

LME launches study to revitalise its aluminium alloy contract

By Perrine Faye - Deputy Chief Correspondent, perrine@basemetals.com (+44(0)20 7929 6339)

Monte Carlo, 03 June 2008 - The London Metal Exchange (LME) has started a study on its aluminium alloy contract with the hope of making it more successful and better accepted by the secondary aluminium industry, especially in Europe, its CEO Martin Abbott said on Tuesday.

"The NASAAC (North American Special Aluminium Alloy) has been a successful and is a widely used contract in North America. The aluminium alloy contract which serves primarily Europe is not yet well accepted," Abbott said at a Bureau of International Recycling (BIR) convention in w:st="on"Monaco.

George Adcock, the LME's non-ferrous business manager, "is undertaking at the moment a study into the aluminium alloy industry (on) what could be done to improve the relationship between the secondary aluminium industry and the alloy contract."

He said the study aimed at "finding ways to make the alloy contract more successful in the future."

In 1991, following extensive consultation with the industry, the LME introduced futures and traded options contracts for aluminium alloy. First traded in 1992, these contracts were specifically designed to provide a more appropriate hedging medium and a more realistic reference price basis for the secondary aluminium industry than was previously offered through the primary aluminium contract -- the correlation between primary and secondary aluminium is weak.

Initially, there were three grades of alloy for the LME's global contract - European, North American and Japanese.

Ten years later, the LME brought on a regional alloy contract to meet specific requests from the North American automotive industry - the product is typically used in engine blocks. NASAAC was a modified grade of A380.1 alloy.

Since its launch, NASAAC has gradually become the more active of the two alloy contracts. In 2002, there were 896,000 and 173,000 lots of alloy and NASAAC traded respectively. NASAAC overtook the original contract the following year, and in 2007 traded a record 1.246 million lots, versus 492,000 lots of alloy.

"Part of the reason for that (the lack of success in the original) is the fact that there are other sources of price which the industry uses -- from various parties including Metal Bulletin's secondary ingot prices in Europe," Abbott said.

"The fact that there are multiple reference prices available means that the industry will face greater difficulty in finding a way to hedge the risks," he added.

Inventory levels are also higher for the regional contract - 123,240 tonnes of NASAAC and 37,140 tonnes of alloy. Further regional contracts, which have been added to plastics, may be the route that the LME follows for alloy, Adcock hinted.

Some seven million tonnes of recycled aluminium is currently produced annually throughout the world. Much of this is produced as varying grades of aluminium alloy for specialist use, particularly for die-casting products for the automotive industry.

Industry specialists are gathered in w:st="on"Monaco this week for the Spring Convention of the BIR, attended by 1,200 delegates.