

LME steel futures trade on first day

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LONDON, SINGAPORE — Steel futures made their debut on the London Metal Exchange (LME) on Monday, defying broad opposition from the \$500-billion (U.S.) steel industry, with the first trades on two contracts.

The world's premiere exchange for non-ferrous metals aims to provide an instrument to hedge against increasing price volatility and sees brokers and merchants will help the contracts take off in early days.

The first trade on the Mediterranean contract was struck at \$750 per tonne in early European business and it was last at \$755 per tonne, in volume of 16 lots.

The Far East contract rose to \$785 per tonne from \$775, when it first clocked a trade and the volume stood at 8 lots.

The first available settlement date for both contracts is Aug. 20 and the lot size is 65 tonnes.

“It is encouraging to see the trade so early on the first day,” said Michael Overlander, managing director of U.K.-based broker Sucden, which is a ring dealer on the floor of the LME.

“But I'm not getting too excited about it just yet. Steady growth is what it is all about,” he said.

The LME's aluminum contract, its biggest in terms of volume, also met significant headwinds from aluminum producers when it was first introduced 30 years ago, before gaining favour.

The exchange has repeatedly said it does not expect fireworks during the electronic and telephone trading, which is also known as a “soft launch.”

The contracts move to open outcry trading on the floor starting from April 28, when the “hard launch” starts.

“The soft-launch is all about getting the IT systems in place successfully and I am pleased to say that they are all operating well,” said Liz Milan, steel business manager at the LME.

“You need to give any contract a little time to warm up. No one in Asia wants to make an aggressive move until we get a feel for it,” a Hong Kong-based LME trader said.

Fund managers, an important participant in commodity markets, are not expected to take part rapidly but some believe the contracts are valuable in terms of transparency.

“You've got this area from iron ore to a whole range of steel products that aren't catered for on an exchange,” said Frances Hudson, global thematic strategist at Standard Life.

“There is value for the financial world, even if you don't take part in trading. These are very cyclical markets and any additional good quality information we can get about overall economic health is welcome.”

The LME's contracts are the second for steel, after the Dubai Gold and Commodity Exchange's rebar futures launched in October.

Many steel makers have expressed their opposition and dismissed the idea of steel futures, claiming that they would increase volatility in already fluctuating steel prices.

Proponents of the new contracts, which cover steel billets, a semi-finished form of steel that makes up about half of global trade, say futures can help protect mills like Nippon Steel and Arcelor Mittal from a sudden price slump.

Billets are semi-finished products in the form of long steel mainly used in the construction industry. They account for almost half of the world's total crude steel production, which is at around 1.3 billion tonnes annually.

The price of scrap, a major raw material in billet production, has risen significantly since the end of last year, which in turn boosted billet and rebar prices.

The delivery points for the Mediterranean contract will be Turkey and Dubai while for the Far East are Malaysia and South Korea.

The first delivery date for cash material will be July 24.