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History of the LME

In 2007, the London Metal Exchange celebrated 130 years since its founding in 1877. The LME, over the 130 years of its history, has been innovative whilst maintaining its traditional strengths and remains close to its core users by ensuring its contracts continue to meet the high expectations of industry.



International trade in metals could be said to have commenced in Britain when the Romans invaded in AD43 and extracted the large deposits of copper and tin ore in Cornwall and Wales to satisfy their increasing domestic need for the production of bronze and alloys.

However, the origins of the London Metal Exchange can only be traced back as far as the opening of the Royal Exchange in London in 1571 during the reign of Queen Elizabeth I. It was there

that traders in metal and a range of other commodities began to meet on a regular basis. At first the traders merely dealt in physical metal for the domestic market but because Britain soon became a major exporter of metals, European merchants soon arrived to join in these activities.

In the early 19th century there were so many commodity traders, ship charterers and financiers using the Royal Exchange that it became impossible to do business. As a result, individual groups of traders set up shop in the nearby city coffee houses. The Jerusalem Coffee House, off Cornhill, became the favourite of the metal trading community and it was there that the tradition of the Ring was born. A merchant with metal to sell would draw a circle in the sawdust on the floor and call out 'Change' at which point all those wishing to trade would assemble around the circle and make their bids.

In the early part of the 19th century the U.K. was self sufficient in copper and tin and quoted prices remained fixed for long periods. Everything changed with the advent of the Industrial Revolution when, almost overnight, the UK became the most technologically advanced country in the world, importing large tonnages from abroad.



The metal traders were now faced with a real problem because, having bought ores and concentrates from as far away as Chile and Malaya, they had no way of knowing what the price would be at the time of the ships arrival some months later. The import of large tonnages from overseas at irregular intervals put merchants and consumers seriously at risk.

Technology came to their aid with the invention of the telegraph. Inter continental lines of communication were established between the countries of the world and the change from sail to steamships made arrival dates more predictable. Now merchants were able to anticipate the time of arrival of a cargo of metal and were able to sell it forward for delivery on a fixed date, thus protecting themselves against a fall in price during the voyage.



In 1869 the opening of the Suez Canal reduced the delivery time of tin from Malaya to match the three months delivery time for copper from Chile. This gave rise to LME's unique system of

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LONDON METAL EXCHANGE

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the LME's unique system of daily trading dates for up to three months forward which still exists to this day.

As delivery tonnages grew to meet the increasing demands of British industry, more and more merchants were

attracted to the trade and it became necessary to find premises where they could convene each day. They first moved to the Lombard Exchange and Newsroom but once again the intrusion of other traders drove them to find new premises.

In 1877 they formed the London Metals and Mining Company and moved into their first premises over a hat shop in Lombard Court. Telegraphic links were set up and a company secretary was appointed to handle the administration. Membership increased rapidly and, after surpassing the three hundred mark, the decision was taken to move to a purpose built Exchange in Whittington Avenue, where it remained for 98 years. Then, after a period of 14 years at Plantation House in Fenchurch Street, the Exchange moved in 1994 to its current, prestigious home in Leadenhall Street.

Throughout its history the LME has flourished, though never more so than today in terms of trading volume. The world of metals and base metal trading has changed dramatically over the last century with the LME continually adapting to these changes. New metals have been introduced as demand dictated. Copper and tin have traded on the LME since the beginning. The copper contract was upgraded to high grade copper in November 1981 and again to today's Grade-A contract in June 1986. Tin's present contract began trading in June 1989, following a brief cessation due to the collapse of the International Tin Council. Lead and zinc were officially introduced in 1920, but were traded unofficially before that. The lead contract has remained virtually unchanged, certainly since its reintroduction in October 1952 following the closure of the Exchange brought about by the Second World War. Zinc, on the other hand, has undergone a number of upgrades, most recently with the introduction of the special high grade contract in June 1986. Primary aluminium was introduced in December 1978 and today's high grade contract began trading in August 1987. Nickel commenced trading on the Exchange the year after primary aluminium, in April 1979, aluminium alloy in October 1992.



An index contract - LMEX - based on the six primary metals traded on the Exchange was introduced in 2000. This base metals index is specifically designed to provide investors access to futures and traded options contracts based on non-ferrous metals without the physical delivery, storage and transaction costs associated with the underlying commodity contracts.

LMEminis were introduced for copper, aluminium and zinc in December 2006, these are smaller cash-settled monthly futures contracts and provide a simple and accessible way to trade basis the LME's most liquid contracts.

In 2008, the LME made a move into ferrous metals with the introduction of two regional contracts for steel billet, in July 2010 these contract merged into a single global contract.

The most recent contract additions came in February 2010 with the launch of two minor metals futures contracts for cobalt and molybdenum.

Supplements



LME 130th Anniversary Supplement

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