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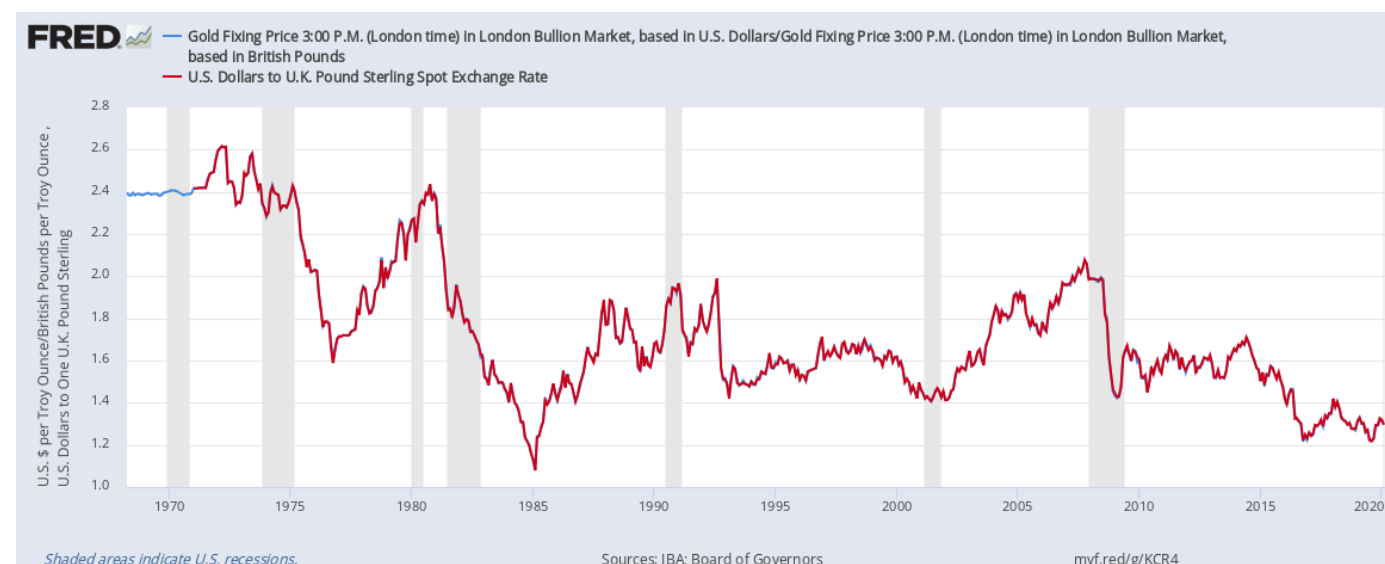
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Currency arbitrage in the precious metals market: A gold rush?



Posted on February 20, 2020





CPI +3.2 % Chg. from Yr.
Ago on Feb 2024

Civ. Unemploy. Rate 3.9 % on Feb 2024

10-Yr. Treas. Rate 4.22 % on 2024-03-22

Real GDP +3.2 %, Comp.
Annual Rate of Chg.
on Q4 2023

IP +0.1 % Chg.
on Feb 2024

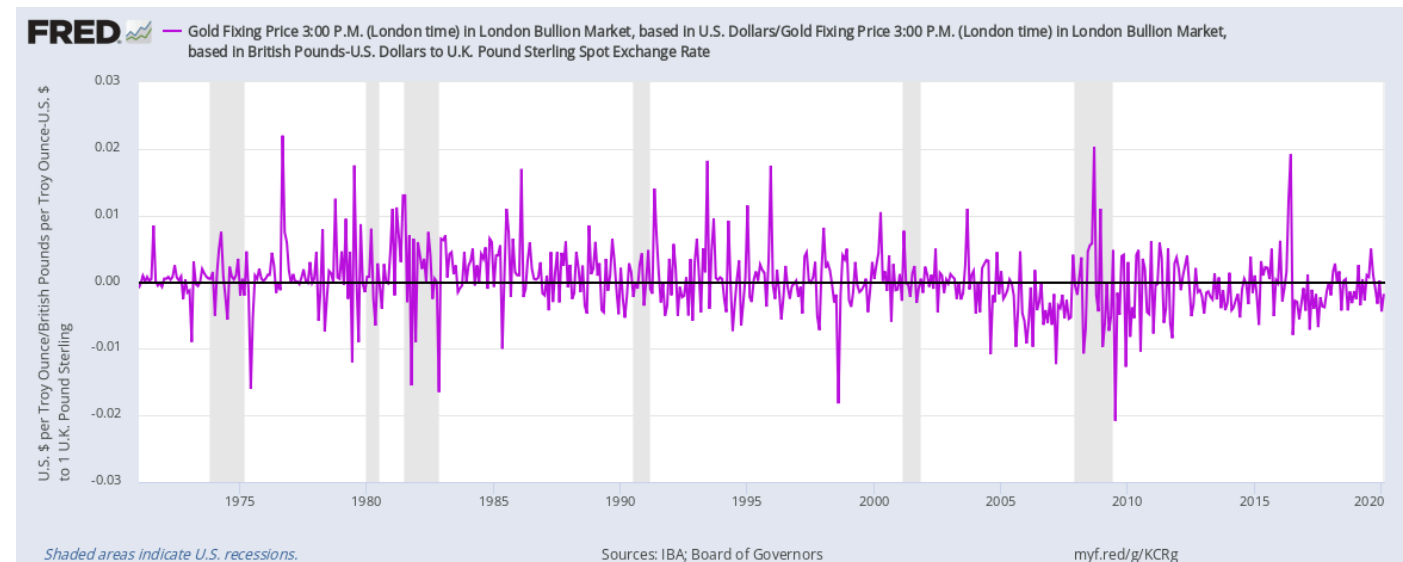
Payroll Employment +275 Chg., Thous. of
Persons on Feb 2024

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FRED's as good as gold, and the FRED Blog has used [London Bullion Market Association](#) data to prove it. In fact, our previous post tracks gold prices and appraises the [new gold bar](#) at the St. Louis Fed. Now these gold prices are quoted in three different currencies—U.S. dollars, British pounds, and euros—which is a golden opportunity to discuss arbitrage. Arbitrage is the risk-free purchase and sale of an asset to profit from a difference in price across markets. Because the gold fixing price is quoted in three different currencies at once, it's possible that one could make a profit by buying and selling gold in different currencies and then selling the currencies. For example: buy gold in U.S. dollars, sell the gold right away in British pounds, and then convert the pounds back to dollars in the foreign exchange market. FRED can help us visualize this shiny concept: In the graph above, we show the ratio of the gold fixing price in U.S. dollars to the gold fixing price in British pounds. Then we graph the exchange rate between the U.S. dollar and the British pound. The two lines seem identical, so there's no *obvious* arbitrage opportunity here. But let's dig deeper by building another FRED graph to show the difference between the U.S. dollar/British pound gold fixing price ratio and the exchange rate between the two currencies. If there really is no arbitrage opportunity, the graph should show a flat horizontal line at the zero mark.



This doesn't look like a flat line, so did we find treasure?! Sadly, no. The graph shows differences in gold fixing prices between currencies, but they are extremely small and volatile. So small they'd likely be wiped out by transaction costs, such as brokerage fees in the precious metals and/or foreign currency markets. Rather than a gold *mine*, we seem to have found just some gold *dust*. **How these graphs were created:** NOTE: Data series used in these graphs have been removed from the FRED database, so the instructions for creating the graphs are no longer valid. The graphs were also changed to static images. Suggested by [Diego Mendez-Carbajo](#). View on FRED, series used in this post: [DEXUSUK](#), [GOLDPMGBD228NLBM](#), [GOLDPMGBD229NLBM](#)