The LME from A to Z

(A glossary of London Metal Exchange terms)

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The London Metal Exchange (LME) is the world centre for the trading of industrial metals. Most of the world's non-ferrous metals business is transacted on our markets. The LME brings together participants from the physical industry, the financial community and its own members to create a vital, robust and regulated market where there is always a buyer or seller, where there is always a price and where there is always the opportunity to transfer or take on risk – 24 hours a day.

This guide provides an explanation of terminology used in both the physical and futures markets for producers and consumers of metal.

A

abandon
To allow an option to expire without exercising it.

actuals
Trades that result in the delivery of the commodity, i.e., not hedging, speculation or arbitrage. This term is used more in the United States. On the LME, the term 'physical' trade is more commonly used.

American-style option
An option which may be exercised on any day up until expiration.

approved warehouse
Any warehouse approved by the LME, for the delivery, storage and collection of LME-branded metals traded on the Exchange.

arbitrage
The purchase/sale of a contract on a market and the simultaneous taking of an equal and opposite position, usually on another market, to profit from discrepancies in the price and/or currencies involved.

A

Asian-style option

An option exercised at the average underlying price over the period of its expiry (LME Traded Average Price Options contracts are called TAPOs).

ask

The quoted market selling price. *See also 'offer' with which this term is interchangeable.*

assay

An independent qualitative and quantitative evaluation of the chemical elements contained in metals. LME contract specifications define the required purity and minimum assay that registered brands must meet.

assignment

Notification from LME Clear to the options writer that their position has been exercised.

at-the-money

The state of an option where the strike price is the same as or near to that of the current market price of the underlying futures contract.

audit trail

The record of trading information identifying the participating members, the clearing members, the terms and the time of the trade and, when applicable, the customers involved.

B

backwardation Market situation when the price for nearby maturity is higher than the price for longer dated maturities.

base metal A common non-precious metal, including non-ferrous metals.

basis price The underlying price on which a carry (also known as a 'calendar spread') is based – normally the front leg.

bear One who anticipates a decline in prices.

bear market A market in which prices are declining.

bear spread The simultaneous purchase and sale of two contracts of the same metal with the intention of profiting from a decline in prices whilst also limiting a potential loss, e.g., selling a nearby delivery and buying a deferred delivery. *See also 'lending'.*

bid The quoted market buying price.

Black-Scholes model An option pricing model devised by US mathematicians Fischer Black and Myron Scholes in 1973. Inputs of this include; volatility, underlying price, strike price, interest rates and time to expiry. Most LME traders use a version of the Black'76 model, adapted for LME contracts.

B

borrowing

One form of carry. In this case the simultaneous buying of metal for a near-dated prompt and the selling of that metal for a later-dated prompt. In effect, the party is borrowing the metal for the period.

brand

All metal delivered into LME-approved storage facilities must be an LME-approved brand which conforms to specifications on quality, shape and weight.

broker

In the context of the LME, a person or company that buys from or sells to customers. On the LME a broker acts as a principal to the contracts with customers carrying imbalances of trades in a house book, which they may offset with other brokers.

bull

One who anticipates a rise in prices.

bull market

A market in which prices are rising.

business day

Any day except; a Saturday, Sunday or any public (or bank) holiday in England.

C

C & F

Cost and freight, whereby the quoted price for physical material includes all costs incurred in shipping the metal to the customer's location but not including insurance.

CCP

Central counterparty (CCP), defined under the European Market Infrastructure Regulation (EMIR) as being an entity that interposes itself between the counterparties to the contracts traded on one or more financial markets, becoming the buyer to every seller and the seller to every buyer.

call option

A contract that gives the holder the right, but not the obligation, to buy metal futures at a set price (the strike price) on a given date (the exipry date).

carry

The simultaneous purchase and sale of the same tonnage of the same metal for delivery on different dates. Often known as a 'calendar spread' in other commodity markets. *See 'borrowing' and 'lending'.*

cash price

The current price in the market for cash/spot contracts. LME cash contracts are for delivery two days forward from the trading day.

C

cathode

The negative pole in electrolysis. Cathodes deliverable on the LME are flat rectangular shapes that have been refined by electrolysis.

ceiling

A recognised high point in market prices. This may be a point the market does not expect the price to exceed, the highest price achieved before the market declines or a level set by a customer as a maximum price to be paid.

CIF

Cost, insurance and freight, whereby the quoted price for physical material includes all costs incurred in shipping the metal to the customer's location including insurance.

clearing

The process carried out by a CCP of, amongst other things, establishing positions, settling the obligations arising from those positions and ensuring that collateral is available to secure the settlement of such obligations.

clearing house

See 'CCP'.

client contract

A contract between a member and its customer and registered by LME Clear.

C

client cross

A trade between a member and their client which moves a position from the member's house account to the client account.

client account

An account in the books and records of LME Clear established to record the entitlements associated with client contracts registered by LME Clear.

close (out)

To undertake an opposite position in the same metal. I.e. if the initial transaction was a purchase, the closing out activity is to sell the same tonnage for the same prompt date.

closing prices

LME Closing Prices are determined for margining purposes at the close of business on each business day by the LME Quotations Committee. *See also 'Evening Evaluations'.*

combination

A mixture of contracts used to produce a hedging strategy, it may include both futures and options.

commission

Fee charged by a member for executing an order.

C

collateral

Either cash, securities, gold, warrants or other types of asset provided to LME Clear by one of its members to cover its margin requirements.

consumer hedge

The purchase of futures or call options, or both, as protection against a rise in raw material prices.

contango

Market situation when the price for nearby maturity is lower than the price for longer dated maturities.

contract specification

The detailed requirements (as per the LME Rules and Regulations) of futures and options contracts. Will typically include; lot and tick size, available prompt dates, trading and clearing currencies and, in the case of physically settled contracts, underlying metal quality, shape and deliverable brands.

custom smelter

A smelter that processes concentrates for customers rather than a feed from its own mining operation. For this service, treatment charges or tolling charges are received.

D

daily price limit — The maximum price increase/decrease, permitted from the previous day's settlement price. There are no such limits on the LME.

day order — A day order must be executed within the same trading day as the order is placed or it shall be cancelled.

declaration date — See '*expiry date*'.

deliverable grade — Grades of metal, which have been officially approved by the LME as deliverable in settlement of LME contracts.

delivery point — An approved location at which metal may be stored in order to fulfil delivery of LME contracts.

D

delta

The rate of change of the premium price of an option with respect to underlying price changes.

derivative

Any trading instrument which derives its value from an underlying asset – in the case of the LME, metal.

difference account

A customer statement showing matching purchases and sales adjusted by commission and exchange fees and showing the ultimate amount due to or from the member.

DPRS

Daily Position Reporting System through which member firms report all outstanding market positions to the LME so that the market may be properly regulated and Lending Rules enforced.

E

efficient market An academic term referring to a market in which information is immediately available to all users and where prices are truly reflective of the value of the thing being traded.

EFP Exchange of Futures for Physicals – the exchange between two parties of both physical and futures positions (also known as 'against actuals').

ETD Exchange Traded Derivative – standardised derivative contracts that are transacted on-exchange.

EMIR Regulation (EU) No 648/2012; the European Market Infrastructure Regulation which contains the key rules in respect of clearing that LME, LME Clear and their members must comply with.

European-style options An option that can only be exercised on its expiry date.

Evening Evaluations The prices determined for margining purposes as at the close of business on each business day by the LME Quotations Committee and confirmed by LME Clear. These are sometimes referred to as *'LME Closing Prices'.*

E

exchange contract A contract made between two clearing members, which has been matched and registered with LME Clear.

EOI Exchange Open Interest – a calculation by the LME produced to represent open exchange positions of LME clearing members for an individual metal.

exchange rate The price of one currency in relation to another.

exercise The process by which an option holder exercises their right to buy or sell the relevant futures contract.

exercise price (strike) The value of the underlying futures contract determined at the time of purchasing an option at which the option may be exercised.

exotic options A variety of options with non-standard pay out structures usually traded over-the-counter (OTC) and designed specifically for a user.

expiry date The date after which an option can no longer be exercised.

F

50 delta

An option where a $1 move in the underlying price results in a $0.5 move in the price of the option.

FAS/FOQ

Free alongside/free on quay – whereby the quoted price for physical material includes all costs incurred in getting the metal to the point of loading onto the means of transport.

fabricator

A company that processes refined (cathodes, ingots, billet etc.) or semi-fabricated (extrusions, sheet metal etc.) metal to produce products for sale to end consumers.

fair value

The theoretical price at which a financial instrument should trade.

FCA

The Financial Conduct Authority.

ferrous metals

Metals which contain iron.

floor

A recognised low point in market prices. This may be a point beyond which the market does not expect the price to fall, the lowest price achieved before the market rises, or a level set by a customer as a minimum selling price. Opposite to '*ceiling*'. May also refer to the trading floor, or 'Ring' of the LME.

F

FOB/FOT Free on board/free on truck – whereby the quoted price for physical material includes all costs incurred in getting the metal to and loaded onto the means of transport.

forward curve The curve made up of the different prices of contracts for different forward delivery dates.

forward month The designated month in which a futures contract expires.

fundamental analysis The study of the underlying physical factors that affect the supply and demand of metal.

futures contract An agreement to buy or sell a fixed amount of metal for delivery on a fixed future date at a price agreed today.

G

gamma

The rate of change of the option delta with respect to a change in the price of the underlying. *See also 'delta'.*

give-up

A series of trades by which a position moves from a client's executing broker to the relevant client account at that client's clearing member. *See also 'transfer'.*

grantor

The seller of an option contract, who in turn receives the option premium from the taker.

GTC

Good till cancelled – an order to buy or sell at a specified price, which is valid at any time during market hours until executed or the order is cancelled. *See also 'open order'.*

GROSA

Gross Omnibus Segregated Account (GROSA) An account provided by the CCP where each client's initial margin is calculated individually and covered by collateral at the CCP.

H

haircut A percentage reduction from market price of collateral put up for margining purposes with LME Clear to reflect potential future price movements in that collateral.

hedge Futures or options transactions entered into with the motivation of reducing risk.

hedger Person undertaking a hedge.

holder The buyer of an option, also referred to as the taker.

house account An account in the books and records of LME Clear designated for the member's own transactions.

I

initial margin The amount of collateral required to support the open positions held with the CCP.

ISA Individual Segregated Account (ISA) offered by LME Clear where a client's positions and assets can be segregated from the clearing member and all other clients of the clearing member.

integrated producer A producer who also owns the smelting and semi-fabricating facilities in a production chain.

interest yield In the context of the LME, interest yield refers to the profit earned by borrowing metal in a contango market, sometimes giving the user a greater return than is available from the current interest rate on money.

interest payable The amount of interest paid by LME Clear on cash held as collateral.

in-the-money A term used to describe an option contract where the underlying price is above the strike price in the case of a call, or below the strike price in the case of a put.

intrinsic value An element of an options premium. It is the amount by which an option is in-the-money.

K

kerb

A trading session when open outcry transactions occur freely outside of scheduled Ring times and when all or some of the LME metals can be traded simultaneously.

The LME offers three trading venues: the Ring, our open outcry trading floor; LMEselect, our electronic order book; and the 24-hour inter-office telephone market.

L

lending

One form of carry. In this case the simultaneous selling of metal for a near-dated prompt and the buying of that metal for a later-dated prompt. In effect the party is lending the metal for the period.

limit order

An order in which a customer stipulates the maximum/minimum price acceptable.

limit up/down

The maximum price increase/decrease from the previous closing price. There are no set limits on LME contracts, but under LME rules, limits can be imposed under certain circumstances.

liquid market

A market where selling/buying can be achieved readily.

L

LME Clear	A CCP (also known as a clearing house) for the LME.
LMEprecious	Gold and silver exchange-traded contracts offered by the LME with loco London delivery.
LMEmercury	The clearing system operated by LME Clear.
LMEselect	The LME's electronic trading platform.
LMEshield	The LME's central electronic register for the secure creation and transfer of off-warrant warehouse receipts.
LMEsmart	System through which member firms process and confirm trades conducted on the Exchange.
LMEsword	The LME's secure electronic transfer system for LME warrants, facilitating the transfer of ownership and stock reporting.
LMEwire	The system used to report derivatives transactions to a registered trade repository.

L

London agent An organisation appointed by each listed warehouse company to act on its behalf and create, update or cancel warrants in LMEsword.

long An open position for the purchase of metal.

lot A specified quantity of a single contractual unit (e.g., LME Copper 1 lot = 25 per tonne).

M

MASP Monthly Average Settlement Price. The average of the daily official settlement prices for the month.

margin The total collateral required by LME Clear to cover variation margin and initial margin on all open positions.

margin call A request by LME Clear to provide additional collateral to cover an increase in the amount of variation or initial margin on open positions.

mark to market The daily process of calculating the current value of an open contract.

market maker In LME terms, a member who is willing to quote both buying and selling prices to other members or clients.

M

market order An order to buy or sell without regard to a specific price. The member company will execute a market order at the best price available after receiving the order.

matching The process by which trades are input by two members who have made a trade with each other in order to confirm the trade.

matching period A specified period of time by which trades must be entered for matching after the trade is agreed.

maturity The date when a futures contract that has not been offset by an opposite position must be settled by delivery of physical metal.

merchant A dealer in physical metal who sources stocks and markets for customers but neither produces nor consumes metal for his own use.

M

MinMax

The use of both put and call options, one as a grantor and the other as a buyer, in order to obtain a flexible hedge within an upper and lower price range and at the same time to eliminate or reduce the net costs of premiums.

MIFID/MiFIR

Collectively Directive 2014/65/EU (MiFID) and Regulation (EU) No 600/2014 (MiFIR); Markets in Financial Instruments Directive (and Regulation); which contain the key rules in respect of trading that LME, LME Clear and their members must comply with..

MOC

Market-on-close – an order to be executed at the LME Closing Price. In some instances LME members may guarantee a client a fill at the LME Closing Price.

N

naked An options position in which the grantor does not have an offsetting futures or physical position.

nearby The nearest delivery date or month to 'cash'.

NOSA A Net Omnibus Segregated Account (NOSA) is an account provided by LME Clear to members to enable them to segregate client contracts from their house account (*see also client account*). Margin is calculated at a net level across all clients.

non-ferrous metals Metals with no iron content.

O

OCO

One-cancels-other – used to qualify two separate orders, where a trader would like one order to be cancelled if the other is filled. Often used between a limit order and a stop order.

offer

The quoted selling price for metal. *See also 'ask'.*

off-warrant

In the case of the LME, metal that is not on an LME warrant, and therefore cannot be used for settlement of an LME futures contract.

official prices

The offer price quoted in the second Ring of the morning session, commonly used by industry as a reference price for physical metal on the day.

offset

Closing of an open position. A sale offsets a long position. A purchase offsets a short position.

offset hedge

A trade designed to nullify price risk arisen from a physical position.

open order

An order which has been placed into the market

O

open outcry

A method of trading employed on the LME whereby members, sitting in the 'Ring', voice bids and offers for a metal, stating the number of lots of metal, the price and delivery date required.

option

A contract that gives the buyer of the contract the right but not the obligation to buy or sell a futures contract at a set price. The buyer pays a premium for this right.

order routing

Process whereby LME members can connect their clients directly to the LMEselect trading system via third party applications and through which LME member firms receive and execute client trading requests.

OTC

Over-the-counter – a derivative transaction that is not standardised nor transacted on an exchange.

out-of-the-money

A term used to describe an option contract where the underlying price is below the strike price in the case of a call, or above the strike price in the case of a put. Exercising an out-of-the-money option would create a loss.

P

physical trades

Trades that would result in the delivery of the metal if an offsetting position is not taken.

position

The net tonnage a party has bought or sold on any given prompt date. Also the overall position, being the net tonnage bought or sold for all prompt dates combined.

position limit

The maximum position that a market participant may take. Some markets use this to prevent undue influence on prices (particularly physical) of large speculative positions. The LME achieves this through the Lending Rules, rather than position limits. MiFID2 has defined some position limits on commodity futures contracts (including LME).

pre-market

The morning trading between members which is carried out inter-office prior to the first LME Ring session.

premium

A one-off payment, made at the outset, to purchase an option. Can also refer to an additional amount of money paid to buy metal in a specific location.

P

principal-to-principal market

A market, like the LME, where all trades are conducted between two principal parties acting on their own account (as opposed to an agency style market). As such, brokers act as principal to trades in the LME market, rather than acting as agents.

producer hedge

The sale of futures or purchase of put options, or both, as protection against a fall in metal prices.

prompt

Due for immediate delivery.

prompt date

The delivery date of a futures contract.

put option

A contract that gives the holder the right, but not the obligation, to sell metal futures at a set price (the strike price) on a given date (the expiry date).

R

refinery A processing plant usually associated with a smelter that produces high purity metal.

resistance level A level at which a price trend is halted either temporarily or totally. *See also 'floor' and 'ceiling'.*

RIE A Recognised Investment Exchange under the terms of the Financial Services Act 1986 and its successor the Financial Services and Markets Act 2000.

Ring The circle of seats on the LME floor which members occupy when trading via open outrcy. More commonly the term is used to describe the periods of trading which are broken down into five-minute sessions for each metal.

Ring dealer LME Category 1 Member firms that have the exclusive right to deal in the Ring.

roll A carry transaction, whereby an open position is 'closed out' and replaced with a similar position for a prompt date further ahead.

round turn The complete transaction of a closed out futures contract, i.e., both the buying and selling operations. Commission rates are sometimes quoted on a round turn basis.

S

secondary metal Scrap metal that has been recycled.

segregation The level of segregation in either a NOSA, GROSA or ISA at LME Clear of client positions and collateral.

semi-fabricator A company that processes refined material into shapes or forms for use by a fabricator.

semis Semi-fabricated products.

settlement price LME Official Settlement Price is the official cash sellers price (offer) – announced each day by the LME.

short An open position for the sale of metal.

smelter A processor of mine feed or scrap material (secondary smelter) which produces crude metal.

spot A contract for delivery in two business days time. On the LME, the term 'cash' is more commonly used.

spread A term referring to the difference in two prices. The contango or backwardation between two prompt dates or the difference between the bid and offer price.

S

stockist

A distributor of semi-fabricated products who holds stock for sale to consumers.

stop-loss order

An order to close a position should the market rise above or below a stated level in order to minimise loss.

strike price

The value of the underlying futures contract determined at the time of purchasing an option.

swap

The agreement between two market participants to swap a series of forward cash flows based on selling and buying at an agreed pair of prices. On the LME this is often takes the form of a fixed-float swap between a known agreed price and the unknown LME Official Settlement Price.

T

T/Cs A treatment charge made by galvanisers and refiners for their services.

technical analysis The study of historical price movements to establish a pattern in order to predict future price movements and establish trigger points when either a sale or purchase should be made.

theta The measure of change to the value of an option with the passing of time.

tick The minimum change in price for a futures contract.

toll smelting *See 'custom smelter'.*

tom An abbreviation of tomorrow, which in LME terms means the next prompt date.

T

tom/next

Within the LME normal two-day settlement, a position may nevertheless have a prompt date one day forward. It can still be officially traded up to the first Ring of that day under a procedure known as 'tom/next' (tomorrow/next day), which allows a position to be rolled forward to the official cash date on the payment of a fee. Also known as T/N. *See 'cash today'.*

traded option

An option contract that can be bought and sold freely up to the declaration date.

transfer

The movement of a customer's contract from one member's account at LME Clear to another, usually done to reduce margin exposure or to net down warrant delivery obligations. *See also 'give-up'.*

V

value date

The prompt date of a futures contract.

variation margin

The amount of collateral required by LME Clear in order to protect itself against losses that have accumulated on any open positions of a member.

LME Clear uses a variety of variation margin methods including discounted contingent variation margin (DCVM) for the LME's physically settled, non-ferrous futures and realised variation margin (RVM) for precious and cash-settled contracts."

vega

The measure of change of the value of an option with respect to a change in the volatility.

volatility

A measure of how much a price fluctuates over time. Academically defined as the annualised standard-deviation of log-normal daily returns, normally expressed as a percentage.

W

warrant

A document of possession, issued by the warehouse company, for each lot of LME-approved metal held within an LME-approved facility. Warrants are used as the means of delivering metal under LME contracts.

warant swap

The exchange of one warrant for another, in order to change the location, brand or shape or the exchange of one futures contract into another, usually to change the prompt date.

writer

The seller of an option contract. *See also 'grantor'.*

To find out more about the LME, our contracts and services, please visit lme.com

Learn more about the LME's core services and how these can help you manage your exposure to metal price volatility at one of our training courses, which are held regularly around the world.

Find courses near you and register at lme.com/education

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