

SUBMISSION COVER SHEET

IMPORTANT: Check box if Confidential Treatment is requested

Registered Entity Identifier Code (optional): 18-192

Organization: The Board of Trade of the City of Chicago, Inc. ("CBOT")

Filing as a: **DCM** **SEF** **DCO** **SDR**

Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): 06/28/18 **Filing Description:** Initial Listing of Options on Black Sea Wheat Financially Settled (Platts) Futures

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 checked="" 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 |

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

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|--------------------------|---|----------------------|
| <input 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:

Rule Numbers:

June 28, 2018

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 40.2(a) Certification. Notification Regarding the Initial Listing of
 Options on Black Sea Wheat Financially Settled (Platts) Futures.
 CBOT Submission No. 18-192**

Dear Mr. Kirkpatrick:

The Board of Trade of the City of Chicago, Inc. (“CBOT” or “Exchange”) is notifying the Commodity Futures Trading Commission (“CFTC” or “Commission”) that it is self-certifying the initial listing of options on Black Sea wheat financially settled (Platts) futures (the “Contract”) for trading on the CME Globex electronic trading platform and for submission for clearing via CME ClearPort, effective Sunday, July 15, 2018 for trade date Monday, July 16, 2018, as more specifically described below.

Contract Title	Options on Black Sea Wheat Financially Settled (Platts) Futures
Commodity Code	BWO
Rulebook Chapter	14T
Settlement method	Financial
Contract Size	50 MT (metric tons)
Listing Schedule	Monthly contracts listed for twelve (12) consecutive months. Add a new contract month after the nearby expiry.
First Listed Month	July 2018
Minimum Price Fluctuation	\$0.05 per MT (metric ton)
Value per tick	\$2.50
Block Trade Minimum Threshold	5 contracts
Termination of Trading	Trading terminates on the last trading day of the underlying future.
CME Globex Matching Algorithm	FIFO
Underlying Futures Contract / Commodity Code	Black Sea Wheat Financially Settled (Platts) Futures / (BWF)
Strike Price Increment	\$2.50
Strike Price Listing Rule	Dynamic strikes only

Trading and Clearing Hours:

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

Level	Account Owner	Execution Type	Venue/Transaction Type	Exchange Fee
Individual Member				
1	Individual Members	Member Account Owner	CME Globex	\$0.20
			EFP	\$1.07
			EFR	\$1.37
			Block	\$1.20
	Individual Delegates	Delegate Trading Own Account	CME Globex	\$0.30
			EFP	\$1.22
			EFR	\$1.52
			Block	\$1.30
Equity Members (Individual Equity members, Clearing Firms and Equity Firms)				
2	Equity Members ¹	Member or Delegate	CME Globex	\$0.20
			EFP	\$1.07
			EFR	\$1.37
			Block	\$1.17
	Non Member		CME Globex	\$0.46
			EFP	\$1.07
			EFR	\$1.37
			Block	\$1.17
	Rule 106.S. Family of Funds Equity Member Firms	Member, Delegate or Non Member	CME Globex	\$0.46
			EFP	\$1.07
EFR			\$1.37	
Block			\$1.17	

¹ Clearing Closely Held Corporate Members & Sole Proprietors, Rule 106.J. Equity Closely Held Corporate Members & Rule 106.I. Affiliate Equity Member Firms, Individual Equity Members (other member/delegate executing), Clearing FCMs, Rule 106.J. Equity FCMs, Clearing Corporate Members, Rule 106.J. Equity Corporate Members & Rule 106.I. Affiliate Equity Member Firm (Affiliate of Clearing FCM, Clearing Corporate Member or Rule 106.J Equity FCM or Equity Corporate Member), Rule 106.I. Affiliate Membership Umbrella - Qualified Affiliate - Unlimited Number of Affiliates.

(Execution Not a Factor in Membership Types Below)

Level	Account Owner	Execution Type	Venue/Transaction Type	Exchange Fee
Trading Members (Individual Non-Equity Members and Non-Equity Member Firms)				
3	Individual Non-Equity Members (other member/delegate executing); Rule 106.H. Corporate Trading Firms; Rule 106.H. Trading FCMs; & Rule 106.I. Affiliate Trading Member Firms	Member, Delegate or Non Member	CME Globex	\$0.66
			EFP	\$1.21
			EFR/Block	\$1.66
	Individual Delegates (Other Member or Delegate executing the trade) & Rule 106.I. Affiliate Trading Member Firms	Member, Delegate or Non Member	CME Globex	\$0.81
			EFP	\$1.36
			EFR/Block	\$1.81

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	Rule 106.S. Family of Funds Trading Member Firms	Member, Delegate or Non Member	CME Globex	\$0.66
			EFP	\$1.21
			EFR/Block	\$1.66
Level	Account Owner	Execution Type	Venue/Transaction Type	Exchange Fee
Electronic Corporate Member Firm				
4	Rule 106.R Electronic Corporate Member Firms (For open outcry and EFP/EFR/Block - Non-Member rates apply)	Member, Delegate or Non Member	CME Globex	\$0.81
Non Members				
	International Incentive Program (IIP) and International Volume Incentive Program (IVIP) Participants (Open Outcry - Interest Rate products only)	Member, Delegate or Non Member	CME Globex	\$0.90
5	Central Bank Incentive Program (CBIP), Emerging Markets Bank Incentive Program (EMBIP), Latin American Fund Manager Incentive Program (FMIP) (For open outcry and EFP/EFP/Block - Non-Member rates apply)	Member, Delegate or Non Member	CME Globex	\$1.03
	Non Members	N/A	CME Globex	\$1.03
			EFP	\$1.44
			EFR/Block	\$2.03
Processing Fees		Fee		
Exchange Fees for Non-Trades (Member/Delegate/Non-Member)		\$2.00		
Exchange Fees for Non-Trades - Expired Options		\$0.10		
Facilitation Fee		\$0.40		
Brokerage Fees – with discretion 106F within/106D or 106F outside		\$0.00/\$0.15		
Brokerage Fees – without discretion Member or 106F within/106D, 106F outside or CMACE Permit Holder		\$0.04/\$0.17		
Position Adjustments/Position Transfers		\$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:

- **Compliance with Rules:** Trading in the Contract will be subject to all CBOT Rules, including prohibitions against fraudulent, noncompetitive, unfair and abusive practices as outlined in CBOT Rule Chapter 4, the Exchange’s trade practice rules, the majority of which are contained in Chapter 5 and Chapter 8 of the CBOT Rulebook, and the dispute resolution and arbitration procedures of CBOT Rule Chapter 6. As with all products listed for trading on one of CME Group’s designated contract markets, trading activity in the Contract will be subject to monitoring and surveillance by

CME Group's Market Regulation Department. The Market Regulation Department has the authority to exercise its investigatory and enforcement power where potential rule violations are identified.

- **Contract Not Readily Subject to Manipulation:** The Contract is not readily subject to manipulation because of its structural attributes, active underlying market and reliance on a well administered index. Final settlements are based on an index published by S&P Global Platts and licensed to the Exchange.
- **Prevention of Market Disruption:** Trading in the Contract will be subject to the rules of the Exchange, 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 Contract 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.
- **Availability of General Information:** The Exchange will publish on its website information in regard to contract specifications, terms, and conditions, as well as daily trading volume, open interest, and price information for the Contract. The Exchange will issue a Special Executive Report ("SER") regarding the launch of the Contract.
- **Daily Publication of Trading Information:** The Exchange will publish contract trading volumes, open interest levels, and price information daily on its website and through quote vendors for the Contract.
- **Execution of Transactions:** The Contract will be listed for trading on the CME Globex electronic trading platform and for clearing through the CME ClearPort platform. The CME Globex trading venue provides for competitive and open execution of transactions. CME Globex affords the benefits of reliability and global connectivity. The CME ClearPort platform provides a competitive, open and efficient mechanism for the novation of transactions that are competitively executed by brokers.
- **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.
- **Financial Integrity of Contract:** The Contract will be cleared by the CME Clearing House, a derivatives clearing organization registered with the Commodity Futures Trading Commission and subject to all CFTC regulations related thereto.
- **Protection of Market Participants:** CBOT Rulebook Chapters 4 and 5 set forth multiple prohibitions that preclude intermediaries from disadvantaging their customers. These rules apply to trading in 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 these products 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.

Pursuant to Section 5c(c) of the Act and CFTC Regulations 40.2(a), the Exchange hereby certifies that listing the Contract complies with the Act, including regulations under the Act. There were no substantive opposing views to the 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: CBOT Rulebook Chapters 14T
Exhibit B: Position Limits, Position Accountability and Reportable Level Table in Chapter 5 of the CBOT Rulebook (attached under separate cover)
Exhibit C: CBOT Rule 588.H. – (“Globex Non-Reviewable Trading Ranges”) Table
Exhibit D: Cash Market Overview and Analysis of Deliverable Supply

Exhibit A
CBOT Rulebook

Chapter 14T
Options on Black Sea Wheat Financially Settled (Platts) Futures

14T100. SCOPE OF CHAPTER

This chapter is limited in application to put and call options on Black Sea Wheat Financially Settled (Platts) futures contracts. In addition to the rules of this chapter, transactions in options on Black Sea Wheat Financially Settled (Platts) futures shall be subject to the general rules of Exchange insofar as applicable.

14T101. OPTION CHARACTERISTICS

14T101.A. Contract Months

Trading may be scheduled in such months as determined by the Exchange and the number of months open for trading at a given time shall also be determined by the Exchange.

14T101.B. Trading Unit

Each option reflects one fifty (50) metric tons Black Sea Wheat Financially Settled (Platts) futures contract with the same contract month.

14T101.C. Minimum Fluctuations

Prices shall be quoted in U.S. dollars and cents per metric ton. The minimum price fluctuation shall be \$0.05 per metric ton or \$2.50 per contract.

However, a position may be initiated or liquidated at a premium of \$1.00 per option contract.

14T101.D. Trading Hours

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

14T101.E. Exercise Prices

Trading shall be conducted for call and put options with strike prices in integral multiples of \$2.50 per metric ton. New strike prices at regularly defined intervals shall be added for trading on an as-needed basis.

14T101.F. 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.

14T101.G. Nature of Option

Options on Black Sea Wheat Financially Settled (Platts) futures contracts are European-Style expiry options and may not be exercised prior to expiration. The options are financially settled on expiration day.

14T101.H. Termination of Trading

Trading terminates on the last trading day of the corresponding Futures contract.

14T102. CASH SETTLEMENT

For a Call option on Black Sea Wheat Financially Settled (Platts) futures contracts, the cash settlement amount on expiration day is the differential between the Floating Price and the strike price, multiplied by 50 metric tons, or zero, whichever is greater.

For a Put option on Black Sea Wheat Financially Settled (Platts) futures contracts, the cash settlement amount on expiration day is the differential between the strike price and the Floating Price, multiplied by 50 metric tons, or zero, whichever is greater.

The Floating Price for each contract month shall be equal to the arithmetic average of the "FOB Black Sea wheat (Russia, 12.5%)" price assessment published by Platts for each day that it is determined during the contract month. The Floating Price shall be rounded to the nearest \$0.01.

14T103. OPTION PREMIUM FLUCTUATION LIMITS

There are no option premium limits during any day for options on Black Sea Wheat Financially Settled (Platts) futures contracts.

14T104. PAYMENT OF OPTION PREMIUM

The option premium must be paid in full by each clearing member to the Clearing House and by each option customer to his futures commission merchant at the time that the option is purchased, or within a reasonable time after the option is purchased.

14T105. DISCLAIMER

NEITHER THE BOARD OF TRADE OF THE CITY OF CHICAGO, INC. ("CBOT"), ITS AFFILIATES, NOR S&P GLOBAL PLATTS GURANTEES THE ACCURACY AND/OR COMPLETENESS OF THE INDEX OR ANY OF THE DATA INCLUDED THEREIN.

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Exhibit B

**Position Limits, Position Accountability and Reportable Level Table
in Chapter 5 of the CBOT Rulebook**

(attached under separate cover)

Exhibit C

CBOT Rule 588.H. – (“Globex Non-Reviewable Trading Ranges”) Table

(additions are underscored)

Instrument Name	Globex Symbol	Bid/Ask Reasonability	Non-Reviewable Range (NRR)
<u>Options on Black Sea Wheat Financially Settled (Platts) Futures</u>	<u>BWO</u>	<u>The greater of the delta times the underlying futures' non-reviewable range or 20% of the fair value premium up to the underlying futures' non-reviewable range with a minimum reasonability of \$0.01</u>	<u>The greater of delta times the underlying futures non-reviewable range or 20% of premium up to 1/4 of the underlying futures' non-reviewable range with a minimum of 1 tick</u>

Exhibit D
Cash Market Overview and Analysis of the Deliverable Supply

CASH MARKET ANALYSIS

The Exchange is proposing to launch options on futures contracts based on wheat produced and delivered from the Black Sea region. The Black Sea Wheat futures contracts are financially settled instruments, and settle against price assessments published for “FOB Black Sea wheat (Russia, 12.5%)” by Platts.

In its cash market and deliverable supply analysis, the Exchange has incorporated data from a range of sources as described below.

The US Department of Agriculture (“USDA”), is the department of the US Government responsible for agricultural markets. Its Foreign Agricultural Service collates and publishes data on global agricultural markets.

Eurostat is the statistical service of the European Union. It compiles and consolidates data collected by the statistical authorities in each EU member state. In addition, Eurostat ensures that all parties are employing the same methodology in collecting and reporting data.

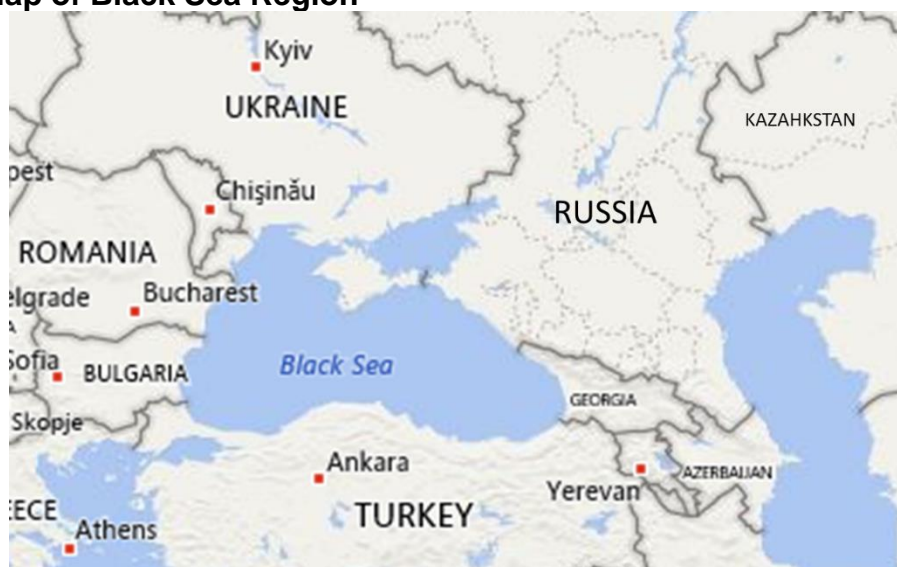
The UN Comtrade Database provides free access to detailed global trade data. UN Comtrade is a repository of official trade statistics and relevant analytical tables. It contains annual trade statistics starting from 1962 and monthly trade statistics since 2010.

Novorossiysk Commercial Sea Port, PJSC, is an operational division of NCSP Group, a Russian company which operates the port of Novorossiysk, and is listed on the MICEX Exchange in Moscow (ticker symbol NMTP) and has GDRs listed on the International section of the London Stock Exchange (ticker symbol NCSP).

Platts is a division of S&P Global. It is a leading price information provider for commodity products around the world. Platts’ assessment methodology for Black Sea Wheat are available on its website, as described below. CME Group is a party to license agreements with Platts to utilize their pricing data.

The Exchange’s Black Sea Wheat Financially Settled (Platts) Futures are based on wheat produced and delivered from the Black Sea region. The Black Sea is bordered by Russia, Ukraine, Romania, Bulgaria, Turkey and Georgia, and contains major grain seaborne export ports for grain produced across a wide area, including much of Southern Russia and Kazakhstan.

Figure 1: Map of Black Sea Region



source: Bing maps, www.bing.com

Russia is the main producer and exporter of wheat in the region, as can be seen in Tables 1 and 2 below. The USDA provides wheat production data for some countries in the region. Production data for Romania and Bulgaria are provided by Eurostat.

Table 1: Black Sea Regional Wheat Production

Thousand Metric Tons

	2014/15	2015/16	2016/17	2017/18
Russia ^A	59,080	61,044	72,529	84,992
Ukraine ^A	24,750	27,274	26,791	26,981
Turkey ^A	15,250	19,500	17,250	21,000
Kazakhstan ^A	12,996	13,748	14,985	14,802
	2014	2015	2016	2017
Bulgaria ^B	5,459	5,140	5,943	6,511
Romania ^B	7,585	7,962	8,431	9,877
Total	125,120	134,668	145,929	164,163

Notes: A: data source: USDA, wheat production, data on a July-June local marketing year basis (June-May for Turkey)¹

B: data source: Eurostat, wheat and spelt production, data on a calendar year basis²

Table 2: Black Sea Regional Wheat Exports

Thousand Metric Tons

	2014	2015	2016	2017

¹ See USDA publication “Grain: World Markets and Trade” <https://apps.fas.usda.gov/psdonline/circulars/grain.pdf>. Data taken from March 2018 publication.

² Eurostat Crop Statistics database apro_acs_a available at <http://ec.europa.eu/eurostat/data/database>

Bulgaria	2,839.9	3,243.4	4,414.2	4,161.7
Georgia	39.8	0.7	5.0	21.1
Kazakhstan	4,208.2	3,635.9	4,448.0	4,256.3
Rep. of Moldova	420.2	303.8	662.0	667.8
Romania	4,965.4	3,555.3	6,994.0	5,847.8
Russian Federation	22,139.3	21,234.2	25,326.8	33,026.0
Turkey	68.6	68.8	26.5	42.6
Ukraine	10,543.8	13,451.8	17,921.0	17,314.3
Total	45,225.2	45,493.9	59,797.5	65,337.60

data source: UN Comtrade Database³

The UN Comtrade Database provides a breakdown of export destinations. For the four main exporting countries that border the Black Sea, ie Russia, Ukraine, Romania and Bulgaria, more than 100 destination countries are identified over recent years. Egypt is the largest importer of wheat from the region, receiving 19.2% of all reported exports in 2017. Other large importers in 2017 were Turkey, Bangladesh, Indonesia, Spain, and India. The focus of the underlying reference of the proposed futures contracts is seaborne trade. The information provided on export destinations can be used to identify destinations where the mode of transport is likely to be by land, or in the case of Russian exports likely to take a route other than through the Black Sea. This analysis suggests that approximately 12.5% of exports can be identified in this way⁴.

Table 3 provides data on regional imports of wheat.

Table 3: Black Sea Regional Wheat Imports

Thousand Metric Tons

	2014	2015	2016	2017
Bulgaria	46.2	42.8	55.8	60.5
Georgia	1,133.7	1,077.9	912.5	514.1
Kazakhstan	22.8	124.8	59.8	35.9
Rep. of Moldova		1.9	1.7	1.5
Romania	1,341.8	1,304.5	4,311.9	1,250.0
Russian Federation	793.8	807.3	1,159.8	269.0
Turkey	10,570.5	8,699.6	8,451.6	4,990.9
Ukraine	3.6	4.5	2.3	3.7
Total	13,913.2	12,063.3	14,955.4	7,125.6

data source: UN Comtrade Database⁵

Consumption data for the region is not widely available. The USDA provides information on certain countries, as detailed in Table 4.

Table 4: Black Sea Regional Wheat Consumption

³ See <https://comtrade.un.org/data/> using HS Code 1001

⁴ Identified destinations include eastern European countries, and for Russia, countries bordering Russia in central and eastern Asia and countries in northern Europe.

⁵ See <https://comtrade.un.org/data/> using HS Code 1001

Thousand Metric Tons

	2014/2015	2015/2016	2016/2017	2017/2018
Russia	35,500	37,000	40,000	45,000
Turkey	17,500	18,000	17,400	17,900
Ukraine	11,500	12,200	10,300	9,900
Total	64,500	67,200	67,700	72,800

data source: USDA, wheat consumption data on a July-June local marketing year basis (June-May for Turkey)⁶

Given its geographical size and position, data for Russian wheat must be examined more closely, to better identify the volumes that are relevant to the Black Sea region. As assessed by the USDA, Russia supports both a winter wheat crop and a spring wheat crop. The growing areas for these crops are distinct, and are described by the USDA in the following graphic.

⁶ See USDA publication "Grain: World Markets and Trade" <https://apps.fas.usda.gov/psdonline/circulars/grain.pdf>. Data taken from September 2017 publication.

Figure 2: Location of Winter and Spring Wheat Production in 2017



source: USDA⁷, Pink areas are winter wheat production, green areas are spring wheat production. Darker colors indicate higher production.

It is clear that the winter wheat production areas are in close proximity to the Black Sea, and are likely to be more relevant for the Black Sea export market. The USDA provides a breakdown of Russian wheat production as follows:

⁷ See USDA publication: "Russian Federation Grain and Feed Annual 2017"
https://gain.fas.usda.gov/Recent%20GAIN%20Publications/Grain%20and%20Feed%20Annual_Moscow_Russian%20Federation_4-23-2018.pdf

Table 5: Russian Wheat Production

Thousand Metric Tons

	2014	2015	2016	2017
Winter Wheat	41,639	41,322	51,542	n/a
Spring Wheat	17,441	19,722	20,987	n/a
Total	59,081	61,044	72,529	84,992
<i>Share of Winter Wheat in total Production</i>	70%	68%	71%	n/a

source: USDA⁸, based on data from Rosstat, the Russian Federal Statistical Service. The production split for 2017 was not available yet.

In recent years, winter wheat has represented 70% of the total Russian crop.

The USDA also provides information on the quality distribution of Russian wheat. In both domestic production and the export market, Class 4 wheat is the main source of supply. In the 2016/17 season, the USDA states that Class 4 quality wheat contributed 50.1% of production and 82.5% of exports⁹. In 2016/17 Class 4 wheat had an average protein content of 12.1%, with the average protein content in Class 4 exports being 12.3%. Class 3 wheat, with higher protein content, contributed 22.7% of production and 12.6% of exports. Class 5 wheat, which has lower protein and is considered feed quality, contributed 27.2% of production and 4.9% of exports.

The proposed contracts are to be cash settled with reference to a Platts price assessment for export cargoes of wheat from the Black Sea, using the port of Novorossiysk as the pricing reference point. The Platts methodology notes that “In the absence of representative FOB Novorossiisk price information, Platts may also refer to other Black Sea ports or CFR prices in relevant destinations and will use prevailing spot freight rates and origin adjustments to normalize to FOB Novorossiisk”¹⁰.

The export market is facilitated by numerous local and international firms who procure wheat from farmers, typically paying local currency, move it to a port and sell it into the international market. Trades into the international market are typically transacted in US Dollars on a per cargo basis. Cargo sizes vary from 3,000 ton coasters to 78,000 ton panamax vessels. Handysize vessels, with deadweight tonnage in the region of 28,000 metric tons are the most frequently used vessels in the export market. Each physical cargo parcel may be traded multiple times, in what is referred to as a string of back to back contracts. Wheat is typically bought and sold on a spot basis, with the typical delivery term being 1 month to 6 weeks. Little or no long term deals are concluded in the market, and all cargoes are considered re-tradable. Large multinational firms are active on both the buy and the sell side, and are active in the spot market.

⁸ See USDA publication: “Russian Federation Grain and Feed Annual 2017”
https://gain.fas.usda.gov/Recent%20GAIN%20Publications/Grain%20and%20Feed%20Annual_Moscow_Russian%20Federation_4-14-2017.pdf, 2017 data sourced from
https://gain.fas.usda.gov/Recent%20GAIN%20Publications/Grain%20and%20Feed%20Annual_Moscow_Russian%20Federation_4-23-2018.pdf

⁹ See USDA Publication “Quality of Wheat Crop in Russia in 2016”
https://gain.fas.usda.gov/Recent%20GAIN%20Publications/Quality%20of%20Wheat%20Crop%20in%20Russia%20in%202016_Moscow_Russian%20Federation_3-2-2017.pdf

¹⁰ Platts Grains Methodology at <https://www.platts.com/methodology-specifications/agriculture>

As an agricultural crop, there is a seasonal pattern to volumes. This pattern is dampened to an extent through the use of grain storage facilities to manage deliveries throughout the year. Harvest traditionally starts in July, with larger export volumes in the months that follow, and lower export volumes in the months leading up to July. The Port of Novorossiysk publishes monthly data in on shipment volumes, which can be used as a guide to the seasonal nature of the business, as shown in Table 6.

Table 6: Novorossiysk Grain Cargo Shipments

Thousand Metric Tons

	2014	2015	2016	2017	2018
Jan	378	513	477	828	1020
Feb	473	357	663	741	1172
Mar	602	493	560	956	
Apr	653	303	460	1018	
May	397	454	198	594	
Jun	37	421	64	259	
Jul	550	568	394	765	
Aug	985	856	726	1189	
Sep	962	535	506	1114	
Oct	794	769	777	1218	
Nov	794	611	919	1303	
Dec	810	836	944	1229	

source: Novorossiysk Commercial Sea Port, PJSC¹¹

This data shows that the month of June has the smallest delivery volumes, which is consistent with the crop cycle. The average volume for the month of June in the past four years is 195,000 tons, which is 29% of the average for all months for the period shown in Table 6.

¹¹ See <http://www.nmtp.info/en/>

DELIVERABLE SUPPLY ANALYSIS

For the Black Sea Wheat futures contracts, in its analysis of deliverable supply, the Exchange has determined deliverable supply as the volume of exports of wheat from the major exporting nations which border the Black Sea. These are Russia, Ukraine, Romania and Bulgaria.

Table 2 above provides gross data on wheat exports. Data for Russian exports is reduced by 30% to reflect the proportion of the national crop which is winter wheat – this is the proportion which produced relatively close to the Black Sea. In addition, export data for all nations is reduced by 12.5% in order to only account for exports that are likely shipped by seaborne vessels. With these reductions, adjusted exports volumes can be assessed as follows:

Table 7: Adjusted Black Sea Regional Wheat Exports
Thousand Metric Tons

	2015	2016	2017	Average 2015-2017
Bulgaria	2,838	3,862	3,641	3,447
Romania	3,111	6,120	5,117	4,782
Russian Federation	13,006	15,513	20,228	16,249
Ukraine	11,770	15,681	15,150	14,200
Total	30,725	41,176	44,137	38,679

data source: CME Group

The adjusted export volumes described in Table 7 represent the Exchange's assessment of deliverable supply. The average yearly total export volume for the three years 2015-2017 is 38.68 million metric tons. No adjustment is required to reflect long term supply arrangements in this market. No adjustment is made with respect to quality, as the Platts methodology states that "Wheat of other origin or with higher or lower protein content may be considered, but normalized back to Russian origin 12.5% protein".

On a monthly basis, deliverable supply is assessed as 3.22 million metric tons using the 2015-2017 period. The contract size of the proposed new futures contracts is 50 metric tons. Deliverable supply is therefore equivalent to 64,400 contracts per month.

In order to account for seasonality, deliverable supply is reduced to 29% of this value, reflecting the seasonal structure shown in Table 6. Seasonal minimum deliverable supply is therefore equivalent to 18,676 contracts per month. Position limits for contracts are being set at 2,500 lots, equal to 13.4% of the seasonal minimum deliverable supply.