

# LME Focus Day: Hedging Workshop

Edric Koh, Head of Corporate Sales, LME  
Jean-Luc Fiorenzoni, Founding Partner, Commos  
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SETTING THE GLOBAL STANDARD



# Introduction to hedging workshop

## Speakers:

- Edric Koh, Head of Corporate Sales, *LME*
- Jean-Luc Fiorenzoni, Founding Partner, *Commos*



# The LME is the leading global venue for metal market participants to manage their price risk

**LME is the leading global exchange in all non-ferrous metals**

**In 2021, the LME traded in excess of**

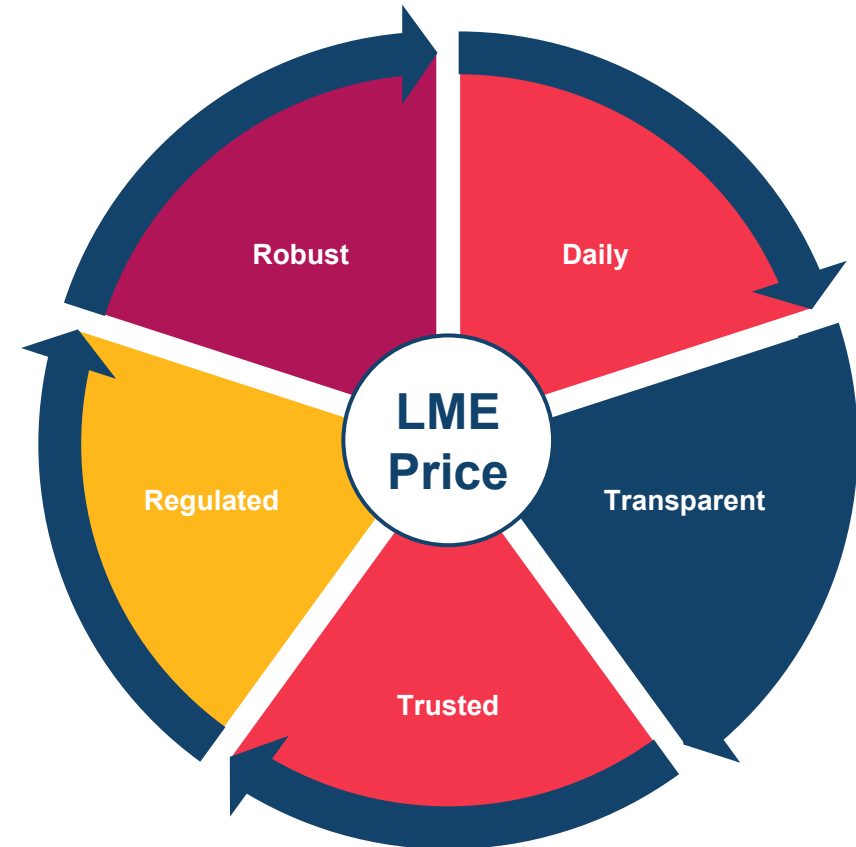
145  
million  
lots

\$15.6  
trillion  
notional  
value

3.3  
billion  
tonnes

**This equates to an average daily turnover of 570k lots**

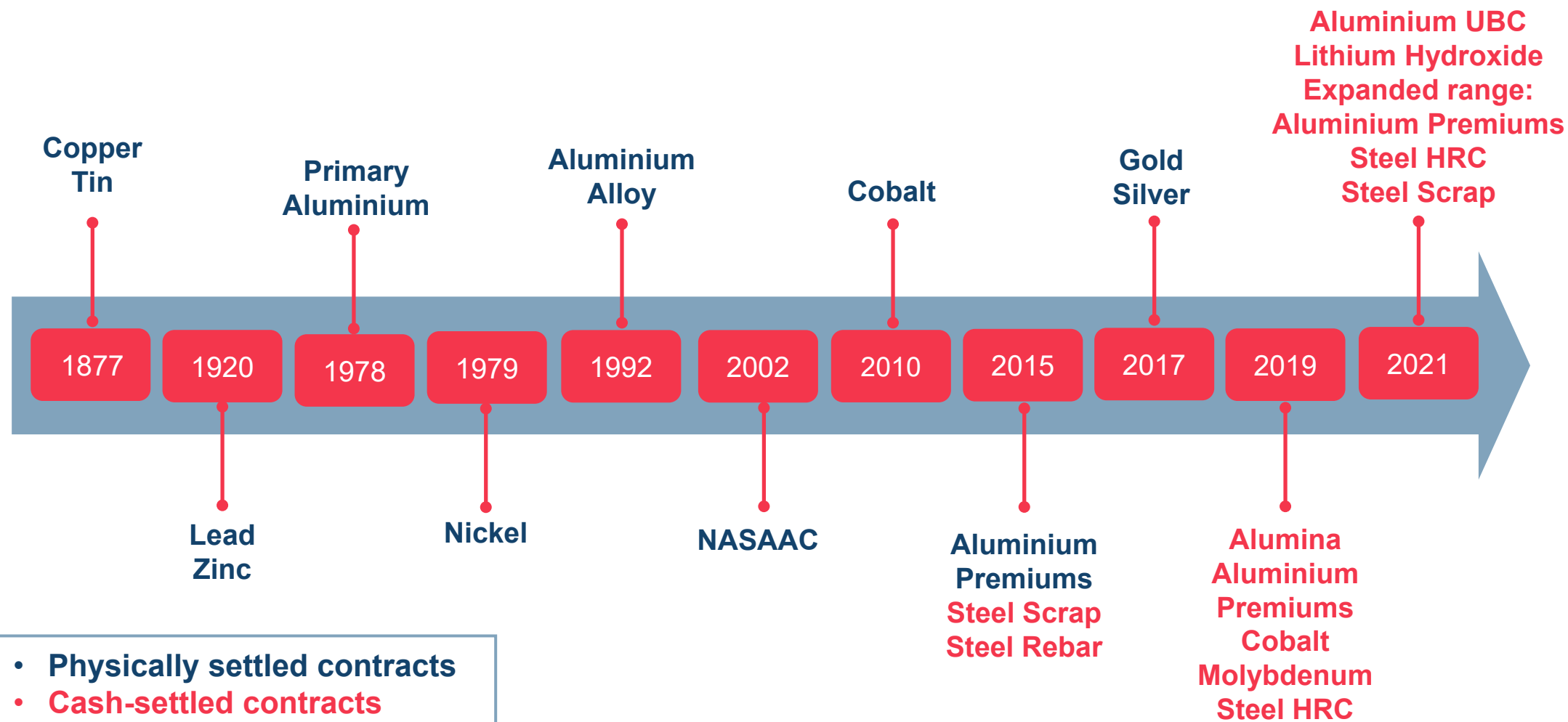
**LME provides market leading pricing of futures contracts**



# London Metal Exchange contract history

More metals have been added to the initial copper and tin, over the past ~140 years.

Each year, the exchange reviews its contracts and looks to launch new products to meet the needs of the industry.

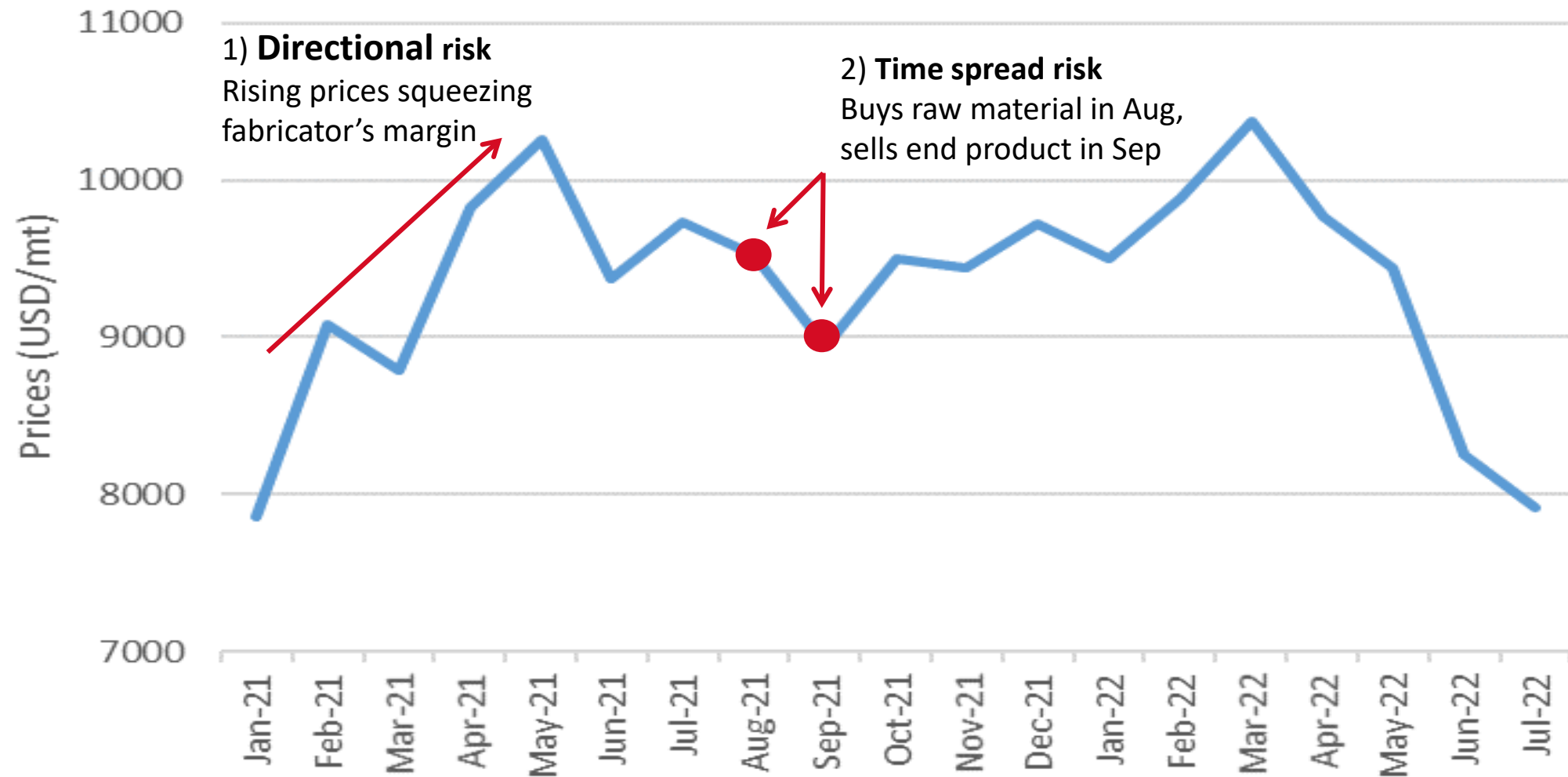


# Metal price risk management

# Price risks

## LME Copper

Source: Bloomberg, Jan 2021 – Jul 2022



# What is hedging?

## Hedging

Establishing a position in a commodity futures market (LME) which is equal and opposite to a risk on a physical market.

- Protects against adverse price movements
- Locks in an agreed profit margin

Hedging as a form of ***Insurance*** (*protection*).



# What are futures and how do they work?

A future is an agreement to buy or sell a **specified asset (material)** of a **standard quantity** on a **fixed date** at a **price agreed today**

LME Copper Closing Prices	
CONTRACT	PRICE
<u>3-month</u>	7386.50
<u>Month 1</u>	7461.75
<u>Month 2</u>	7424.75
<u>Month 3</u>	7389.75
<u>Month 4</u>	7365.50
<u>Month 5</u>	7348.50
<u>Month 6</u>	7334.50



# LME education

# LME education



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Read updates and comment from the LME on specific issues and trends for the metals market.



## HedgeTutor Online Education Platform

Learn about trading and price risk management and practise hedging with the online simulator.



# Case study

# | Case study



in collaboration with



introduces **HedgeTutor's**

**LME Base Metals Markets,  
XCU Copper Cathodes Market and  
CSH Cash Settled Markets**  
subscriptions

**an integral eLearning solution to develop a full understanding  
of price risk management for the LME metals markets**



# Case study

## HedgeTutor LME Subscriptions

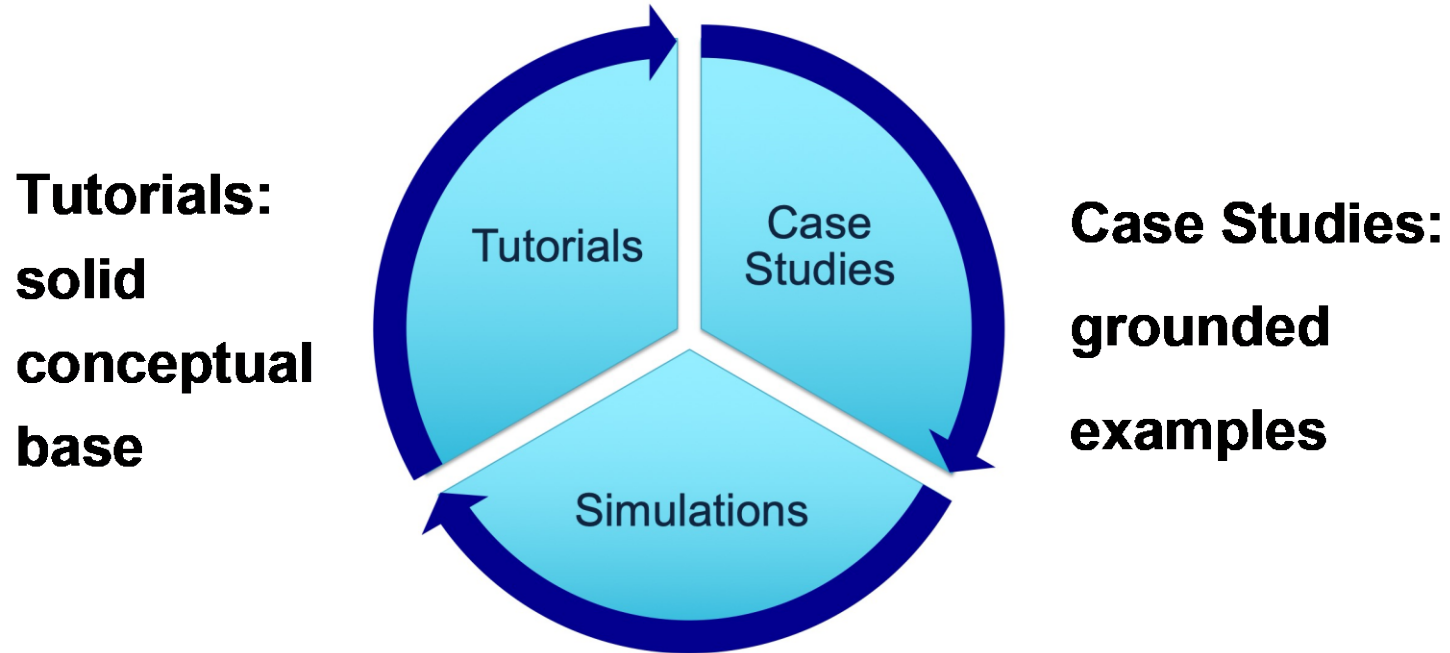
Our subscriptions were specifically designed to mimic the trading of physical metals and their financial associated derivatives traded on the LME:

HedgeTutor Subscription	LME Markets covered
<b>LME Base Metals</b> 	<b>Non-Ferrous</b> LME Aluminium LME Copper LME Zinc  LME Nickel LME Lead LME Tin
<b>XCU Copper Cathodes</b> 	LME Copper
<b>CSH Cash Settled</b> 	<b>Ferrous</b> LME Steel Scrap CFR Turkey LME Steel Rebar FOB Turkey LME Steel HRC FOB China LME Steel HRC N.America LME Steel HRC NW Europe LME Steel Scrap CFR India LME Steel Scrap CFR Taiwan  <b>EV</b> LME Cobalt LME Molybdenum LME Lithium Hydroxide CIF

# Case study

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HedgeTutor's Learning Experience is based on **three pillars**:



**Simulations: trade the markets**

**Simulations are the most important aspect of  
HedgeTutor's learning experience.**

# Case study

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# Case study



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# Case study – **Producer's Hedge**

- **Scenario:**

- a. Cu cathodes producer with a “natural” physical long position: Its production at a known price
- b. Production commits to selling production to a customer for a future delivery.
- c. Pricing of the sale LME + premium with quotational period (“QP”) day prior to delivery
- d. Producer wary that market price may decrease between his sales commitment and its pricing, negatively impacting revenues and margin.

- **Objectives:**

- a. Introduce interaction between physical and futures trading
- b. Show how futures can protect margins
- c. Show how hedging impacts cash flows
- d. Take a quick look at the impact of hedging on PnL / Balance sheet



# Case study – **Producer's** Hedge

- **Assumptions:**

Starting date of simulation:

1 May 19

End date of simulation:

3 June 19

Quantity:

1,000 MT

Copper cathodes production costs – fixed:

\$ 6,000 /MT

Delivery date:

30 May 19

Sales Price:

LME + \$100 /MT

Quotational Period (“Q/P”):

29 May 19

Futures Credit Line:

None

Simulation

# Case study – **Consumer's Hedge**

- **Scenario:**

- a. Cu cathodes consumer committed to a sale of finished product (e.g. Cu rod) at fixed price.
- b. Sale and purchases are committed for delivery in the future.
- c. Consumer buys Cu cathodes priced LME + premium with QP day prior to delivery
- d. Consumer is concerned that market may rise between now and the time it fixes the price of the purchase, negatively impacting its cost of production and therefore margin.

- **Objectives:**

- a. Similar to previous case
- b. Hedging is equally applicable wherever your company sits in the value chain



# Case study – **Consumer's** Hedge

- **Assumptions:**

Starting date of simulation:	2 Jan 19
End date of simulation:	1 Feb 19
Quantity:	1,000 MT
Price of Cu cathodes contained in finished product – fixed:	\$ 6,500 /MT
Delivery date:	30 Jan 19
Purchase Price:	LME + \$100 /MT
Quotational Period (“Q/P”):	29 Jan 19
Futures Credit Line:	None

Simulation



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# LME Focus Day 2022

Thank you for attending!



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