

**SUBMISSION COVER SHEET**

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

**Registered Entity Identifier Code (optional):** 18-421

**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):** 11/28/18 **Filing Description:** Initial Listing of the Methanol FOB Houston (Argus) 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

**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:**

November 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  
the Methanol FOB Houston (Argus) Futures Contract.  
NYMEX Submission No. 18-421**

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 the Methanol FOB Houston (Argus) Futures contract (the “Contract”) for trading on the CME Globex electronic trading platform and for submission for clearing via CME ClearPort, effective Sunday, December 16, 2018 for trade date Monday, December 17, 2018, as more specifically described below.

<b>Contract Title</b>	Methanol FOB Houston (Argus) Futures
<b>Commodity Code</b>	MTH
<b>Rulebook Chapter</b>	985
<b>Settlement Type</b>	Financial
<b>Contract Size</b>	42,000 gallons
<b>Listing Schedule</b>	Monthly contracts listed for the current year and the next calendar year. Add monthly contracts for a new calendar year following the termination of trading in the December contract of the current year.
<b>Minimum Price Fluctuation</b>	0.25 U.S. cents per gallon
<b>Value per tick</b>	\$105.00
<b>First Listed Month</b>	January 2019
<b>Block Trade Minimum Threshold</b>	5 contracts
<b>Termination of Trading</b>	Trading terminates on the 5th calendar day prior to the last calendar day of the contract month. If such day is not an Exchange business day, the contract will terminate on the preceding Exchange business day.
<b>CME Globex Matching Algorithm</b>	First-In, First-Out (FIFO)

**Trading and Clearing Hours:**

<b>CME Globex and CME ClearPort</b>	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)
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**Exchange Fees:**

Exchange Fees	Member	Non-Member	International Incentive Programs (IIP/IVIP)
CME Globex	\$0.85	\$1.35	\$1.10
EFP	\$0.85	\$1.35	
Block	\$0.85	\$1.35	
EFR/EOO	\$0.85	\$1.35	

Processing Fees	Member	Non-Member
Cash Settlement	\$0.10	\$0.10

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 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 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 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 listing the Contract may have some bearing on the following Core Principles:

- **Compliance with Rules:** Trading in the Contract 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 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 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 Contract will be subject to the Rules of NYMEX, 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. In addition, the Exchange will advise the marketplace of the launch of the Contract 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 Contract.
- **Execution of Transactions**: The Contract will be listed for trading on the CME Globex electronic trading and for clearing through CME ClearPort. The CME Globex electronic trading venue provides for competitive and open execution of transactions. CME Globex affords the benefits of reliability and global connectivity.
- **Trade Information**: All requisite trade information for the Contract will be included in the audit trail and is sufficient for the Market Regulation Department to monitor for market abuse.
- **Financial Integrity of Contract**: The Contract 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 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 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 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](mailto:CMEGSubmissionInquiry@cmegroup.com).

Sincerely,

/s/ Christopher Bowen  
 Managing Director and Chief Regulatory Counsel

Attachments: Exhibit A: NYMEX Rulebook Chapter 985  
 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 985**  
**Methanol FOB Houston (Argus) Futures**

**985100. 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.

**985101. CONTRACT SPECIFICATIONS**

The 'Settlement Period' for a specified contract month shall be the one month period that starts on, and includes, the calendar day that is 5 calendar days prior to the first calendar day in the contract month, and ends on, and includes, the calendar day that is 6 calendar days prior to the first calendar day of the calendar month following the contract month.

The Floating Price shall be determined following the publication of the index (fob Houston barge in U.S. cents per gallon) 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 shall be equal to the arithmetic average of the daily index (fob Houston barge in U.S. cents per gallon) published in respect of the contract month by Argus in the Methanol Daily report for each day that it is published during the Settlement Period.

**985102. TRADING SPECIFICATIONS**

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

**985102.A. Trading Schedule**

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

**985102.B. Trading Unit**

The contract quantity shall be 42,000 gallons. Each contract shall be valued as the contract quantity (42,000) multiplied by the settlement price.

**985102.C. Price Increments**

Prices shall be quoted in U.S. cents per gallon. The minimum price fluctuation shall be 0.25 U.S. cents per gallon. The minimum final settlement price fluctuation shall be 0.01 cents per gallon. There shall be no maximum price fluctuation.

**985102.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.

**985102.E. Termination of Trading**

Trading terminates on the 5th calendar day prior to the last calendar day of the contract month. If such day is not an Exchange business day, the contract will terminate on the preceding Exchange business day.

**985103. 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.

**985104. DISCLAIMER**

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

**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>Methanol FOB Houston (Argus) Futures</u>	<u>MTH</u>	<u>\$0.025 per gallon</u>	<u>250</u>	<u>10</u>	<u>Each leg evaluated as an outright</u>	

## Exhibit D

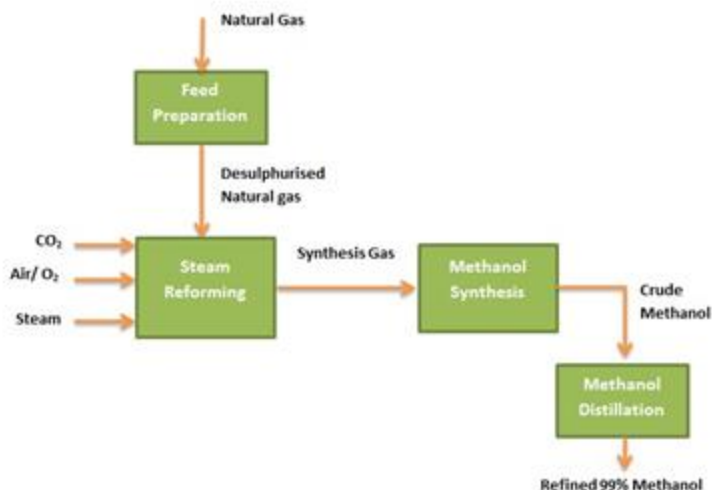
### Cash Market Overview and Analysis of the Deliverable Supply

#### CASH MARKET ANALYSIS

Methanol ( $\text{CH}_3\text{OH}$ ) is a water soluble, biodegradable, clear, colorless liquid chemical. Commonly known as “wood alcohol,” methanol was originally a by-product of the wood distillation process. Methanol can be produced using non-petroleum-based feedstocks such as landfill methane gas, municipal solid wastes, biomass, sawdust and even marine seaweed<sup>1</sup>. Today, methanol is mostly produced on an industrial scale using natural gas as a feedstock.

During the production process, natural gas is compressed and purified by removing Sulphur compounds. This “desulphurised” natural gas is saturated with heated water which goes into a reformer where it is converted to synthesis gas. Synthesis gas is then converted to crude methanol in a catalytic synthesis converter. The final stage is distillation, which produces refined methanol, or 99% pure methanol as outlined in Chart 1 below.

**Chart 1: Methanol Production Process<sup>2</sup>**



Methanol is used in the manufacturing of a wide variety of chemical products, plastics, and some energy applications. Production of chemical products and derived plastics is closely linked to economic growth and is often referred to as “GDP demand”. Energy applications such as gasoline blending is referred to as “Energy demand”. Overall, GDP demand and Energy demand are approximately equal in size. By order of importance, the following were the primary uses of methanol as a percentage of total demand in 2016: <sup>3</sup>

- Production of formaldehyde (GDP demand) - 28%
- Production of Olefins (“Methanol to Olefins”) – 14%
- Direct Gasoline Blending (Energy demand) - 11%
- MTBE/TAME (Energy demand) - 11%
- Acetic Acid (GDP demand) - 10%
- Other uses - 26%

<sup>1</sup> <http://www.methanol.org/wp-content/uploads/2016/06/About-Methanol-FS.pdf>

<sup>2</sup> <http://www.energy.gov.tt/our-business/Ing-petrochemicals/petrochemicals/methanol/>

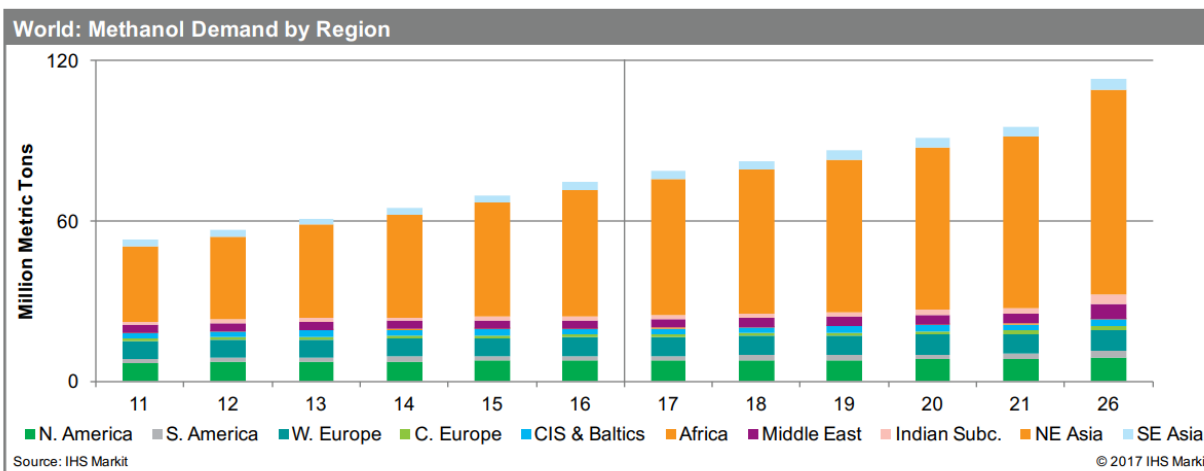
<sup>3</sup> <http://www.methanol.org/wp-content/uploads/2017/06/Uday-Turaga-Domestic-Methanol-Industry-Resurgence-1.pdf>



Methanol use in energy applications has increased more rapidly than traditional demand applications given new Chinese demand patterns. For instance, China's use of methanol for direct blending, now the third most common use of methanol, increased 25% YoY from 2000 to 2015.

The global methanol industry's dramatic changes in the past 15 years were mostly driven by China's rapid economic growth. The country's share of global demand increased from 12% to 54% between 2000-2015<sup>4</sup> and is forecast to continue increasing (see Chart 2).

**Chart 2: World Methanol Demand by Region – historic figures (2011-2016) and forecast (2017 onwards)<sup>5</sup>**



According to data by Methanex, a large Canadian producer and supplier of Methanol, the Asia-Pacific region accounted for 64% of total demand, Europe 20%, North America 12% and Latin America 4%.<sup>6</sup>

The role of the US market was traditionally a net importer, with significant volumes being shipped to the US from Trinidad and Tobago. However, these fundamentals are changing given the abundance of associated natural gas (methanol feedstock) from shale to supply significant quantities of methanol production in the US Gulf Coast region.<sup>7</sup> This has allowed the restart of previously mothballed production plants that had been shut down on economic grounds (from 2011-2012 onwards). It is estimated that beginning in 2019, the US will be a net exporter of methanol to the global marketplace (according to ICIS).

<sup>4</sup> <http://www.methanol.org/wp-content/uploads/2016/07/IHS-ChemicalBulletin-Issue3-Alvarado-Jun16.pdf>

<sup>5</sup> [https://ngi.stanford.edu/sites/default/files/Alvarado\\_Stanford\\_Methanol\\_Meeting\\_2017.pdf](https://ngi.stanford.edu/sites/default/files/Alvarado_Stanford_Methanol_Meeting_2017.pdf)

<sup>6</sup> <https://www.methanex.com/sites/default/files/investor/MEOH%20Presentation%20-%20May.pdf>, slide 35

<sup>7</sup> <https://www.icis.com/resources/news/2018/06/25/10234899/texas-methanol-start-up-marks-beginning-of-new-era-in-us/>

Chart 3: US Methanol Exports<sup>8</sup>

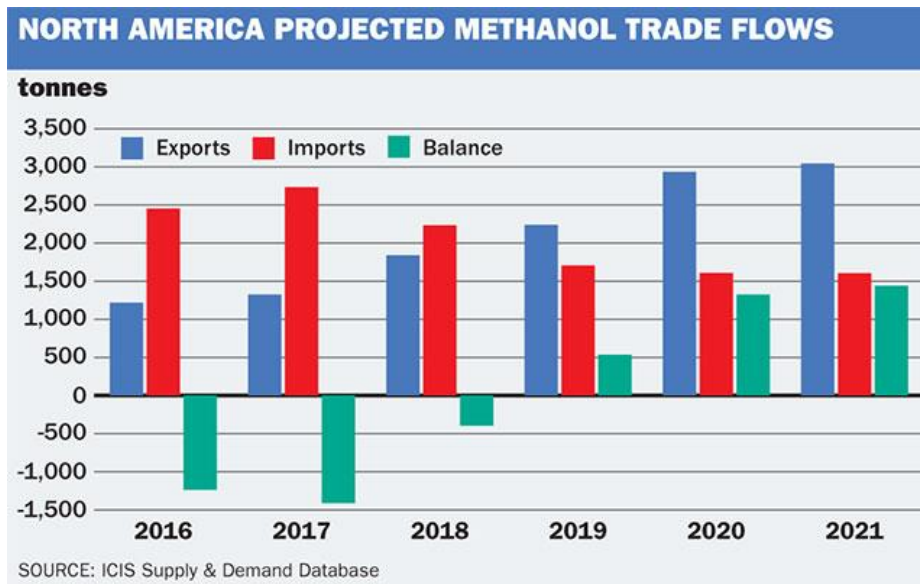


Table 1: Historic US Methanol Imports and Exports (UN Comtrade)<sup>9</sup>

'000s MT	2015	2016	2017	Average
US Imports	2,538	3,305	2,527	2,790
US Exports	360	1,514	1,490	1,121
Net Imports	2,178	1,791	1,037	1,669

Table 2 outlines current nameplate capacity in the United States. Due to proximity to major customers in the petrochemicals markets and extensive infrastructure, the industry is heavily concentrated in the Gulf Coast region.

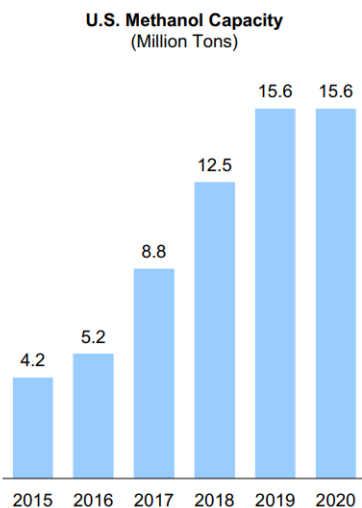
<sup>8</sup> <https://www.icis.com/resources/news/2018/06/28/10235994/oci-natgasoline-start-up-represents-new-era-for-us-methanol/>

<sup>9</sup> <https://comtrade.un.org/data/>, methanol trade flow data is available under HS code 290511

**Table 2 Nameplate US Methanol Capacity**

Nameplate US Methanol Capacity 2018			
Country	Company	Location	Capacity (Thousand MT/yr)
US	Methanex (I)	Geismar, LA	1,000
US	Methanex (II)	Geismar, LA	1,000
US	Lyondell Basell	Channelview, TX	780
US	Lyondell Basell	La Porte, TX	780
US	Celanese/Mitsui	Clear Lake, TX	1,300
US	Eastman Chemical	Kingston, TN	180
US	OCI	Beaumont, TX	912
US	Natgasoline (OCI/CEL/G2X)	Beaumont, TX	1,750
US	G2X ENERGY	Pampa, TX	67
		Total	7,769
source: company reports, <a href="#">Platts</a> , <a href="#">ICIS</a>			

According to the Methanol Institute, an independent industry organization, and ADI Analytics, an energy consulting firm, US methanol capacity will nearly double to around 15 million tons (from the current 7.7 million tons in 2018) by 2020. See the chart below for the changing levels of US Methanol capacity.

**Chart 4: US Methanol Capacity<sup>10</sup>**

Production data was available from Methanex and OCI<sup>11</sup>. For the other facilities, based on published data, Exchange staff estimate actual production volumes based on nameplate capacity by using average

<sup>10</sup> <http://www.methanol.org/wp-content/uploads/2017/06/Uday-Turaga-Domestic-Methanol-Industry-Resurgence-1.pdf>

<sup>11</sup> See annual reports Methanex <https://www.methanex.com/financial-reports/annual-reports>, press releases for OCI: <https://www.prnewswire.com/news-releases/oci-partners-lp-reports-2017-fourth-quarter-results-and-announces-027-quarterly-cash-distribution-300607882.html>,

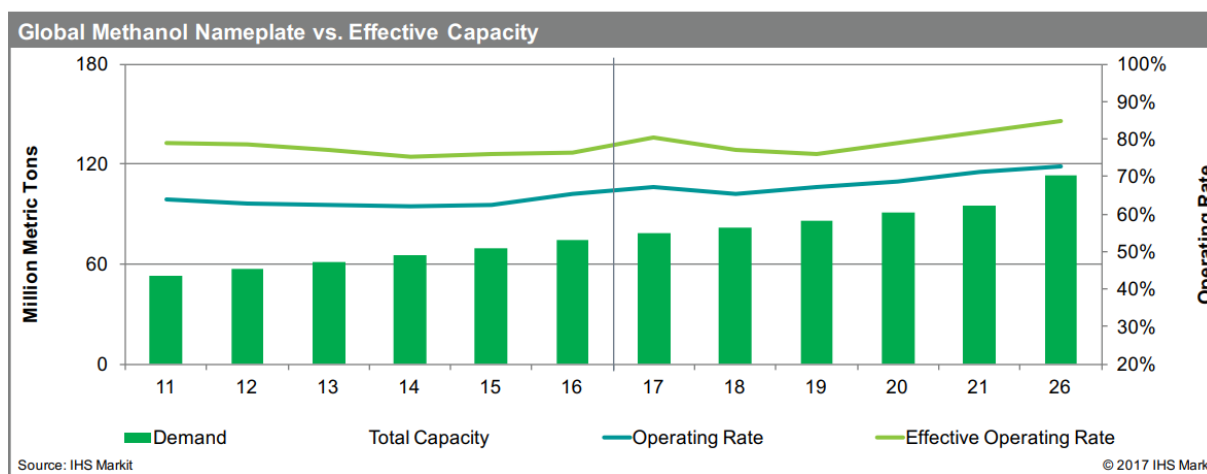
utilization rates of 70%, which seems to be reflective of historic utilization rates in the industry (see chart 5 below). Because the Natgasoline facility only started production in 2018, it is not included in the production figures below.

**Table 3: US Methanol Production**

Methanol Production (Thousand MT/yr)					
Country	Company	2015	2016	2017	Average
US	Methanex (total)*	959	2,055	1,934	1,649
US	Lyondell Basell (total) **	1,092	1,092	1,092	1,092
US	Celanese **	910	910	910	910
US	Eastman Chemical **	126	126	126	126
US	OCI*	652	823	822	766
US	G2X ENERGY **	47	47	47	47
	<b>Total</b>	<b>3,786</b>	<b>5,053</b>	<b>4,931</b>	<b>4,590</b>

source: CME Group, \*actual reported, \*\* CME estimate

**Chart 5: Global Methanol Operating Rates<sup>12</sup>**



<https://www.prnewswire.com/news-releases/oci-partners-lp-reports-2016-fourth-quarter-results-300422444.html>

<sup>12</sup> [https://ngi.stanford.edu/sites/default/files/Alvarado\\_Stanford\\_Methanol\\_Meeting\\_2017.pdf](https://ngi.stanford.edu/sites/default/files/Alvarado_Stanford_Methanol_Meeting_2017.pdf)

## ANALYSIS OF DELIVERABLE SUPPLY

In estimating deliverable supply for the futures contract, the Exchange relied on long-standing precedent, which provides that the key component in estimating deliverable supply is the portion of typical production and supply stocks that could reasonably be considered to be readily available for delivery.

*In general, the term “deliverable supply” means 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. 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).<sup>13</sup>*

The Exchange is assessing spot month position limits for the Methanol FOB Houston (Argus) Futures contract based on the sum of imports and production. Import volumes are taken from the UN Comtrade database, and production data is either provided by US methanol manufacturers directly or estimated based on nameplate plant capacity. We understand that most trading activities occur via term contracts rather than in the physical spot markets (market participants indicated that currently up to 20% of trading activity occurs in the spot market). Typically, term contracted volume allows for flexible re-trading and consumers have the right to opt out of term contracts should spot prices be more attractive. Considering such flexibility clauses, we estimate that 25% of the total import and production volume is readily available for delivery as outlined in Table 4.

**Table 4: Deliverable Supply<sup>14</sup>**

<b>Deliverable Supply (Thousand MT/year)</b>				
	2015	2016	2017	Average
<b>Methanol Imports</b>	2,538	3,305	2,527	2,790
<b>Methanol Production</b>	3,786	5,053	4,931	4,590
<b>Total</b>				7,380
<b>25% of total</b>				1,845

Average yearly and import production volume calculated in our deliverable supply analysis amounted to 1.845 million MT per year, based on the 3-year annualized figures from 2015 to 2017 (table 4). The figure is equivalent to 153,750 MT per month, or 51.20 million US gallons per month (1MT = 333 US Gallons<sup>15</sup>).

<sup>13</sup> [http://www.ecfr.gov/cgi-bin/text-idx?SID=74959c3dbae469e2efe0a42b45b8dfae&mc=true&node=ap17.1.38\\_11201.c&rgn=div9](http://www.ecfr.gov/cgi-bin/text-idx?SID=74959c3dbae469e2efe0a42b45b8dfae&mc=true&node=ap17.1.38_11201.c&rgn=div9)

<sup>14</sup> Source: Table 1 and Table 3

<sup>15</sup> Reference for conversion: <https://www.argusmedia.com/-/media/Files/methodology/argus-methanol-daily.ashx?la=en&hash=1D03CA2FB1E34D29A8D8544196AFF2DE31D93E07>

Based on a contract size of 42,000 gallons for the Methanol FOB Houston (Argus) Futures contract, a spot month limit of 200 lots (equivalent to 8.4 million gallons) would represent 16.4% of the deliverable supply, which is below the threshold of 25%.