

130 years of managing risk

The origins of the London Metal Exchange can be traced back to the 1570s, but in its current form it celebrates its 130th anniversary in 2007. What is more remarkable is that the strengths of the LME, honed serving the demanding standards of the non-ferrous metals community worldwide, continue to serve as an enabler for its future success.

The Exchange has seen major change since its inception in 1877, having witnessed an era of profound global, technological, political, environmental and social change; changes in fact, that touch every aspect of modern life. Copper and tin were traded on the LME from the start, with lead and zinc officially introduced in 1920. The Exchange closed briefly during both the first and second world wars, but it was during the second half of the twentieth century that it saw the greatest changes; in working patterns, trading environments, advanced globalisation and technology developments.

In 1963, the Exchange opened its first European warehouse, in Rotterdam. Today, it has a network of over 400 international warehouses across 35 approved locations in 13 countries. In 1978, the Exchange introduced its primary aluminium contract, which, after a slow but steady start, is now the Exchange's most liquid contract. Nickel followed shortly after in 1979; an aluminium alloy contract in 1992 and a North American equivalent aluminium alloy contract in 2002 (NASAAC).

A key milestone in the Exchange's development came in 1988 when the LME became a cleared and regulated market, effectively protecting clearing members from the risk of business failure by other clearing members. This has greatly contributed to the growth in volumes the Exchange has seen since then; taking volumes to a total of 78m lots traded in 2006, equivalent to US\$8100bn in monetary terms.

From January 2000, the London Metal Exchange Ltd became a wholly owned subsidiary of a new company – LME Holdings Limited. The former members retained their membership of the Exchange and were offered shareholdings in LME Holdings Ltd on a scaled basis according to the type of member. In 2007, to facilitate access to the Exchange from prospective new members, the Exchange separated the ownership and trading rights to create two classes of shares, ordinary shares and B shares, which are required by any organisation wishing to trade or clear on the Exchange.

In 2001, the LME introduced LME Select, one of the first exchanges to offer side-by-side trading with open-outcry trading and telephone trading. Having already extended the opening hours in 2006 to better synchronise with Asian trading, the Exchange confirmed in 2007 that it had gained permission to operate the platform in a number of new jurisdictions, taking the full list to: Australia, Hong Kong, Japan, China, Singapore, South Africa, Switzerland, the UK and the US. In May 2005, the LME introduced the world's first global plastics futures contracts, for polypropylene and linear low density polyethylene, with the addition of regional contracts in June 2007. LMEmini contracts, for copper, aluminium and zinc, were introduced in December 2006.

Right: Trading during the London Metal Exchange's open out-cry session.






Left: Ring dealing member-broker with associated trading team.

double the volumes of business within the next five years. The strategy leverages from areas of strength – non-ferrous metals and futures trading, into two new areas: steel trading and over-the-counter.

The first part of that strategy came earlier this year when the Exchange confirmed that it will launch two regional contracts for physically-delivered steel billet on 28 April 2008. In August 2007, it confirmed the contract specifications with initial delivery points of Turkey and South Korea. Steel has, and is, a much-talked of contract by all exchanges and this contract naturally fits with the skills of the LME. The contracts are being developed with the benefit of the LME's long experience, and constant dialogue with the steel industry means the contract specifications meet the already-accepted regional specifications. In the same vein, the Exchange's wide-ranging knowledge of international physical delivery and warehousing has additionally enabled it to set about establishing viable, regionally-specific delivery points: this is a vital feature of the LME contract as the element of physical delivery will ensure price convergence and, therefore, price credibility.

As it looks forward to the next 130 years, the Exchange is constantly looking at ways of improving what it does, developing new products and maintaining its position as the world's leading futures exchange for the trading of non-ferrous metals. In response to this dynamic, in January 2007 the LME's chief executive, Martin Abbott, announced the Exchange's first ever target for growth. The '2 by 2' strategy will see the LME developing new areas of organic growth from two areas of existing skill and experience, designed to

It is important to recognise that the market in which the LME operates is constantly moving; as an Exchange it has never stood still and become complacent. The Exchange has seen and responded to a great many significant developments in the last 130 years, and there is no evidence to suggest the next 130 will be any less eventful. 

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- *New Order Prospecting rights to two PGM farms on the Eastern limb of the highly prospective Bushveld Complex in South Africa*
- *Eastern Limb is the world's premier platinum group metal producing region comprising approximately 80% of world production*
- *Acquired PGM Resources potential >50M oz*
- *Potential access to additional 100m oz*
- *Strong DME & Government Support for the project*
- *Resource Definition Drilling program currently underway which has already confirmed the presence of both the Merensky and UG2 reefs which occur on both the nearby Modikwa (Anglo Platinum) and Marula (Implats) farms*
- *Continued strong demand for platinum vs limited supply gives the potential for high returns*



Figure 1. Location of NKWE PGM Farms

