

# Nickel Market Update

## LME Metal Seminar

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SETTING THE GLOBAL STANDARD



# An Action Plan to strengthen the LME Group's markets

LME Group's Action Plan published in March 2023 provides an update on the implementation of measures following the Independent Review recommendations published in January 2023.

## Aims of the Action Plan and the planned enhancements

### Embed

Embed the findings of independent, internal and regulatory-led reviews to manage risk through enhanced controls

### Enable

Enable the market to provide deep and resilient liquidity for LME participants and members

### Build

Build confidence in the reliable and transparent operation and governance of the LME's markets

### Evolve

Evolve market structure, demonstrating the Group's ability to deliver modernisation and change



# The Action Plan includes an extensive programme of change

## Five key focus areas

**Strengthen**

**1. Mitigating the risks of market distortions**

**2. Enhancing the CCP's operations**

**Modernise**

**3. Modernising the LME's market structure**

**4. Planning for future clearing system enhancements**

**5. The physical nickel market**



# The Action Plan includes an extensive programme of change

Focus area	Key achievements	Next steps
<b>1. Mitigating the risks of market distortions</b>	<ul style="list-style-type: none"><li>• Permanent introduction of <b>Daily Price Limits</b></li><li>• Periodic <b>OTC position reporting</b></li><li>• Consultation on making low-stock environment measures permanent</li></ul>	<ul style="list-style-type: none"><li>• Further enhancements to <b>accountability level framework</b></li><li>• Further enhancements to <b>real-time monitoring</b></li></ul>



# The Action Plan includes an extensive programme of change

Focus area	Key achievements	Next steps
<b>2. Enhancing the CCP's operations</b>	<ul style="list-style-type: none"><li>• Enhanced aspects of <b>member liquidity monitoring</b></li><li>• Included a range of <b>new stress scenarios for default fund sizing</b> – and implemented new minimum default fund methodology size</li></ul>	<ul style="list-style-type: none"><li>• Review of <b>credit-related membership requirements</b></li><li>• Review of the <b>Default Fund calculation</b></li><li>• Fundamental <b>review of balance of margin levels against default fund size</b></li></ul>



## The Action Plan includes an extensive programme of change

Focus area	Key achievements	Next steps
<b>3. Modernising the LME's market structure</b>	<ul style="list-style-type: none"><li>• <b>Closing price methodology</b> consultation concluded</li><li>• <b>Off-warrant stock reporting</b> consultation complete</li></ul>	<ul style="list-style-type: none"><li>• Implement new <b>Closing Price</b> methodology</li><li>• <b>Liquidity-enhancing measures</b> including the introduction of block limits and a liquidity provider programme</li></ul>



## The Action Plan includes an extensive programme of change

Focus area	Key achievements	Next steps
<b>4. Planning for future clearing system enhancements</b>	<ul style="list-style-type: none"><li>• Planning underway for future <b>clearing system upgrades</b></li></ul>	<ul style="list-style-type: none"><li>• Definition of <b>approach for the full delivery of VaR margining</b></li><li>• Feasibility assessment on <b>possibility of introduction of RVM</b> contracts in platform upgrade</li></ul>



# The Action Plan includes an extensive programme of change

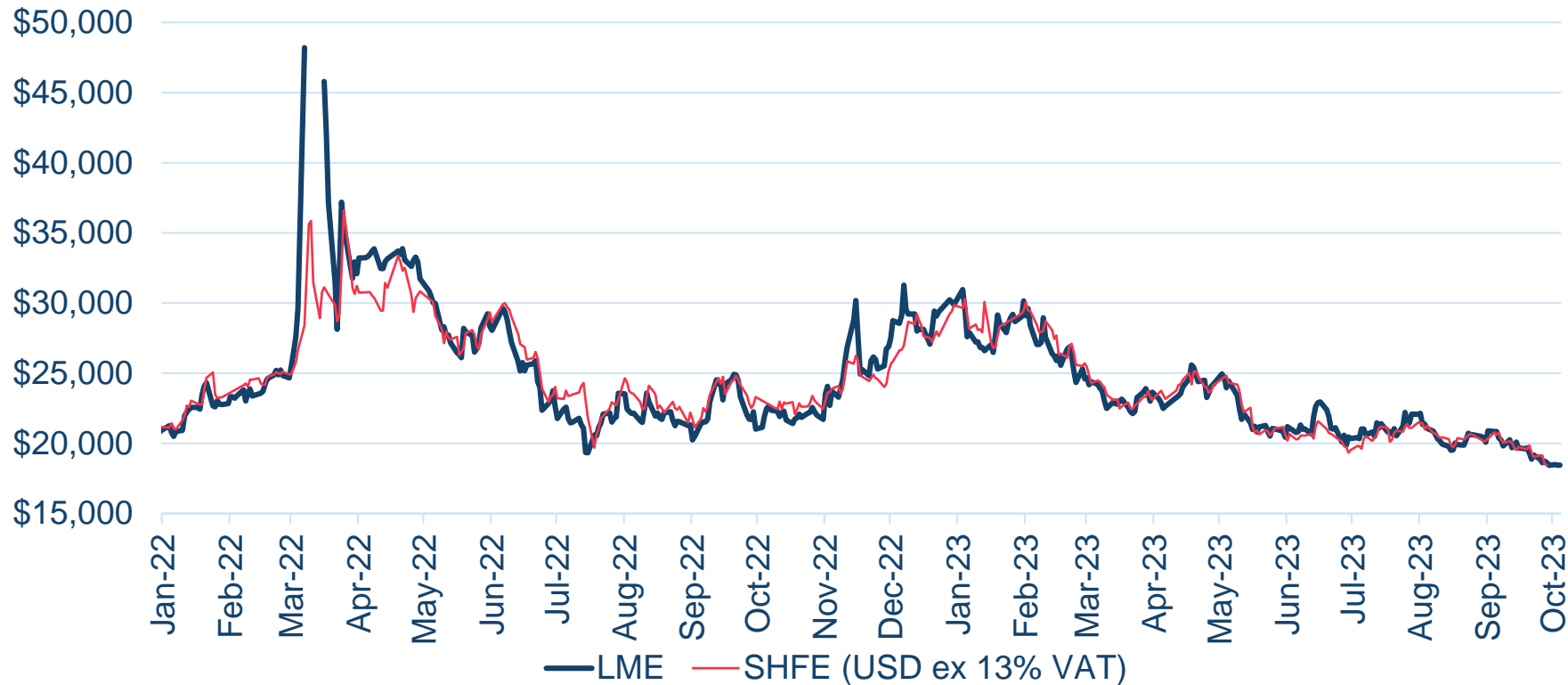
Focus area	Key achievements	Next steps
<b>5. The physical nickel market</b>	<ul style="list-style-type: none"><li>• <b>Resumed trading during Asian hours</b> trading on 27 March 2023</li><li>• New guidance published for <b>listing new Class 1 nickel brands</b> more efficiently. Strong interest from new applicants</li><li>• New deliverable shapes evaluated, including <b>coarse nickel powder</b></li></ul>	<ul style="list-style-type: none"><li>• LME is <b>closely monitoring developments in the Class 2 market</b> to assess market appetite for new pricing / product solutions</li><li>• Ready to launch <b>nickel matte and nickel sulphate on Qianhai Mercantile Exchange</b> (QME) physical spot platform, subject to market appetite</li></ul>





# LME and SHFE Nickel prices

LME and SHFE prices move in tandem



1. Source: LME Cash price, SHFE front month price.

2. Data up to 4-Oct-23

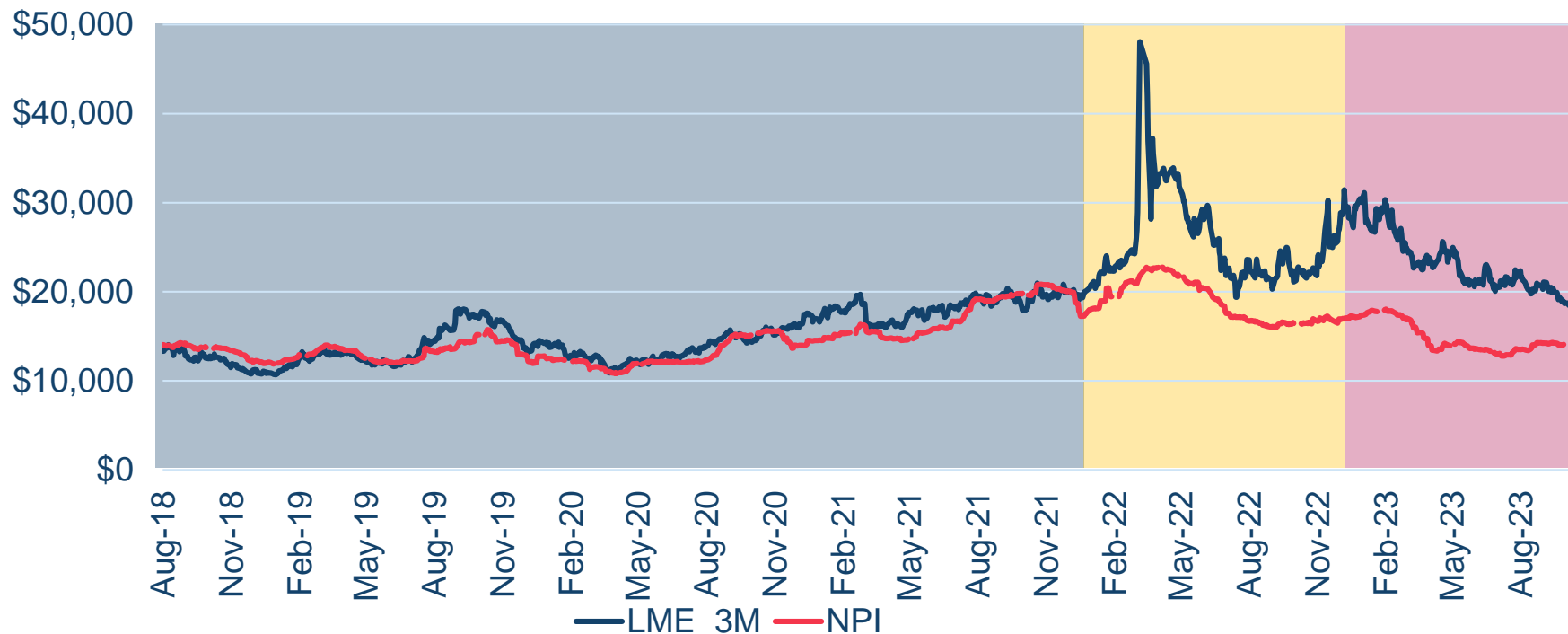


# LME vs. Asian NPI pricing

Historical price correlation re-asserting itself

## Correlation of price

YTD 2023	84%
Full Year 2022	66%
Until Dec 2021	88%



1. Source: Bloomberg, China Nickel Pig Iron 8-12% SMM converted to USD/mt, LME Nickel 3M price.

2. Converted to USD on daily basis, excluding VAT (13%).

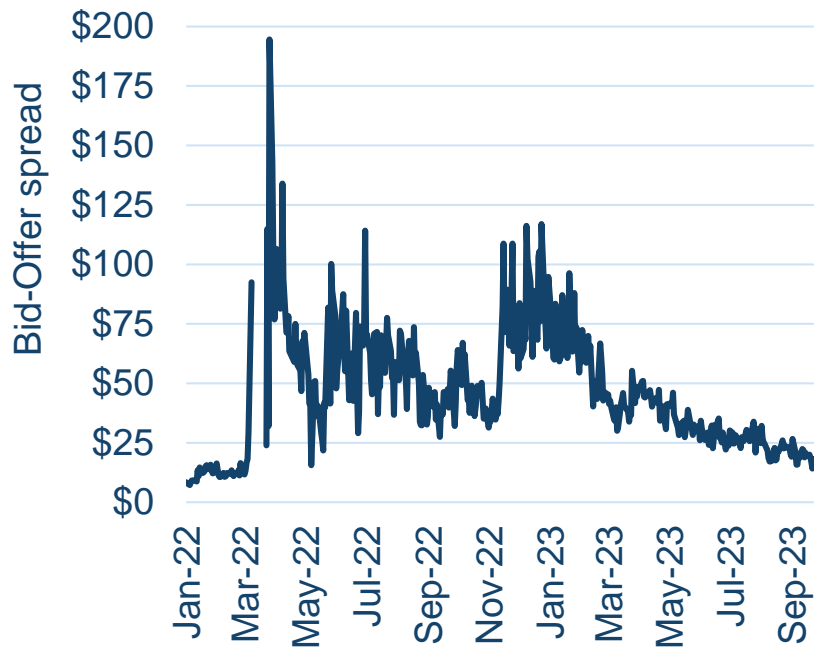
3. Data up to 06-Oct-23



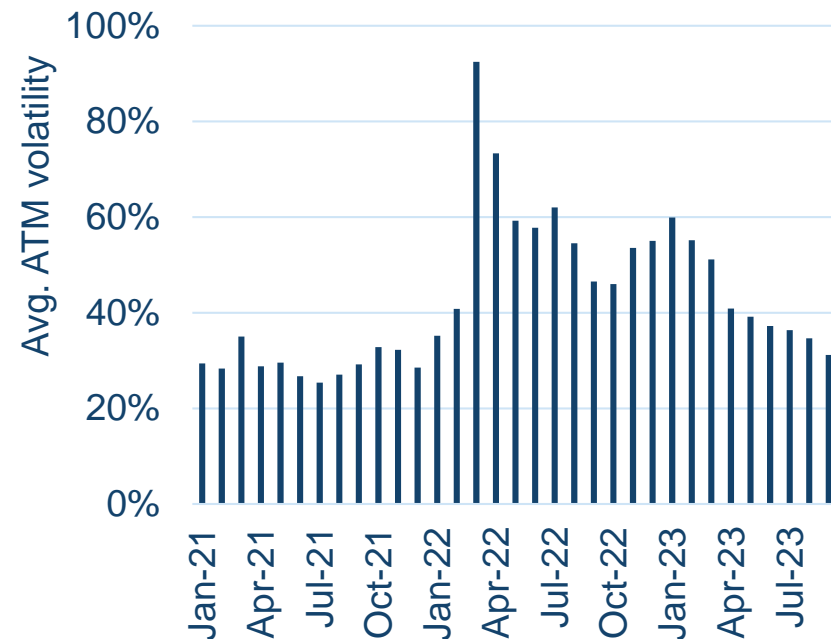
# LME Nickel liquidity & volatility

LME Nickel 3M bid-offer spread continues to narrow. Volatility lowest since Dec 21

## LME Nickel 3M bid-offer spread



## Average volatility



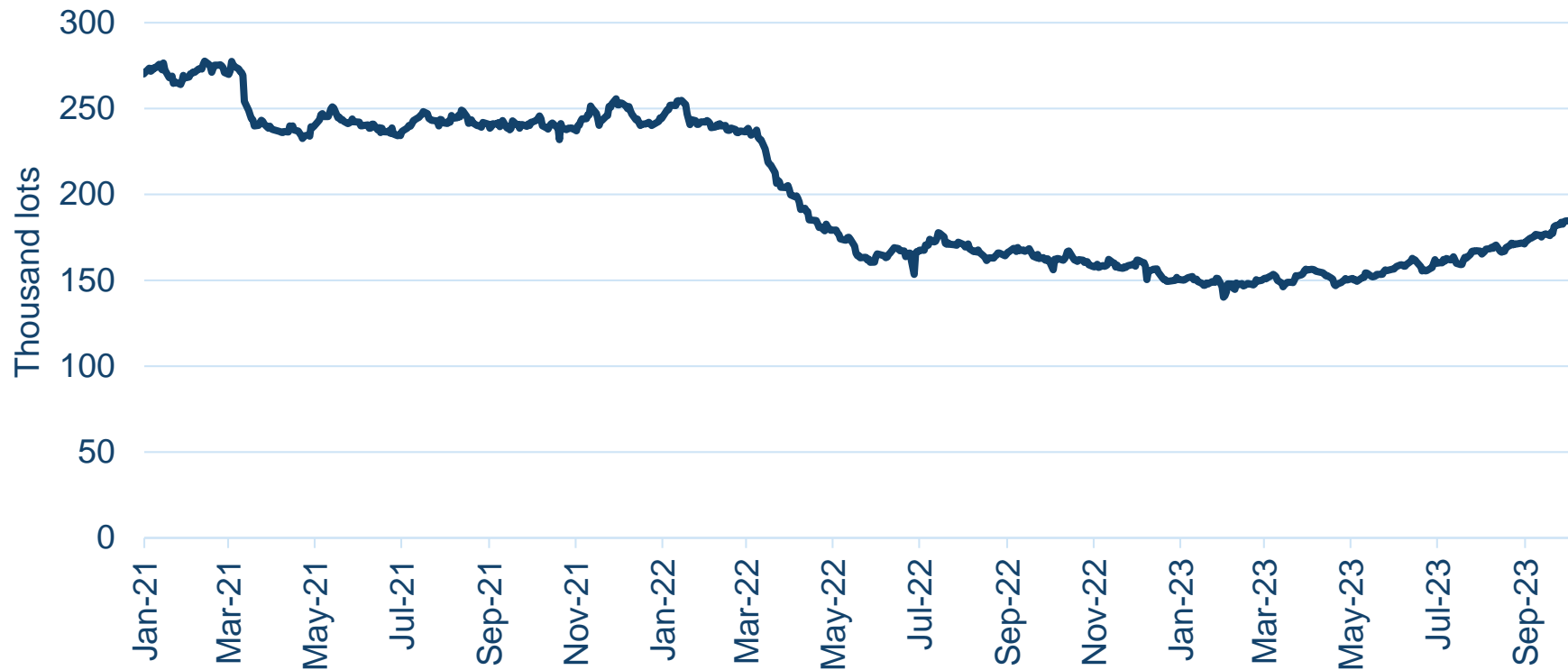
1. Source: LME. 8 Mar - 21 Mar 22 excluded.

2. Data up to 30-Sep-23



# LME Nickel futures daily market open interest

LME Nickel futures open interest increased 23% YTD

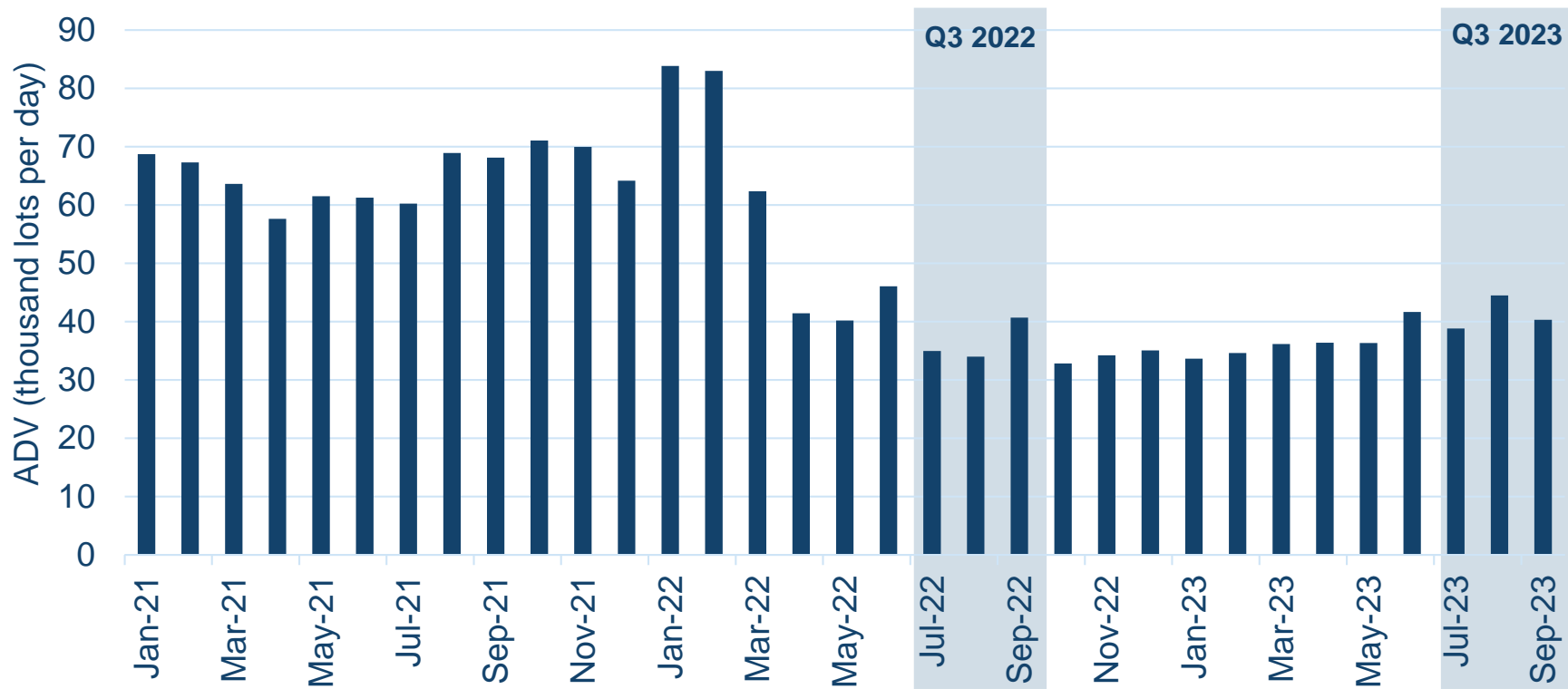


1. Source: LME
2. Data up to 2-Oct-23



# LME Nickel volume

LME Nickel Q3 2023 ADV up 11% Y/Y



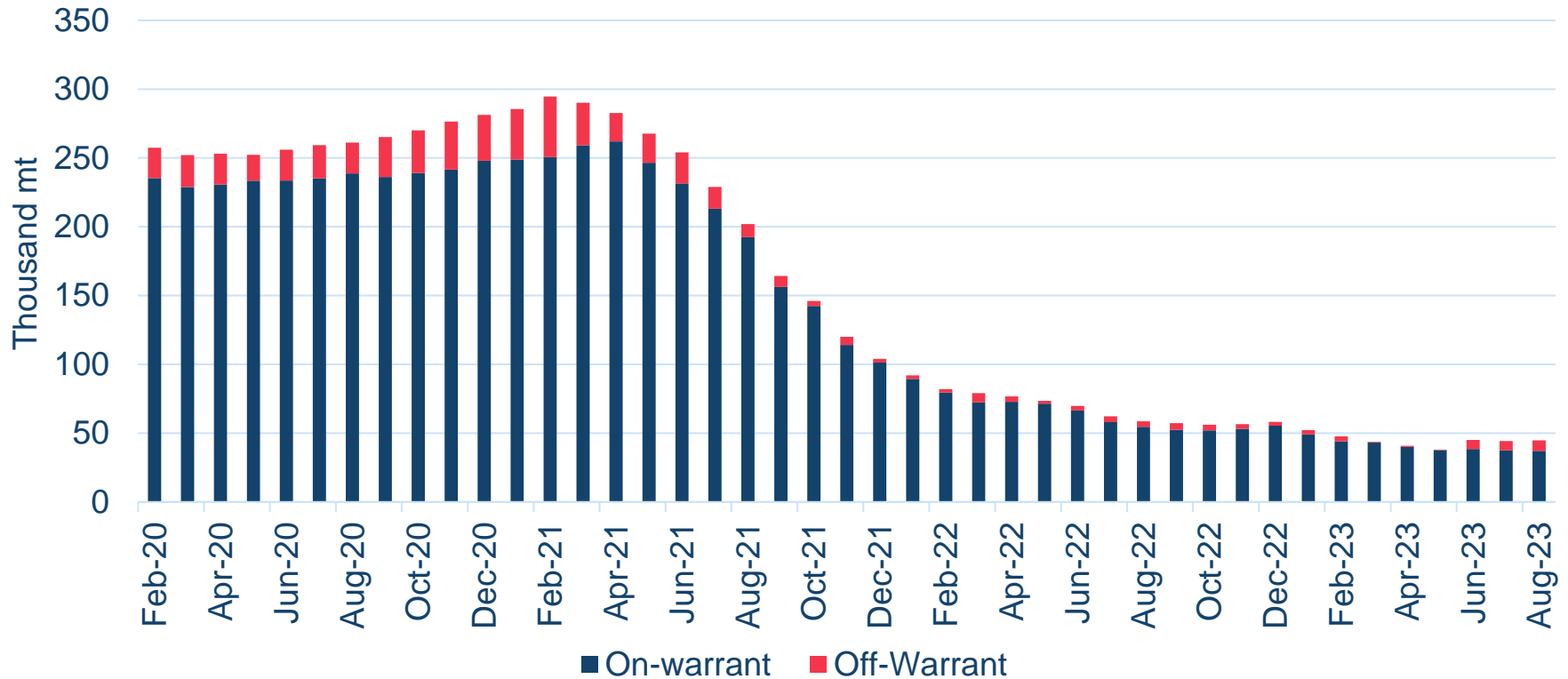
1. Source: LME, ex UNA

2. Data up to 30-Sept-23



# LME Nickel Stock

Combined LME on- and off-warrant stocks remain low



1. Source: LME
2. Data up to 31-Aug-23



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