

SUBMISSION COVER SHEET

IMPORTANT: Check box if Confidential Treatment is requested

Registered Entity Identifier Code (optional): 18-417 (2 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): 10/30/18 **Filing Description:** Initial Listing of Two (2) LNG Japan/Korea Marker (Platts) Half Month Futures Contracts

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:

October 30, 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 Two (2) LNG Japan/Korea Marker (Platts) Half Month Futures Contracts. NYMEX Submission No. 18-417 (2 of 2)

Dear Mr. Kirkpatrick:

New York Mercantile Exchange, Inc. (“NYMEX” or “Exchange”) is notifying the Commodity Futures Trading Commission (“CFTC” or “Commission”) that it is self-certifying the initial listing of two (2) LNG Japan/Korea Marker (Platts) Half Month Futures contracts (the “Contracts”) for trading on the CME Globex electronic trading platform and for submission for clearing via CME ClearPort, effective Sunday, November 18, 2018 for trade date Monday, November 19, 2018, as more specifically described below.

| | | |
|--------------------------------------|--|--|
| Contract Title | LNG Japan/Korea Marker (Platts) Front Half Month Futures | LNG Japan/Korea Marker (Platts) Back Half Month Futures |
| Commodity Code | JKF | JKB |
| Rulebook Chapter | 875 | 876 |
| Settlement Type | Financial | |
| Contract Size | 10,000 MMBtu | |
| Listing Schedule | Monthly contracts listed for the current year and the next 2 calendar years. Add monthly contracts for a new calendar year following the termination of trading in the December contract of the current year. | |
| Minimum Price Fluctuation | \$0.005 per MMBtu | |
| Value per tick | \$50.00 | |
| First Listed Month | January 2019 | |
| Block Trade Minimum Threshold | 5 contracts | |
| Termination of Trading | Trading terminates on the last weekday (i.e. Monday to Friday inclusive) in the Settlement Period. If such day is not an Exchange business day, the trade submission shall cease on the preceding Exchange business day. | Trading terminates on the last weekday (i.e. Monday to Friday inclusive) in the Settlement Period. If such day is not an Exchange business day, the trade submission shall cease on the preceding Exchange business day. |

| | | |
|--------------------------------------|--|---|
| | The 'Settlement Period' for a specified contract month shall be the period that starts on, and includes, the 16th calendar day of the calendar month that is two months prior to the contract month, and ends on, and includes the last calendar day of the calendar month that is two months prior to the contract month. | The 'Settlement Period' for a specified contract month shall be the period that starts on, and includes, the first calendar day of the calendar month that is immediately prior to the contract month, and ends on, and includes the 15th calendar day of the calendar month that is immediately prior to the contract month. |
| CME Globex Matching Algorithm | First-In, First-Out (FIFO) | |

Trading and Clearing Hours:

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

Exchange Fees:

| Exchange Fees | Member | Non-Member | International Incentive Programs (IIP/IVIP) |
|---------------|--------|------------|---|
| CME Globex | \$5.00 | \$7.00 | \$6.00 |
| EFP | \$5.00 | \$7.00 | |
| Block | \$5.00 | \$7.00 | |
| EFR/EOO | \$5.00 | \$7.00 | |

| Processing Fees | Member | Non-Member |
|-----------------|--------|------------|
| Cash Settlement | \$1.00 | \$1.00 |

| Other Processing Fees | Fee |
|---------------------------------------|--------|
| Facilitation Fee | \$0.60 |
| Give-Up Surcharge | \$0.05 |
| Position Adjustment/Position Transfer | \$0.10 |

The Exchange is also notifying the CFTC that it is self-certifying the insertion of the terms and conditions for the Contracts 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 Contracts. The terms and conditions establish the all month/any one-month accountability levels, expiration month position limit, reportable level, and aggregation allocation for the new contract. Please see Exhibit B, attached under separate cover.

The Exchange is also notifying the CFTC that it is self-certifying block trading on the Contracts 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 Contracts may have some bearing on the following Core Principles:

- **Compliance with Rules:** Trading in the Contracts will be subject to all NYMEX Rules, including prohibitions against fraudulent, noncompetitive, unfair and abusive practices as outlined in NYMEX Rule Chapter 4, the Exchange's trade practice rules, the majority of which are contained in Chapter 5 and Chapter 8 of the NYMEX Rulebook, and the dispute resolution and arbitration procedures of NYMEX Rule Chapter 6. As with all products listed for trading on one of CME Group's designated contract markets, trading activity in the Contracts 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 Contracts are based on a cash price series that is reflective of the underlying cash market and is commonly relied on and used as a reference price by cash market brokers and commercial market participants.
- **Prevention of Market Disruption:** Trading in the Contracts will be subject to the Rules of CME, 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 Contracts 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 Contracts. In addition, the Exchange will advise the marketplace of the launch of the Contracts by releasing a Special Executive Report ("SER"). The SER will also be posted on CME Group's website.
- **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 Contracts.
- **Execution of Transactions:** The Contracts 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.
- **Financial Integrity of Contract:** The Contracts will be cleared by the CME Clearing House, a derivatives clearing organization registered with the CFTC and subject to all CFTC regulations related thereto.
- **Protection of Market Participants:** NYMEX 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 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 these products are identified.

- **Dispute Resolution:** Disputes with respect to trading in the Contracts will be subject to the arbitration provisions set forth in Chapter 6 of the Rulebook. Chapter 6 allows all nonmembers 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 nonmember 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 Contracts 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 CEGSubmissionInquiry@cmegroup.com.

Sincerely,

/s/ Christopher Bowen
Managing Director and Chief Regulatory Counsel

Attachments: Exhibit A: NYMEX Rulebook Chapters 875 and 876
Exhibit B: Position Limits, Position Accountability and Reportable Level Table in Chapter 5 of the NYMEX Rulebook (attached under separate cover)
Exhibit C: NYMEX Rule 588.H. – (“Globex Non-Reviewable Trading Ranges”) Table
Exhibit D: Cash Market Overview and Analysis of Deliverable Supply

Exhibit A
NYMEX Rulebook

Chapter 875

LNG Japan/Korea Marker (Platts) Front Half Month Futures

875100. 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.

875102. CONTRACT SPECIFICATIONS

The 'Settlement Period' for a specified contract month shall be the period that starts on, and includes, the 16th calendar day of the calendar month that is two months prior to the contract month, and ends on, and includes the last calendar day of the calendar month that is two months prior to the contract month.

The Floating Price shall be determined following the publication of the DES Japan/Korea daily LNG marker (JKM) by Platts on the last publication day in the Settlement Period. If such day is not an Exchange business day, the Floating Price shall be determined on the following Exchange business day.

The Floating Price for each contract month is equal to the arithmetic average of the DES Japan/Korea Marker (JKM) published in respect of the contract month by Platts in LNG Daily for each day that it is published during the Settlement Period.

875102. TRADING SPECIFICATIONS

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

875102.A. Trading Schedule

The hours of trading shall be determined by the Exchange.

875102.B. Trading Unit

The contract quantity shall be 10,000 MMBtu (million British thermal units). Each contract shall be valued as the contract quantity (10,000) multiplied by the settlement price.

875102.C. Price Increments

Prices shall be quoted in U.S. dollars and cents per MMBtu. The minimum price fluctuation shall be \$0.005 per MMBtu. The minimum price fluctuation for the final settlement (Floating Price) shall be \$0.001 per MMBtu.

875102.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.

875102.E. Termination of Trading

Trading terminates on the last weekday (i.e. Monday to Friday inclusive) in the Settlement Period. If such day is not an Exchange business day, the trade submission shall cease on the preceding Exchange business day.

875103. 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.

875103. DISCLAIMER

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

Chapter 876

LNG Japan/Korea Marker (Platts) Back Half Month Futures

876100. 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.

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876103. DISCLAIMER

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Exhibit B

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

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

(attached under separate cover)

Exhibit C
NYMEX Rulebook
Chapter 5
(“Trading Qualifications and Practices”)

(additions underscored)

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

| Instrument Name | Globex Symbol | Outright | | | Spreads | |
|---|---------------|------------------------------------|--------------------|------------|--|-----------------------------|
| | | Globex Non-Reviewable Ranges (NRR) | NRR: Globex Format | NRR: Ticks | NRR: Globex Format | NRR: Minimum Outright Ticks |
| <u>LNG Japan/Korea Marker (Platts) Front Half Month Futures</u> | JKF | <u>\$.10 per MMBtu</u> | <u>100</u> | <u>20</u> | <u>Each leg evaluated as an outright</u> | |
| <u>LNG Japan/Korea Marker (Platts) Back Half Month Futures</u> | JKB | <u>\$.10 per MMBtu</u> | <u>100</u> | <u>20</u> | <u>Each leg evaluated as an outright</u> | |

Exhibit D
Cash Market Overview and Analysis of the Deliverable Supply

CASH MARKET ANALYSIS

The futures contracts are financially settled with reference to prices published by S&P Global Platts (“Platts”). “Platts” and “S&P Global Platts” are trademarks of S&P Global Inc. and have been licensed for use by NYMEX.

Platts Japan Korea Marker (JKM™) is the Liquefied Natural Gas (“LNG”) benchmark price assessment for spot physical cargoes delivered ex-ship into Japan and South Korea. As these two countries take the largest share of LNG imports in the world, Platts JKM™ is thus a key reference in marking product value/market price from supply source to the destination market. The JKM marker is the major price reference for LNG trading in the Asia-Pacific region.

Data Sources:

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

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 2010¹.

The **International Group of Liquefied Natural Gas Importers, or GIIGNL**, is a non-profit organization whose objective is the development of activities related to LNG markets. GIIGNL’s membership is composed of companies active in LNG purchasing, importing, processing, transportation, handling, re-gasification around the world².

The **International Energy Agency** is an intergovernmental organization that acts as a policy adviser to its member states focusing on the international oil and energy markets³. It maintains a large database of energy statistics.

LNG is a growing part of the international supply and trade of energy. LNG is natural gas that is cooled and compressed into liquid form to make it more readily transportable. LNG is typically transported by sea in specially designed vessels. The GIIGNL states that, a total of 40 countries import LNG and that 19 countries export it. Overall, Asia represents 72.9% of global LNG demand. In 2017, 289.8m MT were imported (increasing 9.9% vs. 2016). Of the total volume imported, 27% was procured on a spot/ short-term basis⁴.

The following table shows the largest importers and exporters of LNG in 2017 according to the GIIGNL:

Table 1 Net Imports LNG 2017

| Country | Net imports (m MT) |
|----------------|---------------------------|
| Japan | 83.52 |
| China | 39.01 |
| South Korea | 37.83 |
| India | 19.22 |

¹ <https://comtrade.un.org/>

² <https://giignl.org/about-giignl/what-does-giignl-do>

³ <https://www.iea.org/about/>

⁴ https://giignl.org/sites/default/files/PUBLIC_AREA/Publications/rapportannuel-2018pdf.pdf

| | |
|-------------------------|---------------|
| Taiwan | 16.61 |
| Spain | 12.10 |
| France | 7.35 |
| Turkey | 7.33 |
| Egypt | 6.18 |
| Pakistan | 4.62 |
| Percent of total | 81% |
| Total | 289.81 |

Source: GIILNG 2018 Annual report – footnote 4

Table 2 Exports LNG 2017

| Country | Exports (m MT) |
|-------------------------|----------------|
| Qatar | 77.50 |
| Australia | 55.56 |
| Malaysia | 26.87 |
| Nigeria | 20.34 |
| Indonesia | 18.71 |
| Algeria | 12.34 |
| USA | 12.24 |
| Russia | 11.49 |
| Trinidad & Tobago | 10.19 |
| Oman | 8.24 |
| Percent of total | 87% |
| Total | 289.81 |

Source: GIILNG 2018 Annual report – footnote 4

The UN Comtrade database provides historic LNG import volumes. Data for Taiwan is not included.

Table 3 East Asia Imports

| LNG imports (m MT) | 2015 | 2016 | 2017 | Average 2015-2017 |
|--------------------|-------|-------|-------------------|-------------------|
| Japan | 85.0 | 83.3 | 84.0 ⁵ | 84.1 |
| Republic of Korea | 33.4 | 33.5 | 37.6 | 34.8 |
| China | 19.6 | 26.1 | 38.1 | 27.9 |
| Total | 138.0 | 142.9 | 159.7 | 146.9 |

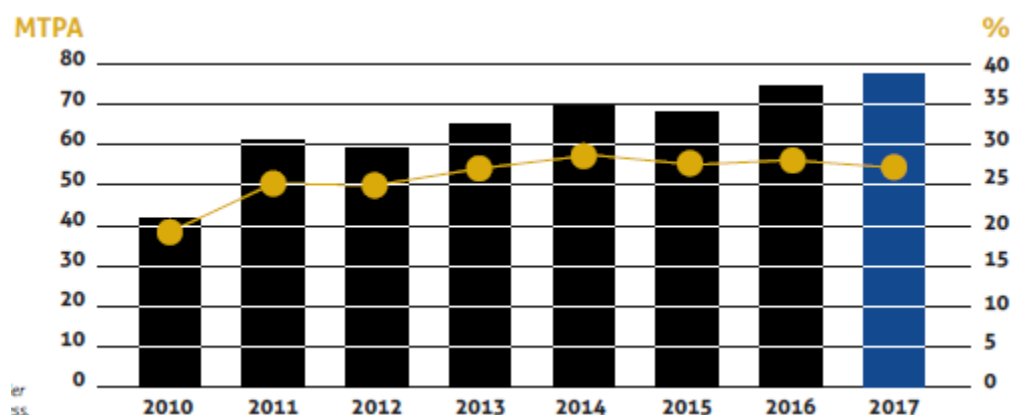
⁵ UN Comtrade data shows 104.7m MT Japanese imports for 2017, which is significantly higher than prior years. We decide to use a figure of 84.0 MT 2017 imports, a figure that has been reported in the press and is in line with prior years (<https://www.export.gov/article?id=Japan-Liquefied-Natural-Gas-LNG>, <https://www.enerdata.net/publications/executive-briefing/australia-united-states-build-up-lng-export-capacities.html>)

Source: Comtrade, Commodity Code 271111⁶

UN Comtrade data shows that combined imports in Japan, Korea and China were 146.9 million Metric Tons per year on average across 2015 to 2017.

The physical LNG market trades on a cargo basis. According to the GIILNG, the global LNG tanker fleet consisted of 511 vessels at the end of 2017. Most vessels had a cargo capacity of 90,000-150,000 cubic meters (223 of the total). Many cargoes are sent as part of term supply agreement, but a growing share of the total is tied to spot/ short-term purchases (27% of total in 2017). Spot LNG cargoes are typically traded in U.S. dollars, on a price per energy content (i.e. \$ per MMBtu) basis. Pricing on this basis accounts for variances in the chemical content of various LNG sources, and for different pressure and temperature regimes on different vessels.

Chart 1 Spot & Short-term (duration of 4 years or less) vs total LNG trade



Source: GIILNG Annual Report 2018 – footnote 4

The share of spot and short-term deals is increasing because of the increase of US exports, increased contracting for portfolio trade and the growing volume handled by trading intermediaries. Historically, the market for LNG was restrictive in the sense that long-term supply agreements did not allow for destination flexibility. Today, non-destination restricted term cargoes are re-traded multiple times and may be redirected. Overall, destination restrictions are being progressively shelved. In 2017, the Japan Fair Trade Commission stated that restrictions that stopped customers from reselling LNG cargoes violated the Japanese Antimonopoly Act⁷. The Korean Fair Trade Commission is currently also weighing whether to start a similar investigation.

The International Energy Agency (IEA) states that recently signed long-term contracts tend to be characterized by a) an increased share of contracts with flexible destination clauses and b) a decrease in

⁶<https://comtrade.un.org/db/dqBasicQueryResults.aspx?cc=271111&px=H4&r=392&y=2017,2016,2015,2014,2013&p=0&rg=1>

⁷ http://www.meti.go.jp/english/press/2017/pdf/1019_001b.pdf

average contract length⁸. Currently, about 40% of long-term contract have destination flexibility. At the 2017 annual LNG Producer-Consumer Conference organized by the Japanese Ministry of Economy, Trade and Industry (METI), participants stated that more than 50% of LNG would be traded without destination clauses in the next 10 years⁹.

Table 4 Characteristics of long-term contracts

Table 2.2 • Contract evolution by 2016

| | Destination flexibility | Average ACQ (bcm) | Average duration (y) | Share with destination flexibility |
|--------------------|-------------------------|-------------------|----------------------|------------------------------------|
| Signed before 2014 | Fixed | 1.52 | 15 | 60.6% |
| | Flexible | 2.13 | 17 | 39.4% |
| | Total | 1.71 | 16 | 100.0% |
| Signed in 2015 | Fixed | 0.83 | 7 | 59.5% |
| | Flexible | 1.23 | 15 | 40.5% |
| | Total | 0.96 | 10 | 100.0% |
| Signed in 2016 | Fixed | 1.14 | 8 | 58.1% |
| | Flexible | 1.26 | 12 | 41.9% |
| | Total | 1.19 | 9 | 100.0% |

Notes: ACQ = annual contractual quantity; y = year.

Source: IEA

⁸ <https://www.iea.org/publications/freepublications/publication/GlobalGasSecurityReview2017.pdf>, page 47

⁹ http://www.meti.go.jp/english/press/2017/pdf/1019_001b.pdf, page 10

ANALYSIS OF DELIVERABLE SUPPLY

The Commission defines deliverable supply as the quantity of the commodity meeting a derivative 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. (See Appendix C to 17 CFR part 38.)

The UN Comtrade data in table 3 shows that the average imports into Japan, Korea and China for 2015-2017 were 146.9 million metric tons. It should be noted that that a substantial proportion of these imports were the result of medium and long-term supply contracts. The Exchange has conducted an analysis of the impact of medium and long-term supply contracts on the deliverable supply.

Given the presence of cargoes resulting from contracts that are destination restricted, the Exchange has determined to adjust the available import volumes by the amount of fixed delivery cargoes. Of the total LNG trade, 27% of the total is traded in flexible spot and short-term markets (source: GIILNG). Of the remaining share, 40% is traded with destination flexibility (source: IEA), with the market anticipating that share to grow to 50% gradually. The Exchange therefore estimates that fixed-delivery cargoes represented 43.8% of total LNG imports into Japan, Korea and China (60% of 73% non-spot/ short-term contracts).

Consequently, the adjusted import availability is 56.2% of 146.9 million metric tons, or 82.56 million metric tons. According to the IEA's statistics manual¹⁰, a kilogram of LNG is equivalent to 51,560 Btu, or a metric ton is equivalent to 51.56 MMBtu. Using this conversion factor, 82.56 million metric tons is equivalent to 4,256,680,168 MMBtu annually, or 354,723,347 MMBtu per month.

The contract size of the underlying monthly contract is 10,000 MMBtu, resulting in a Deliverable Supply of 35,472 Lots per month. The spot month position limit has been set at 5,000 lots. This represents 14.1% of Deliverable Supply.

¹⁰ https://www.iea.org/publications/freepublications/publication/statistics_manual.pdf, table A3.9