



To: All members and other interested parties

Ref: 22/064

Classification: Trading

Date: 14 March 2022

Subject: **NICKEL MARKET UPDATE: ARRANGEMENTS FOR THE RESUMPTION OF TRADING; APPLICATION OF DAILY PRICE LIMITS FOR ALL BASE METALS; DELIVERY DEFERRAL ARRANGEMENTS; NICKEL ACCOUNTABILITY LEVELS; INFORMATION RELATING TO OTC ACTIVITY; AND DETERMINATION OF OFFICIAL AND CLOSING PRICES DURING A DISRUPTION EVENT**

## Summary

1. This Notice: (i) confirms that trading in LME Nickel Contracts will resume at 08:00 London time on Wednesday 16 March 2022 (“**Resumption Date**”) on all LME Execution Venues; (ii) sets out details of the application of daily upper and lower price limits to all outright Contracts in all Base Metals on all Execution Venues; (iii) sets out details of the deferral of delivery to Wednesday 23 March at level for all Nickel Contracts entered into prior to Wednesday 16 March and due for delivery between Wednesday 16 and Tuesday 22 March inclusive; (iv) details the Accountability Levels that shall apply to Nickel Contracts with effect from the Resumption Date and outlines information gathering measures that shall apply to Members in relation to aggregate on-exchange and OTC Nickel positions; and (v) provides additional guidance on the LME’s approach to the determination and publication of Official Prices and Closing Prices during any period in which any of these prices are not formally published by the LME owing to a disruption event.

## Defined Terms

2. Capitalised terms not otherwise defined in this Notice shall have the meaning ascribed to them in the LME Rulebook and related Notices, as applicable.

## Background

3. Against the backdrop of widely reported large short positions (originating primarily from the OTC market), combined with geopolitical news-flow and a background environment of low metal stocks, the LME concluded that disorderly market conditions had arisen on the LME’s nickel market on Tuesday 8 March. Since then, the LME has been proactively working with stakeholders to assess current market conditions and the conditions for the resumption of trading. The LME notes in particular that a large client of the market has now published details relating to the support of a banking consortium, which could suggest that the potential for further disorderly conditions may be mitigated.
4. In Notice 22/055, the LME set out the criteria that would need to be met in order for Nickel trading to resume and further confirmed that, when the criteria have been met, the LME would inform the market of the date on which resumption of Nickel trading would occur. This Notice sets out the operational arrangements that the LME will put in place to support the orderly resumption of trading, meeting resumption criterion (i) set out in Notice 22/055. In relation to criterion (ii), the LME has now concluded its analysis of the proposed voluntary netting arrangement and in light of limited potential uptake, has concluded that it is not appropriate to undertake this exercise at this time. In light of the resumption



criteria having now been met, trading in Nickel Contracts will resume as soon as practicable, being 08:00 London time on 16 March.

5. This Notice details the operational arrangements that will support the resumption of trading. Where necessary, the Special Committee has exercised its powers in relation to this Notice. The measures set out in this Notice include: the application of daily price limits to all metals (with effect from 15 March for all metals aside from Nickel, and with effect from 16 March for Nickel); the deferral of delivery to Wednesday 23 March at level of all Nickel Contracts entered into prior to Wednesday 16 March and due for delivery between Wednesday 16 and Tuesday 22 March inclusive; the temporary revision of Accountability Levels for Nickel from 6000 Lots to 3000 Lots on an aggregate basis, including OTC positions; and additional information and periodic reports that Members shall be required to provide to the LME in relation to aggregate on-exchange and OTC Nickel positions. Additionally, this Notice provides further information on the LME's approach to continuing to determine and publish the Official Prices and Closing Prices where these prices are disrupted by, for example, an applicable daily price limit being hit during the pricing determination process, as described further below.
6. The LME has also received many comments as to the broader parameters of the Nickel Contract – and, in particular, the low stock environment for LME deliverable-grade nickel, which could be capable of exacerbating situations such as the present one. In addition to the immediate steps set out in this Notice, the LME will ensure that such concepts (including, for example, enhanced position limits, further transparency as to position-holders, and a broader set of deliverable physical nickel grades) are fully considered.

### Resumption of Trading

7. Trading of Nickel Contracts shall resume at 08:00 London time on Wednesday 16 March ("**Resumption Time**"), on all LME Execution Venues. From Thursday 17 March, trading of Nickel Contracts shall follow the usual published LME times as set out on the LME website – <https://www.lme.com/en/trading/trading-venues/trading-times>.
8. Trading shall resume on LMEselect in the usual way, with the market opening in a pre-open state, but pre-open shall commence at 07:30 London time on the Resumption Date. From the start of pre-open, Members may begin submitting orders to LMEselect to help rebuild the order book ahead of reopening.
9. For the avoidance of doubt, no trading shall be permitted in Nickel Contracts on any of the LME's Execution Venues (including the inter-office market) prior to the Resumption Time.

### Daily Price Limits

10. In Notice 22/055 the LME confirmed its intention to set a daily maximum limit-up and limit-down for order submission ("**daily price limits**").
11. Whilst price moves in the Nickel market have been a key focus, the LME has observed high levels of volatility across the base metals markets more broadly. Market participants have raised concern regarding the risk of sudden, extreme price moves in other metals, particularly given the geopolitical backdrop. Having regard to such concerns and its own assessment of market conditions, the LME has taken the decision to set daily price limits in either direction for all base metal outright Contracts, on all Execution Venues.
12. The LME will apply daily price limits in either direction for all base metal outright Contracts except Nickel, with effect from the start of trading on 15 March, and will apply daily price limits in either direction for Nickel outright Contracts with effect from the start of trading on 16 March. Paragraph 13 specifies precise daily price limits for all metal outright Contracts except Nickel, and provides an indicative range in relation to Nickel. The precise levels of these limits for Nickel will be confirmed by Notice, by 14:00 London time on 15 March.
13. The upper daily price limit for any outright Contract will be the previous Business Day's Closing Price for that contract, plus (i) for Nickel, at least 5% having previously guided 10%, and will keep under



review in light of market conditions, or (ii) 15% for all other base metals, in both cases of the previous Business Day's Closing Price for the 3-month Contract for the relevant metal. The lower daily price limit for any outright Contract will be the previous Business Day's Closing Price for that Contract minus (i) for Nickel, at least 5% having previously guided 10%, and will keep under review in light of market conditions, or (ii) 15% for all other base metals, in both cases of the previous Business Day's Closing Price for the 3-month Contract for the relevant metal. For the avoidance of doubt in relation to Nickel, the previous Business Day's Closing Price for these purposes shall be the Closing Price on 7 March 2022. The Notice referred to in paragraph 12 shall also confirm the USD values for the Closing Price curve, as at market open on the Resumption Date.

14. Trades on Execution Venues other than LMEselect will be prohibited, through manual controls, from being executed outside the daily price limit. In relation to the Ring and the inter-office market, where an outright trade is entered into LMEsmart outside of the applicable limit-up and limit-down range in either direction, such action shall be treated as an error trade and therefore invalidated under Regulation 13.1 of Part 3 of the LME Rulebook. The LME shall then invalidate such error trade and remove the erroneous trade in accordance with the *Policy on Order Cancellation and Controls*. Members should note that where outright trades are entered into LMEsmart outside of the applicable limit-up and limit-down range on an ongoing basis without regard to this Notice, this may be treated as a breach of the LME Rulebook.
15. Concerning trading on LMEselect, in the event that a bid is entered above the higher daily price limit or offer is entered below the lower daily price limit, trading will continue but such order submission will be rejected. However, carry trading will still be enabled (provided that the carries trade within their respective daily price limits), allowing (for example) date adjustments and tom-next rolls to be booked. Members should be aware that where they conduct a 3-month outright trade with a Client and they wish to adjust such trade, this trade will still need to be registered within the daily price limits, irrespective of where any carry is traded.
16. The LME shall continue to apply its waterfall methodology in the discovery of Closing Prices and will apply expert judgement to disregard any prices that it deems erroneous. However, while it is common practice for the LME to observe carry pricing in order to set Closing Prices, the Closing Prices for all Contracts will be constrained by the daily price limits for the respective outright Contract, until further notice. The LME is committed to monitoring its markets with a view to maintaining orderliness and may issue further guidance on daily price limits in due course or may adjust the daily price limits further, at its discretion.
17. To the extent that this Notice contradicts or conflicts with any other policy or Notice issued by the LME in respect of daily price limits, this Notice shall prevail until further notice.

### **Delivery Deferral**

18. In Notice 22/052 (and further confirmed in Notice 22/055) the LME confirmed that Nickel delivery positions would continue to roll forward at level until delivery recommences, on the first Settlement Business Day following the Resumption Date. The LME confirms the deferral of delivery to Wednesday 23 March at level of all Nickel Contracts entered into prior to Wednesday 16 March and due for delivery between Wednesday 16 and Tuesday 22 March inclusive. Deferrals will be facilitated by instructions issued by the LME in relation to the manual booking of carry trades against longs selected by the Exchange. Those with long positions for prompt on those days who are subject to deferred delivery will need to book a carry against the respective shorts selected by the Exchange, at level. In both instances the Exchange will provide instructions to the relevant Members with regards to the trade bookings required.
19. This measure is intended to ensure that the market is not required operationally to address any delivery obligations in the near term following the Resumption Date, and to further help ensure that the market has been stabilised before delivery obligations arise. Following the Resumption Date, participants may



choose to trade carries to effect a Nickel position on a Prompt Date between Thursday 17 and Tuesday 22 March, should they wish to make or take delivery on one of these dates.

### Accountability Levels, Information Relating to Nickel Positions and Margin Requirements

20. Pursuant to LME Regulation 12.1.4 of Part 2, Members shall be required to disclose, by 20:00 each Business Day until further notice, all OTC positions in Nickel greater than 100 Lots, as described further in this paragraph. In addition, Members shall procure that Clients provide a rationale to the LME where the LME requests this from the Client. This requirement shall apply at legal entity level. The position reported must be from the perspective of the position holder, with positions held by Members reported in separate rows to that of their Clients. Members must report using the report template provided by the LME and set out in the Annex. Position reports must be sent to [market.surveillance@lme.com](mailto:market.surveillance@lme.com). Any queries or concerns should be directed to [market.surveillance@lme.com](mailto:market.surveillance@lme.com).
21. From the Resumption Date and until further notice, Accountability Levels for Nickel shall be reduced from 6000 Lots to 3000 Lots in line with the framework set out in the Policy Relating to Position Management Arrangements<sup>1</sup>. Where a Member or a Client has a position above the Accountability Level in this paragraph, or the LME otherwise deems it appropriate at its absolute discretion, the LME shall request the rationale for the position holding from the Client. The arrangements set out in this paragraph will operate on an aggregate basis across (i) Members; and (ii) on-exchange and OTC positions.
22. Members are reminded that LME Clear may, under Clearing Procedure C:5, require a Member to provide additional Collateral if LME Clear determines that further amounts of Collateral are necessary to satisfy the Member's Margin Requirement. LME Clear may call for additional Collateral to address risks including (but not limited to) delivery risk, concentration risk, wrong-way risk and credit risk.

### Determination of Official Prices Affected by Disruption Events

23. In Notice 22/054 the LME confirmed that with effect from 8 March 2022, it would not determine Official Prices or Closing Prices for Nickel for the duration of the Nickel trading suspension. During the suspension, the determination of these prices has therefore been disrupted. Further, the determination of these prices may be disrupted in the near term following the resumption of trading, as described further in paragraph 25. This section of the Notice explains how the LME will determine Official and Closing Prices that are subject to a **"Disruption Event"** (as defined in paragraph 25).
24. Official Prices and Closing Prices are variously (and as detailed further in the applicable Pricing Methodology at <https://www.lme.com/en/company/market-regulation/benchmark-regulation>), used as input data for the MASPs and NAPs. These prices in turn are used by the LME to price MAFs and TAPOs. In light of the Nickel suspension, this Notice provides guidance as to how these prices will be calculated during a monthly averaging period in which a Disruption Event occurs. For the avoidance of doubt, this approach shall apply in relation to all metals where a Disruption Event occurs. To ensure the integrity of the Monthly Average Settlement Price ("**MASP**") and Notional Average Price ("**NAP**") calculation averaging periods during periods affected by a Disruption Event (defined below), each Business Day within the period of a Disruption Event shall continue to count as a Business Day for the purposes of each pricing calculation. However, the Official Price / Closing Price for each affected Business Day will instead be the next available Official Price / Closing Price (as applicable) in the relevant averaging calculation. In this way, the number of Business Days within the relevant averaging period will remain the same overall. The LME understands that this is an important consideration in relation to hedging transactions that are entered into OTC, and which relate to on-exchange MAF and TAPO positions.
25. A Disruption Event for the purposes of paragraph 23 shall include any event that causes the LME not to publish an Official Price or Closing Price for the relevant metal, for a particular Business Day. Without limitation, Disruption Events shall include the following:

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<sup>1</sup> Notice 21/141.



- a) any Business Day on which trading is suspended for the relevant metal (unless the suspension takes effect after the LME has determined the Official Price / Closing Price for that day and the LME considers the price(s) to be reflective); and
  - b) for any metal, where a daily price limit is hit for any Prompt Date or would be implied to be hit by a combination of an outright and a carry, by way of a trade taking place at the daily price limit, a bid being placed at an upper limit, or an offer being placed at a lower limit, during the period within which the relevant price is being determined on a given Business Day.
26. The LME shall, in its absolute discretion, determine whether a Disruption Event has occurred. Typically, a Disruption Event in any Prompt Date for the Official Price shall apply to all Prompt Dates for which Official Prices are determined. Similarly, a Disruption Event in any Prompt Date for the Closing Prices shall apply to all Prompt Dates for which Closing Prices are determined. However, the LME may use expert judgement to make its determination.
27. Regulation 14 of Part 3 sets out prohibited behaviours, and Members are reminded of their obligations under this Regulation, in particular in the context of Disruption Events.
28. Where the LME has determined, in its absolute discretion, that a Disruption Event has occurred, the LME will inform the market by Notice as soon as possible. Market participants are advised that, given the types of Disruption Event listed above, notification of a Disruption Event may occur on short notice.
29. Subject to paragraph 25 above as it applies to Official Prices in particular, the MASP and NAP values, calculated by the LME in accordance with the approach in paragraph 24, will continue to be published via the LME's market data feeds in the usual way throughout the Nickel suspension period.
30. The LME understands that some market participants use averaging calculations based on the Official Prices and/or Closing Prices to value OTC averaging contracts. Market participants are reminded that they should have regard to the contractual terms with their counterparties in determining the impact that the Nickel suspension (and consequent effect on LME prices) may have on these contracts. The guidance in this Notice should not be relied on in isolation to assess the impact to OTC contracts.

### Next Steps

31. The LME shall undertake heightened monitoring on all trading following the resumption of Nickel trading. The LME's review of trading activity and Nickel market conditions leading up to the suspension is ongoing, and will be informed by the information obtained under its information gathering powers in the LME Rulebook. If that review indicates that there may have been abusive activity by one or more participants, either on the LME's market or on the LME in combination with the OTC market, the LME has powers under the LME Rulebook to commence a formal investigation.

### Queries

32. Members should direct any general questions relating to this Notice to the LME Relationship Management team at [RM@lme.com](mailto:RM@lme.com). Queries in relation to the Accountability Levels and information relating to Nickel positions should be directed to [marketsurveillance@lme.com](mailto:marketsurveillance@lme.com).

**James Cressy**  
**COO**

cc: Board directors  
Special Committee  
Nickel Committee  
User Committee

## Annex

## OTC position reporting template (Excel or CSV format)

Field Name	Position Holder Identity	Position Holder LEI	Metal	Contract Description	Currency	Prompt	Option Type	Strike	Position Size
<b>Mandatory (M), Optional (O), Conditional (C)</b>	M	C	M	O	M	M	C	C	M
<b>Description</b>	Full Legal Entity Name	LEI (if applicable)	Metal Code for Nickel - NI	Description of OTC product	Currency of position	Date of delivery/expiration	Leave blank if not applicable 'C' = Call; 'P' = Put	Leave blank if not applicable	Position in tonnes
<b>Format</b>	ALPHANUM-256	ALPHANUM-20	CHAR-2	ALPHANUM-256	ALPHANUM-3	DD/MM/YYYY	ALPHANUM-1	DECIMAL 6 PLACES	DECIMAL 6 PLACES
<b>Sample</b>	ABC TRADING LTD	123456789ABCDEFGHIJK	NI	Averaging	USD	20/04/2022	C	25000.0000	##### ##