

**SUBMISSION COVER SHEET**

**IMPORTANT:** Check box if Confidential Treatment is requested

**Registered Entity Identifier Code (optional):** 14-263 (1 of 2)

**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):** August 8, 2014 **Filing Description:** Notification Regarding the Initial Listing of a Dry Bulk Freight Futures Contract – Capesize 2014 Timecharter Average (Baltic) Futures Contract.

**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

**Official Product Name:** Capesize 2014 Timecharter Average (Baltic Futures Contract)

**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

August 8, 2014

**VIA ELECTRONIC PORTAL**

Ms. Melissa Jurgens  
Office of the Secretariat  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21st Street, N.W.  
Washington, D.C. 20581

**Re: CFTC Regulation 40.2(a) Certification. Notification Regarding the Initial Listing of a Dry Bulk Freight Futures Contract – Capesize 2014 Timecharter Average (Baltic) Futures Contract.  
NYMEX Submission No. 14-263 (1 of 2)**

Dear Ms. Jurgens:

New York Mercantile Exchange, Inc. (“NYMEX” or “Exchange”) is notifying the Commodity Futures Trading Commission (“CFTC” or “Commission”) that it is self-certifying the listing of a dry bulk freight futures contract, Capesize 2014 Timecharter Average (Baltic) Futures contract, for trading on the NYMEX trading floor and CME Globex, and for submission for clearing through CME ClearPort effective on Sunday, August 24, 2014, for trade date Monday, August 25, 2014. The contract name, commodity code and rulebook chapter are noted below.

Pursuant to Commission Regulation 40.6(a), the Exchange is separately self-certifying block trading on this contract with a minimum threshold of five (5) contracts as listed in Exchange Submission No 14-326.

Contract Name	Commodity Code	NYMEX Rule Chapter
Capesize 2014 Timecharter Average (Baltic) Futures	CF2	769

The Contract specifications are as follows:

Contract	Capesize 2014 Timecharter Average (Baltic) Futures
Contract Code	CF2
Contract Unit	1 charter day
Price Quotation	US Dollars and cents per day
Minimum Price Tick	\$1
Minimum Price Tick for Final Settlement Price	\$0.01
First Listed Month	September 2014
Listing Period	CME Globex: 1 month, NYMEX Trading Floor and CME ClearPort: every month for current year plus next four calendar years

Termination of Trading	For contract months January to November inclusive: the last business day of the calendar month For December contract months: the 24 <sup>th</sup> calendar day of the month, or if this is not a business day, the first preceding business day
------------------------	--

- **Trading Hours:**

Open Outcry: Monday – Friday 9:00 a.m. to 2:30 p.m. (8:00 a.m. to 1:30 p.m. Central Time/CT)  
CME Globex and CME ClearPort: Sunday – Friday 6:00 p.m. – 5:15 p.m. (5:00 p.m. – 4:15 p.m. Central Time/CT) with a 45-minute break each day beginning at 5:15 p.m. (4:15 p.m. Central Time/CT)

- **Trading and Clearing Fees:**

Exchange Fees					
	Member Day	Member	Cross Division	Non-Member	IIP
<b>Pit</b>	\$4.80	\$4.80	\$5.40	\$6.00	
<b>Globex</b>	\$4.80	\$4.80	\$5.40	\$6.00	\$5.40
<b>ClearPort</b>		\$4.80		\$6.00	
<b>Agency Cross</b>		\$4.80			

Other Processing Fees		
	Member	Non-Member
<b>Cash Settlement</b>	\$0.50	\$0.50
Additional Fees and Surcharges		
<b>Facilitation Desk Fee</b>	\$1.00	

The Exchange is also notifying the CFTC that it is self-certifying the insertion of the terms and conditions for the new futures contract into 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 NYMEX Rulebook in relation to the listing of the new contract. These terms and conditions establish the all month/any one month accountability levels, expiration month position limit, reportable level, diminishing balance and aggregation allocation for the contract.

NYMEX business staff responsible for the new products and the NYMEX Legal Department collectively reviewed the designated contract market core principles (“Core Principles”) as set forth in the Commodity Exchange Act (“Act” or “CEA”). During the review, NYMEX staff identified that the new products may have some bearing on the following Core Principles:

- **Compliance with Rules:** Trading in the contract will be subject to the rules in Rulebook Chapter 4 which include prohibitions against fraudulent, noncompetitive, unfair and abusive practices. Additionally, trading in this futures contract will also be subject to the full panoply of trade practice rules, the majority of which are contained in Chapter 5 and Chapter 8 of the Rulebook. As with all products listed for trading on one of CME Group’s designated contract markets, activity in the new product will be subject to extensive 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.
- **Contracts not Readily Susceptible to Manipulation:** The new contract is not readily susceptible to manipulation due to the structure of the underlying price assessment methodology administered by the Baltic Exchange, which incorporates data from a diverse number of market sources.

- Prevention of Market Disruption: Trading in the contract will be subject to the Rules of NYMEX which include prohibitions on manipulation, price distortion and disruptions of the delivery or cash-settlement process. As with all products listed for trading on one of CME Group's designated contract markets, activity in the new product will be subject to extensive monitoring and surveillance by CME Group's Market Regulation Department.
- Position Limitations or Accountability: The spot-month speculative position limits for the contract are set at less than the threshold of 25% of the deliverable supply in the respective underlying market.
- Availability of General Information: The Exchange will publish information on the contract's specifications on its website, together with daily trading volume, open interest, and price information.
- 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.
- Financial Integrity of Contracts: This contract will be cleared by the CME Clearing House which is a registered derivatives clearing organization with the Commission and is subject to all Commission regulations related thereto.
- Execution of Transactions: The new contract will be listed for trading on CME Globex and the NYMEX trading floor and for clearing through the CME ClearPort platform. The CME ClearPort platform provides a competitive, open and efficient mechanism for novating transactions that are competitively executed by brokers. The CME Globex electronic trading platform provides for a competitive and open execution of transactions due to its advanced functionality, high reliability and global connectivity. Establishing non-reviewable trading ranges for Globex trades in the products facilitate price discovery in the products by encouraging narrow bid/ask spreads. In addition, the NYMEX trading floor continues to be available as a trading venue and provide for competitive and open execution of transactions.
- Trade Information: All required trade information is included in the audit trail and is sufficient for the Market Regulation Department to monitor for market abuse.
- Protection of Market Participants: Rulebook Chapters 4 and 5 contain multiple prohibitions precluding intermediaries from disadvantaging their customers. These rules apply to trading on all of the Exchange's competitive trading venues and will be applicable to transactions in the subject contracts.
- 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 subject contracts 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 contract are identified.

Pursuant to Section 5c(c) of the Act and CFTC Regulation 40.2(a), the Exchange hereby certifies that the attached contract complies with the Act, including regulations under the Act. A description of the cash market for this new product is attached in Appendix D.

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 [Christopher.Bowen@cmegroup.com](mailto:Christopher.Bowen@cmegroup.com).

Sincerely,

/s/ Christopher Bowen  
Managing Director and Chief Regulatory Counsel

Attachments: Appendix A: Rule Chapter  
Appendix B: Position Limit, Position Accountability, and Reportable Level Table in  
Chapter 5 of the NYMEX Rulebook (attached under separate cover)  
Appendix C: Rule 588.H – Globex Non-Reviewable Range Table  
Appendix D: Cash Market Overview and Analysis of Deliverable Supply

## **APPENDIX A**

### **NYMEX Rulebook**

#### **Chapter 769**

#### **Capesize 2014 Timecharter Average (Baltic) Futures**

##### **769100. SCOPE OF CHAPTER**

The provisions of these rules shall apply to all futures 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.

##### **769101. CONTRACT SPECIFICATIONS**

The Floating Price for each contract month is equal to the arithmetic average of the rates for the Capesize 2014 Timecharter Average published by the Baltic Exchange, for each Business Day that it is published during the contract Settlement Period, as described in paragraph 769102.E of these Rules.

##### **769102. TRADING SPECIFICATIONS**

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

###### **769102.A. Trading Schedule**

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

###### **769102.B. Trading Unit**

The contract quantity shall be one (1) day. Each contract shall be valued as the contract quantity (1) multiplied by the settlement price.

###### **769102.C. Price Increments**

Prices shall be quoted in U.S. dollars and cents per day. The minimum price fluctuation shall be \$1 per day. The minimum price fluctuation in respect of the Floating Price shall be \$0.01 per day. There shall be no maximum price fluctuation.

###### **769102.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.

###### **769102.E. Settlement Period**

For contract months referenced to a calendar month January to November inclusive, the Settlement Period shall be the full calendar month. For contract months referenced to the December calendar month, the Settlement Period shall be the period from and including the 1st calendar day of the month through to and including the 24th calendar day of the month.

###### **769102.F. Termination of Trading**

Trading shall cease at 5:30 p.m. London time on the last Business Day of the Settlement Period.

**769103. FINAL SETTLEMENT**

Final settlement 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.

**769104. DISCLAIMER**

NEITHER NYMEX, ITS AFFILIATES, NOR THE BALTIC EXCHANGE GUARANTEES THE ACCURACY AND/OR COMPLETENESS OF THE INDEX OR ANY OF THE DATA INCLUDED THEREIN. NYMEX, ITS AFFILIATES AND THE BALTIC EXCHANGE MAKE NO WARRANTIES, EXPRESS OR IMPLIED, AS TO THE RESULTS TO BE OBTAINED BY ANY PERSON OR ENTITY FROM USE OF THE INDEX, TRADING BASED ON THE INDEX, OR ANY DATA INCLUDED THEREIN IN CONNECTION WITH THE TRADING OF THE CONTRACTS, OR, FOR ANY OTHER USE. NYMEX, ITS AFFILIATES AND THE BALTIC EXCHANGE MAKE NO WARRANTIES, EXPRESS OR IMPLIED, AND HEREBY DISCLAIM ALL WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE WITH RESPECT TO THE INDEX OR ANY DATA INCLUDED THEREIN. WITHOUT LIMITING ANY OF THE FOREGOING, IN NO EVENT SHALL NYMEX, ITS AFFILIATES OR THE BALTIC EXCHANGE HAVE ANY LIABILITY FOR ANY LOST PROFITS OR INDIRECT, PUNITIVE, SPECIAL OR CONSEQUENTIAL DAMAGES (INCLUDING LOST PROFITS), EVEN IF NOTIFIED OF THE POSSIBILITY OF SUCH DAMAGE.

The Baltic Exchange licenses the New York Mercantile Exchange, Inc. ("NYMEX") to use various Baltic Exchange price assessments in connection with the trading or posting of the contracts. Baltic Exchange does not sponsor, endorse, sell or promote the contract and makes no recommendations concerning the advisability of investing in the contract.

**APPENDIX B**

**Position Limit, Position Accountability, and Reportable Level Table in Chapter 5**

**of the NYMEX Rulebook**

(attached under separate cover)



## APPENDIX C

### NYMEX Rule 588.H. Non-Reviewable Range Table

(underscore denotes addition)

<b>Instrument</b>	<b>Non-Reviewable Range (NRR) in Globex format</b>	<b>NRR including Unit of Measure</b>	<b>NRR Ticks</b>
<u>Capesize 2014 Timecharter Average (Baltic) Futures</u>	<u>500</u>	<u>\$500 per day</u>	<u>500</u>

## **APPENDIX D**

### **Cash Market Overview**

The New York Mercantile Exchange, Inc. ("NYMEX" or "Exchange") is self-certifying the listing of a Capesize 2014 Timecharter Average (Baltic) futures contract for trading on the NYMEX trading floor, the CME Globex electronic trading platform, and for submission for clearing through CME ClearPort. The product referenced in this submission is related to the international seaborne dry freight market, i.e. the market for providing shipping freight for bulk commodities, such as iron ore and grain.

#### **a) Price Source: Baltic Exchange**

The price reporting service used for the contract's final settlement price is the Baltic Exchange. The Baltic Exchange is one of the major price reporting services that are used in the over-the-counter (OTC) market for pricing freight contracts and the methodology utilized is well-known in the freight transportation industry. Baltic Exchange has a long-standing reputation in the industry in publishing price benchmarks that are fair and not manipulated. Their pricing methodology is derived from telephone surveys and electronic data collected from multiple market participants to determine market value<sup>1</sup>. NYMEX has entered into a license agreement with Baltic Exchange to utilize its pricing data.

#### **b) The Dry Bulk seaborne freight market**

The United Nations Conference on Trade and Development ("UNCTAD") estimates total international seaborne trade to equal 9.16 billion tons for all cargoes in 2012, the latest year of data published by UNCTAD<sup>2</sup>. This represents an increase of 29% over the equivalent number for the year 2005. Of this figure, dry cargoes represent 6.33 billion tons. Trade in the five most significant dry bulk commodities (iron ore, grain, coal, bauxite/alumina and phosphate rock) represents 2.66 billion tons in 2012, a 56% growth since 2005. A regional breakdown indicates that Asia still dominated as the major loading and unloading areas, accounting for 39% and 57% respectively of world seaborne trade.

The chartering of seaborne freight is a privately negotiated activity between the ship owner and the charterer, with each transaction having unique features. However standards have been established for the marketplace by trade associations, most notably the Baltic Exchange based in London. The size of a vessel is measured by its deadweight tonnage ('dwt'), which is a measure of the weight in metric tons a vessel can safely carry, including cargo, fuel, water etc. Dry bulk carriers are loosely categorized into a range of vessel types. Capesize vessels are the largest vessels, in excess of 100,000 dwt, typically 150,000 dwt, but occasionally as large as 300,000 dwt. These vessels are too large to travel through the Panama or Suez canals and therefore travel around the Cape of Good Hope or Cape Horn to move between oceans. Panamax vessels are just large enough to transit through the Panama Canal. They have a size of 65,000 to 80,000 dwt. Supramax vessels are sized between 35,000 and 58,000 dwt. Handysize vessels are sized between 15,000 and 50,000 dwt.

---

<sup>1</sup> Baltic Exchange's methodology for assessing the dry freight routes and the time charter averages can be found online at <http://www.balticexchange.com/market-information/methodology.shtml>

<sup>2</sup> See UNCTAD Review of Maritime Transport 2013 at <http://unctad.org/en/pages/PublicationWebflyer.aspx?publicationid=753>

There are two main types of vessel charter arrangement. Voyage charters involve the charterer hiring the vessel to carry a cargo between two specified ports. The freight payment for a voyage charter is assessed in terms of dollars per ton of cargo carried. Time charters involve the charterer hiring the vessel for a period of time, during which it can direct the movement of the vessel, although typically the vessel will follow a route between two ports. The freight payment for a time charter is assessed in terms of dollars per day of charter.

In order to develop the functioning of the freight market, the Baltic Exchange has developed standard definitions for freight routes which are frequently chartered across the various vessel sizes. The Baltic Exchange collates market price data from shipbrokers on these specified routes, and publishes market price assessments on a daily basis. In addition the Baltic Exchange calculates and publishes an average price for the dollar/day time charter for each major vessel size.

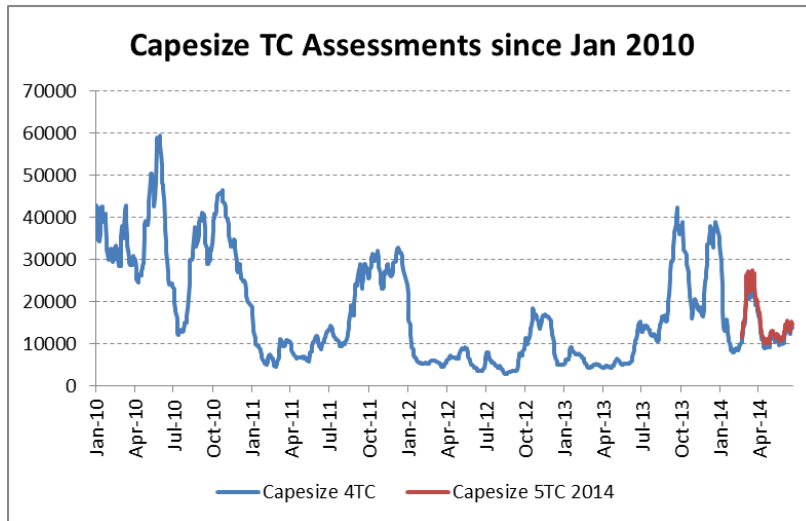
For the dry bulk freight market, the Baltic Exchange has introduced a new “Capesize 2014 Time Charter (TC) Average” to complement its existing “Capesize 4TC Average” assessment. The Capesize 2014 assessments are based on a larger vessel than the existing assessments. Descriptions of the five routes which are used to construct the Capesize 2014 TC Average are as follows:

**Baltic Exchange Capesize 2014 TC Average**

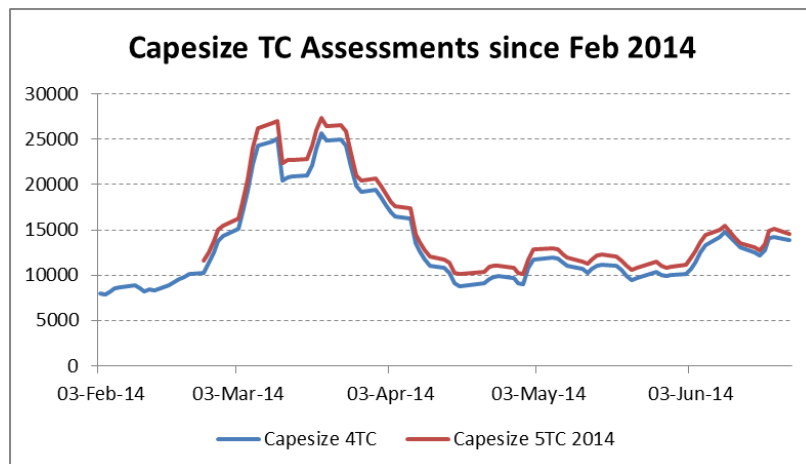
**Source: Baltic Exchange**

<p>The Baltic Capesize 2014 vessel for time charter routes is based on the following description: • 180,000mt dwt on 18.2m SSW draft • Max age 10 yrs • LOA 290m, beam 45m, TPC 121 • 198,000cbm grain • 14 knots laden/15 knots ballast on 62mt fuel oil (380cst), no diesel at sea.</p> <p>When considering the prevailing time charter market rate for the Baltic capesize 2014 vessel, panellists should assume that, if steaming at 12 knots laden or 13 knots ballast, the vessel will consume 43mt fuel oil (380cst), no diesel at sea.</p>		
Route	Route Description	Weighting
C8_14	Transatlantic round voyage: Delivery Gibraltar-Hamburg range, laydays/cancelling 3/10 days from index date, transatlantic round voyage, redelivery Gibraltar-Hamburg range, duration 30-45 days. Basis the Baltic capesize vessel. 3.75% total commission.	25%
C9_14	Fronthaul: Delivery Amsterdam-Rotterdam-Antwerp range or passing Passero, laydays/cancelling 3/10 days from index date, redelivery China-Japan range, duration about 65 days. Basis the Baltic capesize vessel. 3.75% total commission.	12.5%
C10_14	Trans-Pacific round voyage: Delivery China-Japan range, laydays/ cancelling 3/10 days from index date, redelivery China-Japan range, duration 30-40 days. Basis the Baltic capesize vessel. 3.75% total commission.	25%
C14	China-Brazil round voyage: Delivery Qingdao spot or retroactive up to a maximum 15 days after sailing from Qingdao, round voyage via Brazil, redelivery China-Japan range, duration 80-90 days. Basis the Baltic capesize 2014 vessel. 5% total commission	25%
C16	Revised backhaul: Delivery north China-south Japan range, 3-10 days from index date for a trip via Australia or Indonesia or US west coast or South Africa or Brazil, redelivery UK-Cont-Med within Skaw-Passero range, duration to be adjusted to 65 days. Basis the Baltic capesize 2014 vessel. 5% total commission.	12.5%

The following charts shows how the price of the time charter average has developed over time. The new Capesize 2014 TC Average was first published by Baltic Exchange on 24 February 2014. The first chart shows the development of both the original Capesize 4TC assessment from January 2010, together with the new Capesize 2014 5TC assessment from its commencement date. The second chart focuses on the period starting February 2014 to highlight more clearly the two price assessments.



Source: Baltic Exchange



Source: Baltic Exchange

## Analysis of Deliverable Supply

### a) Dry Cargo Freight Market

The Baltic Exchange Capesize 2014 Time Charter (TC) Average is a dry cargo freight price assessment. The assessment is for a standardized Capesize bulk carrier of 180,000 metric tons deadweight which is used for transporting the major dry bulk cargoes. The TC Average is a weighted average of five major sea routes, which represent the global seaborne dry cargo trade on Capesize vessels.

The United Nations Conference on Trade and Development (UNCTAD) estimated the total international seaborne trade for dry cargo products, are shown in Table 1.

**Table 1: International Seaborne Trade**

Loaded cargoes, millions of metric tons

Year	Main Bulks	Other Dry Cargo	Combined Total
2006	1,814	3,188	5,002
2007	1,953	3,334	5,287
2008	2,065	3,422	5,487
2009	2,085	3,131	5,216
2010	2,335	3,302	5,637
2011	2,486	3,505	5,991
2012	2,665	3,664	6,329

Source: UNCTAD Review of Maritime Transport 2013<sup>3</sup>

IHS, a global information company<sup>4</sup>, publishes an assessment of the number of vessels currently in service in each freight cargo market. In respect of capesize vessels, the total number of vessels in service, as of 20 June 2014 is 1,604 vessels of 175,000 dwt and above<sup>5</sup>.

### b) Proposed Position Limits

The Exchange will apply a position limit to spot month positions in the new futures contract, and in addition will apply accountability levels to the non-expiring months of the futures contracts.

According to UNCTAD's Review of Maritime Transport 2013, the average distance travelled by the ships carrying the five major bulk commodities (mostly Capesize) increased from 4,600 to 5,400 nautical miles due to sharp increases in import demand in fast-growing developing regions, in particular China. Using the Baltic Capesize

<sup>3</sup> Review of Maritime Transport 2013, Chapter 1, Table 1.3 <http://unctad.org/en/pages/PublicationWebflyer.aspx?publicationid=753>

<sup>4</sup> See <http://www.ihs.com/about/index.aspx>

<sup>5</sup> Source: IHS via Bloomberg LP. See data provided on Bloomberg page FLET <Go>

2014 vessel for our calculation, an average round trip takes about 30.4 days (5100 nm / (14 knots x 24 hours x 2). For any given voyage, additional time will be required for loading, unloading and port delays.

The current capesize fleet size published by IHS is 1,604 vessels. If all these vessels were available for charter, based on a 30 day month there would be an available supply of vessels equal to 48,120 charter days per calendar month. The UNCTAD Review of Maritime Transport 2013 indicates that the utilization rate for bulk carriers is 99.75%<sup>6</sup>. Using this utilization rate, the available supply for capesize vessels can be estimated at 48,000 charter days per calendar month.

The proposed expiration month position limit is 1,000 lots, equivalent to 1,000 charter days. This is equal to 2.1% of the available vessel supply.

Amendments to the Position Limit, Position Accountability and Reportable Level Table located in the Interpretations and Special Notices section of Chapter 5 of the NYMEX Rulebook in relation to the listing of the contracts will be self-certified under separate cover.

---

<sup>6</sup> Review of Maritime Transport 2013, Chapter 2, Table 2.11 <http://unctad.org/en/pages/PublicationWebflyer.aspx?publicationid=753>