

SUBMISSION COVER SHEET

IMPORTANT: Check box if Confidential Treatment is requested

Registered Entity Identifier Code (optional): 20-091

Organization: New York Mercantile Exchange, Inc. ("NYMEX")

Filing as a: DCM SEF DCO SDR

Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): 01/29/20 **Filing Description:** Decrease of Spot Month Position Limits of Four (4) Palladium Futures and Option Contracts

SPECIFY FILING TYPE

Please note only ONE choice allowed per Submission.

Organization Rules and Rule Amendments

- | | | |
|--------------------------|-------------------------------------|------------|
| <input type="checkbox"/> | Certification | § 40.6(a) |
| <input type="checkbox"/> | Approval | § 40.5(a) |
| <input type="checkbox"/> | Notification | § 40.6(d) |
| <input type="checkbox"/> | Advance Notice of SIDCO Rule Change | § 40.10(a) |
| <input type="checkbox"/> | SIDCO Emergency Rule Change | § 40.10(h) |

Rule Numbers:

New Product

Please note only ONE product per Submission.

- | | | |
|--------------------------|---------------------------------------|------------|
| <input type="checkbox"/> | Certification | § 40.2(a) |
| <input type="checkbox"/> | Certification Security Futures | § 41.23(a) |
| <input type="checkbox"/> | Certification Swap Class | § 40.2(d) |
| <input type="checkbox"/> | Approval | § 40.3(a) |
| <input type="checkbox"/> | Approval Security Futures | § 41.23(b) |
| <input type="checkbox"/> | Novel Derivative Product Notification | § 40.12(a) |
| <input type="checkbox"/> | Swap Submission | § 39.5 |

Official Product Name:

Product Terms and Conditions (product related Rules and Rule Amendments)

- | | | |
|-------------------------------------|---|----------------------|
| <input checked="" type="checkbox"/> | Certification | § 40.6(a) |
| <input type="checkbox"/> | Certification Made Available to Trade Determination | § 40.6(a) |
| <input type="checkbox"/> | Certification Security Futures | § 41.24(a) |
| <input type="checkbox"/> | Delisting (No Open Interest) | § 40.6(a) |
| <input type="checkbox"/> | Approval | § 40.5(a) |
| <input type="checkbox"/> | Approval Made Available to Trade Determination | § 40.5(a) |
| <input type="checkbox"/> | Approval Security Futures | § 41.24(c) |
| <input type="checkbox"/> | Approval Amendments to enumerated agricultural products | § 40.4(a), § 40.5(a) |
| <input type="checkbox"/> | "Non-Material Agricultural Rule Change" | § 40.4(b)(5) |
| <input type="checkbox"/> | Notification | § 40.6(d) |

Official Name(s) of Product(s) Affected: See filing.

Rule Numbers: See filing.

January 29, 2020

VIA ELECTRONIC PORTAL

Mr. Christopher J. Kirkpatrick
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, DC 20581

Re: CFTC Regulation 40.6(a) Certification. Notification Regarding Decrease of Spot Month Position Limits of Four (4) Palladium Futures and Option Contracts. NYMEX Submission No. 20-091

Dear Mr. Kirkpatrick:

New York Mercantile Exchange, Inc. (“NYMEX” or “Exchange”) is notifying the Commodity Futures Trading Commission (“CFTC” or the “Commission”) that it is self-certifying a decrease of the spot month position limits of four (4) Palladium futures and option contracts as noted below (the “Contracts”), effective on February 14, 2020 commencing with the March 2020 contract month and beyond as noted in Table 1. below.

Table 1. Decrease of Position Limits of the Palladium Futures and Option Contracts

(additions underscored; deletions ~~struck through~~)

Contract Title	Rulebook Chapter	Commodity Code	Reporting Level	Spot-Month Limit (In Net Futures Equivalents)	Single Month Accountability Level (In Net Futures Equivalents)	All Month Accountability Level (In Net Futures Equivalents)
Palladium Futures	106	PA	1	50-25	250-100	250-100
Palladium Option	119	PAO	1	50-25	250-100	250-100
Micro Palladium Futures	118	PAM	1	50-25	250-100	250-100
Platinum/Palladium Spread Futures	190	PPS	1	50-25	250-100	250-100

The Position Limit, Position Accountability and Reportable Level Table and Header Notes located in the Interpretations and Special Notices Section of Chapter 5 (“Trading Qualifications and Practices”) of the NYMEX Rulebook (the “Table”) will be amended to reflect the decreased spot month position limits of the Contracts. Attached under separate cover are Exhibit A and Exhibit B which provide the Table in blackline format effective on February 14, 2020 and February 27, 2020, respectively (collectively, the “Rule Amendments”).

Consistent with Core Principle 3 of the Commodity Exchange Act (“CEA” or the “Act”), Appendix C of Part 38, the Exchange based the definition of deliverable supply on existing registered and eligible inventories at its Exchange approved warehouses for Exchange delivery. Below is the guidance provided for in Appendix C.

The quantity of the commodity meeting the contract’s delivery specifications that reasonably can be expected to be readily available to short traders and salable by long traders at its market value in normal cash marketing channels at the contract’s delivery points during the specified delivery period, barring abnormal movement in interstate commerce. Typically, deliverable supply reflects the quantity of the commodity that potentially could be made available for sale on a spot basis at current prices at the contract’s delivery points. For a non-financial physical-delivery commodity contract, this estimate might represent product which is in storage at the delivery point(s) specified in the futures contract or can be moved economically into or through such points consistent with the delivery procedures set forth in the contract and which is available for sale on a spot basis within the marketing channels that normally are tributary to the delivery point(s)¹.

As of December 31, 2019, the total palladium inventory held at Exchange approved depositories totaled 54,535.061 troy ounces, the equivalent of 545 Palladium Futures contracts. As of the January 21, 2020 reporting date, inventories fell to 33,459.655 equaling 335 Palladium Futures contracts. While the current 3-year average supports the prevailing 50 contract spot month position limit, given the draw down in inventories, the Exchange is reexamining the spot month position limits.

The physical palladium market has been in deficit for 9 of the past 10 years², leading to a gradual decrease in available stocks. Auto catalyst fabrication remains the main driver of increased palladium demand. Automobile manufacturers have increased their usage of palladium due to higher production of gasoline-engine vehicles and tighter emission standards globally. On the supply side, mining production is relatively constrained. Since a large part of palladium is mined as a by-product of nickel or platinum, producers may take longer to respond to price signals and increase their mining output accordingly. The decrease of available stock at NYMEX-approved depositories is consistent with a tightening global market, where users and traders reduce stock in the vaults to meet increased physical demand for the precious metal. In an effort to increase palladium deliverable supply, NYMEX intends to explore the possibility of additional depositories in other locations such as London and Zurich and engage the marketplace to store additional quantities in current and prospective facilities.

Inventory and Capacity of Exchange Approved Depositories

Table 2. below provides the monthly average inventory levels of palladium for the most recent three (3) year period stored at Exchange approved depositories.

Table 2. Palladium Inventory at Exchange Approved Depositories (in contract units)

Month	Average Eligible Inventory (with 10% reduction)	Average Registered Inventory	Average Total Inventory
Jan-17	387	220	607
Feb-17	355	220	575
Mar-17	329	220	549
Apr-17	357	125	483
May-17	291	122	413
Jun-17	259	132	391

¹ <http://www.cftc.gov/ucm/groups/public/@lrfederalregister/documents/file/2012-12746a.pdf>

² Source: Metals Focus Platinum and Palladium Focus 2019.

Jul-17	255	128	383
Aug-17	245	156	400
Sep-17	245	264	509
Oct-17	331	171	501
Nov-17	333	171	504
Dec-17	286	153	438
Jan-18	258	120	378
Feb-18	285	102	387
Mar-18	243	152	396
Apr-18	229	160	388
May-18	229	156	385
Jun-18	196	180	376
Jul-18	189	195	384
Aug-18	215	195	410
Sep-18	248	195	443
Oct-18	269	181	450
Nov-18	257	182	439
Dec-18	245	191	436
Jan-19	249	160	409
Feb-19	245	154	399
Mar-19	245	153	399
Apr-19	238	159	397
May-19	229	169	398
Jun-19	279	348	628
Jul-19	298	341	639
Aug-19	287	323	610
Sep-19	259	285	544
Oct-19	252	242	493
Nov-19	252	243	495
Dec-19	253	243	495
3 Year Average	267	192	459

Source: CME Group

The Exchange proposes to decrease the spot month limit for the Contracts from 50 contracts to 25 contracts which represents 5.45% of deliverable supply for the most recent 3-year period. In addition, the single month and all-month accountability levels will be decreased from 250 contracts to 100 contracts.

The Exchange reviewed the designated contract market core principles (“Core Principles”) as set forth in the Act and identified that the Rule Amendments may have some bearing on the following Core Principle:

Contracts Not Readily Subject to Manipulation: The Contracts are not readily subject to manipulation due to the deep liquidity and robustness in the underlying physical markets.

Position Limitations or Accountability: The speculative position limits for the Contracts as demonstrated in this submission are consistent with the Commission’s guidance.

Availability of General Information: The Exchange will make publicly available the details of the spot month position limit decreases by publishing a Market Surveillance Notice (“MSN”) to the market. The MSN will also be available on CME Group’s website.

The Exchange certifies that the Rule Amendments comply with the Act and regulations thereunder. There were no substantive opposing views to the Rule Amendments.

The Exchange certifies that this submission has been concurrently posted on the Exchange’s website at <http://www.cmegroup.com/market-regulation/rule-filings.html>.

Should you have any questions concerning the above, please contact the undersigned at 212-299-2200 or via e-mail at CMEGSubmissionInquiry@cmegroup.com.

Sincerely,

/s/ Christopher Bowen
Managing Director and Chief Regulatory Counsel

Attachments: Exhibit A – Amendments to NYMEX Rulebook Chapter 5 Position Limit, Position Accountability, and Reportable Level Table (effective February 14, 2020)

Exhibit B – Amendments to NYMEX Rulebook Chapter 5 Position Limit, Position Accountability, and Reportable Level Table (effective February 27, 2020)

Exhibit A

**NYMEX Rulebook
Chapter 5
("Trading Qualifications and Practices")
Position Limit, Position Accountability, and Reportable Level Table**

(under separate cover)
(effective February 14, 2020)

Exhibit B

**NYMEX Rulebook
Chapter 5
("Trading Qualifications and Practices")
Position Limit, Position Accountability, and Reportable Level Table**

(under separate cover)
(effective February 27, 2020)