

Understanding the LME and what it means for zinc

An overview of the exchange, its pricing benchmarks and how physical zinc connects to them.

Market behaviour

What moves the benchmark: macro conditions, physical balance, curve structure and positioning.

Hedge mechanics and principles

How offsetting positions relate to physical exposure, and the principles commonly applied.

Market participants

Who uses the exchange across the value chain, and the objectives typically associated with each.

Warehousing and pricing

How metal moves through approved warehouses, and how the cash benchmark is formed.

PURPOSE

A shared reference on how the LME works. For general information only, not advice or a recommendation.

LME zinc is volatile, global and forward-looking

The benchmark moves continuously as macro; physical and positioning signals are repriced.

Macro & USD

Growth expectations, interest rates and the US dollar influence investor appetite and the cost of holding metal.

Physical balance

Mine and smelter disruptions, treatment charges, inventories and regional premia shape tightness.

Curve structure

Cash versus forward prices can move between contango and backwardation, changing carry economics.

Positioning & liquidity

Fund flows, risk events and liquidity can accelerate short-term moves beyond physical fundamentals.

GENERAL OBSERVATION

Market discussion generally centres on exposure, pricing windows and margin at risk rather than on forecasting price direction.

Equal and opposite positions offset the physical exposure

In general terms, hedge mechanics mirror the underlying physical risk.

Physical sale priced

Exposure: zinc price may rise before the offsetting physical purchase.

Hedge action

A corresponding LME zinc purchase for the relevant tonnage and pricing date.

Physical purchase priced

Exposure: zinc price may fall before the offsetting physical sale.

Hedge action

A corresponding LME zinc sale for the relevant tonnage and pricing date.

FOUR DIMENSIONS COMMONLY MATCHED

Direction

Tonnage

Quotation period

Prompt / delivery date

Hedge programmes typically start from the physical book

Six principles widely referenced across procurement, commercial, risk and treasury.

1

Natural hedge considered first

Purchase and sales LME conventions are usually aligned before financial hedges are considered.

2

Confirmed exposure

Exposure is typically contract-backed, with measurable metal content and an agreed hedge yield.

3

Matched pricing basis

Quotation period, prompt date and delivery or processing timing are normally synchronised.

4

Non-directional approach

Hedges are generally linked to a physical exposure and an authorised mandate.

5

Residual risk control

The consolidated book is commonly monitored daily, with overnight limits and escalation paths.

6

Liquidity protection

Counterparties, credit lines, collateral and margin-call capacity are usually pre-agreed.

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Who hedges zinc, and what they hedge for

Each participant group uses the same benchmark for a different objective.

Participant group	Typical objectives
Miners Smelters	• Protect unsold inventory • Lock in long-term fixed sales prices
Converters Fabricators Distributors Traders Merchants	• Lock in forward prices • Manage timing differences between purchases and sales • Lock in margins • Protect stock positions against price falls
Consumers	• Lock in raw material purchase price • Limit the need for sales prices to track raw material prices
Financial players	• Take exposure to volatility in the asset class • Take positions on the direction of prices

How physical metal passes through the LME system

Delivery into an LME-approved warehouse acts as a market of last resort when physical demand is weak.

Quality verification

Metal must be of an LME-listed brand meeting the exchange's quality, shape and weight requirements, plus responsible sourcing rules.

Warrant creation

Once received and verified, an electronic warrant is issued and held in LMEsword as the entitlement to that lot.

Clearing and payment

LME Clear allocates delivery positions, the seller nominates warrants, and settlement follows the contract price at the prompt date.

Inventory visibility

Warranted tonnage appears in the exchange's stock reports, published daily and visible to the global market.

GENERAL OBSERVATION

Payment is settled through LME Clear, the central counterparty to every trade, rather than by the warehouse.

LME-approved brands and brand listing

The exchange publishes the brands accepted for delivery against its contracts.

LME brands and brand listing

[Approved brands | London Metal Exchange](#)

SOURCE LME

All brands approved for good delivery against LME contracts must conform to strict requirements on quality, shape and weight, as outlined by the exchange. In addition, all LME-listed brands must now comply with the LME's [responsible sourcing requirements](#).

The benchmark used to price physical zinc

Cash is the LME price for zinc on the nearest prompt date, the spot-equivalent global benchmark.

Cash price

The price for zinc deliverable on the cash prompt, the closest delivery date available on the exchange.

Cash versus three-month

Three-month is the standard futures benchmark; the gap to cash is the carry.

Contango and backwardation

Three-month above cash is contango; cash above three-month is backwardation. The spread affects hedging and financing economics.

Official Settlement Price

Set during the official pricing session and widely used as the reference for physical contracts and futures settlement.

PRACTICAL USE

Cash is generally the benchmark for valuing zinc-bearing stock and the metal component of contracts.