

Metal Trading at the London Metal Exchange



LONDON METAL EXCHANGE

THE WORLD CENTRE FOR NON-FERROUS METAL TRADING

The London Metal Exchange (LME)

- One of the leading international commodity exchanges.
- Accounts for about 95% of global exchange business for the metals it trades. (Base Metals)

| | |
|-------------------|------------|
| Copper | \$3957/MT |
| Primary Aluminium | \$1935/MT |
| Lead | \$964/MT |
| Zinc | \$1494/MT |
| Nickel | \$12725/MT |
| Tin | \$6580/MT |
| Aluminium Alloy | \$1655/MT |

The History of LME

- The origin of LME can be traced back to the opening of the Royal Exchange in 1571.
- “The Jerusalem Coffee House of Cornhill”



- The Industrial Revolution: the U.K. needed to import large tonnages of metal => the start of the LME futures market.

Trading at LME

Currently three different ways to trade on the LME:

- Open outcry market – “Ring Trading”
- Telephone market
- LME Screen Trading System – “LME Select”

The LME Ring



Market Terms

- **Buy/Sell**

- **Warrants**

Bearer documents of title, each warrant entitles to take position of one lot of metal at a specific LME warehouse.

- **Lot**

The minimum amount of a commodity in which one may deal on a futures market.

| | |
|-------------------------------|------------------|
| Copper, Aluminium, Lead, Zinc | 25 metric tonnes |
| Aluminium Alloy | 20 metric tonnes |
| Nickel | 6 metric tonnes |
| Tin | 5 metric tonnes |

Market Terms

- **The second ring**

Takes place during 13.30-1400 CET. Five minutes trading sessions for each metal, starting with copper.

- **Settlement price**

The last unfulfilled offer to sell cash at close of the second ring (cash seller). The settlement price is the accepted cash reference price for the metal for the succeeding 24-hours.

Market Terms

- **Prompt date**

The date on which the metal has to be delivered to fulfil the contract terms.

Cash date

"t+2" system

Trading day

Monday
Tuesday
Wednesday
Thursday
Friday

Prompt/cash date

Wednesday
Thursday
Friday
Monday
Tuesday

Market Terms

- **Future trading dates:**

- **3 Month date**

The reference price for all metals traded at the LME.

- **Weekly date**

Every Wednesday

- **Monthly date**

The 3rd Wednesday in every month

- **E.g. Copper trading**

Cash-3M

3M-6M

6M-63M

Daily trading dates

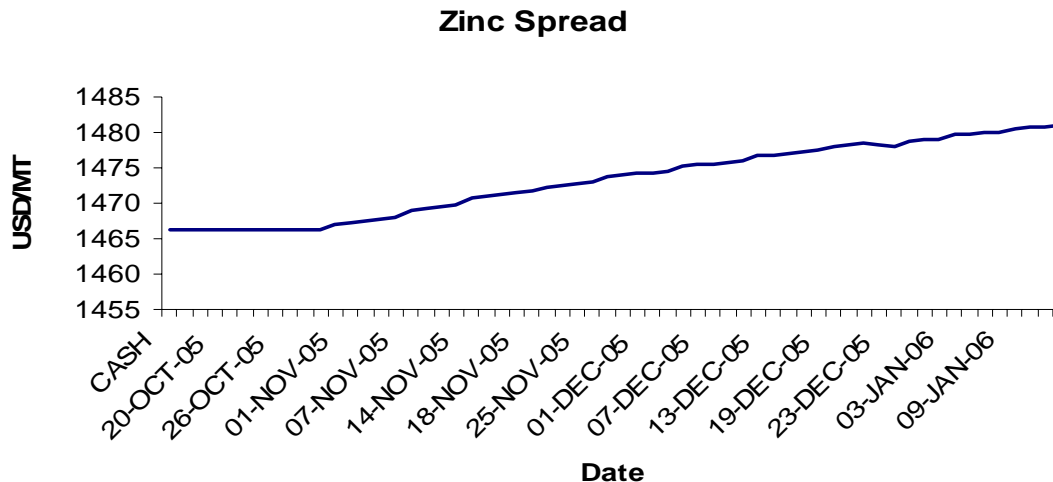
Weekly trading

Monthly trading

Market Terms

Forward price spreads: **Contango**

- The situation when the price of the metal for future delivery is greater than the cash price of the metal.
- “Normal” market conditions.
- The size of the contango is a function of the cost of storing, financing and insuring the metal over the future delivery period.

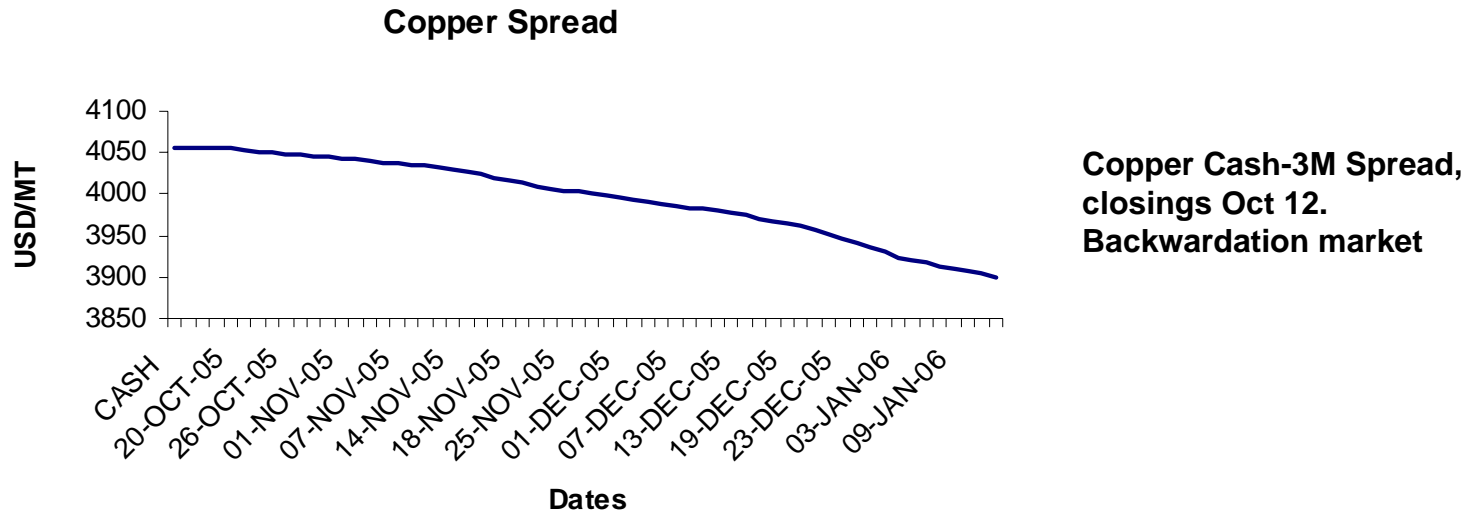


Zinc Cash-3M Spread,
closings Oct 12.
Contango market

Market Terms

Forward price spreads: **Backwardation**

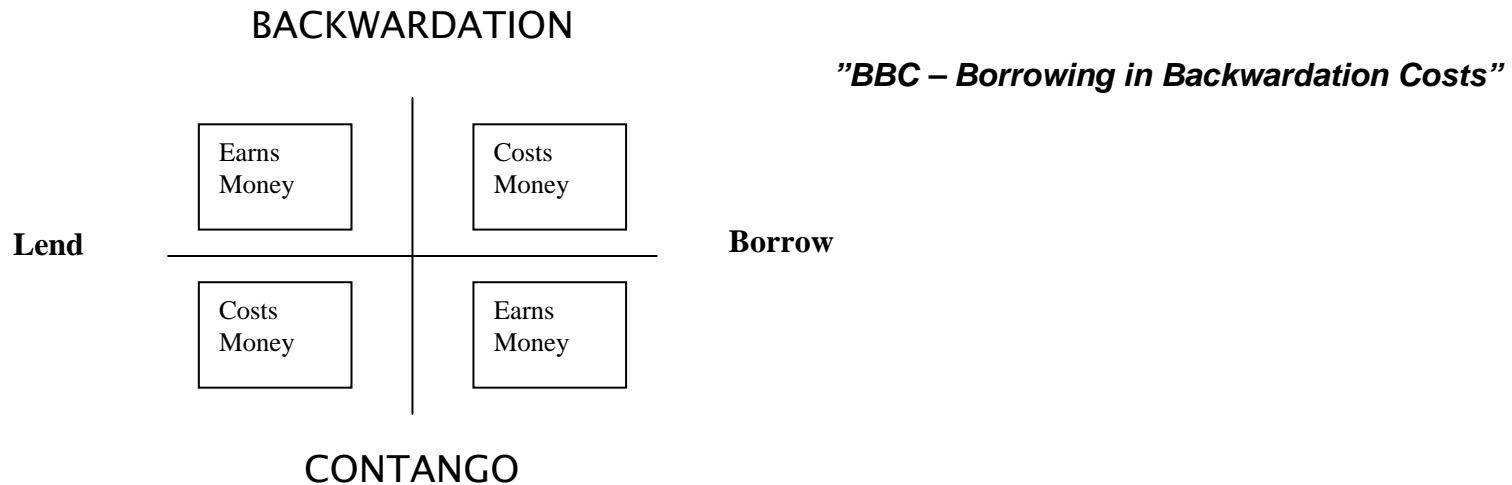
- The situation when the price of the metal for future delivery is lower than the cash price of the metal.
- Reflects a tight market.
- “No limits” in size, determined by supply/demand factors.



Market Terms

Carries: Lending and Borrowing

- Lending
“Lending metal to the market”, i.e. sell cash and buy forward.
- Borrowing
“Borrowing metal from the market”, i.e. buy cash and sell forward.



Market Terms - summary

Trading date: October 17
Cash date: October 19 (3rd Wednesday)
Long position: 100 tonnes Cu on October 19

Want to sell 100 tonnes on October 19 and buy 100 tonnes on November 16.



Lend 4 lots cash to November.

The Copper Market

