

To: All members and other interested parties

Ref: 23/120

Classification: Trading

Date: 5 July 2023

Subject: **CHANGES TO DAILY PRICE LIMITS FOR CERTAIN BASE METAL CONTRACTS**

Summary

1. This Notice confirms the introduction of a new calibration methodology for the daily upper and lower price limits for base metals (the “**Daily Price Limits**”)¹. This Notice also updates (following the application of the new methodology) the Daily Price Limits for outright Contracts in Aluminium and Copper on all Execution Venues, decreasing them from 15% to 12% with effect from 24 July 2023. For completeness, this Notice also restates the Daily Price Limits for all other base metal Contracts. This Notice should be read in conjunction with Notice 22/067², which describes more fully how Daily Price Limits operate on the LME’s Execution Venues.

Background

2. The Action Plan to Strengthen the LME Group’s Markets³ (the “**Action Plan**”) and the appended Working Paper on Daily Price Limits (the “**Working Paper**”), published 30 March 2023, outlined the LME’s intention to introduce a new calibration methodology for its Daily Price Limits. The new methodology is being implemented in response to an Oliver Wyman Independent Review recommendation to calibrate the Daily Price Limits at a more granular level.
3. The Working Paper confirmed that the Daily Price Limits will be a permanent feature of the LME’s market structure going forward, and provided detail on the proposed new methodology for their calibration.

Defined terms

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

Daily Price Limits – Calibration Methodology

5. This Notice confirms that the LME has adopted the new calibration methodology. The calibration review process for the Daily Price Limits shall occur bi-annually as well as on an ad-hoc basis where circumstances warrant additional review including, for example, the Daily Price Limits frequently being hit (which may indicate that they are calibrated too narrowly) alongside other scenarios such as a fundamental change in volatility or liquidity.
6. The methodology considers quantitative analysis with a qualitative overlay. Inputs for each metal include, but are not limited to, historical volatility as well as current market conditions and volatility, taking into account macroeconomic factors and other relevant information.

¹ These levels are currently set out in Notice 22/080, and this Notice supersedes Notice 22/080.

² <https://www.lme.com/api/sitecore/MemberNoticesSearchApi/Download?id=ac564a6b-b70f-4ae9-9f0d-d9e5decdea6e>

³ <https://www.lme.com/api/sitecore/MemberNoticesSearchApi/Download?id=028e8722-4960-40c7-a7b6-5e861cec8068>



7. Following the application of the new methodology, the LME determines that it is appropriate to reduce the Daily Price Limit for Aluminium and Copper from 15% to 12%.

Daily Price Limits – Applicable Limits

8. With effect from 24 July 2023 and until further notice, the LME shall implement Daily Price Limits for base metal Contracts as follows:

Metal / Contract	Limit up	Limit down	Applicable Execution Venues	Effective date
Aluminium and Copper outright	Previous Business Day's Closing Price (whether or not it is subject to a Disruption Event) for the relevant Contract, <u>plus</u> 12% of the previous Business Day's Closing Price for the 3-month Contract	Previous Business Day's Closing Price (whether or not it is subject to a Disruption Event) for the relevant Contract, <u>minus</u> 12% of the previous Business Day's Closing Price for the 3-month Contract	LMEselect, Ring and inter-office	Start of trading on 24 July 2023
All other base metal outright ⁴	Previous Business Day's Closing Price (whether or not it is subject to a Disruption Event) for the relevant Contract, <u>plus</u> 15% of the previous Business Day's Closing Price for the 3-month Contract	Previous Business Day's Closing Price (whether or not it is subject to a Disruption Event) for the relevant Contract, <u>minus</u> 15% of the previous Business Day's Closing Price for the 3-month Contract	LMEselect, Ring and inter-office	Start of trading on 21 March 2022 for Nickel, and start of trading on 15 March 2022 for all other metals

9. As set out in Notice 22/073, the LME intends to review the appropriateness of these daily price limits and may, subject to prevalent market conditions, adjust these limits.

General

10. 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.

Queries

11. Members should direct any general questions relating to this Notice to the Trading Operations at tradingoperations@lme.com.

Jamie Turner
Interim Chief Operating Officer, LME

cc: Board directors
 All committees

⁴ Including Cobalt Cash-Settled Futures.