

SUBMISSION COVER SHEET

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Registered Entity Identifier Code (optional): 19-434

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): 12/18/19 Filing Description: Decrease of Spot Month Position Limits for Two (2) Freight (Baltic) 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: See filing.

Rule Numbers: See filing.

December 18, 2019

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. Notification Regarding Decrease of Spot Month Position Limits for Two (2) Freight (Baltic) Futures Contracts. NYMEX Submission No. 19-434

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 a decrease of the spot month position limits of two (2) freight futures contracts noted in the table below (the “Contracts”) effective on Monday, January 13, 2020 commencing with the January 2020 contract month and beyond as more specifically described below.

Contract Title	Rulebook Chapter	CME Globex/ CME ClearPort Code	Current Spot Month Position Limit	Amended Spot Month Position Limit
Freight Route TD7 (Baltic) Futures	686	TK	1,000 lots	800 lots
Freight Route TD7 (Baltic) BALMO Futures	886	TKB	1,000 lots*	800 lots

*aggregates into Freight Route TD7 (Baltic) Futures

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 is being amended to reflect the changes in the position limits for the Contracts (see Exhibit A: Position Limit, Position Accountability, and Reportable Level Table in Chapter 5 of the NYMEX Rulebook (attached under a separate cover.) Exhibit B below provides an updated the cash market overview and analysis of deliverable supply for the Contracts.

The Exchange reviewed the designated contract market core principles (“Core Principles”) as set forth in the Commodity Exchange Act (“Act” or “CEA”) and identified that the decrease in position limits of the Contracts may have some bearing on the following Core Principles:

- **Contracts Not Readily Susceptible to Manipulation:** The Contracts are not readily subject to manipulation because of the active underlying market and reliance on a well administered index. Final settlements are based on the assessments published by the Baltic Exchange and sub-licensed to the Exchange.

- **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 amendments by publishing a Market Surveillance Notice ("MSN"). The MSN will also be available on CME Group's website.

Pursuant to Section 5c(c) of the Act and CFTC Regulation 40.6(a), the Exchange hereby certifies that the decrease of position limits of 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 CMEGSubmissionInquiry@cmegroup.com.

Sincerely,

/s/ Christopher Bowen
Managing Director and Chief Regulatory Counsel

Attachments: Exhibit A: Position Limits, Position Accountability and Reportable Level Table in Chapter 5 of the NYMEX Rulebook (attached under separate cover)
Exhibit B: Cash Market Overview and Analysis of Deliverable Supply

Exhibit A

NYMEX Rulebook

Chapter 5

("Trading Qualifications and Practices")

Position Limits, Position Accountability and Reportable Level Table

(attached under separate cover)

Exhibit B

Cash Market Analysis and Market Overview

Following a review of the underlying deliverable supply, the Exchange proposes to reduce the spot month position limit for two freight futures contracts listed for trading on CME Globex and for submission into clearing via CME ClearPort. The affected contracts are laid out in the table below.

Contract Title	Rulebook Chapter	CME Globex/ CME ClearPort Code	Current Spot Month Position Limit	Amended Spot Month Position Limit
Freight Route TD7 (Baltic) Futures	686	TK	1,000 lots	800 lots
Freight Route TD7 (Baltic) BALMO Futures	886	TKB	1,000 lots*	800 lots

*aggregates into Freight Route TD7 (Baltic) Futures

Data Sources:

The Exchange based its analysis of deliverable supply on total crude oil loadings in the UK and Norwegian North Sea. This data has been broken down by the component grade to show Brent, Forties, Oseberg, Ekofisk and Troll, which are the 5 underlying crude streams comprising of Brent. This data is published in **Bloomberg**, but the data is obtained from each of the crude field operating companies that disclose this information monthly.

Baltic Exchange

The Baltic Exchange appoints “panel reporting companies”, whose core obligations are to assess and report a professional judgment of the prevailing open market level for routes defined by the Baltic Exchange. In order to become a panel reporting company, the firm has to meet a set of criteria established by the Baltic Exchange. One key criterion is that the firm’s main business is shipbroking. Principals are excluded, as are brokers who are exclusive representatives of charterers who are particularly influential in relevant trades. The Baltic uses reporting panels because there is no independently verifiable ‘right’ or ‘wrong’ rate. Whilst care is taken to ensure the daily route assessments provide a fair valuation of the current market, levels at any particular time are ultimately a matter of judgment.

The final settlement price for the new futures contract is based on the price assessment of the freight market for voyages from Hound Point to Wilhelmshaven in Northern Germany, as per the definition for the freight route from the Baltic Exchange. This route is classified by the Baltic as TD7. As per other Baltic indices that NYMEX uses, traded prices that are not based on deliveries into Wilhelmshaven directly will be normalized to this basis. Baltic Exchange is seen as one of the main markets for freight and is well supported by the brokers that work in the freight markets therefore is considered very representative source of market data for the freight markets that it operates in.

The freight rate assessments reflect the transactional value prevailing at 11:30am London time.

Freight Market Overview

The global seaborne trade slowed in 2018 compared to 2017 with volume growth slowing to 2.7% vs the 4.1% growth seen in 2017, according to the UNCTAD 2019 report on the review of maritime transport¹. In the crude oil and refined products market there was significant uncertainty due to the ongoing trade war between China and the U.S which may also affect the marine transport segment more broadly. Tanker

¹ UNCTAD report 2019 – review of maritime transport
https://unctad.org/en/PublicationsLibrary/rmt2019_en.pdf

trade shipments (oil, gas and chemicals), accounted for 29.0 per cent of total maritime trade volume, down from 55 per cent nearly five decades earlier. This is consistent with the ongoing shift in the maritime trade structure that is largely rooted in the 1980s. The decade saw a decrease in tanker trade of 6.2 per cent, reflecting the constrained petroleum consumption in main consumer countries that followed the oil shocks of the 1970s.

North Sea Crude Oil Loadings

The major source of supply for the TD7 freight route is the supply of crude oil from the oilfields in the UK and Norwegian North Sea. Much of this crude oil is sold into the refineries in Northwest Europe of which Wilhelmshaven is a refining centre. Rotterdam is the largest refining centre in the region with a total refining capacity of around 1.2 million barrels per day. Bloomberg publish the crude oil data for the main North Sea crude oil fields. There are five grades of crude oil that are significant in the Brent crude oil market and they are Brent, Forties, Oseberg, Ekofisk and Troll. These grades are the constituents to the Dated Brent price and are the underlying physical supply for the Brent futures contract, traded on ICE Futures Europe² and CME³.

Production of BFOE has been declining over the past few years due to the cost of drilling and the returns on investment compared to other regions in the world. This was one of the main reasons why the Troll crude stream was added to the Brent basket. All the Brent grades are segregated blends delivered at different locations in the North Sea, and each can be substituted by the seller in the BFOET cash market (“the forward market”).

In early October 2019, crude oil production from the Johan Sverdrup oilfield began at a rate of around 200,000 barrels per day. Peak production by the summer of 2020 is expected to be around 440,000 barrels per day⁴. According to the Bloomberg crude oil loadings data, total volumes of crude oil loaded at the Brent, Forties, Oseberg, Ekofisk and Troll fields was around 993,000 barrels per day. This equates to around 29.79 million barrels per month. In the Forties field, there is the Grangemouth refinery which has a long-term commitment to buy crude oil therefore the Exchange has made an adjustment to the total delivered volumes to account for this. Therefore the “net delivered” volumes reflect this supply for the North Sea crude grades.

The refining capacity of the Grangemouth refinery is 200,000 barrels per day and is owned by INEOS and Petrochina (“Petroineos”). Based on a conservative 50% of its crude oil loadings flowing directly from the crude oil fields into the refinery, this would reduce the total volume of Forties loaded crude oil by 3 million barrels per month. Based on the crude oil loadings data, total loadings of Forties crude oil over a 3-year period were about 363,500 barrels per day or 10.9 million barrels per month. Therefore, accounting for the reduction in Forties to account for the supply to the Grangemouth oil refinery, total loadings of Forties crude oil were about 7.9 million barrels per month. Total volumes of loaded crude oil in the North Sea were estimated to be around 893,000 b/d or 26.79 million barrels per month.

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. 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

² ICE Brent Crude Futures <https://www.theice.com/products/219/Brent-Crude-Futures>

³ CME Group – Brent Crude Futures https://www.cmegroup.com/trading/energy/crude-oil/brent-crude-oil_contract_specifications.html

⁴ <https://www.spglobal.com/platts/en/market-insights/latest-news/oil/100519-equinor-starts-production-at-johan-sverdrup-oil-field>

at the derivative contract's delivery points during the specified delivery period, barring abnormal movement in interstate commerce.

Freight Route TD7 (Baltic)

The basis of the deliverable supply for the crude oil volumes that are shipped based on the TD7 freight market (Hound Point to Wilhelmshaven) are the constituent grades in the Brent complex. These have been determined as Brent, Forties, Oseberg, Ekofisk and Troll, which are the grades that are traded in the forward market and underpin both the Dated Brent and the Brent futures market. These are commonly referred to as BFOET. The Exchange has accounted for the 100,000 b/d of Forties crude oil that is processed per day by the Grangemouth refinery – this is based on market feedback suggesting that about 50% of the processing capacity at the refinery is filled by Forties crude oil with the remainder being supplied from other grades outside the North Sea. Whilst the TD7 freight route is based on deliveries into Wilhelmshaven, the brokers that supply data into the Baltic will also consider data points for other northwest European ports such as Rotterdam, where there is a large refining infrastructure of around 1.2 million barrels per day. Based on the data shown in Appendix A, total loaded volumes of BFOET crude grades over a 3-year average period up to October 2019 was 993,000 b/d. Reducing this supply by the 100,000 of Forties crude that is processed by Grangemouth then the “net” deliverable supply volume was 893,000 barrels per day. Total deliverable supply of the BFOET grades after all adjustments have been made was 26.79 million barrels per month or 3.65 million tons per month using a conversion factor of 1 metric ton = 7.33 barrels. For any Long-term crude supply agreements that exist between producers and refiners however, these typically afford a degree of flexibility and the volumes can be re-traded into the spot market therefore do not affect the determination of deliverable supply.

Based on the revised volumes of deliverable supply, the Exchange will decrease the spot month position limit for the Freight Route TD7 (Baltic) Futures from 1,000 lots to 800 contracts. Position in the associated BALMO futures, Freight Route TD7 (Baltic) BALMO Futures will continue to aggregate into the Freight Route TD7 (Baltic) Futures contract.

The Exchange also proposes to reduce the single month and all-month accountability limits to 8,000 lots. The revised spot month position limit of 800 lots equates to around 21.9% of the monthly deliverable supply.

Appendix A.

Total loaded volumes of North Sea crudes by grade per month

Units: Barrels per day

Source: Bloomberg (Brent: LOSDRBTT Index, Forties: LOSDFRTT, Oseberg: LOSDOSET, Ekofisk: LOSDEKFT and Troll: LOSDTLLT) Index

	Brent (b/d)	Forties* (b/d)	Oseberg (b/d)	Ekofisk (b/d)	Troll (b/d)	BFOET (b/d)
30/11/2016	100,000	420,000	100,000	260,000	260,000	1,140,000
31/12/2016	58,065	464,516	116,129	270,968	251,613	1,161,291
31/01/2017	96,774	483,871	135,484	270,968	232,258	1,219,355
28/02/2017	107,143	407,143	128,571	257,143	192,857	1,092,857
31/03/2017	96,774	425,806	135,484	251,613	193,548	1,103,225
30/04/2017	80,000	420,000	120,000	260,000	220,000	1,100,000
31/05/2017	116,129	445,161	154,839	290,323	212,903	1,219,355
30/06/2017	80,000	420,000	140,000	260,000	200,000	1,100,000
31/07/2017	77,419	406,452	116,129	251,613	193,548	1,045,161
31/08/2017	77,419	270,968	116,129	251,613	212,903	929,032
30/09/2017	80,000	360,000	100,000	260,000	180,000	980,000
31/10/2017	77,419	425,806	116,129	251,613	212,903	1,083,870

30/11/2017	80,000	420,000	80,000	220,000	200,000	1,000,000
31/12/2017	96,774	154,839	116,129	232,258	212,903	812,903
31/01/2018	58,065	406,452	116,129	232,258	161,742	974,646
28/02/2018	85,714	385,714	85,714	235,714	192,857	985,713
31/03/2018	96,774	367,742	96,774	270,968	193,548	1,025,806
30/04/2018	60,000	400,000	60,000	260,000	198,867	978,867
31/05/2018	77,419	406,452	38,710	270,968	174,194	967,743
30/06/2018	80,000	340,000	100,000	260,000	180,000	960,000
31/07/2018	77,419	348,387	77,419	232,258	212,903	948,386
31/08/2018	96,774	251,613	116,129	232,258	193,548	890,322
30/09/2018	100,000	360,000	100,000	300,000	160,000	1,020,000
31/10/2018	58,065	367,742	77,419	232,258	193,548	929,032
30/11/2018	120,000	380,000	80,000	200,000	160,000	940,000
31/12/2018	58,065	290,323	77,419	251,613	232,258	909,678
31/01/2019	77,419	348,387	116,129	270,968	135,484	948,387
28/02/2019	64,286	364,286	85,714	278,571	192,857	985,714
31/03/2019	77,419	367,742	96,774	212,903	175,097	929,935
30/04/2019	100,000	340,000	100,000	240,000	140,000	920,000
31/05/2019	77,419	348,387	135,484	270,968	193,548	1,025,806
30/06/2019	80,000	340,000	100,000	40,000	160,000	720,000
31/07/2019	116,129	309,677	116,129	290,323	154,839	987,097
31/08/2019	96,774	290,323	96,774	251,613	154,839	890,323
30/09/2019	80,000	240,000	100,000	260,000	180,000	860,000
31/10/2019	116,129	309,677	77,419	251,613	209,677	964,515
3-year average	85,494	363,541	103,477	248,149	192,368	993,028
"Net" Delivered volumes	85,494	263,541	103,477	248,149	192,368	893,028

*Forties has been reduced by 100,000 b/d to account for processing of this grade by Grangemouth.