

# LME Zinc and Lead: change, modernisation and indices

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SETTING THE GLOBAL STANDARD



## Action Plan



## LME: Strengthening the market

In March 2023 the LME published its Action Plan to strengthen its market



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## New Closing Price Methodology

The new closing price methodology is a key measure in modernising and strengthening the market



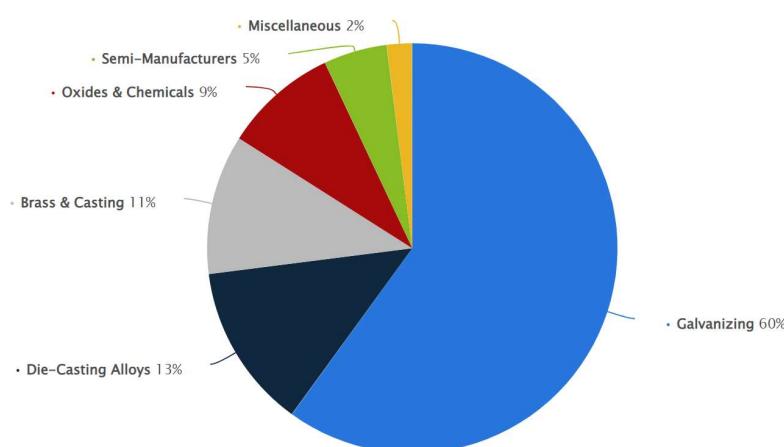
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## Zinc Jumbos



### What is zinc used for?

Global end use of zinc by category



Source: Statistica.com

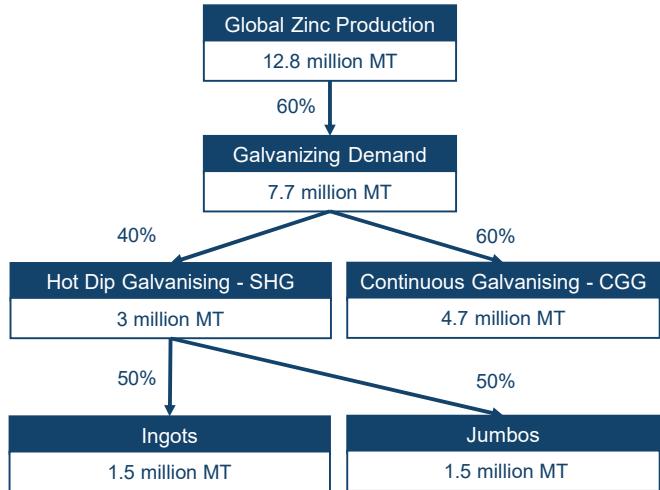


## Zinc jumbos background

A large segment of the market uses jumbos, whilst the LME contract allows only ingots

### Background

- Corrosion protection for steel (galvanizing) accounts for roughly 60 % of world zinc demand
- Galvanizing has two main forms, hot dip galvanizing, which uses SHG and continuous galvanizing which uses a Zinc bath that is alloyed mainly with Aluminium (CGG)
- SHG represents 40% of zinc demand for galvanizing, CGG 60 %
- Most CGG galvanizers buy alloyed CGG spec jumbos, but some buy SHG jumbos and alloy metals separately
- Only SHG metal is relevant for the LME Zinc contract
- SHG for galvanizing is delivered 50 – 50 % in forms of ingots (currently LME deliverable) and jumbos (not LME deliverable)



Source: LME

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## Why add jumbos?

Market engagement showed overwhelming support for change

- Outreach out to 50+ entities, obtained extensive feedback from industry (consumers, producers, traders, trade bodies)
- Overwhelmingly positive response received for the proposal
- Wide acceptance of shape proposed at IZA conference

### Rationale for adding jumbos

- Make the LME Zinc contract more representative of the underlying zinc market
- Provide a market of last resort for an additional 12% of the zinc market
- Favourable inventory financing conditions for LME deliverable material
- More deliverable (and delivered) stock can help improving liquidity in the LME Zinc contract
- Sows and T-bars are deliverable under the LME Aluminium contract along with ingots proving the concept works

### Approach

- Our approach is to find the largest common denominator shape that is consumable in all three regions of consumption (Asia, Europe, US)
- Consider practical handling, logistics and storage requirements
- Warrants need to fit into the 25 MT lot size
- We do not aim to account for every single feeding equipment requirement – the material needs to be widely, not universally consumable.

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## What does our specification allow?

From the 27 October 2023, jumbos become a deliverable shape for the LME Zinc contract

- The LME conducted a comprehensive study of 38 different jumbo shapes available on the market
- 12 jumbos would be deliverable (if registered)
- An additional 5 could become deliverable if holes are added (not a difficult change)

=> Conservative approach guaranteeing wide consumability of LME specification jumbos throughout main consumption regions

### Jumbo specification:

- a) min weight (kg): 900; max weight: 1200
- b) max length (mm): 1450
- c) max width (mm): 600
- d) max height (mm): 350
- e) minimum number of holes: 2
- f) minimum hole diameter (mm): 70
- g) stackable
- h) forkliftable without pallets
- i) brand, grade and cast reference indelibly marked on the jumbo



- Typically longer than 1450 mm
- Deliverable subject to length



- Typically fit LME spec
- Weight the main variable



- Won't fit LME spec
- Too high, no holes
- Are being phased out

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## Lead since the BCOM inclusion

## LME average daily volumes

Lead volume activity has markedly changed in 2023. Why?



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## The role of indices and ETPs

Commodity indices and exchange traded products track the price and returns of commodities without the need to hold physical commodities or futures

	Indices	ETPs
<b>What are they?</b>	Index tracking a basket of commodities	Exchange Traded Funds/Notes/Commodities
<b>Leading products</b>	S&P Goldman Sachs Commodity Index, Bloomberg Commodity Index, Rogers International Commodity Index	SPDR Gold Shares, iShares Gold Trust, iShares Silver Trust, United States Oil Fund
<b>Who trades them?</b>	Index-tracking funds	Investors seeking exposure to commodity risk
<b>How large is the market?</b>	~\$300-400bn	~\$250bn
<b>What do they benchmark?</b>	Futures Settlement Price	Futures Settlement Price

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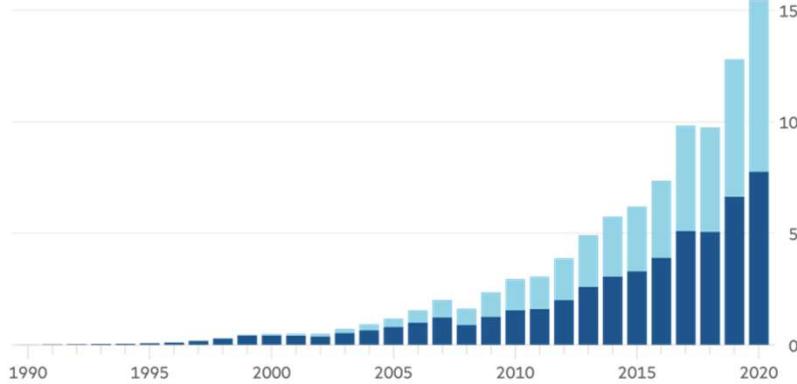
## Growth of passive investing

Indices and ETPs are part of a wider trend towards passive investment

### Passive attack

Assets under management (\$tn)

Index funds      ETFs



Source: Investment Company Institute, Morningstar Direct, and Strategic Insight Simfund  
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## Indices and their impact

Indices typically have standard roll periods and annually assess the component weighting

### BCOM index weighting 2023

- Lead included in the BCOM for the first time
- Initial weighting of 0.936%
- Index tracked by ~\$120bn of AUM
- Net result of an increase in open interest

Group	Commodity	Ticker	2023 Target Weight	2022 Target Weight
Energy	Natural Gas	NG	7.9388780%	7.9548670%
	WTI Crude Oil	CL	7.7716540%	8.0368620%
	Brent Crude Oil	CO	7.2283460%	6.9631180%
	Low Sulphur Gas Oil	QS	2.7136480%	2.6496240%
	RBBO Gasoline	XB	2.1961970%	2.1728010%
	ULS Diesel	HO	2.0986570%	2.0526330%
Grains	Soybeans	S	5.7839800%	5.7888440%
	Corn	C	5.5132960%	5.5899030%
	Soybean Meal	SM	3.5284550%	3.5200260%
	Soybean Oil	BO	3.2648360%	3.1716110%
	Wheat	W	2.7939000%	2.8463610%
	HRW Wheat	KW	1.7543100%	1.6636530%
Industrial Metals	Copper	HG	5.2289070%	5.3982920%
	Aluminum	LA	4.0856610%	4.2457680%
	Zinc	LX	2.9053380%	3.1189270%
	Nickel	LN	2.7796880%	2.7134270%
	Lead	LL	0.9361220%	0.0000000%
Precious Metals			15.94%	15.48%
	Gold	GC	14.8532180%	15.0000000%
	Silver	SI	4.5901960%	4.7468930%
Softs	Coffee	KC	2.8579300%	2.733550%
	Sugar	SB	2.55592390%	2.7943260%
	Cotton	CT	1.5589050%	1.5032870%
Livestock	Live Cattle	LC	3.3187010%	3.5807520%
	Lean Hogs	LH	1.7432180%	1.7546550%

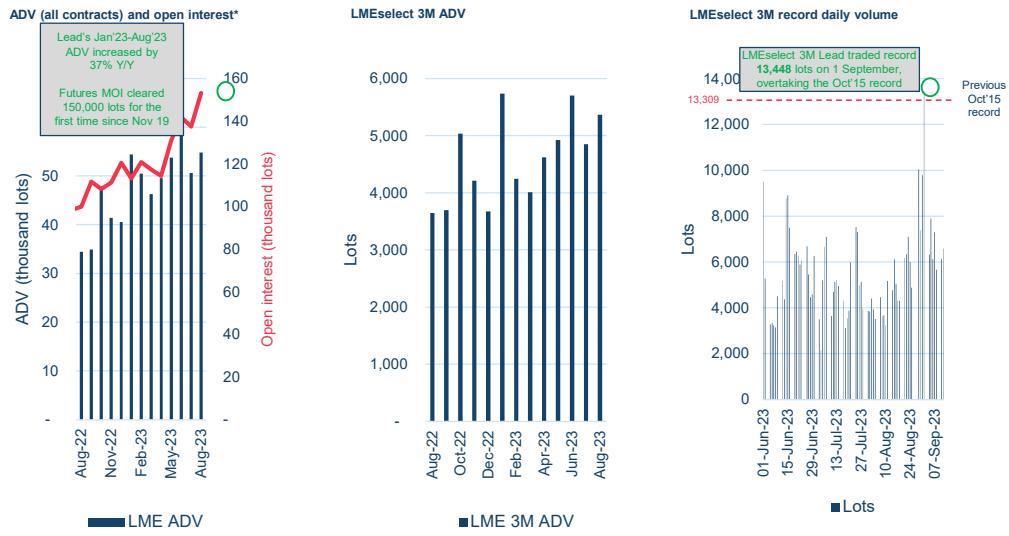
Source: BCOM



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## Developing liquidity in Lead

Lead's inclusion in BCOM has been followed by electronic volume and open interest growth



1. Source LME  
2. Monthly ADV up to 31 Aug 23, daily LMESelect 3M volumes up to 11 Sept 23

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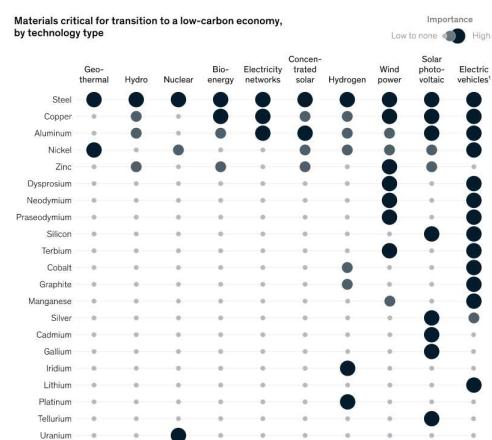


## Looking to the future

Indices reflect and impact markets; an increase of weighting and AUM would be important for metals

Energy dominates weightings at present ... will they in future?

Table 2: S&P GSCI Reference Percentage Sector Weights <sup>1</sup>		
Sector	2022 RPDW <sup>2</sup>	2023 RPDW
Energy	53.47725%	61.46540%
Agriculture	20.48023%	17.97898%
Livestock	7.361976%	5.856723%
Industrial Metals	12.71223%	10.57640%
Precious Metals	5.968309%	4.122495%



Includes energy storage.  
Source: Critical raw materials for strategic technologies and sectors in the EU: A foresight study, European Commission, Mar 9, 2020; The role of critical minerals in clean energy transitions, IEA, May 2021; McKinsey analysis.

1. Source: SP GSCI  
2. Source: McKinsey

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