Monthly Average Futures

Hedge against the monthly average, in one simple trade

LME
An HKEX Company

SETTING THE GLOBAL STANDARD

Monthly Average Futures

Hedge against the monthly average, in one simple trade

Monthly Average Futures (previously known as LMEswaps) provide the metal community with the opportunity to hedge against adverse movements in the Monthly Average Settlement Price (MASP). They are financially settled for difference between the 'floating' average price and an agreed-now 'fixed' price.

Traded on both the LME's electronic platform LMEselect and the 24-hour telephone market, Monthly Average Futures are designed to mirror physical metal trading, which is often negotiated basis the MASP.

Available for LME members and their clients to trade, Monthly Average Futures enjoy the extra transparency and counterparty protection associated with contracts traded on exchange – namely default protection and member-to-member counterparty risk elimination via LME Clear.

Monthly Average Futures are available for all LME base metals. They also appeal to those who are only able to trade exchange-traded products.

The features	The benefits
Pay or receive the difference between the 'fixed' leg and the 'floating' monthly average	Simple and effective risk mitigation tool, all in one trade
Settled basis Monthly Average Settlement Price	Reflects physical industry pricing convention, enabling near-perfect hedging
Margined basis Notional Average Price	Clear mark-to-market calculation of current exposure and clear cash-flow management
On exchange	Transparent, protected and regulated
Financially settled	A pure financial trade – there is no risk of delivery
Traded on LMEselect and 24-hour telephone market	Ease of access using existing trading systems
Cleared	Mitigation of counterparty risk and the freeing up of bilateral credit lines

Contract specifications

Description	A contract where the difference between the 'fixed' price and the 'floating' Monthly Average Settlement. Price (MASP) is financially settled
Contract size	Same as underlying LME futures contract
Prompt dates	The prompt date for Monthly Average Futures is the last business day of each averaging month: LME Aluminium – Monthly out to 63 months LME Aluminium Alloy – Monthly out to 27 months LME NASAAC – Monthly out to 27 months LME Copper – Monthly out to 63 months LME Nickel – Monthly out to 27 months LME Lead – Monthly out to 15 months LME Tin – Monthly out to 15 months LME Zinc – Monthly out to 27 months
Averaging period	The number of business days in a calendar month
Final settlement day	All open positions for the current averaging month will be closed out for difference two business days after the averaging month with payment of profits and losses made then
Settlement basis	Financially settled for difference between the 'fixed' price and the MASP
Settlement price	The settlement price is the Monthly Average Settlement Price (MASP), which is the average of the daily LME Official Cash Settlement Prices of the relevant metal over the number of business days in the relevant calendar month

Contract specifications cont.

Currency	US dollars
Payment terms	Payment on the final settlement day (two good business days following the final day of the averaging period) via PPS
Trading days	Trading days are based on current LME calendar
Trading platforms	LMEselect and 24-hour inter-office telephone market
Last trading day	For the respective contract, last day and time to trade will be the last business day of the month, before the start of the second Ring, currently set at 12.30 London time, for non-ferrous metals
Margining	Initial and contingent variation margins applied to all Monthly Average Futures in the same way as the relevant non-ferrous LME futures contracts
Daily closing price	The Notional Average Price (NAP) of the relevant metal is used to daily mark to market
Minimum price fluctuation (tick size)	$0.01 per metric tonne
‘Fixed’ leg of Monthly Average Future	The ‘fixed’ price agreed at the time of transaction
‘Floating’ leg of Monthly Average Future	Monthly Average Settlement Price being the average of the daily Official Cash Settlement Prices for the specified month

How Monthly Average Futures work – an example

It is May 2015 and Client A wants to hedge against adverse price movements on a physical buy order of 100 tonnes of copper for delivery in September 2015 which is priced basis the currently unknown September 2015 Monthly Average Settlement Price (MASP).

1 May 2015: **Member B quotes the below on LMEselect**

LMEselect	
Copper Monthly Average Future – September 2015	
Bid	Offer
$6090	$7000

2 May 2015: **Client A buys the 'fixed' leg of the Monthly Average Future at the offer price of $7000 (effectively selling the 'floating' MASP against it)**

Client A pays Initial Margin
Monthly Average Future is margined using Notional Average Price (NAP) throughout term of contract

5 months pass

30 September 2015: **MASP is now $8000**

3 30 September 2015: **The contract is closed for differences at the September 2015 MASP of $8000**

4 01 October 2015: **The difference between the 'fixed' leg of $7000 (agreed in May 2015) and the 'floating leg' of $8000 (discovered on 30 September 2015) is paid in cash on the second business day after the last day of the averaging month**

Therefore Member B pays Client A $1000 (the difference) x 25 tonnes (single lot size) x 4 (number of lots) = $100,000. This profit offsets the loss Client A would have made on the physical buy order

LME
An HKEX Company

THE LONDON METAL EXCHANGE
10 Finsbury Square, London EC2A 1AJ | Tel +44 (0)20 7113 8888

V1.0/1016/WPB