



# THE LONDON METAL EXCHANGE 2019

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The London Metal Market and Exchange Company was founded in 1877, although its origins can be traced back to the opening of the Royal Exchange in London in 1571.

At the Royal Exchange traders dealt in metals and other commodities for the domestic market.

During the 19th century the Royal Exchange became so overcrowded that business had become virtually impossible and traders were forced to relocate to nearby city coffee houses, where the tradition of Ring Trading was born. A merchant with metal to sell would draw a circle in the sawdust or with chalk on the floor and anyone wishing to trade would assemble around the circle. As the coffee houses closed at the end of each day traders who wished to continue trading were forced out onto the street and trade on the kerb, hence “Kerb trading” was formed.

The UK began importing large amounts of metal ore from many overseas countries during the industrial revolution. As technology advanced with the invention of telegraph and steam shipping the unpredictability of freight was reduced and allowed traders to use a forward delivery date and gain protection from potentially volatile metal prices.

The first premises of the London Metals and Mining Company was above a hat shop in Lombard Court. With further advances in technology the membership grew rapidly, to over 300 members, resulting in a permanent Exchange being built in Whittington Avenue where it remained for 98 years.

The Exchange relocated to Plantation House for 14 years, then to Leadenhall Street in 1994 before moving to its current home in Finsbury Square in 2016.

## The LME Today

The London Metal Exchange is the world's largest market for base metal futures and options contracts. It offers the ability to hedge, worldwide reference pricing, and the option of physical delivery to settle contracts.

These contracts are offered with daily prompt dates of up to 3 months from trade date, weekly contracts to six months, and monthly contracts up to 123 months in the following products:

Aluminium, Aluminium Alloy, NASAAC (North American Special Aluminium Alloy), Cobalt, Copper, Lead, Molybdenum, Nickel, Steel, Tin and Zinc

Open-outcry is the oldest and most transparent way of trading on the exchange, the last of its kind in Europe. It is central to the process of price discovery, and the way LME official prices are established. Prices are derived from the most liquid periods of trading; the short open-outcry ring trading sessions, are most representative of industry supply and demand.

Ring trading commences at 11.40 and concludes at 5pm

The Official Price is based on the last bid and offer made in the second morning Ring, and is used by the industry when entering into physical contracts.

The Unofficial Price is based on the last bid and offer made in the fourth ring, which takes place in the afternoon. As it reflects afternoon trading, it can be used as a reference for other time zones. It is the historic pricing convention for concentrate contracts.

LME Closing Prices, also known as the Evening Evaluations, are determined by the Pricing Committee across all prompt dates using trades, bids and offers (including indicative trades) transacted throughout the day. Closing Prices are used by LME Clear and LME members to calculate margins.

Our ring team comprises of 14 market professionals providing liquidity and acting as market makers to every level of client. We also provide direct access to the market with real time data from the ring.

- 5 Traders – providing live and indicative quotes and managing risk for our company and our clients.
- 6 Account Executives – ensuring our customers, offices and strategic partners are kept up to date with live commentaries and facilitating orders
- 3 Clerks - aiding all administrative duties

## Category 1 Benefits

- Real time execution and commentary
- Ability to execute large orders efficiently
- Multilateral crossing
- Transparency
- Discretion

### Hand Signals

On the floor we use hand signals to assist with market commentaries:

- A hand pointed towards the ceiling represents a bid
- To the floor represents an offer
- And trading is signalled horizontally

An LME warrant is the bearer document for one lot of metal held in an LME-approved warehouse. A futures position left open until the prompt date, must be settled by the provision or receipt of an LME warrant. Paper warrants as bearer documents are held in a centralized depository but ownership is transferred electronically via LMEsword.

At contract settlement, LMEsword allocates warrants per metal at random, so the buyer dictates neither the location nor the particular brand or shape.

As the LME's warehouse network is global, this random allocation means that traded prices are an accurate representation of the global price.

Any metal that meets the appropriate standards can be “put on warrant” through storage in an LME approved warehouse and registered on LMEsword. It can then be used to settle an LME contract.

The LME has a network of more than 550 approved warehouses in 34 locations. These warehouses are used to store LME approved brands of metal, which themselves are used as the underlying assets for physically-settled contracts traded on the Exchange.

# Premiums

Warrants are randomly allocated from seller to buyer through LMEsword. The metal price traded on the LME is a global price. However, because certain regions have tighter supply demand balances than others, and transportation from one region to another has costs, metal from a specified delivery destination might come at a premium or discount to the LME price.

From our inventory, customer base or the wider market we can source specific LME warrants by either:

- Producer
- Shape
- Brand
- Location
- Warehouse Company
- Purity
- Year of Production

**THANK YOU**