

SUBMISSION COVER SHEET

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Registered Entity Identifier Code (optional): 21-370

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

Filing as a: DCM SEF DCO SDR

Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): 09/08/21 **Filing Description:** Amendments to the Spot Month Position Limits of Three (3) U.S. Midwest Hot-Rolled Coil Steel 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.

September 8, 2021

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. Amendments to the Spot Month Position Limits of Three (3) U.S. Midwest Hot-Rolled Coil Steel Futures and Option Contracts. COMEX Submission No. 21-370

Dear Mr. Kirkpatrick:

Commodity Exchange, Inc. (“COMEX” or “Exchange”) is certifying to the Commodity Futures Trading Commission (“CFTC” or the “Commission”) amendments to the spot month position limits of the U.S. Midwest Domestic Hot-Rolled Coil Steel (CRU) Index Futures, U.S. Midwest Domestic Hot-Rolled Coil Steel (CRU) Index Average Price Option, and the U.S. Midwest Hot-Rolled Coil Steel (Platts) Futures contracts (the “Contracts”) as noted in Exhibit 1 below, effective on close of business on October 29, 2021 and commencing with the November 2021 contract month and beyond. This submission shall become effective on September 23, 2021.

Exhibit 1
COMEX Rulebook
Chapter 5
(“Trading Qualifications and Practices”)
Position Limit, Position Accountability, and Reportable Level Table
(additions underlined; deletions ~~struck through~~)

Contract Title	Rulebook Chapter	CME Globex/ CME ClearPort 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)
U.S. Midwest Domestic Hot-Rolled Coil Steel (CRU) Index Futures	920	HRC/HR	25	3,000 <u>4,000</u>	10,000	20,000
U.S. Midwest Domestic Hot-Rolled Coil Steel (CRU) Index Average Price Option	1095	HRO/HRO	25	3,000 <u>4,000</u>	10,000	20,000
U.S. Midwest Hot-Rolled Coil Steel (Platts) Futures	921	HRP/HRP	25	5,000 <u>4,000</u>	10,000	20,000

The Position Limit, Position Accountability and Reportable Level Table and Header Notes located in the Interpretations and Special Notices Section of Chapter 5 of the COMEX Rulebook (the "Table") will be amended to reflect the amended spot month position limits of the Contracts. Exhibit A reflects the amendments to the Table as of September 23, 2021, the effective date of this submission and Exhibit B reflects the amendments to the Table effective on the close of business on October 29, 2021 (collectively, the "Rule Amendments"). Exhibits A and B are provided in blackline format under separate cover.

Exhibit C below provides the cash market overview and deliverable supply analysis of the Contracts.

The Exchange reviewed the designated contract market core principles ("Core Principles") as set forth in the Commodity Exchange Act ("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 Rule Amendments 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 COMEX Rulebook Chapter 5 Position Limit, Position Accountability, and Reportable Level Table (effective September 23, 2021) (under separate cover)

Exhibit B - Amendments to COMEX Rulebook Chapter 5 Position Limit, Position Accountability, and Reportable Level Table (effective close of business October 29, 2021) (under separate cover)

Exhibit C - Cash Market Overview and Analysis of Deliverable Supply

Exhibit A

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

(under separate cover)

(Effective September 23, 2021)

Exhibit B

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

(under separate cover)

(Effective close of business on October 29, 2021)

Exhibit C

Cash Market Overview and Analysis of Deliverable Supply

Commodity Exchange, Inc. (“COMEX” or “Exchange”) currently lists the U.S. Midwest Domestic Hot-Rolled Coil Steel (CRU) Index Futures, U.S. Midwest Domestic Hot-Rolled Coil Steel (CRU) Index Average Price Option, and the U.S. Midwest Hot-Rolled Coil Steel (Platts) Futures contracts (the “Contracts”) for trading on the CME Globex electronic trading platform (“CME Globex”) and for submission for clearing via CME ClearPort. . The Contracts are based on the price of hot-rolled coil steel (HRC) in the U.S. Midwest region. They are cash settled based on a cash market assessment published by CRU Group and Platts respectively, two price reporting agencies active in the global ferrous markets. \

Contract Title	CME Globex/ CME ClearPort Commodity Code	Rulebook Chapter
U.S. Midwest Domestic Hot-Rolled Coil Steel (CRU) Index Futures	HRC/HR	920
U.S. Midwest Domestic Hot-Rolled Coil Steel (CRU) Index Average Price Option	HRO/HRO	1095
U.S. Midwest Hot-Rolled Coil Steel (Platts) Futures	HRP/HRP	921

METHODOLOGY & DATA SOURCES

For the Contracts, the Exchange considered four components in evaluating deliverable supply:

- 1.) Hot-rolled coil steel production;
- 2.) Hot-rolled coil steel stock data; and
- 3.) Hot-rolled coil steel 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 U.N. Comtrade for its analysis and evaluation of deliverable supply estimates for hot-rolled coil steel (“HRC”). The World Steel Association publishes statistics on US steel production and HRC production. The American Iron and Steel Institute (AISI) provides raw steel production data on a U.S. regional basis. The ratio of Midwest raw steel production to aggregate U.S. raw steel production was applied to estimate U.S. Midwest 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, which is consistent with the Midwest share of overall production. Through conversations with market participants the Exchange has learned that approximately 55% of HRC deliverable supply is tied to long-term contractual agreements. Therefore, the Exchange has implemented a 55% reduction to HRC 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 production.¹

U.S. Department of Commerce

The 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 2010.³

PRICE SOURCES⁴

CRU Group⁵

CRU Group is a privately-owned business intelligence company focusing on the global mining, metals and fertilizer markets. It provides benchmark price assessments for those commodity markets as well as consultancy services. CRU Group uses market appropriate methodology to assess prices in the markets it covers. Each methodology is reviewed regularly to ensure that it always meets the needs of market participants and is in line with industry practice.⁶

Platts⁷

S&P Global Platts (Platts) is a leading global provider of energy, freight, petrochemicals, metals and agriculture information, and a premier source of benchmark price assessments for those commodity markets. A division of S&P Global, S&P Global Platts is headquartered in London and employs over 1,200 people in more than 19 offices worldwide located in global business and energy centers on five continents.

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

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 CRU

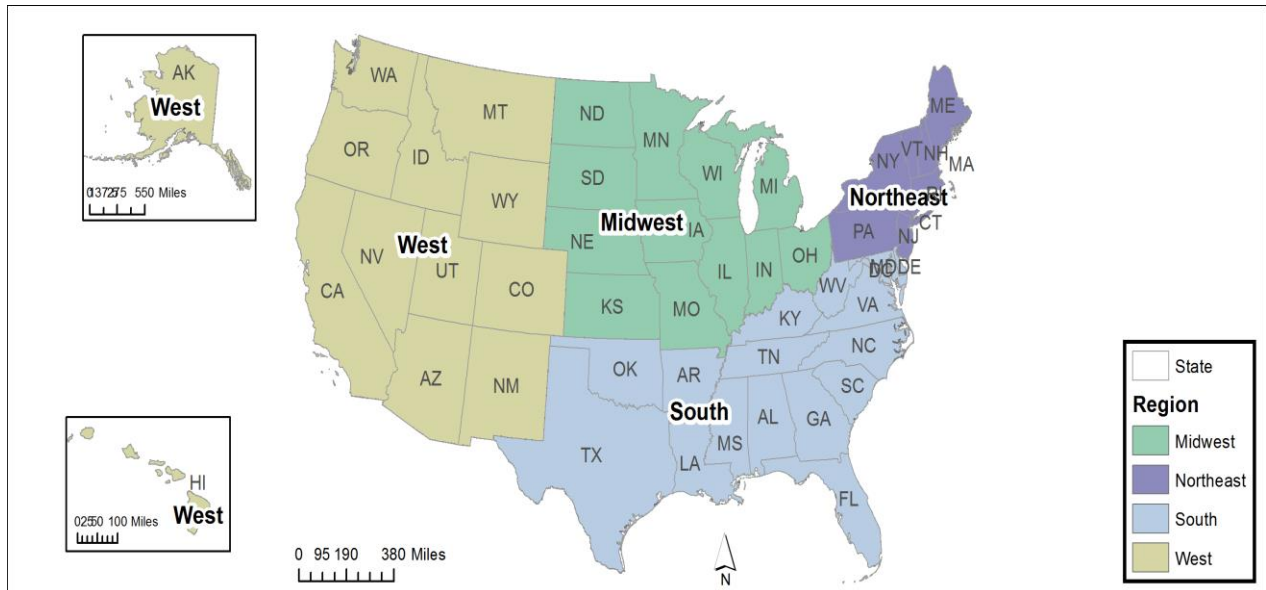
⁵ See <https://cruindices.com/>

⁶ The CRU methodology for HRC and HDG may be found under <https://cruprod.blob.core.windows.net/media/vipjctt4/cru-prices-methodology-and-definitions-carbon-steel.pdf>

⁷ <https://www.spglobal.com/platts/en/about>

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 fluctuate.⁸

The U.S. Census Bureau defines four census regions and identifies each one with a single-digit 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.⁹



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. In 2019, China accounts for 50% of global steel consumption while the U.S. accounts for 6%.¹⁰ The same year, the U.S. held approximately 5% market share in the production of hot rolled steel products while China dominated world production with a market share of 69%.¹¹

PRODUCTION

Steel production and consumption is a global industry consisting of hundreds of companies, 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 2019, the world produced 1.875 billion tons of crude steel which represented a 3% increase from 2017. Overall, China accounted for 53% of global steel production in 2019.¹² On average, the U.S. produced

⁸ <https://www.worldsteel.org/>

⁹ https://www2.census.gov/geo/pdfs/maps-data/maps/reference/us_regdiv.pdf. Midwest includes North Dakota, South Dakota, Nebraska, Kansas Missouri, Iowa, Minnesota, Wisconsin, Illinois, Michigan, Indiana, Ohio

¹⁰ [Worldsteel Steel Statistical Yearbook 2020](#) Apparent Steel Use, Crude Steel Equivalent, page 15

¹¹ [Worldsteel Steel Statistical Yearbook 2020](#) Production of Hot Rolled Products, page 7

¹² [Worldsteel Steel Statistical Yearbook 2020](#) Total Production of Crude Steel, page 2

90.222 million tons of raw steel per year from 2018 to 2020. Raw steel production in the Midwest, including the Great Lakes region, accounted for approximately 47% of total U.S. production in the same time frame.¹³

As estimated in Table 1, over the past three years the U.S. has produced an average 19.849 million tons of hot-rolled coil steel. Applying the 47% ratio of overall steel production for the Midwest to hot-rolled coil indicates that 9.329 million tons of 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. Across 2018-2020, average U.S. inventories stood at 0.536m tons. Table 2 below includes average annual HRC stocks across mills throughout the U.S. for the past three years. The Exchange applied the 47% ratio to account for Midwest inventories only.

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 HS code 7208.¹⁴ 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. Across 2018-2020, average U.S. imports stood at 2.673m tons per year.

Table 1. Aggregate U.S. Hot-rolled Coil Steel Production¹⁵

Thousand 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	U.S. HRC as a percentage of aggregate raw steel production
2015	82,422	40,487	49%	18,702	22.7%
2016	88,328	43,267	49%	19,236	21.8%
2017	90,106	42,795	47%	20,378	22.6%
2018	94,415	44,480	47%	20,771 (e)	22.0% (e)
2019	97,635	46,458	48%	21,480 (e)	22.0% (e)
2020	78,616	36,093	46%	17,296 (e)	22.0% (e)
3-year average	90,222	42,344	47%	19,849	

¹³ <https://www.steel.org/industry-data> (Bloomberg Codes: AISISPTO; AISISPGL; AISISPMW)

¹⁴ <https://comtrade.un.org/data/>

¹⁵ <https://www.steel.org/industry-data> (Bloomberg Codes: AISISPTO; AISISPGL; AISISPMW). US HRC production data was taken from the 2018 Worldsteel annual report https://www.worldsteel.org/en/dam/jcr:e5a8eda5-4b46-4892-856b-00908b5ab492/SSY_2018.pdf. Because HRC production data was not available for 2018 - 2020, exchange staff estimated that HRC production was equal to 22% of raw steel production for 2018 and 2019 based on the ratio in prior years.

Table 2. Midwest Hot-rolled Coil Steel Production, Stocks, and Imports

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

metric tons (MT)								short tons (ST)*
Year	Midwest HRC Production ¹⁶	Aggregate U.S. Inventories ¹⁷	Estimated Midwest Inventories ¹⁸	Aggregate U.S. Imports ¹⁹	Estimated Midwest Imports ²⁰	Total Midwest Production, Inventories, & Imports	Total Midwest Production Inventories & Imports – Post 55% Reduction	Deliverable Supply
2018	9,762,511	629,833	296,022	3,475,960	1,737,980	11,796,513	5,308,431	5,852,735
2019	10,095,459	587,667	276,203	2,515,476	1,257,738	11,629,400	5,233,230	5,769,824
2020	8,128,894	391,600	184,052	2,029,087	1,014,544	9,327,490	4,197,370	4,627,751
3-year average	9,328,955	536,367	252,092	2,673,508	1,336,754	10,917,801	4,913,010	5,416,770

ANALYSIS OF DELIVERABLE SUPPLY

In accordance with Core Principle 3 for Contract Markets of the Commodity Exchange Act, Appendix C of Part 38, the Commission defined deliverable supply as:

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).

Deliverable Supply HRC

In estimating deliverable supply and calculating position limits, the Exchange relied on HRC production, stocks, and imports in the U.S. with aforementioned applicable reductions. The deliverable supply is calculated as the sum of these three figures. Based on the above analysis, it is estimated that the deliverable supply of HRC is 5,416,770 short tons based on the most recent three-year average from 2018-2020. This equates to 22,570 monthly contract equivalents based on a contract size of 20 short tons per

¹⁶ Midwest HRC production estimated at 47% of total U.S. HRC production

¹⁷ U.S. Department of Commerce; Bloomberg Code: USSISPSH Index. Note that the 2020 average inventory was based on the first 10 months of the year.

¹⁸ Midwest HRC inventories estimated at 47% of total U.S. inventories

¹⁹ <https://comtrade.un.org/data/> (HS code 7208).

²⁰ Midwest HRC imports estimated at 50% of total U.S. imports

lot. Therefore, the proposed spot month position limit for U.S. Midwest Hot-rolled Coil Steel futures and options of 4,000 contracts represents 17.72% of the estimated deliverable supply.

Deliverable Supply HRC (ST)	Monthly Contract Equivalent	Spot Month Position Limit Contract Equivalent	% of Deliverable Supply
5,416,770	22,570	4,000	17.72%