COMEX Gold Calls & Puts (in 100 oz lots). Red line is price (GCG10) as per Thursday, January 21, 9.18GMT**

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