

LME launches plan for Baltic alliance

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The London Metal Exchange launched a fresh effort on Friday to agree an alliance with the Baltic Exchange with a formal proposal to unite two of the City of London's most historic financial institutions and transform global freight trading.

The **LME suggested a new exchange** – the London Baltic FFA Exchange – should be created as a joint venture between it and the Baltic. The joint venture proposed by the LME would bring the trading of Forward Freight Agreements on-exchange. FFAs, the contracts that allow parties to hedge the costs associated with shipping freight, are currently traded in a telephone, over-the counter market. The Baltic Exchange provides the benchmark indices used to price and settle FFAs.

Donald Brydon, LME chairman, said: "This proposal commands some compelling logic for expanding the FFA market in a joint venture with the LME. Our original approaches, based on electronic trading on a regulated exchange, are now even more relevant given the regulatory and political pressures all OTC markets are facing."

A spokesman for the Baltic Exchange said the LME's proposals would be "carefully considered", after an initial approach last year met with a frosty reception.

The LME's proposal invited the Baltic to consider a substantial equity participation – between 25 and 50 per cent – in the new exchange. To promote liquidity, the LME said it would also consider offering shareholdings in the new exchange to members of the Baltic Exchange. The LME's latest proposals were described as "a recipe for disaster" by Freight Investor Services, the shipping broker. "The LME proposal continues to demonstrate shocking ignorance in its approach to global freight," said John Banaszekiewicz, managing director of FIS. "The LME gaining control of the Baltic's indices would be like putting the drunks in charge of the bar."

Oil



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Oil rose on Friday, with Nymex March West Texas Intermediate closing at \$79.81 a barrel, up 75 cents on the day. **Gold** rose 2.4 per cent to \$1,119 a troy ounce this week.

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