To: All members, warehouse companies and their London agents

Ref: 19/020 (LME Notice Reference)

Classification: Trading General

Date: 17 January 2019

Subject: NEW CASH-SETTLED FUTURES SPECIFICATIONS PUBLISHED ON LME WEBSITE

Summary

1. This notice informs Members that the specifications for the LME’s new Cash-Settled Futures (due to be launched on 11 March 2019) are now available on the LME’s website.

Defined Terms

2. Terms not otherwise defined herein shall have the meanings ascribed to them in the Rules and Regulations of the LME (the “Rulebook”).

Background

3. The LME set out its ambitions in the strategic pathway document to expand its offering in its core markets and expand into new markets.

4. These new Cash-settled Futures complement the LME’s existing product offering and it is intended that the simpler settlement mechanism will help lower barriers to market entry. This will attract new players to the market that can benefit from using LME hedging to better manage their price risk in the physical metals market.

5. The delivery of the LME’s new Cash-Settled Futures is an important part of the LME’s commitment to deliver greater user choice.

Final Contract specifications

6. The LME has finalised the Contract specifications for the seven new Cash-Settled Futures below:
(a) LME Steel HRC N. America (Platts)
(b) LME Steel HRC FOB China (Argus)
(c) LME Alumina (CRU / Fastmarkets MB basket)
(d) LME Aluminium Premium Duty Paid US Midwest (Platts)
(e) LME Aluminium Premium Duty Unpaid European (Fastmarkets MB)
(f) LME Cobalt (Fastmarkets MB)
(g) LME Molybdenum (Platts)

7. The specifications for the Cash-Settled Futures listed in paragraph 6 above are available on the LME’s website: www.lme.com/newproducts.

8. For the avoidance of doubt, the specifications for the Cash-Settled Futures listed at paragraph 6 have not yet been incorporated into the LME Rulebook or the LME Clear Rulebook. Each of the LME Rulebook and the LME Clear Rulebook shall be updated to include the Cash-Settled Futures specifications, prior to the launch of the Cash-Settled Futures on 11 March 2019.

Ferrous suite

9. Based on market demand for hot rolled coil (“HRC”) contracts, the LME will broaden its steel offering following the successful launch of LME Steel Scrap and LME Steel Rebar in 2015, which have together traded almost 10 million tonnes to-date.

10. Additionally, the LME is working to deliver a Northern Europe HRC contract in response to feedback from market participants.

Aluminium suite

11. These contracts will complement the LME’s global primary physical aluminium contract, allowing the LME to provide price risk management tools across the aluminium value chain.

12. The LME Alumina contract will be priced using a basket methodology in order to better match the pricing dynamics of the physical alumina market.

13. The LME is introducing cash-settled regional aluminium premium contracts in response to market feedback from users who wish to manage their entire aluminium price exposure on a single venue. The LME has been helpfully guided by the market as to the indices which they currently employ.
14. The LME understands that the premium pricing market continues to evolve, and has committed to a user choice model, whereby the LME will support the growth of the market by listing complementary aluminium premium indices, should market participants require these. The LME will continue to work closely with market participants to understand how best it can address this need.

Minor Metals

15. The molybdenum Cash-Settled Future (LME Molybdenum (Platts)) will replace the physically settled LME Molybdenum Contract. From the date of this Notice, Members are no longer permitted to trade the physically settled LME Molybdenum Contract where the Prompt Date for such Contract falls on or after 8pm GMT on 8 March 2019.

16. Members are requested to inform their Clients that the physically settled LME Molybdenum Contract can no longer be traded where the Prompt Date for such Contract falls on or after 8pm GMT on 8 March 2019.

17. The LME is aware that its physically settled cobalt price continues to be employed by some users, and will therefore continue to provide both the physically settled LME Cobalt Contract and the cobalt Cash-Settled Future (LME Cobalt (Fastmarkets MB)) for so long as this remains the case.

Update on Index Providers for Lithium

18. In July 2018, the LME invited a number of price reporting agencies to submit their proposals for the pricing of its lithium contract launching in Q4 2019.

19. The three shortlisted providers – Argus Media, Benchmark Mineral Intelligence and Fastmarkets – presented their proposals to the LME’s Electric Vehicle (“EV”) Metals Advisory Group, which met during LME Week in October 2018.

20. The LME’s EV Metals Advisory Group comprises more than 60 industry participants including representatives from across the entire value chain – from miners, cathode material manufacturers, and battery manufacturers, to auto OEMs and consumer goods manufacturers.

21. The LME will be working with the EV Metals Advisory Group and the broader market to select the most appropriate price provider for the new lithium contract and will announce the chosen provider in due course.

Questions

22. Any questions or requests for further clarification should be directed to the LME Product Development team by email to: ProductDevelopment@lme.com.
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Product Development

cc:  Board directors
     All Committees