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## Circular

18 January 2017

Circular No. DC/AM – 6 of 2017

## Proposed Changes to SGX TSI Iron Ore CFR China (62% FE Fines) Contracts

On 29 September 2016, The Steel Index (TSI) proposed amendments to the index methodology for its TSI Iron Ore 62% Fe Benchmark index. TSI also sought market feedback on the proposed amendments. As this is the underlying index for SGX TSI Iron Ore CFR China (62% Fe Fines) derivative contracts, SGX issued circular DC/AM – 98 of 2016 on 25 October 2016 to notify participants of TSI's proposed amendments and market consultation, highlighting to members that the changes, if implemented by TSI, would affect SGX's TSI Iron Ore CFR China (62% Fe Fines) derivative contracts for the contract months of January 2018 onwards.

On 18 January 2017, TSI announced changes to the index methodology for its TSI Iron Ore 62% Fe Benchmark index, effective 1 January 2018. In the announcement, TSI also advised that the 18-month average historical price differential is US\$0.27 per metric ton. Please see Appendix A for TSI's announcement.

In light of TSI's announcement, SGX intends to effect the following changes on **1 January 2018**, subject to the due regulatory process:

- Amend the Futures Trading Rules and SGX-DC Clearing Rules so that SGX's contracts reference the revised TSI index. The amendments will affect the following contracts with contract months expiring in 2018 and beyond:
  - SGX TSI Iron Ore CFR China (62% FE Fines) Index Futures
  - SGX TSI Iron Ore CFR China (62% FE Fines) Swaps
  - SGX Options on TSI Iron Ore CFR China (62% FE Fines) Index Futures
  - SGX Options on TSI Iron Ore CFR China (62% FE Fines) Swaps
- Apply a one-time monetary adjustment through members' margin accounts to account for the price differential arising from the revised TSI index:
  - Each lot of futures/swaps open position as of close of business **29 December 2017**, will be subject to an adjustment of US\$0.27 per metric ton. Please see Appendix B for example.



- Each lot of option-on-futures/option-on-swaps open position as of close of business **29 December 2017**, will be subject to an adjustment of US\$0.27 per metric ton multiplied by the option delta. Please see Appendix C for example.

Participants who do not wish for their positions to be subjected to the amended contract specifications and/or monetary adjustment are advised to close their open positions before 8pm on 29 December 2017.

The proposed amendments to the contract specifications are still subject to the due regulatory process. SGX will notify members prior to effecting the amendments and carrying out any monetary adjustments.

For any clarification, please contact your Business Manager or any of the following:

- Janice Yap at [janice.yap@sgx.com](mailto:janice.yap@sgx.com) or tel.: (65) 6236 8925
- Brenna Koh at [brenna.koh@sgx.com](mailto:brenna.koh@sgx.com) or tel.: (65) 6236 8827
- Demi Sun at [yinying.sun@sgx.com](mailto:yinying.sun@sgx.com) or tel.: (65) 6236 5376
- Kenny Groth at [kenny.groth@sgx.com](mailto:kenny.groth@sgx.com) or tel.: (44) (0) 207 965 4469
- Tan Say Liang at [sayliang.tan@sgx.com](mailto:sayliang.tan@sgx.com) or tel.: (65) 6236 5130

Alison King  
Senior Vice President  
Derivatives

**Singapore Exchange Derivatives Clearing Limited**  
Company Reg No. 200005878M  
(a wholly-owned subsidiary of Singapore Exchange Limited)

2 Shenton Way, #02-02 SGX Centre 1, Singapore 068804  
Main: (65) 6236 8888 Fax: (65) 6536 6495

[www.sgx.com](http://www.sgx.com)

## Appendix A: TSI Announcement



[Steel Prices](#) | [Iron Ore Prices](#) | [Scrap Prices](#) | [Coking Coal Prices](#) | [TSI-News](#) | [TSI-Events](#)

Dear,

Following an extended period of market consultation, The Steel Index (TSI) will update from **January 1, 2018** the specification and delivery port of its index for Chinese iron ore imports of 62% Fe iron ore fines, CFR Tianjin port, to more closely reflect the specifications of the spot market's most liquid products.

The change sees modifications to alumina, sulphur and phosphorus levels, minimum lot size, as well as a move of the basis port to Qingdao, from Tianjin. **Please find attached details of the current and future specifications.**

This change to the specification follows consistent feedback from market participants across the supply chain, who have requested closer alignment between the specifications of the most liquid iron ore brands and TSI's 62% Fe index specification.

TSI notes that the price difference between the future and current specifications, based on published TSI value-in-use differentials for impurities as well as port differentials, averaged US\$0.27/dmt over the 18 months to the end of 2016, with the future specification being at a premium to the current specification.

If you have any questions regarding this change, please send them to [feedback@thesteelindex.com](mailto:feedback@thesteelindex.com). Please mark your comments as 'confidential' unless you are agreeable to them being made publically available on request.

For details of TSI's methodology and a full list of published indices, please visit:  
<https://www.thesteelindex.com/en/procedures-methodology/>

Kind regards,

**Oscar Tarneberg**  
*TSI Regional Manager, APAC*

The Steel Index  
[feedback@thesteelindex.com](mailto:feedback@thesteelindex.com)

[www.thesteelindex.com](http://www.thesteelindex.com)



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# TSI Iron Ore 62% Fe Benchmark Index

## Methodology Change

Specification	Current	Future
Product Type	Sinter Fines: granular size below 10mm for at least 90% of the cargo, with maximum of 40% below 150 micron	
Iron Content	62.00%	62.00%
Moisture	8.00%	8.00%
Alumina	3.50%	2.25%
Silica	4.00%	4.00%
Phosphorus	0.07%	0.09%
Sulphur	0.05%	0.02%
Minimum Lot Size (metric tonnes)	20,000	50,000
Pricing Point	CFRFO Tianjin port, China	CFRFO Qingdao port, China
Timing	Loading within four weeks and delivery within eight weeks of transaction	
Payment	At Sight	At Sight
Current & Units	US\$ per dry metric tonne	US\$ per dry metric tonne

## Timeframe

TSI plans to introduce the specification change on January 1, 2018.

**Appendix B: Adjustment Example for Futures/Swaps**

	<b>Long</b>	<b>Short</b>
Open Position	5 lots of futures	5 lots of futures
Contract Size	100 MT	100 MT
TSI Differential	US\$0.27	US\$0.27
Adjustment Amount	5 lots x 100 MT x -US\$0.27 =-US\$135	5 lots x 100 MT x +US\$0.27 =+US\$135

The same will apply for swaps, except that contract size is 500 MT.

**Appendix C: Adjustment Example for Options-on-Futures/Options-on-Swaps**

	<b>Long Call</b>	<b>Short Call</b>
Open Position	5 lots of options-on-futures	5 lots of options-on-futures
Contract Size	100 MT	100 MT
Delta	50%	50%
TSI Differential	US\$0.27	US\$0.27
Adjustment Amount	5 lots x 100 MT x 50% x -US\$0.27 =-US\$67.50	5 lots x 100 MT x 50% x +US\$0.27 =+US\$67.50

	<b>Long Put</b>	<b>Short Put</b>
Open Position	5 lots of options-on-futures	5 lots of options-on-futures
Contract Size	100 MT	100 MT
Delta	-50%	-50%
TSI Differential	US\$0.27	US\$0.27
Adjustment Amount	5 lots x 100 MT x -50% x -US\$0.27 =+US\$67.50	5 lots x 100 MT x -50% x +US\$0.27 =-US\$67.50

The same will apply for options-on-swaps, except that contract size is 500 MT.