

LME will not introduce more secondary metals contracts - interview

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Monte Carlo, 03 June 2008 - The London Metal Exchange (LME) has no intention of listing separate contracts for scrap as this would divide liquidity and the secondary industry, bar in aluminium, can efficiently price its material against the exchange's primary markets, CEO Martin Abbott said on Tuesday.

"I don't think that we need to introduce separate contracts for scrap. Whenever possible, we want to concentrate liquidity rather than split it," he said in an interview.

"All we would achieve by making any kind of separation of the contracts would be to divide liquidity and making it more difficult to transact business, and I simply don't think that it is a route that we will be willing to take," he added at a Bureau of International Recycling (BIR) convention in w:st="on"Monaco.

Abbott said the scrap and secondary industry were "extremely important" for the LME across a number of contracts, mainly copper, aluminium, nickel and lead.

"I see the secondary industry as being an equal constituency in the LME franchise," he said.

But the correlation between the primary and secondary industries is "sufficiently close" to make pricing of scrap possible via the LME contracts, Abbot said. It is particularly strong for copper and lead, and there is a strong relationship between nickel and stainless steel as well.

The exception is aluminium, where the correlation between primary and secondary is weaker due to the different nature of these businesses. This is why the LME introduced two secondary contracts -- aluminium alloy in 1992 and NASAAC (North American Special Aluminium Alloy) ten years later.

"For copper, the pricing of scrap is so well integrated into the pricing of primary copper in terms of the correlation that the copper scrap industry is really part of the LME's customer base," Abbott said.

"And the recycling aspect of the lead market is enormous -- the trend over the past 10-15 years has been away from building primary lead plants and a reliance on secondary plants as a source of lead," he added.

For nickel, the situation is more complex as its main end-user market, stainless steel, also depends on other materials like iron. But here too, the LME nickel market is used as a hedging tool.

"The importance of stainless scrap as a raw material in the stainless industry is critical and the potential for more pricing of nickel units in stainless scrap against the LME is huge," Abbott said.

"The correlation in terms of the value of a nickel unit is very strong - the complication in nickel, as it is with ferro-nickel, is the issue of the iron credit in the stainless scrap parcel," he added.

The LME intends to continue to promote the use of the LME as a hedge against the nickel element in stainless steel, despite the extreme volatility in the nickel price over the past year.

"Some stainless steel mills have blamed the LME for volatility in the nickel market, but I think most of them realise that nickel itself is a volatile market," Abbott said. "You have massively expanding stainless demand and nickel at times is in a situation of stress in terms of supply, so it has all the circumstances required for volatility."

Abbott also hoped to achieve a strong correlation between its newly-launched billet steel contracts and steel scrap

"We think that over time there is potential for a relationship between steel scrap and LME billet that will be as powerful as the relationship between copper scrap and LME copper," he added.