

SUBMISSION COVER SHEET

IMPORTANT: Check box if Confidential Treatment is requested

Registered Entity Identifier Code (optional): 19-135

Organization: Commodity Exchange, Inc. ("COMEX")

Filing as a: DCM SEF DCO SDR

Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): 03/27/19 **Filing Description:** Initial Listing of the U.S. Midwest Hot-Rolled Coil Steel (Platts) Futures

SPECIFY FILING TYPE

Please note only ONE choice allowed per Submission.

Organization Rules and Rule Amendments

- Certification § 40.6(a)
- Approval § 40.5(a)
- Notification § 40.6(d)
- Advance Notice of SIDCO Rule Change § 40.10(a)
- SIDCO Emergency Rule Change § 40.10(h)

Rule Numbers:

New Product

Please note only ONE product per Submission.

- Certification § 40.2(a)
- Certification Security Futures § 41.23(a)
- Certification Swap Class § 40.2(d)
- Approval § 40.3(a)
- Approval Security Futures § 41.23(b)
- Novel Derivative Product Notification § 40.12(a)
- Swap Submission § 39.5

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

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

Official Name(s) of Product(s) Affected:

Rule Numbers:



Christopher Bowen
 Managing Director and Chief Regulatory Counsel
 Legal Department

March 27, 2019

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 the Initial Listing of the U.S. Midwest Hot-Rolled Coil Steel (Platts) Futures. COMEX Submission No. 19-135

Dear Mr. Kirkpatrick:

Commodity Exchange, Inc. (“COMEX” or “Exchange”) is notifying the Commodity Futures Trading Commission (“CFTC” or “Commission”) that it is self-certifying the initial listing of the U.S. Midwest Hot-Rolled Coil Steel (Platts) Futures (the “Contract”) for trading on the CME Globex electronic trading platform and for submission for clearing via CME ClearPort effective Sunday, April 14, 2019 for trade date Monday, April 15, 2019 as noted in the table below:

Contract Title	U.S. Midwest Hot-Rolled Coil Steel (Platts) Futures
Commodity Code	HRP
Rulebook Chapter	921
Settlement Type	Financial
Contract Size	20 short tons
Listing Schedule	Monthly contracts will be listed for the current year and the next 3 calendar years. Monthly contracts for a new calendar year will be added following the termination of trading in the December contract of the current year.
Minimum Price Fluctuation	\$1.00 per short ton
Value per tick	\$20.00
First Listed Month	May 2019
Block Trade Minimum Threshold	5 contracts
Termination of Trading	Trading shall cease on the last business day of the contract month.
CME Globex Matching Algorithm	First-In, First-Out (FIFO)

Trading and Clearing Hours:

CME Globex and CME ClearPort	Sunday - Friday 5:00 p.m. - 4:00 p.m. (6:00 p.m. - 5:00 p.m. ET) with a 60-minute break each day beginning at 4:00 p.m. (5:00 p.m. ET)
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Exchange Fees:

	Member	Non-Member	International Incentive Programs (IIP/IVIP)
CME Globex	\$2.50	\$5.00	\$4.00
EFP	\$4.00	\$5.00	
Block	\$4.00	\$5.00	
EFR/EOO	\$4.00	\$5.00	

Processing Fees	Member	Non-Member
Cash Settlement	\$2.50	\$5.00
Other Processing Fees	Fee	
Facilitation Fee	\$0.50	
Give-Up Surcharge	\$0.05	
Position Adjustment/Position Transfer	\$0.10	

The Exchange is also notifying the CFTC that it is self-certifying block trading on the Contract with a minimum block threshold of 5 contracts.

The Exchange reviewed the designated contracts market core principles (“Core Principles”) as set forth in the Commodity Exchange Act (“CEA” or “Act”) and identified that the Contract may have some bearing on the following Core Principles:

- **Availability of General Information:** The Exchange will publish information on the Contract’s specification on its website, together with daily trading volume, open interest and price information.
- **Contracts Not Readily Susceptible to Manipulation:** The Contract is not readily susceptible to manipulation due to the deep liquidity and robustness in the underlying cash market, which provides diverse participation and sufficient spot transactions to support the final settlement index as assessed by Platts.
- **Compliance with Rules:** Trading in this Contract will be subject to Chapter 4 of the Exchange rules which includes prohibitions against fraudulent, non-competitive, unfair and abusive practices and will be subject to extensive monitoring and surveillance by CME Group’s Market Regulation Department. The Market Regulation Department may use its investigatory and enforcement power where potential rule violations are identified during its regular surveillance reviews.
- **Prevention of Market Disruption:** Trading in the Contract will be subject to the Rules of COMEX which include prohibitions on manipulation, price distortion, and disruption to the cash settlement process. As with any new product listed for trading on a CME Group designated contract market, trading activity in the Contracts proposed herein will be subject to monitoring and surveillance by CME Group’s Market Regulation Department.
- **Position Limitations or Accountability:** The speculative position limits for the Contract as demonstrated in this submission are consistent with the Commission’s guidance.

- **Financial Integrity of Contracts:** The Contract traded on the Exchange will be cleared by the CME Clearing House.
- **Execution of Transactions:** The Contract will be listed for trading on the CME Globex electronic trading and for clearing through CME ClearPort. The CME Globex electronic trading venue provides for competitive and open execution of transactions. CME Globex affords the benefits of reliability and global connectivity.
- **Trade Information:** All requisite trade information for the Contract will be included in the audit trail and is sufficient for the Market Regulation Department to monitor for market abuse.
- **Protection of Market Participants:** Chapter 4 contains multiple prohibitions precluding intermediaries from disadvantaging their customers and which apply to trading on all of the Exchange's competitive trading venues.
- **Disciplinary Procedures:** Chapter 4 of the Rulebook contains provisions that allow the Exchange to discipline, suspend or expel members or market participants that violate the Rulebook. Trading in the Contract will be subject to Chapter 4, and the Market Regulation Department has the authority to exercise its enforcement power in the event rule violations in this product are identified.
- **Dispute Resolution:** Disputes with respect to trading in the Contract will be subject to the arbitration provisions set forth in Chapter 6 of the Rulebook. Chapter 6 allows all non-members to submit a claim for financial losses resulting from transactions on the Exchange to arbitration. A member named as a respondent in a claim submitted by a non-member is required to participate in the arbitration pursuant to Chapter 6. Additionally, the Exchange requires that members resolve all disputes concerning transactions on the Exchange via arbitration.
- **Daily Publication of Trading Information:** Trading volume, open interest and price information will be published daily on the Exchange's website and via quote vendors.

Pursuant to Section 5c(c) of the Act and CFTC Regulations 40.2(a), the Exchange certifies that the listing of the Contract complies with the Act, including regulations under the Act. There were no substantive opposing views to this proposal.

The Exchange certifies that this submission has been concurrently posted on the CME Group 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: COMEX Rulebook Chapter
 Exhibit B: Position Limit, Position Accountability, and Reportable Level Table in Chapter 5 of the COMEX Rulebook (attached under separate cover)
 Exhibit C: COMEX Rule 588.H. – (“Globex Non-Reviewable Trading Ranges”) Table
 Exhibit D: Cash Market Overview and Analysis of Deliverable Supply

Exhibit A

COMEX Rulebook

Chapter 921

U.S. Midwest Hot-Rolled Coil Steel (Platts) Futures

921100. SCOPE OF CHAPTER

The provisions of these rules shall apply to all contracts bought or sold on the Exchange for cash settlement based on the Floating Price. The procedures for trading, clearing and cash settlement of this contract, and any other matters not specifically covered herein shall be governed by the general rules of the Exchange.

921101. CONTRACT SPECIFICATIONS

The Floating Price for each contract month is equal to the arithmetic average of the Platts TSI HRC US EXW Indiana price assessment calculated for all available price assessments published in the contract month by S&P Global Platts.

921102. TRADING SPECIFICATIONS

The number of months open for trading at a given time shall be determined by the Exchange.

921102.A. Trading Schedule

The hours of trading for this contract shall be determined by the Exchange.

921102.B. Trading Unit

The contract quantity shall be 20 short tons. Each contract shall be valued as the contract quantity (20) multiplied by the settlement price.

921102.C. Price Increments

Prices shall be quoted in U.S. dollars and cents per short ton. The minimum price fluctuation shall be \$1.00 per short ton.

921102.D. Position Limits, Exemptions, Position Accountability and Reportable Levels

The applicable position limits and/or accountability levels, in addition to the reportable levels, are set forth in the Position Limit, Position Accountability and Reportable Level Table in the Interpretations & Special Notices Section of Chapter 5. A Person seeking an exemption from position limits for bona fide commercial purposes shall apply to the Market Regulation Department on forms provided by the Exchange, and the Market Regulation Department may grant qualified exemptions in its sole discretion. Refer to Rule 559 for requirements concerning the aggregation of positions and allowable exemptions from the specified position limits.

921102.E. Termination of Trading

Trading shall cease on the last business day of the contract month.

921103. FINAL SETTLEMENT

Delivery under the contract shall be by cash settlement. Final settlement, following termination of trading for a contract month, will be based on the Floating Price. The final settlement price will be the Floating Price calculated for each contract month.

921104. DISCLAIMER

See [NYMEX/COMEX Chapter iv. \("DISCLAIMERS"\)](#) incorporated herein by reference.

Exhibit B

**COMEX Rulebook
Chapter 5
("Trading Qualifications and Practices")**

Position Limits, Position Accountability and Reportable Level Table

(attached under separate cover)

Exhibit C

**COMEX Rulebook
Chapter 5
("Trading Qualifications and Practices")
COMEX Rule 588.H. – ("Globex Non-Reviewable Trading Ranges") Table
(additions underscored)**

Instrument	Globex Symbol	Globex Non-Reviewable Ranges (NRR)	NRR: Globex Format	NRR: Ticks
<u>U.S. Midwest Hot-Rolled Coil Steel (Platts) Futures</u>	<u>HRP</u>	<u>\$1.00 per short ton</u>	<u>100</u>	<u>100</u>

Exhibit D

Cash Market Overview and Analysis of Deliverable Supply

CASH MARKET ANALYSIS

Commodity Exchange, Inc. (“COMEX” or “Exchange”) is self-certifying the listing of U.S. Midwest Domestic Hot-Rolled Coil Steel (Platts) futures contract (the “Contract”) for trading on the CME Globex electronic platform and for submission for clearing via CME ClearPort. The Exchange relied on long standing precedent, which provides that the key component in estimating deliverable supply is the portion of typical production, supply stocks, and imports that could reasonably be considered readily available for delivery.

Contract Title	Commodity Code	COMEX Rulebook Chapter
U.S. Midwest Hot-Rolled Coil Steel (Platts) Futures	HRP	921

METHODOLOGY & DATA SOURCES

For the U.S. Midwest Hot-Rolled Coil Steel (Platts) Futures contract, the Exchange considered three components in evaluating deliverable supply:

- 1.) Hot-rolled coil steel production;
- 2.) Stock data; and
- 3.) Import data.

The Exchange determined to use data collected by the American Iron and Steel Institute, World Steel Association, the U.S. Department of Commerce, and the U.N. Comtrade for its analysis and evaluation of deliverable supply estimates for hot-rolled coil steel (“HRC”). The World Steel Association publishes annual statistics on HRC production but does not provide regional granularity. In order to estimate Midwest HRC production, the ratio of Midwest raw steel production to aggregate U.S. raw steel production will be applied to aggregate U.S. HRC production. To arrive at Midwest HRC inventories, the Exchange applied the same ratio to U.S. HRC inventories published by the U.S. Department of Commerce. The U.N. Comtrade provides global trade statistics and was used to determine U.S. import statistics for HRC. Market participants indicated that approximately 50% of total U.S. HRC imports are destined for the Midwest region over the course of a month. Through conversations with market participants the exchange has learned that approximately 55% of deliverable supply is tied to long-term contractual agreements. Therefore, COMEX implemented a 55% reduction to deliverable supply.

American Iron and Steel Institute

AISI serves as the voice of the North American steel industry in the public policy arena and advances the case for steel in the marketplace as the preferred material of choice. AISI also plays a lead role in the development and application of new steels and steelmaking technology. AISI is comprised of 21 member

companies, including integrated and electric furnace steelmakers, and approximately 120 associate members who are suppliers to or customers of the steel industry.

The World Steel Association

The World Steel Association (Worldsteel) represents over 160 steel producers (including 9 of the world's 10 largest steel companies), national and regional steel industry associations, and steel research institutes. Worldsteel members cover around 85% of world steel production¹.

U.S. Department of Commerce

The U.S. Department of Commerce promotes job creation and economic growth by ensuring fair and reciprocal trade, providing the data necessary to support commerce and constitutional democracy, and fostering innovation by setting standards and conducting foundational research and development².

UN Comtrade

The UN Comtrade provides free access to detailed global trade data. UN Comtrade is a repository of official international trade statistics and relevant analytical tables. It contains annual trade statistics starting from 1962 and monthly trade statistics since 2010³.

PRICE SOURCES⁴

S&P Global Platts⁵

S&P Global Platts (“Platts”) is a global provider of energy, petrochemicals, metals and agriculture information, and a source of benchmark price assessments for those commodity markets. Platts uses a market appropriate methodology to assess prices in the markets it covers. Platts consults with the range of participants involved in different markets and publishes methodologies for each price report on its website. Each methodology is reviewed regularly to ensure that it always meets the needs of market participants and is in line with industry practice.

U.S. STEEL MARKET BACKGROUND

Hot-rolled steel involves rolling crude steel at high temperatures so that it can be shaped and formed easily. HRC is applied to a wide range of uses such as, automobiles, electrical appliances, construction materials, containers, and steel pipes. Typically requiring much less processing than cold rolled steel, HRC is a cheaper option that is ideal where dimensional tolerances aren't as important as overall material strength. Due to the cooling process, the size of the final HRC product can fluctuate⁶.

In 2017, the U.S. held approximately 8% market share in the production of hot rolled flat steel products while China dominated world production with a market share of 43%⁷. Physical trade in steel takes place throughout the supply chain, and includes steel mills, service centers, distributors, merchants and end-users. The U.S. Census Bureau defines four census regions and identifies each one with a single-digit

¹ <https://www.worldsteel.org/about-us/who-we-are.html>

² <https://www.commerce.gov/about>

³ <https://comtrade.un.org/data/>

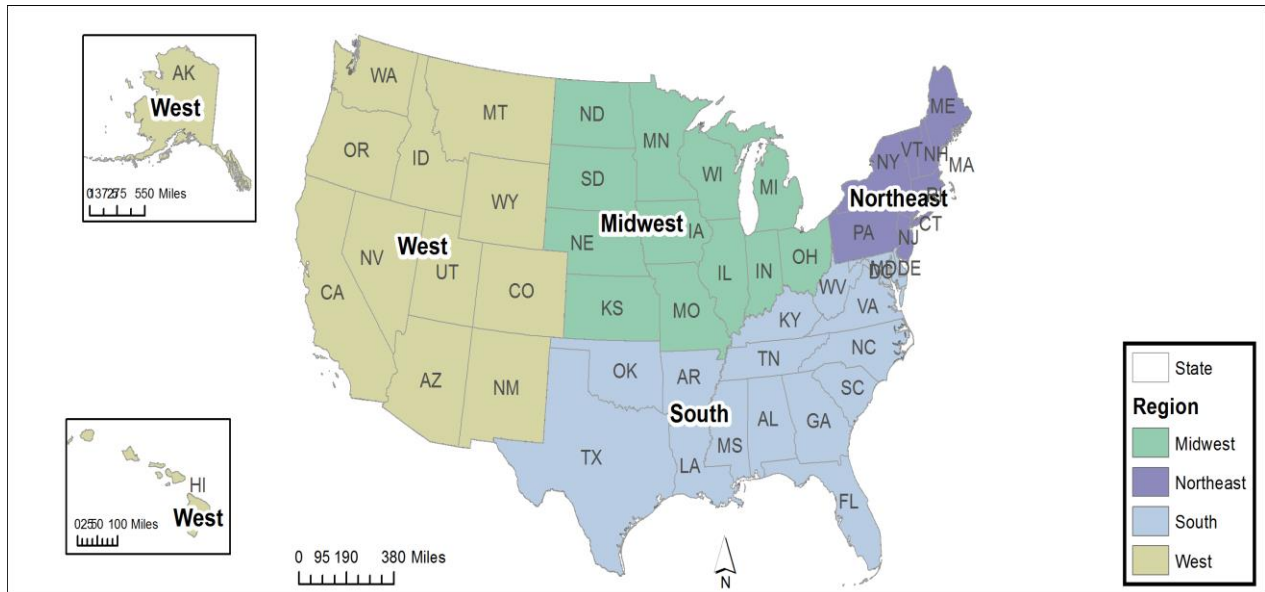
⁴ The Exchange has a license agreement with Platts

⁵ See <https://www.spglobal.com/platts/en>

⁶ <https://www.worldsteel.org/>

⁷ https://www.worldsteel.org/en/dam/jcr:e5a8eda5-4b46-4892-856b-00908b5ab492/SSY_2018.pdf

census code – Northeast (1), Midwest (2), South (3), and West (4). The Midwest is comprised of twelve states including the Great Lakes states of Illinois, Indiana, Michigan, Minnesota, Ohio and Wisconsin.⁸



Source: U.S. Census Bureau

Globally, Asia continues to be the driving source of steel demand as it develops its industrial sector and leads the world in steel consumption. China accounts for 44% of global steel consumption while the U.S. accounts for 6.5%. Increases in consumption are approximately proportionate to increases in production for both countries over the past three years⁹.

PRODUCTION

Steel production and consumption is a global industry consisting of hundreds of counterparts, inclusive of miners, steel mills and physical and financial traders. U.S. Midwest Domestic Hot-Rolled Coil Steel is a component of the Hot-Rolled flat steel slate of products.

In 2018, the world produced 1.775 billion tons of crude steel which represented a 5% increase from 2017. This production increase comes predominantly from China which accounted for approximately 52.25% of global steel production in 2018 and 80% of the global steel production increase from 2017 to 2018¹⁰. The steel market has experienced significant volatility over the past three years as the price of HRC steel has increased 83% to 719 \$/short ton since early 2016.

On average, the U.S. produced 88.786 million tons of raw steel per year from 2015 to 2017. Raw steel production in the Midwest, including the Great Lakes region, accounted for approximately 49% of total U.S. production in the same time frame¹¹. As illustrated in Table 1, over the past three years the U.S. has produced an average 19.439 million tons of hot-rolled coil steel representing a 7% market share globally¹².

⁸ <https://www.census.gov/geo/reference/webatlas/regions.html>

⁹ https://www.worldsteel.org/en/dam/jcr:e5a8eda5-4b46-4892-856b-00908b5ab492/SSY_2018.pdf

¹⁰ <https://www.worldsteel.org/steel-by-topic/statistics/monthly-crude-steel-and-iron-production.html>

¹¹ <https://www.steel.org/industry-data> (Bloomberg Codes: AISISPTO; AISISPGL; AISISPMW)

¹² https://www.worldsteel.org/en/dam/jcr:e5a8eda5-4b46-4892-856b-00908b5ab492/SSY_2018.pdf

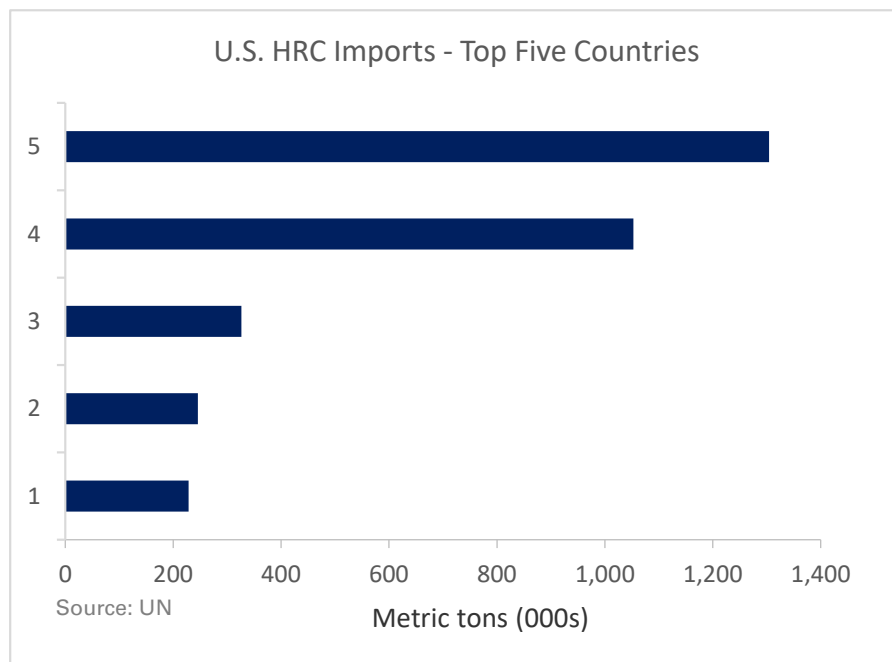
Applying the ratio of overall steel production for the Midwest of 49% to hot-rolled coil indicates that 9.424 million tons of aggregate U.S. HRC production, seen in Table 2, was produced in the Midwest.

STOCKS

HRC inventories in the U.S have seen drawdowns over the past five years according to the U.S. Department of Commerce. Table 2 below includes average annual HRC stocks across mills throughout the U.S. for the past three full years. The Exchange applied the 49% ratio to account for Midwest inventories.

IMPORTS

The Exchange has included imports in its analysis of deliverable supply based on UN Comtrade data for hot-rolled iron or non-alloy steel in coils using tariff code 7208¹³. A 50% reduction has been applied to reflect only import material destined for the Midwest. Imports are included as they provide a source of material that is available to suppliers in the Midwest. The top import source for HRC in the U.S. is Canada.



¹³ <https://comtrade.un.org/data/>

Table 1. Aggregate U.S. Hot-rolled Coil Steel Production¹⁴

metric tons (MT)				
Year	Aggregate Raw Steel Production - U.S.	Raw Steel Production - Midwest	Midwest Market Share of Aggregate U.S. Steel Production	U.S. HRC Production
2015	87,925	43,125	49%	18,702,000
2016	88,328	43,267	49%	19,236,000
2017	90,106	42,795	47%	20,378,000
3-year average	88,786	43,062	49%	19,438,667

Table 2. Midwest Hot-rolled Coil Steel Production, Stocks, and Imports^{15 16 17 18}

*1 short ton (U.S. ton) is equivalent to 2,000 pounds and is equal to 0.907 metric tons.

ANALYSIS OF DELIVERABLE SUPPLY

metric tons (MT)								short tons (ST)*
Year	Production	Aggregate U.S. Inventories	Estimated Midwest Inventories	Aggregate U.S. Imports	Estimated Midwest Imports	Total Midwest Production, Inventories, & Imports	Total Midwest Production Inventories & Imports – Post 55% Reduction	Deliverable Supply
2015	9,172,860	1,867,083	915,757	5,937,215	2,968,608	13,057,225	5,875,751	6,476,905
2016	9,422,652	1,696,167	830,858	4,189,057	2,094,528	12,348,039	5,556,617	6,125,120
2017	9,678,340	1,042,250	495,006	3,226,166	1,613,083	11,786,430	5,303,893	5,846,540
3-year average	9,424,618	1,535,167	747,207	4,450,813	2,225,406	12,397,231	5,578,754	6,149,522

Appendix C to part 38 of the Commission's regulations defines deliverable supply as "the quantity of the commodity meeting the contract's delivery specifications that can reasonably be expected to be readily available to short traders and saleable by long traders at its market value in normal cash marketing channels at the derivative contract's delivery points during the specified delivery period, barring abnormal movement in interstate commerce."

Deliverable Supply (ST)	Monthly Contract Equivalent	Spot Month Position Limit Contract Equivalent	% of Deliverable Supply
6,149,522	25,623	5,000	19.51%

¹⁴ <https://www.steel.org/industry-data> (Bloomberg Codes: AISISPTO; AISISPGL; AISISPMW)

¹⁵ https://www.worldsteel.org/en/dam/jcr:e5a8eda5-4b46-4892-856b-00908b5ab492/SSY_2018.pdf

¹⁶ U.S. Department of Commerce; Bloomberg Code: USSISPSH Index

¹⁷ <https://comtrade.un.org/data/>

¹⁸ <https://www.steel.org/industry-data>; (Bloomberg Codes: AISISPTO, AISISPGL, AISISPMW)

In estimating deliverable supply and calculating position limits, the Exchange relied on HRC production, stocks, and imports in the U.S. The deliverable supply is calculated as the sum of these three figures. Based on the above analysis, it is estimated that the deliverable supply for the U.S. Midwest Hot-rolled Coil Steel (Platts) Futures is 6,149,522 short tons based on the most recent three-year average from 2015-2017 which equates to 25,623 monthly contract equivalents based on a contract size of 20 short tons per lot. Therefore, the proposed spot month position limit for the U.S. Midwest Hot-rolled Coil Steel (Platts) Futures contract is 5,000 contracts which represents 19.51% of the estimated deliverable supply.