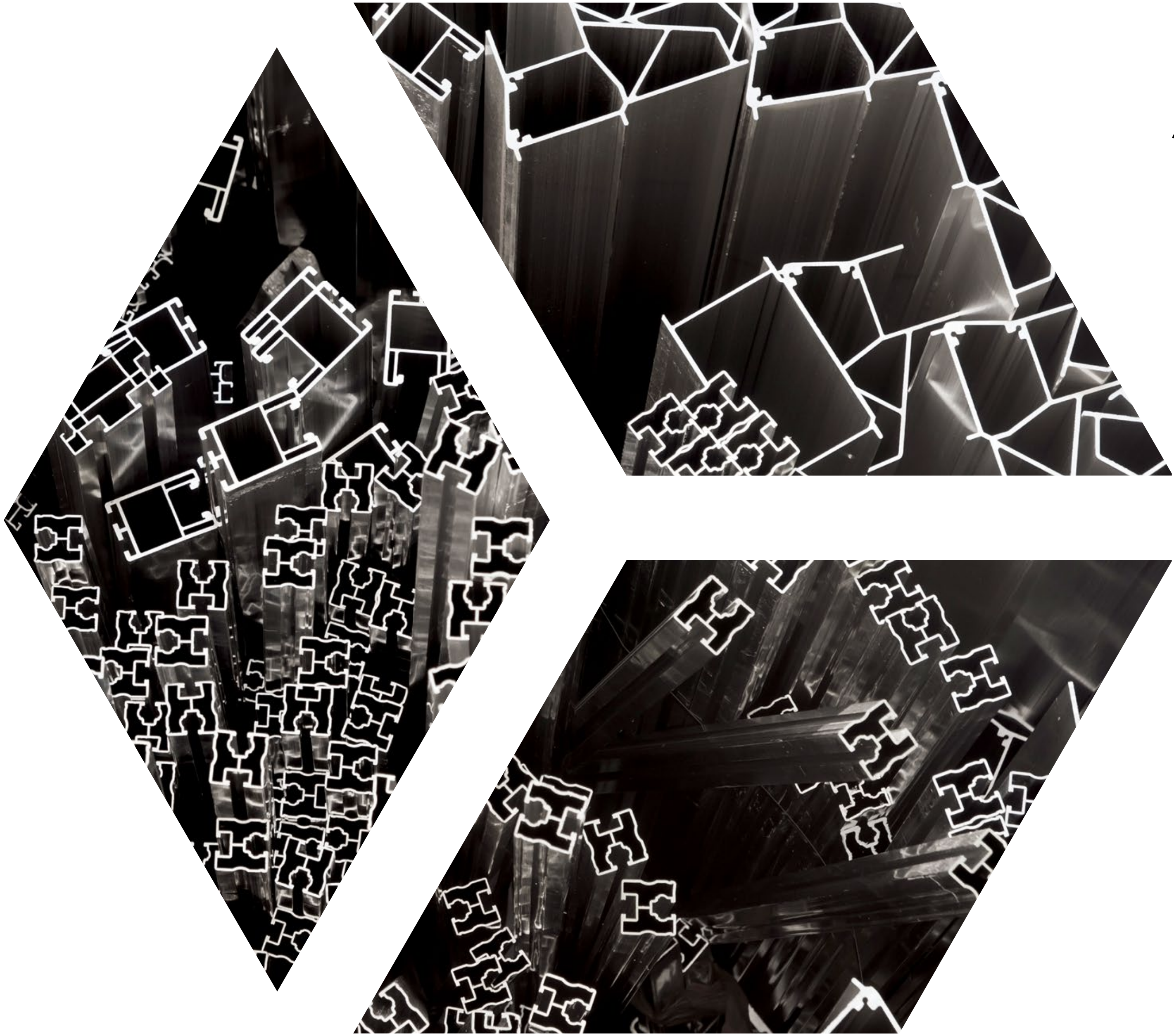
TRILAND METALS



FACTSHEETS

AVERAGE RATE FUTURES

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Average rate futures deals, sometimes referred to as Swaps, have been around for many years and now have a high profile as derivative products based on an average have grown in availability and wider use.

The use of an average (usually one month's set of official LME prices) is closely linked to the physical market where this method of pricing is widespread throughout the supply chain.

The aim of average pricing is to even out the sometimes high volatilities in price due to the vagaries of supply and demand experienced on a shorter or more concentrated period.

Managing the risks of exposure

The object of average rate futures deals is, for a predetermined fee, to eliminate for the client the exposure to potentially rapid changes in the LME spreads - contangoes and backwardations - as well as the outright price of a commodity, movements on both of which can impact greatly the final outcome of a specific average related hedging operation.

Producers, consumers and merchants have all made substantial use of this facility with the deals based on standard futures contracts, with no transfer of metal and just a cash settlement between parties at an agreed date over a predetermined period.

Tailor-made contracts

Contracts are often bespoke to suit a client's requirements and volume of just a single Lot can be accommodated over a quotational period of a month – something a client could not otherwise achieve.

However, due to the flexibility of the product quotational periods can be as short as two working days – or run to many months' duration.

Risks and rewards

Of course, no trade is without risk, but if the physical risk has been hedged accurately, the risk can be minimised or even eradicated. It is then possible that booking an Averaging trade may result in a profit, depending on the forward price curve structure of a quotational period. There are times also when a cost is incurred but this is quantified at the point of entering into a trade and any further cost is eradicated from the client's risk.

Customers may trade averaging contracts in the following currencies

$	¥	€	£
US dollar	Yen	Euro	Sterling

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