REVENUE DRIVERS OF GLOBAL BANKS IN BULLION BUSINESS

Key Revenue Generation Streams in the Precious Metals Business

Abstract

This paper analyses revenue streams of global bullion banks and aims to suggest policy discussions on market structure, transparency, and institutional incentives. It highlights how trading dominates profitability, while services like storage, financing, and clearing underpin market functioning. The study provides insights into the strategic role of bullion banks in maintaining liquidity, infrastructure, and price stability in the global precious metals market.

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Executive Summary

Global bullion banks – including firms like JP Morgan, HSBC, Standard Chartered, UBS, ICBC Standard, Citi, and others – derive revenue from a diverse array of business lines in precious metals. These lines span trading (both proprietary and client-driven), custody and storage of physical bullion, metal leasing and financing, market making and liquidity provision, derivatives and hedging services, clearing and settlement operations, structured products for investors, and even refining and logistics. This white paper provides a comprehensive analysis of how each segment contributes to bullion bank revenues across gold, silver, platinum, and palladium. We focus on revenue opportunities and financial performance in these segments, providing a global perspective with data and examples. The analysis shows that trading-related activities account for the bulk of profits in precious metals (often ~90% [1]), while ancillary services like vaulting, financing, and product structuring provide important but comparatively smaller revenue streams. Major bullion banks leverage their global networks – from London and New York to Shanghai and Zurich – to maximize these opportunities. Table 1 **(Page 34)** summarizes **key revenue-generating segments** for leading bullion banks, illustrating where each bank's strengths lie in the precious metals business.

Banks earn revenues in the precious metals business through a blend of physical and paper markets. Major banks like JP Morgan and HSBC engage in everything from holding physical gold in vaults to trading futures and structuring derivatives.

[1] https://www.wealthmanagement.com/etfs/jpmorgan-joins-hsbc-as-vault-custodian-for-top-gold-etf#:~:text=The%20boom%20in%20demand%20for,metals%2C%20according%20to%20Coalition%20Greenwich

Chapter I - Introduction

Bullion banks are the institutions at the core of the global precious metals market, acting as intermediaries between producers, consumers, investors, and central banks. They facilitate the buying, selling, and lending of metals such as gold, silver, platinum, and palladium on a large scale. These banks also participate in making markets in over-the-counter (OTC) trades, participate in price benchmark auctions, and often hold the metal in secure vaults to fulfill trades and custody agreements[2]. In essence, bullion banks provide vital infrastructure – liquidity, credit, and physical handling – that keeps the precious metals markets functioning.

From a revenue perspective, bullion banking is multifaceted. Bullion banks earn money through **trading profits, fees for services, interest on loans or leases, and margins on structured products**. Notably, **trading-related income (proprietary trading, market-making, and client facilitation)** tends to dominate. According to market intelligence firm Coalition Greenwich[3], *"vaulting typically accounts for about a **"tenth of the profits"*** in banks' precious metals units. – implying that **roughly 90% comes from trading, financing, and other activities**. For example, in the first quarter of 2025, twelve leading bullion-dealing banks collectively earned about **US$500 million**[4] in precious metals trading revenue, roughly double the historical quarterly average. This was the second-highest quarterly figure in a decade, driven by volatility and arbitrage opportunities in the gold market. Individual banks have posted standout performances; **JPMorgan Chase's metals desk**, for instance,

[2] JP Morgan Scores a Golden Coup
[3] Twelve leading banks together made $500 million in revenue from precious metals in 1Q25, the second highest figure in a decade of data compiled by Crisil Coalition Greenwich. | Crisil Coalition Greenwich posted on the topic | LinkedIn
[4] Twelve leading banks together made $500 million in revenue from precious metals in 1Q25, the second highest figure in a decade of data compiled by Crisil Coalition Greenwich. | Crisil Coalition Greenwich posted on the topic | LinkedIn

achieved record **revenues of around $1 billion**[5] **in 2020 alone by trading, storing, and financing precious metals** amidst a then pandemic-era surge in demand. These examples underscore that bullion banking, while sometimes seen as a niche, **can be a significant profit center for global banks** under the right market conditions.

In the sections that follow, we dissect the major revenue-generating segments of the bullion banking business. Each segment is explained, and its contribution to revenue illustrated with data or examples. We also highlight which major banks excel in each segment. Finally, we provide a comparative table summarizing revenue opportunities by bank and business line and conclude with key takeaways for the Indian policymakers interested in the financial dynamics of precious metals markets.

[5] https://www.reuters.com/business/top-banks-2020-commodities-revenue-soars-85-consultancy-coalition-2021-03-05/#:~:text=One%20of%20the%20banks%20that,103

Chapter II - Proprietary and Client Trading

Overview: Trading precious metals – on both a proprietary basis and on behalf of clients – is a core revenue driver for bullion banks. This includes **spot trading in the OTC market, futures trading on exchanges, and trading forwards and options**. Bullion bank trading desks capitalize on price fluctuations, market volatility, and arbitrage opportunities across different markets. They also facilitate client orders (for example, **executing large buy/sell orders for mining companies, refiners, jewellers, institutional investors or central banks**), earning a spread or commission on these transactions. The trading segment often encompasses both proprietary trading **(where the bank uses its own capital to take positions for profit) and client-driven trading (market-making or agency trading that earns fees/ spreads)**. In practice, the line between the two can blur, as market-making requires taking positions that can become profitable proprietary trades.

Revenue Opportunities: **Trading profits can be substantial**, especially **during periods of high volatility or market dislocation**. Bullion banks earn revenue by effectively *"buying low and selling high"* – either over short durations **(in intra-day trading and arbitrage)** or through longer-term positioning. They also profit from the bid-ask spreads charged to clients when acting as the counterparty to buy or sell orders. Furthermore, **banks may arbitrage price differentials between different locations or forms of gold (for instance, between futures and spot, or New York vs. London gold prices**).

An excellent recent example occurred in early 2025: **fears of US trade tariffs on precious metals caused COMEX gold prices in New York to trade at a premium to London**. Sensing an opportunity, **U.S. bullion banks ramped up arbitrage trades – buying gold where it was**

cheaper (in London, Zurich, etc.) and shipping it to New York to sell at the higher price. In just the first quarter of 2025, U.S.-based bullion trading desks collectively generated about $500 million[6] in revenue from such precious metals trades. This was a windfall roughly ***twice the average quarterly earnings of the past decade,*** illustrating how volatility and geographic price spreads directly translate into bank profits.

Bullion banks also benefit from '*flight-to-quality'* investor flows. In times of economic uncertainty or financial stress, investor demand for gold and silver tends to spike, increasing trading volumes and widening spreads. For instance, during the COVID-19 pandemic in 2020, **many investors sought gold as a safe haven, which "multiplied" banks' revenues from precious metals trading**[7]. According to Coalition Greenwich data, precious metals trading was a standout that year – helping drive an 85% jump in top banks' commodity revenues – as banks profited from heightened demand and price volatility. **JP Morgan's precious metals desk alone earned about $1 billion in 2020, a record sum, by deftly trading and financing gold amidst the turmoil**. Another driver of trading revenue can be supply-driven events: for example, prolonged strikes in major producing regions (such as South African platinum/palladium mines) **can tighten supply and fuel price rallies, which bullion banks trading those metals can profit from**. **In 2014, Scotiabank noted that investor interest in platinum and palladium jumped amid South African mine strikes**[8]**, contributing to improved precious-metals trading results that quarter**.

In summary, **proprietary and client trading is the largest revenue segment for most bullion banks**. It leverages banks' market expertise,

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[6] Arizona Gold Zone Doubles in Size
[7] Top banks' 2020 commodities revenue soars 85% -consultancy Coalition | Reuters
[8] Scotiabank second quarter commodity trading revenue boosted by precious metals | Reuters

global networks, and risk appetite. The income from trading is inherently variable – soaring in volatile markets and more modest in calm periods – but over the long run it comprises the majority of bullion bank earnings. As noted, roughly **90% of a typical bullion banking unit's profits come from trading and related activities** (with the remaining coming from ancillary services like storage). Major players like **JP Morgan, HSBC, and UBS employ dedicated precious metals traders and quants, and they trade not only on price direction but also on arbitrage (location, time spreads, and cross-product differences)**. The ability to move **seamlessly between "paper" markets (futures, forwards, ETFs) and physical markets (vaulted gold, shipments)** gives these banks an edge to exploit pricing inefficiencies for profit.

Chapter III - Market Making and Liquidity Provision

Overview: Market makers form the backbone of trading in an exchange and more so when matters of liquidity take precedence. Market makers ensure a continuous trading process on exchanges. **Bullion banks serve as market makers in precious metals**, ensuring there is continuous liquidity for buyers and sellers. In practice, this means these banks quote bid and ask prices for gold, silver, platinum, and palladium at various trading venues and stand ready to transact at those prices. They play a pivotal role in large OTC markets like London, as well as participating in **daily benchmark price-setting processes**. For example, several major **bullion banks are direct participants in the twice daily LBMA Gold Price auction** and the **LBMA Silver Price auction, which establish global reference prices**[9]. By providing two-way markets, **bullion banks earn the bid-ask spread as revenue on trades, and they may also charge small fees for the service of liquidity provision to some clients.**

Revenue Opportunities: The revenue from **market making is embedded in trading profits** but is worth highlighting separately. A successful market-making operation allows a bank to capture volume – handling a large number of client trades – and profit from the spread on each. Even if each individual spread (difference between buy and sell price) is small, the aggregate across high volumes can be significant. For instance, **banks like JP Morgan and HSBC, the world's two largest bullion banks, handle enormous throughput of metals trades, ranging from futures trades with hedge funds to physical shipments for refiners**. Their willingness to quote prices in size (for example, offering

[9] Learn About Gold & Silver Bullion Banking

to buy or sell hundreds of bars of gold at a posted price) gives confidence to the market and attracts business. The reward is built into the price – these banks typically quote a slightly lower price to buy and higher to sell compared to the mid-market price, pocketing the difference when trades execute.

Market makers also profit by positioning ahead of anticipated flows. If a bullion bank knows that, for example, a large jewelry manufacturer will consistently need silver, the bank can accumulate silver inventory (or derivatives positions) and then sell to the client at a markup, locking in a margin. **Similarly, banks may earn fees for "on-call" liquidity provision agreements – e.g. a central bank or large investment fund might have an arrangement with a bank to source large gold quantities on short notice, for a fee or spread premium**. Importantly, bullion banks' role in setting benchmark prices can have indirect revenue benefits. Being part of the price auction (formerly known as the London gold and silver fixes) doesn't pay a fee in itself, but it gives banks insight into market depth and client interest around the benchmarks. They can use this information advantage in managing their trading book. Additionally, by participating in the fix, they can match client orders at the benchmark price and earn spreads on offsetting those orders. As of the mid-2010s, banks like Scotiabank, HSBC, and others were among the small group setting these prices. **Today, electronic auctions include a broader set of participants, but global bullion banks remain the primary liquidity providers in those auctions.**

Another facet of liquidity provision is authorized market-making on exchanges and ETFs. **Many bullion banks act as Authorized Participants for gold and silver Exchange-Traded Funds, meaning they can create or redeem ETF shares by exchanging physical metal**

for ETF units. In doing so, they arbitrage any price differences between the ETF and the underlying metal and earn risk-free profits or fees. **They also serve as market makers in ETF shares, quoting buy/sell prices on stock exchanges for products like SPDR Gold Shares (GLD) or iShares Silver Trust (SLV)**. These activities provide liquidity to the ETF and futures markets and generate revenue through small arbitrage gains and trading spreads.

In summary, market making is an essential service that bullion banks provide to the market, and it underpins their trading revenue. The profit from this segment is reflected in trading results rather than a separate fee line, but without question, the dominance of leading banks in precious metals trading is built on their ability to continuously offer liquidity. Table 1 **(Page 34)** later in this paper indicates which banks are known to be top market makers (e.g. JP Morgan, HSBC, UBS, etc. all have a "*High*" involvement in market making, reflecting their role in key trading hubs).

Chapter IV - Physical Bullion Custody and Storage

Overview: Bullion banks offer custody and vaulting services for physical precious metals. **They operate high-security vaults in major trading centers (such as London, New York, Zurich, Singapore, and Hong Kong)** to store gold, silver, platinum, and palladium on behalf of clients. Clients can include ETF trust funds, central banks, mints, institutional investors, and high-net-worth individuals. In addition, bullion banks often serve as custodians for gold-backed ETFs – meaning the bank is contracted to hold the physical bars that back the ETF shares and to ensure the metal's safety and purity. **For example, since its inception in 2004, the largest gold ETF (SPDR Gold Trust, ticker GLD) relied on HSBC as its sole custodian, storing gold in HSBC's London vault. In late 2022, JP Morgan was added as a second custodian for GLD – a major victory for JP Morgan's bullion business, as it broke HSBC's exclusive hold on roughly $50 billion in gold holdings.**

Revenue Opportunities: Custody and storage generate revenue primarily through storage fees. These fees are often charged as a percentage of the value of the metal stored (annualized basis) or a fixed fee per ounce/tonne per month. **While percentage fees are usually small (often on the order of 0.01%– 0.10% per year for large holdings),** the sheer volume of metal under custody means the absolute revenue can be substantial. **In the GLD example, with ~$50 billion in assets, even a few basis points annual fee can translate into millions of dollars paid to custodians**. Indeed, the World Gold Council indicated that by adding JP Morgan as a co-custodian and splitting GLD's gold between London, New York, and Zurich vaults, the fund anticipated future growth and was willing to pay JP Morgan for its services. **JP Morgan is**

expected to earn "millions of dollars in storage fees" from this mandate.

Beyond ETFs, **bullion banks also hold gold for central banks and sovereign wealth funds (as custodians of national reserves)** and for institutional or wealthy clients who want allocated physical metal. They typically charge custody fees for allocated accounts (where specific bars are held for the client), and sometimes account maintenance fees for unallocated accounts (where the client has a claim on metal but not specific bars). For instance, large central banks often keep gold in the Bank of England or the New York Fed, but some also use commercial bullion bank vaults for diversification or convenience. **Banks like JPMorgan, HSBC, and ICBC Standard have their own London vaults** certified by the London Bullion Market Association (LBMA) for *"Good Delivery"* storage[10], each capable of holding hundreds or thousands of tonnes of gold. Storing such vast quantities yields steady fee income.

It is important to note that, while reliable, storage fee income is relatively modest compared to trading income for bullion banks. As noted earlier, Coalition Greenwich data suggests vaulting contributes only around 10% of the total precious-metals profit pool for banks. Nonetheless, it is a stable and low-risk revenue stream. During periods of high investor inflows into gold ETFs or strong demand for holding physical metal, storage fee as a component of the earnings of **banks is on the ascent.** For example, during 2020's pandemic turmoil, ETF gold holdings surged to record levels, which "*saw both banks reap a windfall from storing metal for growing ETFs".* JP Morgan even opened a new silver bullion vault in London to accommodate the rising demand for vault storage as silver ETFs grew. Conversely, when ETFs see outflows (as happened in late

[10] Learn About Gold & Silver Bullion Banking

2022 amid rising interest rates), some metal is withdrawn and storage fees for banks dip slightly. Overall, custody services give bullion banks a recurring revenue base and also strengthen their trading franchises (since owning vaults allows them to swiftly source or deliver physical metal as part of trades).

In summary, physical custody and storage fees are a crucial, if smaller, component of bullion bank revenue. The global leadership of banks like HSBC and JP Morgan in the vaulting business (holding not only ETF gold but also serving as custodians for governments and investors) solidifies their position in the market. It is an arena with high barriers to entry (due to the cost of vault infrastructure and necessary reputation for security), which means established players can reliably earn fees year after year. Table 1 **(Page 34),** later shows that **HSBC and JP Morgan are top-tier in this segment (with "*High*" involvement),** while others like **UBS (which stores gold for wealth management clients) or ICBC Standard (which acquired a large London vault from Barclays Bank[11]) also generate notable storage revenue ("*Medium*" involvement).**

[11] https://www.reuters.com/article/markets/commodities/icbc-buys-barclays-us80bn-london-gold-vault-idUSL5N18D1P7/

Chapter V - Bullion Leasing and Financing

Overview: Bullion banks engage in bullion leasing and financing, which involves lending precious metals (especially gold) to clients or providing loans secured by precious metals. In a gold leasing arrangement, a bank loans physical gold (or credits of gold) to a borrower – often a jeweler, manufacturer, or sometimes a mining company – who agrees to return the equivalent amount of gold at a future date, plus a leasing fee (interest) paid usually in currency or metal. Banks themselves frequently borrow gold from central banks to obtain metal for these operations; central banks lend out a portion of their gold reserves to earn a return (known as the gold lease rate)[12] . The bullion bank serves as the intermediary, borrowing gold from the central bank at a low rate and then on lending it to commercial participants at a higher rate, pocketing the spread as revenue.

In addition to pure leasing, bullion banks provide financing facilities to the precious metals industry. This can include: - Loans to mining companies (often structured so that repayment is in metal or linked to future production – e.g., a miner borrows gold now and repays ounces later from mine output). - Forward purchase agreements where a bank prepays a mining company for future production (effectively financing the miner in exchange for a discounted price on the gold to be delivered later). - Working capital loans to fabricators and dealers, often secured by inventories of gold or silver. - Consignment stock agreements, where a bank places its metal in a client's inventory (e.g. at a jeweler's factory or a mint) on consignment – the client pays for metal only as it is used, and in the meantime pays interest on the consigned inventory (this is a

[12] Learn About Gold & Silver Bullion Banking

common arrangement for jewellery manufacturers and electronics firms to reduce their tied-up capital in precious metals).

Revenue Opportunities: The primary revenue from leasing and financing is interest income or fee income on the metal or money lent. Although gold and silver do not pay interest like currency, the lease market establishes an interest rate for borrowing/lending metal (the gold lease rate, often a few tenths of a percent annual in recent years). Bullion banks aim to borrow metal at a lower rate and lend at a higher rate. **For example, a bank might borrow gold from a central bank at 0.2% per annum and lease it to a jewelry company at 1.0%, capturing an 0.8% spread as profit**. In some cases, lease rates can rise significantly during market stress or high demand for physical metal; **reports in 2025 noted that gold leasing rates spiked to multi-year highs amid supply squeezes, which can increase the margin earned on new leases. According to one industry example, bullion banks typically charge 1–4% annual interest on short-term gold loans to jewellers or manufacturers**[13]. Even at the low end of that range, these deals provide a yield that contributes to the bank's income.

Beyond pure interest, **banks often charge arrangement or structuring fees for complex financing deals**. **A long-term offtake agreement with a mine, or a structured hedging loan, might entail upfront fees for the bank's effort in structuring the contract. They also earn from ancillary services – for instance, if a mining client engages the bank to hedge via forwards or options as part of a financing package**, the derivatives (discussed in the next chapter) come with their own profit margin for the bank.

[13] https://jerryfetta.medium.com/how-im-earning-safe-truly-passive-income-with-gold-235503f940e4

Bullion financing can also produce trading-like gains for banks. **Often, when a bank lends gold, it simultaneously sells that gold into the market (or uses it to fulfill other obligations) – essentially treating the borrowed gold as inventory. The bank will later have to buy back gold to return to the original lender (e.g., a central bank) when the lease ends**. If the bank expects gold prices to fall or stay the same, this operation can yield profits (sell high, buy back lower later). However, this speculative aspect carries risk if prices rise, so banks usually hedge or roll over positions. **Historically, bullion banks profited from such *"gold carry trades",* especially in the 1990s when gold prices were stagnant or declining – they borrowed gold cheaply, sold it and invested the proceeds in higher-yielding assets, then later repurchased gold at similar or lower prices to return it**. This was lucrative until gold prices began to rise in the 2000s (at which point the carry trade became riskier).

Even today, intermediation in the gold lending market remains a bread-and-butter activity for bullion banks. London is the center of this market, with bullion banks borrowing from central banks and redeploying gold to where it's needed. **Banks like HSBC, JP Morgan, and UBS have long-standing relationships with central banks as gold custodians and agents, positioning them to source gold when lease opportunities arise**. On the lending side, banks such as Standard Chartered and ANZ are known for supplying physical gold into Asian markets like India and China via consignment and trade finance routes. – effectively financing the supply chain (Scotiabank had a niche in supplying India's gold market in the past. **Chinese banks (e.g., Bank of Communications, ICBC) also engage in metal leasing domestically, facilitated by the Shanghai Gold Exchange; for instance, Bank of Communications offers**

precious metal leasing to corporate clients through the SGE, allowing jewellers to rent gold for a period and pay a fee[14]. Such domestic leasing business in China has grown with consumer demand and provides interest revenue to those banks.

To summarize, bullion leasing and financing is a specialized but important revenue segment. It ties closely with banks' trading and inventory management – the gold a bank lends out or prepays for is part of its overall metals book. While low prevailing gold interest rates (often <1%) mean the margins per unit may be slim[15], the volume of metal involved can make it meaningful. Moreover, during periods of physical tightness or high credit demand in the sector, lease rates can rise, boosting returns. For example, in early 2025, gold lease rates jumped amid a rush to source gold for shipment to the U.S., reflecting scarcity of immediately available metal[16]. Bullion banks positioned to lend into that scarcity could command higher fees. **In Table 1 (Page 34), banks like Standard Chartered and HSBC are marked as having high involvement in this segment**, given their active lending to jewellers and miners, whereas purely investment-focused banks may have lower direct involvement.

[14] https://www.bankcomm.com/BankCommSite/shtml/jyjr/en/2600259/2600280/2600289/list.shtml?channelId=2600259#:~:text=I

[15] Understanding the gold lending market | Post by Isabelle Strauss-Kahn | Gold Focus blog | World Gold Council

[16] https://www.hindustantimes.com/business/banks-like-jpmorgan-and-hsbc-are-flying-gold-worth-billions-from-london-to-new-york-heres-why-101739844957222.html#:~:text=However%2C%20London%20prices%20have%20been,which%20is%20an%20unusual%20discount

Chapter VI - Derivatives and Hedging Services

Overview: Beyond straight trading of metals, bullion banks offer a suite of derivatives (forwards, futures, options, swaps) and hedging services to clients. These services allow miners, refiners, manufacturers, and investors to manage price risk. **For example, a gold mining company may want to lock in a future selling price for its output – a bullion bank can provide a forward contract to purchase the gold at a fixed price in six months**. Similarly, a jeweler worried about rising silver prices can buy a call option (or enter into a swap) from a bank to cap their effective cost. On **the investor side, banks create structured products that give exposure to metal prices with customized payoffs (e.g., a note that pays a higher interest rate if gold stays in a certain range, or a product that converts to gold if price X is reached)**. In providing these derivatives and hedging solutions, bullion banks are leveraging their trading expertise to design contracts tailored to client needs.

Revenue Opportunities: There are several ways banks earn revenue in this segment: -

<u>Embedded Spread in Forwards</u>: When **a bank enters a forward/futures contract with a client**, it typically prices in a margin above the theoretical fair value. For instance, if the fair 6-month forward price for gold (based on interest and storage costs) is $1,800, a bank might offer a hedge to a miner at $1,790. **The $10 difference is effectively the bank's compensation (this covers credit risk and profit).** The miner is willing to pay this "insurance premium" to guarantee a price. The bank then manages this position by perhaps selling futures or borrowing gold – if done efficiently, the built-in $10 becomes profit over the contract's life. - Option

Premiums: When selling options (calls, puts) to clients seeking protection or exposure, banks collect an option premium. They price options with a volatility and risk premium that gives them an edge. If the client is hedging, they are often less sensitive to price than to certainty, so the bank can earn a healthy margin on customized options. **Bullion banks also trade options among themselves or on exchanges**, but bespoke options sold OTC to clients *(e.g., a mining company placing a put option on 100,000 oz of gold with a strike at $1,750)* will include fees for the bank's structuring.

Structured Product Fees: **Creating a structured note or deposit linked to precious metals involves combining derivatives with bonds or deposits**. Banks charge an upfront structuring fee or embed a yield spread for themselves. **For example, a structured gold note for a wealth management client might promise a 5% coupon if gold stays within $1,800-$2,000**. The bank might hedge this by using options, but it will ensure the note is priced so that the cost of the options is less than the yields earned, capturing the difference. **Many banks, such as UBS and Credit Suisse, have significant structured product businesses; they include commodities like gold in their offerings to clients seeking diversification or yield**[17]. Bullion banks create swaps, barrier options, and structured notes linked to precious metals prices, and this innovation drives additional fee income.

Hedging program management: In some cases, a bank will manage an entire hedging program for a producer in exchange for fees. For example, in past decades, **banks managed large hedge books for gold producers like Barrick Gold. Barrick's famous hedging program (which at one point had over 10 million ounces hedged) was**

[17] Why Structured Investments Are Climbing in Popularity with Advisors

facilitated by bullion banks that provided forwards and complex derivatives. Over a decade (1987-1997), **Barrick's program generated about $765 million in added revenue for the company through above-spot sales[18] – on the other side of those trades were banks earning compensation through forward discounts and interest on the *"hedge asset."*** Banks with superior derivatives expertise attracted miners to do big programs; in return the banks earned multi-year streams of income from these contracts (plus benefits from being able to invest cash proceeds, etc.). Today, mining company hedging is smaller-scale (many miners choose to remain unhedged), but the principle remains: **banks earn whenever a producer or consumer uses their derivatives to lock in prices**.

The scale of derivatives revenue can be significant but is often reported as part of trading income rather than separately. However, we know from disclosures and cases that banks can derive large profits from clever hedging deals. In 2020, Coalition noted *"selling derivatives to investors"* was part of the revenue boom for banks' commodity divisions. **Likewise, the arbitrage in 2025 (moving gold to New York) actually involved futures – banks were arbitraging futures prices versus physical, which is essentially a derivative-driven trade**[19]. By delivering physical gold against futures, banks like Morgan Stanley and JPMorgan closed profitable price gaps. Morgan Stanley, for example, delivered **67 tonnes of gold** in Q1 2025 to fulfill its COMEX futures positions – a huge physical move valued around $7 billion – implying they had taken a sizable long physical/short futures arbitrage and profited as the gap closed [20]. JPMorgan likewise made an unprecedented single-day delivery (~$4

[18] The Hedging Advantage | Alchemist | LBMA
[19] https://news.metal.com/newscontent/103368702/Behind-the-USs-%22Siphoning%22-of-Global-Gold:-Wall-Streets-Big-Banks-Are-Making-a-Fortune
[20] Behind the US's "Siphoning" of Global Gold: Wall Street's Big Banks Are Making a Fortune... | SMM

billion of gold) on COMEX in Feb 2025[21]. **These actions are driven by derivative market pricing and demonstrate how integrated the derivatives business is with physical trading for revenue generation.**

Finally, **bullion banks sometimes act as dealers for retail derivative products – for instance, many banks run online platforms where clients can trade gold or silver contracts** (often these are **unallocated accounts or contracts for difference**). The banks effectively take the opposite side of these customer trades and earn from spreads or if the clients are net losers. While smaller in scale than institutional business, it's another revenue trickle.

In summary, **providing derivatives and hedging services is a high-margin, expertise-driven segment of the bullion banking business. It allows banks to monetize their market knowledge by solving client problems and taking on risk for a price**. Many major banks (JPM, Goldman, UBS, Citi, etc.) have dedicated commodity derivative sales teams for this reason. As shown in **Table 1**(**Page 34**), virtually all top bullion banks are active here (marked *"High"* involvement for most), as it complements their trading – a bank that trades the underlying metal is well positioned to offer options and structured contracts on that metal.

[21] Behind the US's "Siphoning" of Global Gold: Wall Street's Big Banks Are Making a Fortune... | SMM

Chapter VII - Clearing and Settlement Services

Overview: Bullion banks operate the clearing and settlement infrastructure for precious metals markets, particularly the London bullion market. **London's OTC gold and silver trading, which is the largest in the world, settles through a system called London Precious Metals Clearing Limited (LPMCL),** a utility operated by a handful of bullion banks. These banks – currently HSBC, JP Morgan, ICBC Standard, UBS, and (until recently) Scotiabank – act as clearing members, netting and settling thousands of OTC trades per day between market participants Clearing involves moving metal or account credits between vaults or accounts to satisfy trades, often using the unallocated gold account system as a ledger**. In addition, bullion banks are often members of futures exchanges (like COMEX/ NYMEX or SHFE)** and clear trades there, and they facilitate settlement of physical contracts by delivering or receiving metal.

Revenue Opportunities: **Clearing** is **fundamentally a service business**, and **revenue comes from fees charged for settlement or from the float/efficiency gains of handling client trades**. In the London OTC system, clearing members may charge smaller non-clearing banks or brokers for the privilege of clearing their trades (similar to how smaller firms clear through major banks in equities or FX). **For example, if a smaller bullion dealer is not an LPMCL member, it must have a clearing account with a member bank that will, for a fee, settle its trades each day. These fees are not publicly disclosed, but they contribute to the banks' income (likely as part of *"other fees*"))**.

The volume of precious metals clearing is enormous – LPMCL clearing statistics often show **daily gold transfers** on the order of **18-25 million ounces (560-780 tonnes**) and **silver in the hundreds of millions of**

ounces. Even a tiny per-ounce fee or per-transfer fee can add up. If, hypothetically, a bank charged $0.001 per ounce cleared (just an illustration), clearing 20 million ounces would yield $20,000 per day. Actual fee scales may vary (possibly fixed fees per transaction), but the concept stands that clearing services generate a steady flow of revenue corresponding to trading volumes.

Moreover, settlement services often come bundled with liquidity provision. A bullion bank clearing for a client might also extend credit (daylight credit for the metal before it's delivered) or lease metal to the client to make delivery. Those aspects loop back into trading or financing revenues. The clearing bank earns from interest on any short-term advances of metal or cash in the settlement process.

Clearing membership also yields cost advantages that indirectly boost revenue. By netting trades through LPMCL's AURUM platform, banks can reduce their own operational costs and vault movements – this efficiency means they can allocate more resources to trading (which makes money). While this is not revenue per se, it improves the profit margin of their trading business. Additionally, being a clearer gives a bank insight into market flows (seeing many transactions), which can be strategically valuable.

Another clearing-related revenue source is custodial and settlement services for exchanges and ETFs. For instance, **some bullion banks serve as approved depositories for the CME's COMEX gold and silver contracts**. **They store metal that can be used for contract delivery and may charge warehouse fees (similar to storage fees) and delivery fees**. The ICE Futures US storage fee schedule, **for example, lists approved vaults (including HSBC and JP Morgan) with specified charges for storage and withdrawal of gold.** These fees are paid by market participants who choose to store or deliver metal in those facilities, adding to the banks' revenue.

In essence, the clearing and settlement segment may not be as visibly lucrative as trading, but it is the plumbing that underlies the market, and banks monetize it through fees and strategic advantage. **Major bullion banks consider clearing membership a necessary part of being a full-service provider – it attracts clients (who prefer a one-stop shop where the same bank can execute and settle trades) and generates incremental income**. As noted in a Bloomberg piece**, "Their vaults are key to underpinning the London and New York markets" – this highlights that banks like JPM and HSBC not only trade metals but also physically move and settle them, for which they are compensated**. In **Table 1** **(Page 34)**, we mark banks like JP Morgan, HSBC, UBS, and ICBC Standard as "High" in clearing services (since they are LPMCL members and clearers on major exchanges), whereas some others (e.g., Standard Chartered or Morgan Stanley) would be *"Medium"* or *"Low"* if they rely on those clearers.

Chapter VIII - Structured Products and Wealth Management Offerings

Overview: Many bullion banks leverage their expertise to create structured products linked to precious metals and to include metals in wealth management services. These offerings bridge the gap between traditional banking/investment products and commodities. Examples include:

Structured Notes/ Deposits: Debt instruments whose return is tied to the price of gold, silver, or a basket of metals. For instance, a bank might issue a 3-year note that pays 8% p.a. if gold stays below $2,000, but if gold rises above that, the note might convert to gold or pay a lower fixed coupon plus some gold-linked payoff. These notes appeal to investors looking for higher yields or specific exposure, and the bank earns through structuring fees and the difference between the note's price and the cost of the derivative hedges (as described earlier). - Commodity-Linked Deposits for retail/HNW clients: Some banks offer deposits or savings products where interest is linked to gold or silver prices. **Chinese banks, for example, have offered structured wealth management products where the return varies with commodity prices**[22]. This taps into retail demand for gold exposure with capital protection, and banks earn by embedding an advantageous spread in the product.

Gold Accumulation Plans & Certificates: Banks (especially in Asia) have gold accumulation plans where customers contribute money regularly to accumulate gold grams, often held in the bank's custody. The bank charges a small commission on each purchase and possibly a management fee. **Historically, banks like Mitsubishi in Japan and**

22 https://www.bankcomm.com/BankCommSite/shtml/jyjr/en/2600259/2600280/2600289/list.shtml?channelId=2600259

ICBC in China popularized such plans. **Some Western banks (e.g., UBS) offer digital gold accounts or certificates – for example, Scotiabank's Gold Certificates were a product that gave clients ownership of gold on paper with the convenience of not holding it physically**. The bank charges for issuing the certificate (often a small percentage or a fixed fee) and benefits from the float of unallocated gold. – Wealth Management advisory and brokerage: **Banks with large private banking arms (like UBS, JPMorgan Private Bank, HSBC Private Bank) include precious metals as part of asset allocation. They might charge advisory fees on portfolios that include gold ETFs or mining stocks, or earn brokerage fees when clients buy physical bullion or ETF shares through them**. Some private banks facilitate purchase of physical coins and bars for clients, earning a dealer spread on those sales. - Managed accounts and funds: **A few banks manage commodity funds or strategies (e.g., a gold fund or a commodity index for clients) for which they collect management fees**. While more niche, it's another avenue (**for instance, UBS and Credit Suisse have in the past offered metals-focused investment funds within their asset management units**).

Revenue Opportunities: The revenue in this segment comes from fees and margins on product sales. Structured notes typically include an upfront fee **(usually a percentage of the note, which might be, say, 1-2% that goes to the structuring bank)** and ongoing embedded gains (if the note is designed favorably, the bank might expect to make additional margin by the note's maturity due to conservative assumptions in pricing). With the growth of structured products globally, banks have found that gold is an attractive underlying to structure products around, because it's a volatile asset that allows for interesting payoff designs. A report in 2025 noted that structured investments, including those linked to the price of gold, have been climbing in popularity among advisors and investors – indicating a healthy demand that banks can cater to.

For wealth management services, precious metals often serve as a diversification tool, and banks earn when clients transact. **For example, if a high-net-worth client decides to allocate 5% of their portfolio to gold, the bank might facilitate the purchase of $500,000 in gold ETF shares or bullion – the bank could earn a trading commission or spread on that transaction. If the client opts for allocated physical gold, the bank then earns annual custody fees (similar to the custody business discussed earlier). Some banks provide value-added services like assaying, transporting, and insurance for client bullion (charging additional fees for each). All these contribute to revenue.** A notable offering has been the **development of gold-backed loans for wealthy clients, essentially using gold as collateral. Banks like UBS have allowed clients to pledge stored gold to secure low-interest loans (which clients might use to invest elsewhere).** The bank earns interest on the loan, and fees for storage still, and faces minimal risk if the loan-to-value is conservatively set. **This kind of integrated wealth management product leverages the bank's bullion vaulting capabilities with its lending business.**

Overall, structured and wealth-oriented products broaden the customer base for bullion banks beyond just miners and wholesale traders. They bring in retail and private banking revenue, which can be more stable. For instance, during times when trading might be slow, the ongoing fees from structured products and storage for private clients provide steady income. They also often carry lower regulatory capital requirements (a gold-linked note held by a client doesn't sit on the bank's balance sheet like an inventory position would). In Table 1 **(Page 34)**, banks like UBS and HSBC score *"High"* in this segment because of their large wealth management operations offering such products. JP Morgan and Citi might be *"Medium"* – they have some structured offerings (JPMorgan issues structured notes through its investment bank; Citi does commodity-linked deposits in Asia), but their focus is more institutional. **Chinese banks (ICBC, Bank of China) also would rank high domestically, as they actively sell gold savings and structured deposits to retail customers, which has become a popular market in China**.

Chapter IX - Refining and Logistics

Overview: Some **bullion banks extend their activities to the upstream and downstream edges of the precious metals supply chain – namely, refining and physical logistics**. While banks typically do not themselves operate refineries (which is a very specialized industrial business), **a few have strategic partnerships or equity stakes in refining firms. For example, Commerzbank had owned shares of Argor- Heraeus, a major Swiss precious metals refinery.** This kind of stake can give the bank insight into production and flows, as well as a share of refining profits. **In terms of logistics, bullion banks arrange the transportation of bullion internationally: they hire armored carriers, book air shipments for gold, and manage the chain of custody and insurance.** Logistics goes hand-in-hand with trading; when a price disparity makes it profitable to move gold from one region to another, bullion banks orchestrate that move.

Revenue Opportunities: Refining involvement can yield profit share or trading advantage. If a bank has a stake in a refinery, it may earn dividends from that refinery's earnings (refining margins can fluctuate, but in busy times refineries can be quite profitable, e.g., during 2020 when demand for recasting bars soared). **More indirectly, banks secure a reliable outlet for doré (unrefined gold from mines) and scrap, which they might purchase and send to the refinery. They could potentially earn a small margin on facilitating those transactions or by securing volume discounts on refining fees that they don't fully pass to the client.**

However, the more significant revenue related to this segment comes from logistics and distribution.

Bullion banks charge fees for transporting metals or for swapping metal locations. For instance, if a client needs gold in New York that the bank holds in London, the bank can charge a fee to arrange a location swap (exchanging gold with a counterpart who has New York gold). or to physically ship the gold. During normal times, these fees (and the associated insurance, handling costs) are fairly routine. But during extraordinary market conditions, they can balloon – and banks can even profit from the situation.

A case study: in 2020, when the pandemic grounded flights, it became difficult to move gold from London to New York, yet New York futures were trading at a sharp premium to London spot prices. Bullion banks scrambled to deliver gold against New York contracts, even charting cargo flights for metal, incurring high costs but also benefiting from the price arbitrage. Fast forward to early 2025, a similar scenario played out in anticipation of tariffs: New York gold futures rose to record highs around $2,900/oz, about $20/oz above London prices. In response, multiple banks – JP Morgan, HSBC, and others, with Citi joining – literally flew gold bars from London to New York to take advantage of the price gap. **They even had to manage logistical challenges like the COMEX bar size difference (100 oz bars) by sending metal to Swiss refineries for recasting from London's 400 oz standard.**

Despite the costs of transport and recasting, the price premium (and avoidance of potential tariff losses) made it profitable. JPMorgan indicated plans to deliver $4 billion worth of gold in one month (February 2025) to New York. Such massive physical moves underscore how bullion banks use logistics as a profit center: the banks will earn the price spread (or save on a short position loss) minus the logistics cost, effectively monetizing their supply chain capability.

In more everyday terms, bullion banks also earn through providing metal to where it's needed in a timely fashion. **Banks like HSBC, Standard Chartered, and ANZ have been key in importing gold into China under its quota system. They obtain import licenses and can capture the Chinese domestic premium (Chinese gold often trades above international prices due to import limits). Similarly, banks deliver kilo-bars to India, earning a premium during festivals when gold demand spikes. By managing the pipeline from Swiss refiners (which produce the kilo-bars) to Mumbai or Shanghai, banks command a slice of that regional premium as revenue.**

Banks also maintain consignment stocks in hubs like Dubai, Istanbul, or Bangkok, where they provide metal on demand to local jewelry and manufacturing clients. These clients pay a small fee or interest for having metal readily available (as mentioned in the financing section). The revenue here overlaps with financing, but it's very much a logistics service – the bank ensures physical metal is nearby and in the right form (e.g., 1kg bars, or 1oz coins) and charges for that convenience.

Lastly, involvement in refining (via partnerships) can occasionally provide trading insights that lead to profit. **If a bank knows a refinery's output schedule, it might pre-sell that metal forward at attractive prices, locking a margin if they expect the price to drop or if they got a favorable rate from the miner supplying the doré.** Some banks historically also provided financing to refineries, which comes with interest revenue and often an agreement that the bank markets the refined output.

In summary, refining and logistics are enabling segments that allow bullion banks to capitalize on global supply-demand imbalances. The direct revenues (fees for shipping, etc.) are complemented by indirect gains (making trading arbitrages possible, securing client relationships). **Not all**

bullion banks invest heavily here – it tends to be those with a tradition in the physical trade (HSBC, JPM, Standard Chartered, UBS, Commerzbank, ANZ, etc.). Table 1 (Page 34) reflects that, marking these banks with higher involvement. For instance, Commerzbank (through Argor) and JP Morgan (through its large-scale shipments and London vault network) are noted in this category, while a firm like Morgan Stanley (which is more financial and does not operate vaults or have import operations) would be low in this segment.

TABLE 1 - Revenue Profiles of Major Bullion Banks by Business Line

The following table provides a comparative overview of how major bullion banks participate in each revenue segment of the precious metals business. **Table 1** qualitatively ranks each bank's involvement or emphasis (High, Medium, or Low) in the key business lines mentioned earlier, and highlights notable revenue-related facts for each bank.

Bullion Bank	Trading (Prop & Client)	Market Making & Liquidity	Custody & Storage	Leasing & Financing	Derivatives & Hedging	Clearing & Settlement
JP Morgan Chase	**High** – Top global trader; record ~$1B metals revenue in 2020[23]. Q1'25 arbitrage leader[24]	**High** – Key market maker; participant in price benchmarks; large volumes with hedge funds[25]	**High** – Major vaults in London/ NY; new GLD co-custodian (~$50B bullion)[26]. opened new silver vault due to ETF demand [27]	**Medium** – Active in gold carry trades and miner financing; lends metal to ETFs and mines[28]	**High** – Offers forwards/ options; big COMEX presence (delivered 67t in Q1'25)[29]; structures notes via investment bank.	**High** – LPMCL clearing member[30]. plans to deliver $4B gold in Feb '25 via clearing[31]

[23] https://www.reuters.com/business/top-banks-2020-commodities-revenue-soars-85-consultancy-coalition-2021-03-05/#:~:text=One%20of%20the%20banks%20that,103
[24] Behind the US's "Siphoning" of Global Gold: Wall Street's Big Banks Are Making a Fortune... | SMM
[25] JPMorgan Joins HSBC as Vault Custodian for Top Gold ETF
[26] JPMorgan Joins HSBC as Vault Custodian for Top Gold ETF
[27] JPMorgan Joins HSBC as Vault Custodian for Top Gold ETF
[28] Learn About Gold & Silver Bullion Banking
[29] Behind the US's "Siphoning" of Global Gold: Wall Street's Big Banks Are Making a Fortune... | SMM
[30] Learn About Gold & Silver Bullion Banking
[31] Banks like JPMorgan and HSBC are flying gold worth billions from London to New York. Here's why - Hindustan Times

HSBC	**High** – Longstanding top bullion dealer; strong Asia client flow; boosted trading in volatile markets	**High** – Core London market maker; was sole Gold Fix/auction participant historically; serves many central bank trades.	**High** – Custodian for ~910 tonnes in GLD (pre-2023), primary custodian for multiple ETFs; large London vault.	**High** – Major lender of gold (central bank agent) and importer[32], (China license; provides metal loans to fabricators.	**Medium** – Provides hedging to miners (one of largest hedge books in 1990s); offers retail gold savings in some markets.	**High** – LPMCL clearing member; runs metal payments through "unallocated" System; COMEX depository with storage fee schedule[33]
Standard Chartered	**Medium** – Active in Emerging market bullion trading (India, Middle East); not top-tier global volume, but niche strengths.	**Medium** – Provides liquidity in Asian hours; market maker in Shanghai and London OTC, though smaller than JPM/HSBC.	**Low/Med** – Does not operate its own major vault in London; some storage in Singapore; focuses more on transit rather than storage fees.	**High** – Focus on trade finance: gold loans to Asian jewellers, structured mine finance; historically supplied gold to India	**Medium** – Offers hedging services to producers in Asia/ Africa; can arrange Shariahcompliant gold contracts for Islamic markets.	**Medium** – Not an LPMCL clearer (relies on correspondents); but clears through partnerships; strong regional settlement capabilities (e.g. Dubai).

32 https://www.bullionstar.com/gold-university/bullion-banking-mechanics

33 https://www.ice.com/publicdocs/futures_us_reports/precious_metals/Precious_%20Metals_Vault_fees%20March_27_%202015.pdf#:~:text=Fees,Tordella%20%26%20Brookes%2C%20Inc

UBS	**High** – Historically a powerhouse in gold trading (Swiss bank legacy); still large volumes, especially with European private clients and ETFs.	**High** – Major market maker, especially in Zurich and London; provides continuous liquidity (UBS was a past Gold Fix member and current auction participant).	**Medium** – Runs vaults in Switzerland for wealth clients; not a primary ETF custodian globally, but significant allocated storage for HNW individuals.	**Medium** – Some gold lending to Swiss manufacturers (watch/ jewellery); financed mining in Africa via legacy Barclays book acquired (if any).	**High**- Strong in structured notes and swaps; UBS Wealth Mgmt actively structures notes linked to gold[34]; robust options trading desk.	**High** – LPMCL clearing member; clears significant OTC volume and Swiss deliveries; not a COMEX clearer (uses others).
ICBC Standard	**Medium** – Growing trading presence (Chinese backed); arbitrages between London and Shanghai; acquired	**High** – One of only five London Clearers, implies market making in London OTC; provides liquidity to	**Medium** – Owns a large London vault (bought from Barclays, ~2,000 tonne capacity);	**Medium** – Possibly facilitates PBoC and Chinese state entity gold loans/swaps; engages in financing	**Medium** – Offers basic forwards/ swaps to mining and refinery clients (inherited business from Standard Bank); not known for complex structures	**High** – LPMCL clearing member (took Barclays' slot); critical in London settlements with Chinese counterparties;

[34] https://www.ubs.com/ch/en/services/investments/products/structured-products.html#:~:text=Structured%20products%3A%20the%20right%20solution,situation%20and%20any%20investor%27s%20expectations

	Standard Bank's trading book.	Chinese banks/users via London.	stores metal for Chinese clients and as part of clearing – some fee income.	African mining deals via Standard Bank legacy.	for investors.	can settle trades in RMB gold contracts.
Citigroup	**Medium** – Active in derivatives trading of precious metals; not traditionally a big physical trader, but does arbitrage and prop positions among Coalition top 12 banks.	**Medium** – Provides liquidity to institutional clients; not a primary market maker on fix, but does make two-way markets for corporate customers.	**Low** – No known large vault operations; uses thirdparty vaults for any client metal; minimal direct custody (thus minimal storage fees).	**Medium** – Engages in producer financing selectively; e.g., structured pre-pays for miners in LatAm; participates in syndicated metal loans occasionally.	**High**- Strong commodity derivatives desk; Citi is known for commodity index products and hedging solutions for corporate clients (metals included).	**Medium** – Not an LPMCL clearer; likely uses HSBC/JP Morgan for London settlement; is COMEX clearing member for its futures clients.
Others: Morgan Stanley, Goldman	Morgan Stanley: **High** in trading (notably	Morgan Stanley: **Medium** (not	Morgan Stanley: **Low** (no vault business);	Morgan Stanley: **Low** (focus on paper trading,	Morgan Stanley: **High** (strong in commodity swaps/	Morgan Stanley: **Medium** (clears own trades via

Sachs, Bank of America, Scotia (historical), ANZ, BoC	profited in 2025 tariff arbitrage, delivered 67t[35]; Goldman: **High** in trading (historically dominant in commodities, though scaled back physical); BofA: **Medium-High** (active in derivatives, ranked by Coalition); Scotiabank: Historically high until 2010s (Scotia's metals unit earned	a traditional market maker in fix, but provides liquidity to institutional clients); Goldman: **Medium** - **High** (does market make via its trading desk, though less vault presence); BofA: **Medium** (deals for hedge funds and ETFs); Scotia: was **High** (had fix seats)	Goldman: **Low** (no public vault service); BofA: **Low**; Scotia: **High** (had vaults in Toronto, NY, etc., and stored for clients); ANZ: **Low**; BoC: **Medium** (as China's big bank, holds gold domestically, some custody for Silk Road initiatives).	not financing mines); Goldman: **Low** (exited most commodity financing post-Volcker); BofA: **Medium** (has some mining finance deals); Scotia: **High** (core business was gold loans to miners and jewellers); ANZ: **Medium** (finances Australasian producers, exports); BoC: **High** (facilitates gold leasing	options for investors); Goldman: **High** (innovative structures for clients, e.g., calls, swaps, indices); BofA: **High** (one of top derivative dealers per Coalition); Scotia: **Medium** (provided forwards to miners, less on retail side); ANZ: **Low-Med** (focus on forwards for local producers); BoC: **Medium** (offers basic derivatives to Chinese corporates).	others; COMEX member); Goldman: **Medium** (clearing member, but not LPMCL member after 2014); BofA: **Medium** (COMEX clearer, not LBMA clearing member); Scotia: **was High** (LPMCL member, major clearer) before exit; ANZ: **Low** (uses others to clear London trades); BoC: **Low** internationally, **High** domestically (clears on SGE).

[35] Behind the US's "Siphoning" of Global Gold: Wall Street's Big Banks Are Making a Fortune... | SMM

	C$98M in one quarter 2014 now exited; ANZ: **Medium** (focus on Asia-Pacific physical trade). Bank of China: **Medium** (trades on SGE and international, growing presence).	before exit; ANZ: **Medium** (market maker in Shanghai, smaller global role); BoC: **Medium** (market maker in China, participates in SGE auctions).		on SGE, lends to local jewellers).		

Table 1: Key Revenue-Generating Segments by Bullion Bank. *"High/Medium/Low" indicate the bank's relative involvement or strength in that segment. Notable revenue-related data points are provided for illustration. (Scotiabank exited most bullion business by 2020, but historical context is given.)*

Conclusion

Global bullion banks generate revenue through a diverse ecosystem of activities in the precious metals market. **Proprietary and client trading – augmented by market-making – is the primary engine, delivering the majority of profits via capitalizing on price movements and arbitrage opportunities**. **Around this core are layered various fee-earning services: secure storage of metal (earning reliable fees, typically ~10% of profits), leasing and financing deals (earning interest spreads and enabling the supply chain for jewellers and miners), and providing tailored hedging instruments (earning premiums and spreads on forwards, options, and structured products).** Bullion banks also monetize their pivotal role in the market's infrastructure – operating clearing systems and vault networks that underpin global trade – by charging for settlement services and leveraging their logistical capabilities to unlock geographically fragmented markets.

The revenue opportunities in bullion banking are truly global. We see New York and London trading desks reaping windfalls when market dislocations occur, as in 2020 and 2025. We may foresee banks in London and Zurich earning steady fees from holding gold for the world's ETFs and central banks. We may see Asian-focused banks (specifically Chinese banks), financing the movement of gold into the hands of consumers in Shanghai, Mumbai, and Dubai – earning a slice of regional price premiums and interest on consigned metals. We see integrated financial institutions using gold to enrich their product offerings to investors, whether through a gold-backed loan to a millionaire or a structured deposit to a retail saver.

Financial performance by segment can vary year by year with market conditions. Trading revenues are cyclical and can spike in extraordinary times **(e.g., $500 million collectively in Q1 2025 for top banks)**, whereas storage and clearing fees are more stable and volume-driven. Over the long run, the bullion banking model has proven profitable and resilient, which is why major banks remain committed to it.

Even banks that retrenched from broad commodities trading (due to regulatory changes) often retained their precious metals business – recognizing it as a distinct and important revenue source closely tied to serving clients (e.g., miners, central banks, and investors) and to the bank's role in the global financial system.

For our policymakers and the Indian banking industry, understanding these revenue dynamics is useful for several reasons. First, it highlights that bullion banks have incentives to provide liquidity and stability to the market (since that's how they earn money) – meaning policies that support transparent, efficient markets can align with banks' business interests. Second, it shows that bullion banking is an interconnected web: a change in one area (say, a new tariff or a mining disruption) can ripple through trading, logistics, and financing revenues globally. Finally, recognizing that a handful of banks dominate multiple segments (trading, vaulting, clearing) underscores the importance of prudent oversight to ensure these critical services remain robust. While this paper did not delve into regulatory or risk considerations, the revenue analysis implicitly reveals where concentrations and dependencies lie **(for instance, the London clearing system's reliance on five banks , or the ETF custody world's reliance on two big banks**[36].

[36] https://www.wealthmanagement.com/etfs/jpmorgan-joins-hsbc-as-vault-custodian-for-top-gold-etf#:~:text=Previously%20HSBC%20Holdings%20Plc%20had,responsibility%20for%20holding%20the%20bullion

In conclusion, the precious metals business offers multifaceted revenue streams for global banks, from high-octane trading profits to steady fee income. **Banks like JP Morgan and HSBC exemplify this by "spanning everything from trading futures with hedge funds to sending physical gold across the globe"**. The competitiveness and innovation in this sector – such as developing new structured products or finding new arbitrage routes – continue to evolve, ensuring that bullion banking remains a dynamic contributor to financial performance. As long as gold and other metals retain their economic and financial importance, bullion banks will play a key role and find diverse ways to generate revenue by meeting the needs of the market.

If **Indian banks** do not proactively expand their presence across the bullion value chain, they risk becoming mere bystanders in the evolving global gold economy. At present, many **Indian banks operate predominantly under the consignment model, limiting their role to that of facilitators for physical gold imports without developing deeper capabilities in trading, market making, structured products, leasing, custody, or clearing infrastructure.**

This narrow approach contrasts sharply with global bullion banks that have built diversified, integrated businesses around precious metals, capturing value from both physical and financial markets. **Indian banks must recognize that bullion banking is no longer a niche; it is a strategic revenue and influence channel, especially as India remains one of the world's largest gold-consuming markets.**

To remain relevant and competitive, Indian banks must augment their institutional capacity, including:

- Establishing bullion trading and hedging desks,

- Participating as market makers in domestic and international bullion exchanges (including the India International Bullion Exchange i.e., IIBX),
- Building or co-owning vaulting and clearing infrastructure,
- Providing financing and leasing to the jewellery and refining sectors, and
- Developing structured products and wealth management offerings linked to precious metals.

This transformation will not only enable Indian banks to diversify revenue streams but also ensure that India’s financial institutions actively shape and benefit from the future of global bullion flows, rather than remain passive conduits. A deliberate policy push, institutional investment, and strategic vision are critical if Indian banks are to seize their rightful place in the bullion banking landscape.

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