



To: All members and other interested parties

Ref: 22/055

Classification: Trading

Date: 08 March 2022

Subject: **NICKEL SUSPENSION UPDATE: CRITERIA FOR RESUMPTION OF TRADING AND APPLICATION OF PRICE BANDS**

Summary

1. Notice 22/052 announced a suspension of trading in all Contracts in Nickel, which took effect at 8.15am on 8 March 2022. The Exchange has continued to monitor the evolving market situation, and has been in discussion with market participants. This Notice provides an update on these matters.

Background

2. The current events are unprecedented. The LME is committed to working with market participants to ensure the continued orderly functioning of the market. The LME understands market participants' desire for the market to reopen, but also notes the market's desire for caution on any reopening.

Defined Terms

3. Capitalised terms not otherwise defined in this Notice shall have the meaning ascribed to them in the LME Rulebook.

Market reopening

4. At the current time, all Clearing Members have met their margin requirements to LME Clear in full. However, the LME understands that credit conditions in the broader commodities markets have been placed under stress due to geopolitical events and rising prices.
5. The LME does not consider it appropriate to announce a trading resumption date for Nickel, given continued uncertainties in the broader market. Accordingly, this Notice sets out the criteria for a re-opening, being:
 - i. Operational procedures to effect a safe re-opening; and
 - ii. Analysis of the possibility of netting-off long and short positions prior to re-opening.

Further details on both of these topics are provided below.

6. Given the need for these criteria to be met, the LME does not anticipate resuming Nickel trading earlier than 11 March 2022 (subject that the LME may implement a mechanism to net off long and short positions as discussed under the heading "Criterion (ii)" below). A date for the resumption of Nickel trading (the "**Resumption Date**") will be announced to the market by Notice, by no later than 2pm on the prior Business Day. The LME is mindful of the fact that 16 March 2022 is a third Wednesday date.



7. As set out in Notice 22/052, Nickel delivery positions will continue to roll forward at level until delivery recommences, on the first Settlement Business Day following the Resumption Date.

Criterion (i): Operational procedures to effect a safe re-opening

8. On the Resumption Date, the LME currently anticipates that it will resume Nickel trading at or around 9am London time. This is designed to ensure that maximum liquidity will be available to support the contract. A 9am opening time would be maintained until such date as the LME is confident to return the Nickel market opening time to 1am.
9. The LME currently anticipates that it will set a maximum limit-up and limit-down for all outright Contracts in Nickel on all Execution Venues of (indicatively, and subject to further analysis) 10% in either direction. On the Resumption Date, this will be relative to (ie 10% either side of) the Closing Prices on 7 March 2022. This would cap the maximum outright move which can occur following the resumption of trading, and allow the consequent impacts (in particular, the need for additional margin to be paid) to be managed in an orderly manner.
10. It is therefore possible that the market may take more than one day to reach a stable outright Nickel price, if the move required to attain such price is greater than the proposed 10% price limit.
11. In relation to LMEselect, the LME's current intention is to utilise price bands for order submission. The LME's price band functionality can be manually adjusted on Contract and Prompt Date levels in line with market conditions, to support orderly trading. The price band functionality enables the LME to manage volatility which may include, where appropriate, the temporary suspension of the matching of orders on LMEselect. Trades on other Execution Venues will be prohibited, through manual controls, from being executed outside the price band.
12. With effect from the Resumption Date, the LME would set the price band at the commencement of trading at the defined percentage either side of the central reference price, which would be the previous published Closing Price. Thereafter, and until further notice, the LME will not re-calculate the central reference price during each Business Day that the price bands are in effect.
13. In the event that the price band is triggered, trading would continue but order placement of bids above the higher price band or offers below the lower price band will be rejected. In particular, carry trading will still be enabled (provided that the carries trade within their respective price limits), allowing (for example) date adjustments and tom/next rolls to be booked, even if the maximum outright price fluctuation had been reached.
14. The LME intends to publish a Notice setting out in further detail how the price bands would operate. The LME will also consider whether it might be appropriate to apply price bands to other metals.

Criterion (ii): Analysis of the possibility of netting off long and short positions prior to re-opening

15. Based on its market engagement, the LME recognises that market orderliness may be further enhanced by reducing the volume of short positions in the market (and from which participants would be expected to wish to exit as soon as possible on the Resumption Date, with a consequent upward pressure on price).
16. Accordingly, the LME will consider the viability of a mechanism to net-off, on a voluntary basis, large long and short position-holders on each Prompt Date for Contracts in Nickel, prior to the Resumption



Date (a “**Voluntary Net-Off**”). Such an approach would provisionally operate as follows, for each Prompt Date:

- a. The LME would first establish which large long and short position-holders wished to exit their positions, indicatively at the Closing Prices on 7 March 2022 plus a percentage (indicatively 10%). This would allow the agreed netting-off of long and short position holders, up to the lower amount of voluntary long and short interest.
 - b. The LME currently anticipates defining “large” position holders as those holding positions of over 100 lots, although the LME will confirm the threshold to be applied in due course.
17. In order to effect the analysis required for Voluntary Net-Off, the LME requires Members to provide, for (i) their house account, and (ii) for each of their Clients (in either an OSA or ISA), and for each nickel Prompt Date on which that house or Client has open interest (long or short), the desire of that house or Client to engage in Voluntary Net-Off (at the indicative 10% premium to the Closing Prices on 7 March 2022). It will be permissible to identify a proportion of the open interest as wishing to engage in Voluntary Net-Off.
18. These data should be provided to market.surveillance@lme.com by close of business on 9 March 2022. Any queries may also be directed to LME Market Surveillance. All information will, as always, be treated confidentially. Once we have the data we will work out whether this approach is possible.

Other matters

19. Members should direct any questions relating to this Notice to the LME Relationship Management team at RM@lme.com.

Matthew Chamberlain
CEO

cc: Board directors
Special Committee
Nickel Committee
User Committee