

EXPERT GUIDE  
THE LONDON  
METAL EXCHANGE

Brought to you in plain English by Triland Metals



# The London Metal Exchange

## The Early Days

The LME was formally established as a futures market in 1877 and opened its first premises at Lombard Court, but the history of the market can be traced back to 1571, when the Royal Exchange first opened. Traders of different commodities used to meet there to trade physical metals for the domestic market. European merchants soon joined in with the trading when Britain became a major metal exporter.

In the early 19th century, when there were too many traders and commodities for the Royal Exchange to handle, trading activity moved to the Jerusalem Coffee House. Traders met here regularly, and this is where the tradition of the ring came about. A circle was drawn in the sawdust on the floor and when a merchant shouted “Change!”, anyone wishing to trade would stand around this circle to do business.

## A Unique Place to Trade

The LME is unlike any other exchange. One unusual feature is the three-month prompt, which was created in the mid-19th century. The opening of the Suez Canal allowed tin to be shipped from Malaya to Britain in three months, matching the time it took for copper to arrive from Chile. So the three-month prompt was designed to mirror physical delivery.

In 1963 the LME opened its first European warehouse in Rotterdam. Today it boasts over 600 approved warehouses in 35 locations across the world.

New grades of metal were introduced in the 1970s to reflect changing manufacturing standards, and forward trading was extended to 63 months. Nowadays, copper can be traded out to as much as 123 months.



## Traditions at the LME

When the LME first opened, the annual membership subscription was five pounds and five shillings. Members wore formal suits, stiff white collars and top hats, and only white shirts were allowed. The clerks could only speak to the dealers when they were spoken to. A dress code is still in operation, shirts and ties are worn and the top shirt button must be done up. However, clerks can now talk to the dealers whenever they wish, so there has been some progress!

In days gone by, an ashtray was placed in the centre of the ring. Dealers were only permitted to smoke during kerb trading (introduced in 1906), so they had to flick their cigarette ends into the ash tray once trading commenced, as they were not allowed to leave their seats. If a dealer missed the ashtray he (and they were all male) had to do the ‘walk of shame’ at the end of the trading session to put his cigarette end into the ashtray. With non-smoking laws now in place, this is one tradition that has definitely fallen by the wayside.

## The Modern-Day LME

The LME has the last open-outcry platform in Europe, but it was one of the first to adapt to new technology to run alongside the floor. LME Select was launched in 2001, offering real time bid and offer spreads. It now operates between 00.45 and 19.30 London time every working day.

It is a noisy, fast-paced environment and not for the faint-hearted, but it is a great place to work or even just to visit. It is still at the heart of the global metals market, and will surely be there well into the future.



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