

LME Focus Day: Aluminium Premiums Session

Christian Mildner, Head of Corporate Sales, LME
London, 27 October 2022



SETTING THE GLOBAL STANDARD



LME Focus Day: Aluminium Premiums Session

Programme

12:00 Introduction to LME premiums – Christian

12:05 Premium markets and methodology – Alice

12:15 Panel “Premium market dynamics and price risk management” - All

12:40 Q&A

12.50 Close

Speakers



Abe Ulusal, Executive Director
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Fastmarkets
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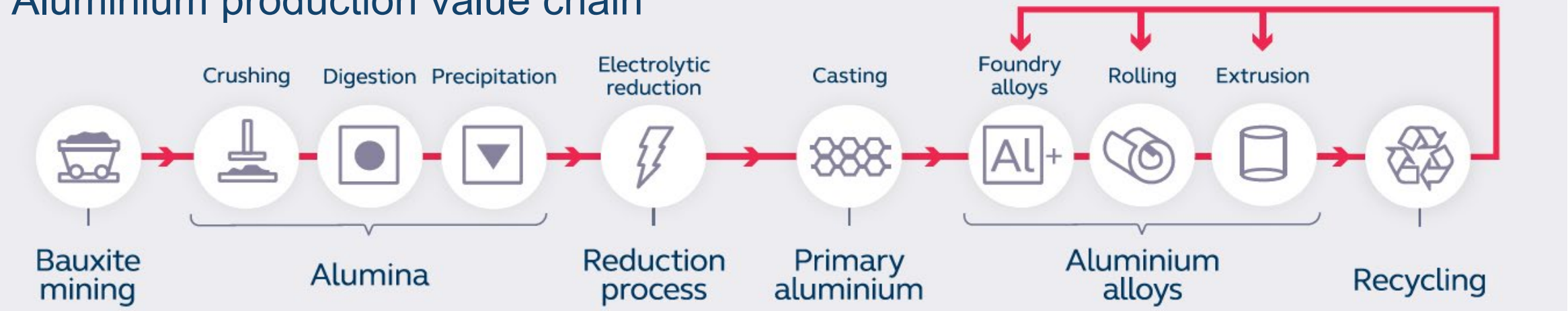
Mike Day, Senior Director
SSY Futures Ltd
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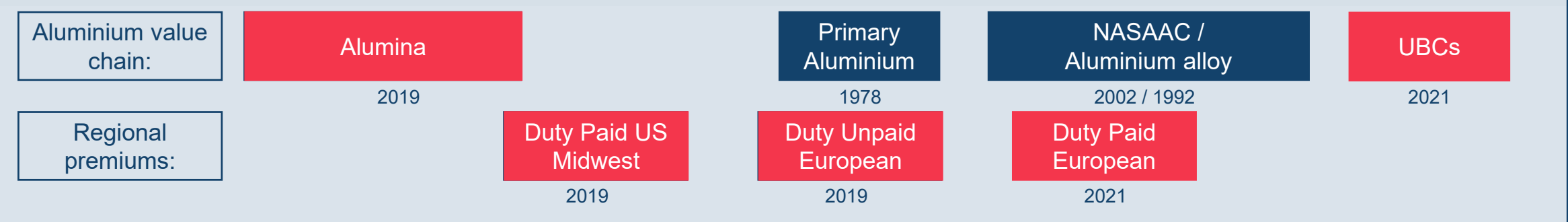
LME and the Aluminium value chain

Specialised product offerings support hedging across the value chain

Aluminium production value chain



LME contracts



Cash settled contract
 Physically settled contract

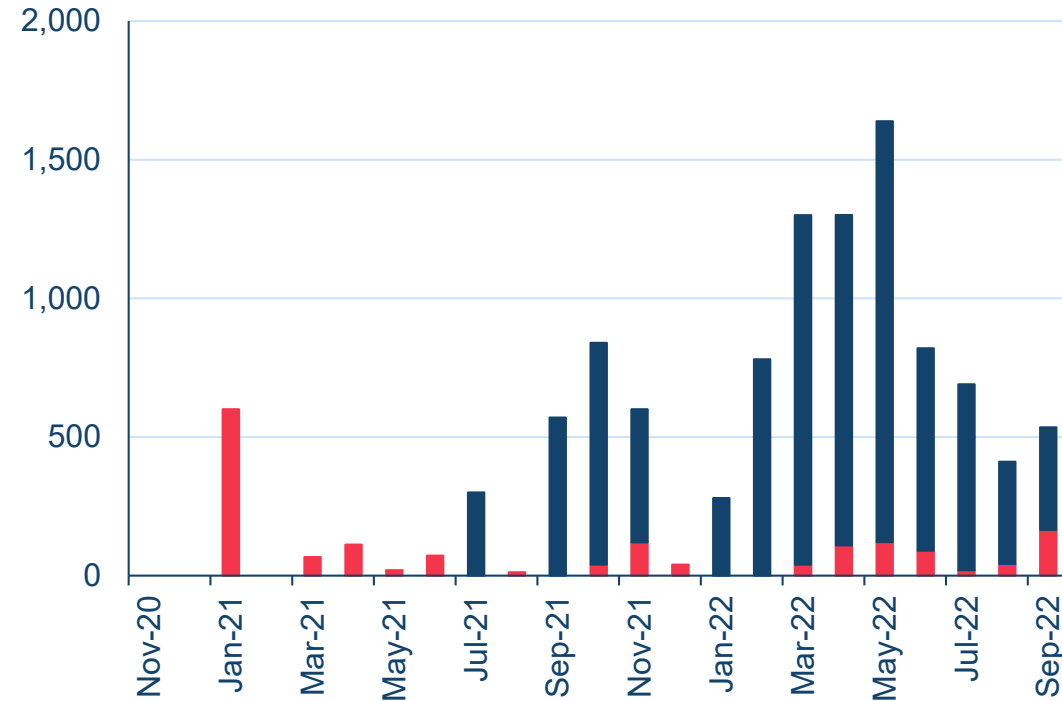


LME Aluminium Premium volume and open interest

Open interest has build steadily on improving liquidity

Volume traded

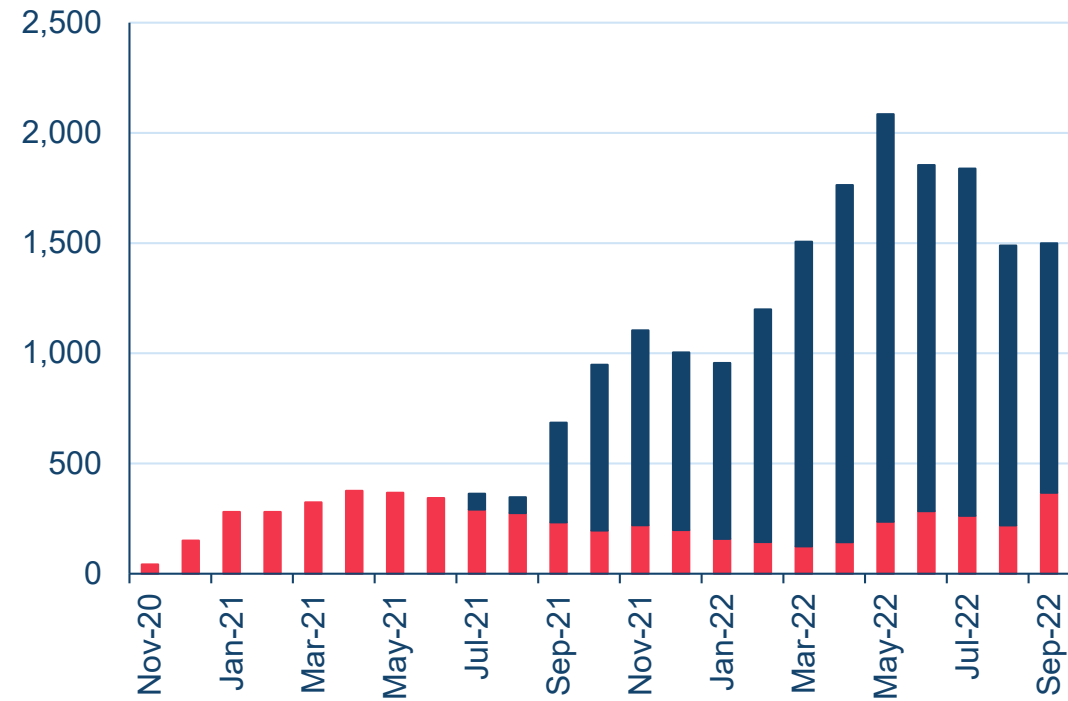
Lots per month



■ LME Aluminium Premium Duty Paid European (Fastmarkets MB)
■ LME Aluminium Premium Duty Paid US Midwest (Platts)

Open interest

Lots, last business day per month



■ LME Aluminium Premium Duty Paid European (Fastmarkets MB)
■ LME Aluminium Premium Duty Paid US Midwest (Platts)

Source: LME, data up to 30 September 2022



LME Aluminium premium suite contract specifications

Contract name	LME Aluminium	LME Aluminium Premium Duty Paid US Midwest (Platts)	LME Aluminium Premium Duty Unpaid European (Fastmarkets MB)	LME Aluminium Premium Duty Paid European (Fastmarkets MB)
Contract code	AH	UP	EA	ED
Settlement type	Physical	Cash Settlement	Cash Settlement	Cash Settlement
Contract type	Futures	Futures	Futures	Futures
Settlement index	N/A	Platts Aluminum Transaction Premium DDP US Midwest	Fastmarkets MB Aluminium P1020A in-warehouse Rotterdam duty-unpaid	Fastmarkets MB Aluminium P1020A in-warehouse Rotterdam duty-paid
Lot size	25 metric tonnes	25 metric tonnes	25 metric tonnes	25 metric tonnes
Price quotation	USD per metric tonne	USD per metric tonne	USD per metric tonne	USD per metric tonne
Contract period	Daily: out to 3 months Weekly: 3 out to 6 months Monthly: 7 out to 123 months	Monthly prompts out to 15 months	Monthly prompts out to 15 months	Monthly prompts out to 15 months
Exchange fee	USD 0.97	USD 0.5	USD 0.5	USD 0.5
IM in USD per MT/Lot/ %of notional*	216 / 5400 / 9.9%	104 / 2600 / 23.1%	50 / 1250 / 20.8%	79 / 1975 / 26.3%

* Initial margin requirement as of 20/10/2022

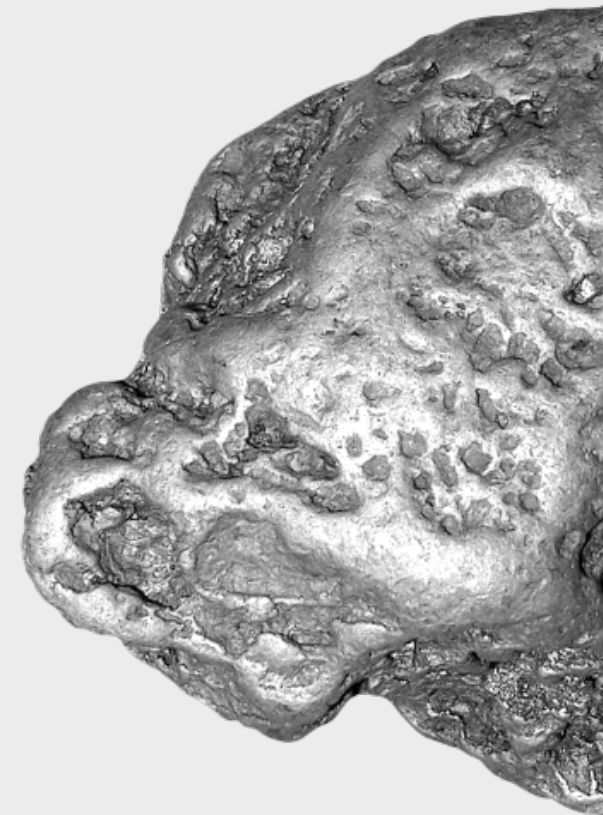




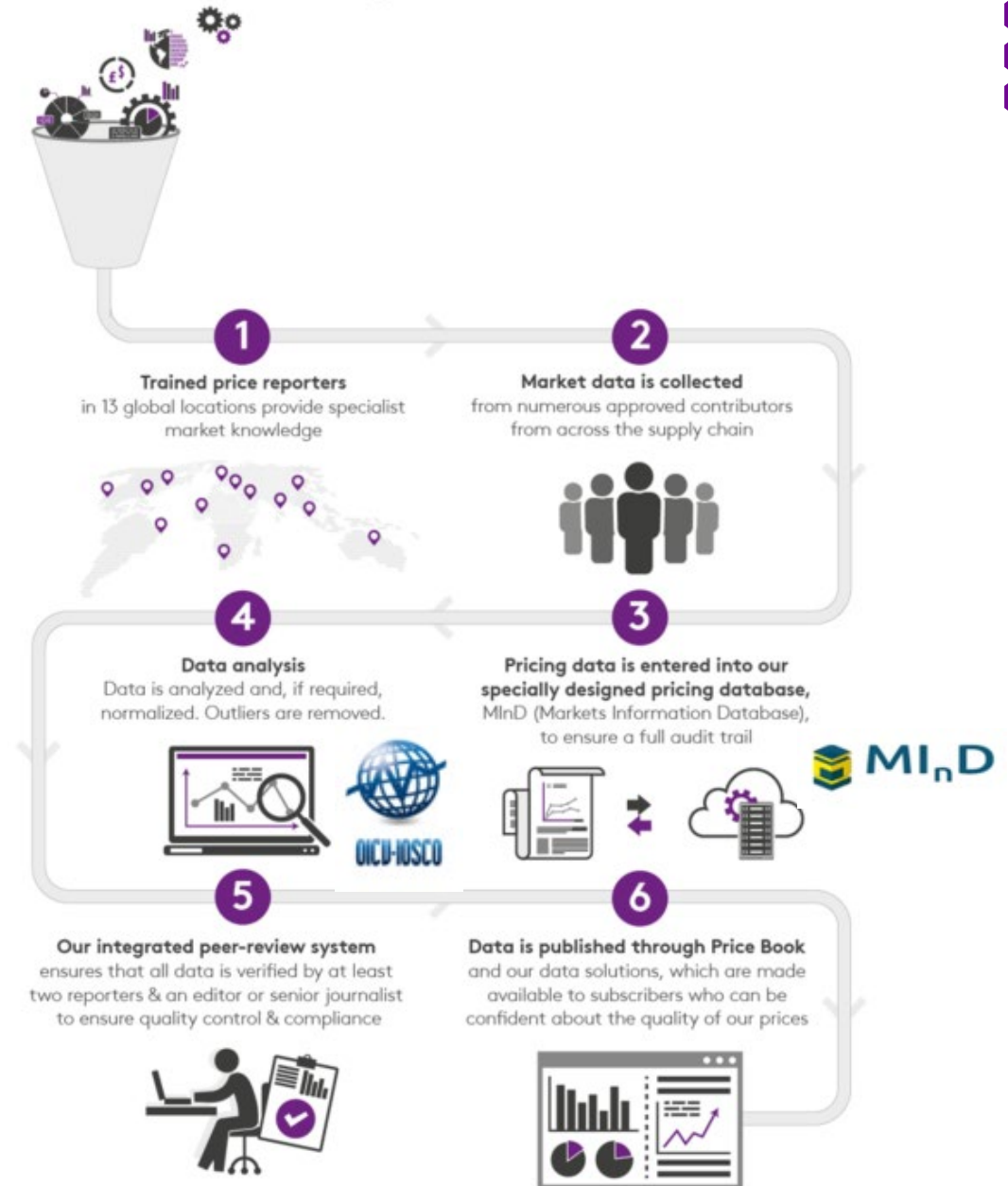
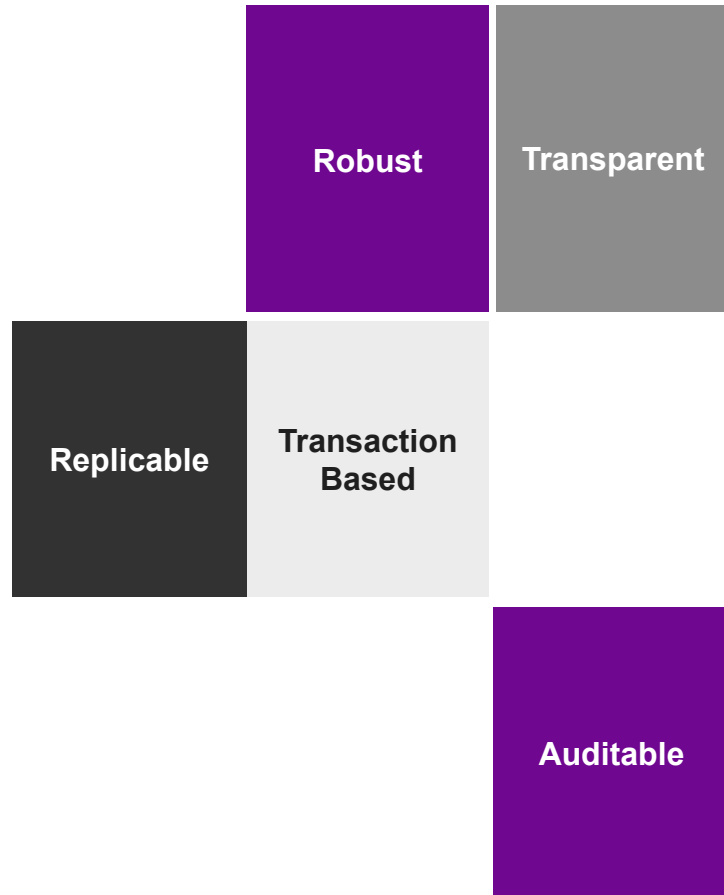
Aluminium premiums pricing update



Alice Mason – European Base Metals Editor, Fastmarkets



Our price assessment process



Fastmarkets specifications



- Fastmarkets P1020A premiums in Rotterdam are IOSCO-accredited industry benchmarks and the basis of physical market contracts.
- Premiums are priced on top of the London Metal Exchange cash price.
- Four week spot delivery window.
- Priced on an in-warehouse basis but all other incoterms normalized.
- Other grades such as P6010/P0406 are also normalized back to P1020 specifications.
- Premium also used as the basis for other contracts in different parts of Europe.

MB-AL-0004

Aluminium P1020A premium, in-warehouse Rotterdam, \$/tonne

Quality:	P1020A or 99.7 % Minimum Al purity (Si 0.10% max, Fe 0.20% max). Ingot
Quantity:	Min 100 tonnes
Location:	In-warehouse Rotterdam duty-paid, premium on top of LME cash prices
Timing:	Within 4 weeks
Unit:	USD/tonne
Payment terms:	Cash against documents (7 days after bill of lading date); other terms normalised
Publication:	Twice weekly. Tuesday and Friday 4pm London time
Notes:	Assessed by Fastmarkets' London office

Volatility has increased for European P1020 premiums



● Mid MB-AL-0004 - Aluminium P1020A premium, in-whs dp Rotterdam, \$/tonne



Re-cap of duty-paid Rotterdam premium this year



● Mid MB-AL-0004 - Aluminium P1020A premium, in-whs dp Rotterdam, \$/tonne

Feb/March 2022:
Increased demand for duty paid units following Russia's invasion of Ukraine. Worries about supply brings consumers to the market for large tonnages.

April 2022:
Premium hits record all-time high of \$600-630/t fuelled by tight nearby supply and logistics issues in Rotterdam

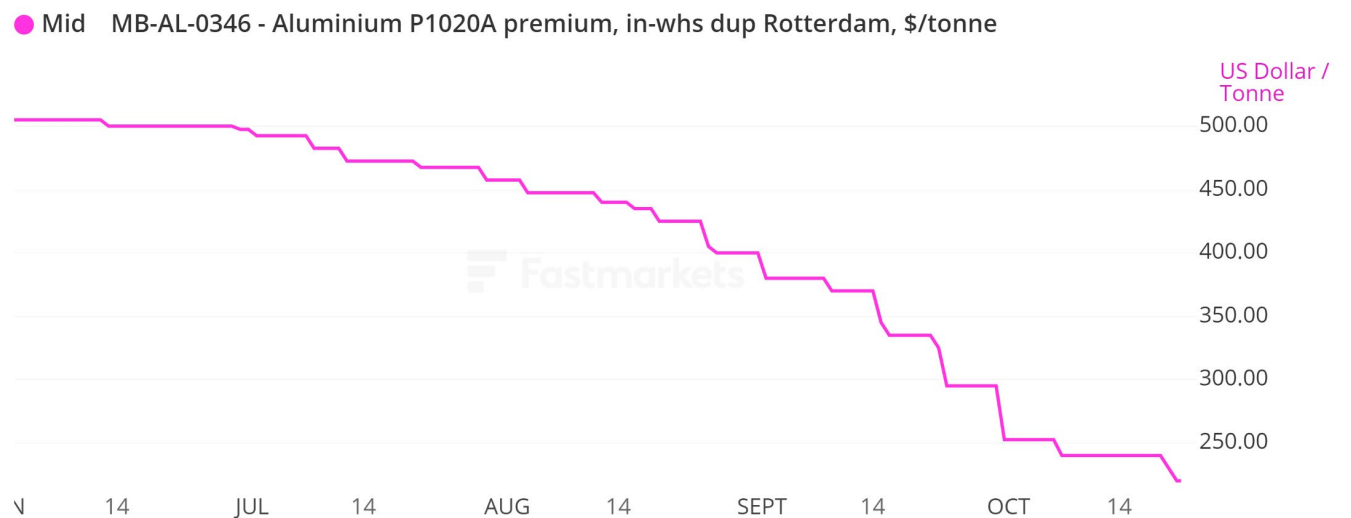
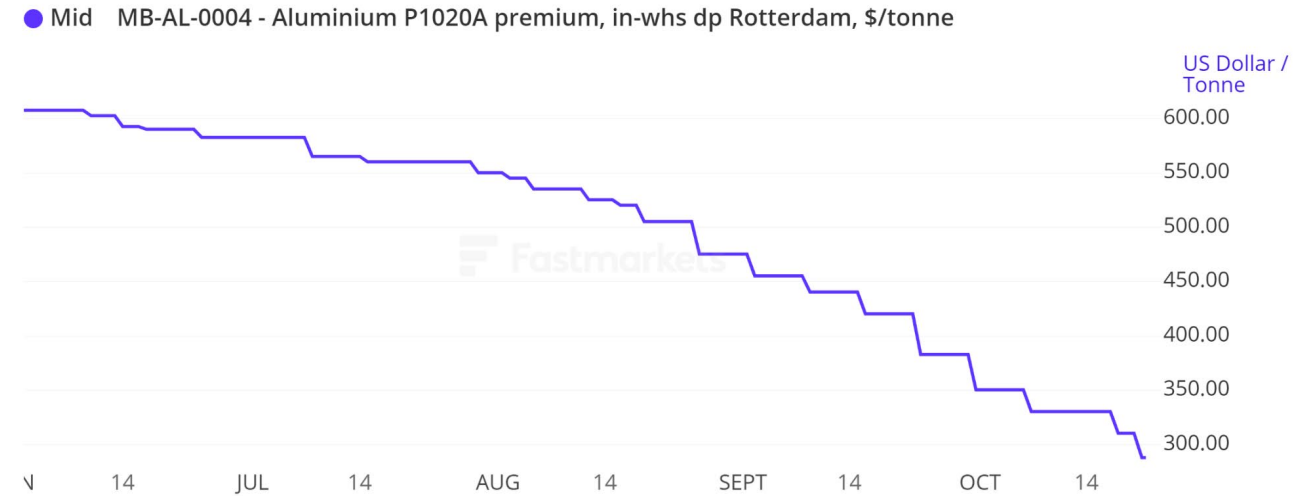
June-August 2022:
Demand worries take hold and downward trend is seen in premiums for the first time this year.



Premiums down 47% since beginning of August



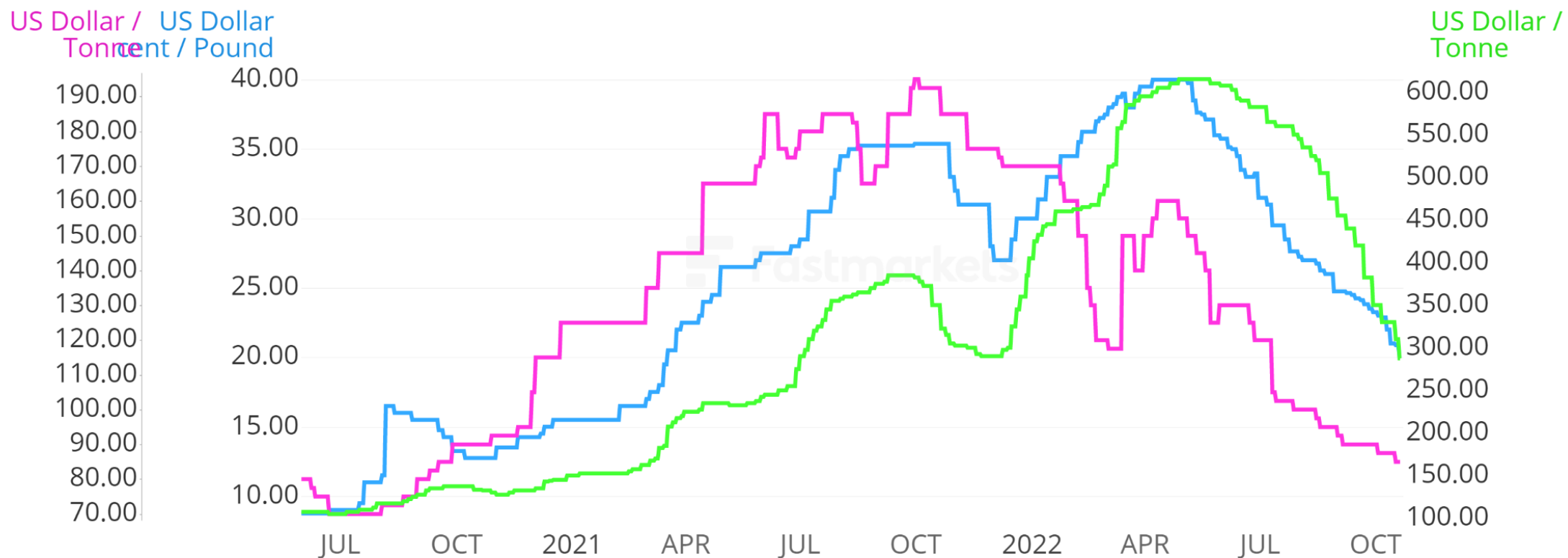
- Weak demand has taken over the European aluminium market, pressuring premiums in recent weeks.
- Europe was favourable destination when premiums were at all-time highs vs weak premiums in Asia and falling freight rates. Now region is oversupplied with imported units.
- Consumers deferred tonnage from Q3/Q4 into 2023 – high consumer inventories.
- Participants happy to de-stock ahead of year end due to volatile LME spreads and expensive financing costs
- Falling value-added product premiums and weaker 2023 demand has pushed some to switch production to primary aluminium.
- Market volatility to remain with Europe now relying on imports and uncertainty surrounding 2023 demand.



Global premium trends



- Mid MB-AL-0343 - Aluminium P1020A (MJP) spot premium, cif Japan, \$/tonne
- Mid MB-AL-0020 - Aluminium P1020A premium, ddp Midwest US, US cents/lb
- Mid MB-AL-0004 - Aluminium P1020A premium, in-whs dp Rotterdam, \$/tonne



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LME Focus Day 2022

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