

LME maintains status quo on Russian metal

The LME's decision to continue to allow Russian metal to be delivered into its warehouses put some downward pressure on metals on Monday morning, easing fears of supply shortages



LME aluminium prices retreat

The LME aluminium price fell from a two-month high to as low as \$2,416/t on Monday morning following the decision. How much further pressure we will see on metals prices going forward will depend on whether we see a significant inflow of Russian metals into LME warehouses in the weeks and months ahead.

LME says many consumers still accept Russian supplies

After the LME launched a discussion paper on 6 October related to the delivery of Russian metal into LME warehouses, the exchange has been receiving feedback from market players on the potential action, if any, that should be taken. The period for feedback closed on 28 October.

The LME set out three options; to take no action on Russian metal, to ban the delivery of Russian metal into LME warehouses, or to introduce thresholds which would restrict the amount of Russian metal that could be delivered into LME warehouses.

In the lead-up to the decision, there were a number of producers, who were quite vocal in calling for Russian metal to be banned, whilst consumers were keener for there to be no changes.

After going through all the feedback and carrying out its own analysis, the LME has decided to take no action on Russian metal, allowing it to continue to be delivered into LME warehouses.

The LME said it believes, after receiving feedback, that a material amount of the market is still accepting and will continue to rely on Russian metals. This was evident in the response from consumers during the discussion period.

The LME received 42 written responses - 22 of the responses favoured taking no action, 17 supported a ban on Russian metal and just two supported limiting Russian metal stocks.

While a number of respondents said that allowing the delivery of Russian metal into LME warehouses, at a time when we are seeing an increasing amount of self-sanctioning, would see LME prices reflecting the price of Russian metal more than actual traded prices, others said excluding Russian metal would mean that LME prices are not truly reflecting the supply and demand picture.

There were also suggestions that the LME's action needs to reflect the global picture, where there are still a number of markets accepting/buying Russian material, rather than just taking a purely Western view, which is where we are seeing most of the self-sanctioning.

While there were opposing views on what impact banning or not banning Russian metal would have on liquidity, there was a strong view that nickel should be excluded from any ban, given that it would face the largest liquidity disruption in such an event.

The LME acknowledged that its decision to take no action would mean that we likely see increased volumes of Russian metal into LME warehouses. However, the LME believes we would have seen higher inflows of metals into warehouses regardless, given the depressed global outlook.

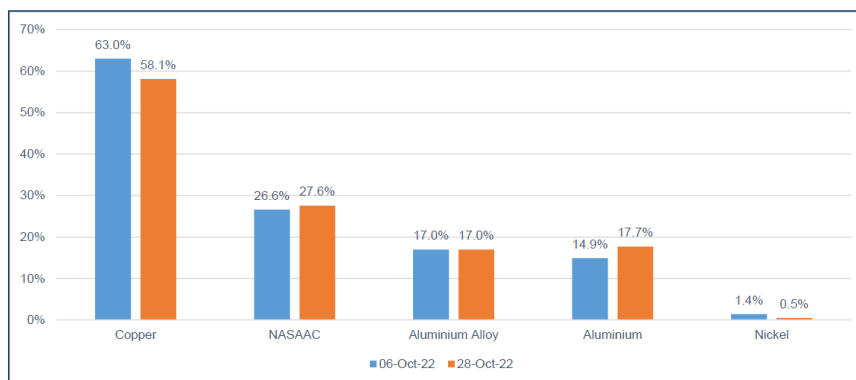
Having said that, the LME has reported that the proportion of Russian metal in LME warehouses has not changed significantly over the discussion paper period.

While the LME accepts that LME prices may start to increasingly reflect the price of Russian metal if we see large inflows into LME warehouses, they believe that premia will play an important role, with this likely reflecting a large proportion of the all-in cost, so that non-Russian metal producers continue to receive fair value for their metal.

According to feedback, market players do want more transparency on the origin of metal stocks in LME warehouses. Starting in January 2023, the LME will publish a monthly report which will provide the percentage of live tonnage of Russian metal on warrant.

If we continue to see an increasing amount of self-sanctioning of Russian metals, the risk is that we see more Russian metal being delivered into LME warehouses, which could potentially mean that LME prices trade at discounted levels to actual traded prices.

Percentage of live tonnage of Russian brands



Source: LME

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