



January 27, 2011

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OFFICE OF THE  
SECRETARIAT

**VIA E-MAIL**

Mr. David Stawick  
Office of the Secretariat  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21st Street, N.W.  
Washington, D.C. 20581

**Re: Rule Certification. Notification Regarding the Listing of Northwest Europe Petroleum BALMO Swap Futures Contract for Trading on the NYMEX Trading Floor and for Clearing through CME ClearPort® NYMEX Submission No. 11-039**

Dear Mr. Stawick:

The New York Mercantile Exchange, Inc. ("NYMEX") is notifying the Commodity Futures Trading Commission ("CFTC" or "Commission") that it is self-certifying the listing of a new Northwest Europe petroleum balance-of-month ("BALMO"), financially settled, swap futures contract for trading on the NYMEX trading floor and for submission for clearing through CME ClearPort beginning at 6:00 p.m. on Sunday, February 6, 2011 for trade date Monday, February 7, 2011. This new spread contract is based on NYMEX existing Northwest Europe petroleum futures contracts.

The contract, commodity code, rule chapter, and listing schedule are as follows:

<u>Contract</u>	<u>Product Code</u>	<u>Rule Chapter</u>	<u>First Month Listed</u>	<u>Listing Period</u>
1% Fuel Oil Barges FOB Rdam vs. 1% Fuel Oil (Platts) Cargoes FOB NWE BALMO Swap Futures	EBF	664	February 2011	One month and the following month listed 10 business days prior to the start of the contract month

This new Northwest Europe petroleum futures contract will be available during normal trading hours on the NYMEX trading floor and through CME ClearPort. Open outcry trading is conducted Monday through Friday from 9:00 a.m. until 2:30 p.m. (New York prevailing time), except on NYMEX holidays. Clearing is conducted from 6:00 p.m. Sunday until 5:15 p.m. Friday (New York prevailing time). There is a 45-minute halt each day between 5:15 p.m. (current trade date) and 6:00 p.m. (next trade date).

In addition, NYMEX will allow the exchange for related position (EFRP) transactions to be submitted through CME ClearPort. EFRP transactions in this futures contract will be governed by the provisions of NYMEX Rule 538.

Although the analysis of deliverable supply attached herewith includes the recommended position limits for this contract, a separate filing will be submitted to the Commission to self-certify those position limits.

Pursuant to Section 5c(c) of the Commodity Exchange Act ("Act") and CFTC Rules 40.2 and 40.6, NYMEX hereby certifies that the attached contract complies with the Act, including regulations under the Act. There were no substantive opposing views to this proposal. This submission will be made effective on trade date February 7, 2011.

Should you have any questions concerning the above, please contact Daniel Brusstar at (212) 299-2604 or the undersigned at (212) 299-2207. Please reference our CME Submission No. 11-039.

Sincerely,

/s/Felix Khalatnikov  
Dir & Assoc General Counsel

Attachments: Contract terms and conditions  
Cash Market Overview and Analysis of Deliverable Supply

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## Chapter 664

### 1% Fuel Oil Barges FOB Rdam vs. 1% Fuel Oil (Platts) Cargoes FOB NWE BALMO Swap Futures

- 664.01. SCOPE**  
The provisions of these rules shall apply to all contracts bought or sold on the Exchange for cash settlement based on the Floating Price.
- 664.02. FLOATING PRICE**  
The Floating Price for each contract month is equal to the balance-of-month arithmetic average of the mid-point between the high and low quotations from the Platts European Marketscan for 1% Fuel Oil under the heading "Barges FOB Rotterdam" minus the mid-point of the high and low quotations from Platts European Marketscan for 1% Fuel Oil under the heading "Cargoes FOB NWE" starting from the selected start date through the end of the contract month, inclusively.
- 664.03. CONTRACT QUANTITY AND VALUE**  
The contract quantity shall be 1,000 metric tons. Each contract shall be valued as the contract quantity (1,000) multiplied by the settlement price.
- 664.04. CONTRACT MONTHS**  
Trading shall be conducted in contracts in such months as shall be determined by the Exchange.
- 664.05. PRICES AND FLUCTUATIONS**  
Prices shall be quoted in U.S. dollars and cents per metric ton. The minimum price fluctuation shall be \$0.001 per metric ton. There shall be no maximum price fluctuation.
- 664.06. TERMINATION OF TRADING**  
Trading shall cease on the last business day of the contract month.
- 664.07. FINAL SETTLEMENT**  
Delivery 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.
- 664.08. EXCHANGE FOR RELATED POSITION**  
Any exchange for related position (EFRP) transaction shall be governed by the provisions of Exchange Rule 538.
- 664.09. DISCLAIMER**

NEITHER NEW YORK MERCANTILE EXCHANGE, INC. ("NYMEX,") ITS AFFILIATES NOR PLATTS, A DIVISION OF THE MCGRAW-HILL COMPANIES, INC. ("PLATTS") GUARANTEES THE ACCURACY AND/OR COMPLETENESS OF THE INDEX FROM THE PLATTS EUROPEAN MARKETSCAN OR ANY OF THE DATA INCLUDED THEREIN. NYMEX, ITS AFFILIATES AND PLATTS MAKE NO WARRANTIES, EXPRESS OR IMPLIED, AS TO THE RESULTS TO BE OBTAINED BY ANY PERSON OR ENTITY FROM USE OF THE INDEX FROM THE PLATTS EUROPEAN MARKETSCAN, TRADING BASED ON THE INDEX FROM THE PLATTS EUROPEAN MARKETSCAN, OR ANY DATA INCLUDED THEREIN IN CONNECTION WITH THE TRADING OF THE CONTRACT, OR, FOR ANY OTHER USE. NYMEX, ITS AFFILIATES AND PLATTS 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 FROM THE PLATTS EUROPEAN MARKETSCAN OR ANY DATA INCLUDED THEREIN. WITHOUT LIMITING ANY OF THE FOREGOING, IN NO EVENT SHALL NYMEX, ITS AFFILIATES OR PLATTS 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.

"Platts," is a trademark of The McGraw-Hill Companies, Inc. and has been licensed for use by New York Mercantile Exchange, Inc. Platts does not sponsor, endorse, sell or promote the NYMEX contract and Platts makes no recommendations concerning the advisability of investing in the NYMEX contract.

## CASH MARKET OVERVIEW

The New York Mercantile Exchange, Inc. ("NYMEX" or "Exchange") is self-certifying the listing of new Northwest Europe petroleum balance-of-month ("BALMO"), financially settled, swap futures contract for trading on the NYMEX trading floor and for submission for clearing through CME ClearPort.

- **Contract Title:** 1% Fuel Oil Barges FOB Rdam vs. 1% Fuel Oil (Platts) Cargoes FOB NWE BALMO Swap Futures
- **Commodity Code:** EBF
- **First Listed Month:** February 2011
- **Listing Period:** One month and the following month listed 10 business days prior to the start of the contract month.
- **Rule Chapter:** 664

## BALANCE-OF-MONTH DESCRIPTION

The final settlement for the new BALMO swap futures contract is equal to the balance-of-month arithmetic average, starting from the selected start date through the end of the contract month, inclusively.

BALMO swap futures are used by market participants in the over-the-counter ("OTC") market for pricing transactions in periods that are less than a full calendar month. BALMO swap futures contracts are cash-settled, and are settled similarly to the settlement of a calendar month swap futures using a specified index price, such as the Platts price assessment, starting from the day of execution until the last day of the contract month. The user has the flexibility to select the start date (or first day) of the BALMO averaging period. The last day of the period is the last business day of the contract month. In the OTC petroleum market, the BALMO swap futures model is a useful hedging tool that allows the market participants and hedgers to customize the averaging period of the transaction to allow for partial-month average prices. As stated above, the structure of the BALMO swap futures contract is similar to that of a calendar month swap futures, except for the averaging period of the transaction.

## PRICE SOURCE

Platts, a division of The McGraw-Hill Companies, Inc. ("Platts") is the price reporting service used for the final settlement of the new Northwest Europe petroleum futures contract. Platts is one of the major pricing services used in the over-the-counter (OTC) market for the pricing of swap contracts, and the

methodology utilized by Platts is well-known in the oil industry. Their pricing methodology<sup>1</sup> is derived from telephone surveys and electronic data collected from multiple market participants to determine market value. Platts has a long-standing reputation in the industry for price benchmarks that are fair and not manipulated. CME Group is a party to license agreements with Platts to utilize their pricing data.

Specifically, the 1% Fuel Oil Barges FOB Rdam vs. 1% Fuel Oil (Platts) Cargoes FOB NWE BALMO Swap Futures contract utilizes Platts' settlement indices for the pricing of both legs of the spread.

## **EUROPEAN FUEL OIL MARKET OVERVIEW**

### **Description**

Fuel oil<sup>2</sup>, also called residual fuel oil, is a liquid petroleum product less volatile than gasoline and used as an energy source. Fuel oil is generally used in the production of electric power, space heating, vessel bunkering, and various industrial purposes.

### **Consumption, Production, Imports and Exports**

The European fuel oil market in Amsterdam-Rotterdam-Antwerp (ARA) represents the largest hub in Europe for petroleum products, with extensive storage capacity and refining capacity. According to the U.S. Department of Energy's Energy Information Administration (EIA), during the 2006 to 2008 period, the total average annual imports for residual fuel oil was over 575,000 barrels per day of fuel oil supplied by refineries in The Netherlands, Germany, and France. This reflects an ARA market that is a vibrant import and supply center for residual fuel oil. The ARA market is the main supply center for European fuel oil, which includes 1.5% fuel oil, 1.0% fuel oil, and 3.5% fuel oil. During the 2006 to 2008 period, the total average annual demand for fuel oil in the ARA metropolitan area, which includes The Netherlands, Germany and Northern France, was more than 550,000 barrels per day. The EIA compiles consumption data from the International Energy Agency on the European market in their *International Energy Annual* publication at the link below:

<http://tonto.eia.doe.gov/cfapps/ipdbproject/iedindex3.cfm?tid=5&pid=54&aid=2&cid=r3.&syid=2004&eyid=2008&unit=TBPD>

<sup>1</sup> <http://www.platts.com/IM.Platts.Content/MethodologyReferences/MethodologySpecs/usoilproductspecs.pdf>.

<sup>2</sup> <http://www.eia.doe.gov/glossary/index.cfm?id=F>.

According to the EIA, during the 2006 to 2008 period, the average annual fuel oil imports for The Netherlands were approximately 400,000 barrels per day. In addition, the EIA data in Table 1 reflects local refinery average annual production of fuel oil in The Netherlands at around 200,000 barrels per day during the 2006 to 2008 period.

Data from Table 1 below demonstrates that total average annual consumption of fuel oil for France, Germany and Netherlands from 2006 to 2008 period was around 557,000 barrels per day. Total average annual production of fuel oil for these countries during the same period was greater than consumption, at approximately 643,000 barrels per day. Total average imports of fuel oil were around 578,000 barrels per day, slightly above the total average exports which were around 533,000 barrels per day during the 2006 to 2008 average annual period.

**Table 1. Selected Statistics for Fuel Oil: Europe**

(Thousand Barrels per Day)

Item and Region	2006	2007	2008	Average 2006-2008
<b>Consumption, Fuel Oil<sup>3</sup></b>				
France	119	113	104	112
Germany	178	181	174	178
Netherlands	287	272	245	268
Total Consumption	584	566	523	557
<b>Production, Fuel Oil<sup>4</sup></b>				
France	210	202	201	204
Germany	242	242	212	231
Netherlands	215	212	196	208
Total Production	670	654	608	643
<b>Imports, Fuel Oil<sup>5</sup></b>				
France	87	97	108	97
Germany	59	46	54	53
Netherlands	423	435	426	428
Total Imports	569	578	588	578

<sup>3</sup> EIA Consumption Data,  
<http://tonto.eia.doe.gov/cfapps/ipdbproject/iedindex3.cfm?tid=5&pid=66&aid=2&cid=r3,&syid=2006&eyid=2008&unit=TBPD>

<sup>4</sup> EIA Production Data,  
<http://tonto.eia.doe.gov/cfapps/ipdbproject/iedindex3.cfm?tid=5&pid=66&aid=1&cid=r3,&syid=2006&eyid=2008&unit=TBPD>

<sup>5</sup> EIA Import Data,  
<http://tonto.eia.doe.gov/cfapps/ipdbproject/iedindex3.cfm?tid=5&pid=66&aid=3&cid=r3,&syid=2006&eyid=2008&unit=TBPD>

Item and Region	2006	2007	2008	Average 2006-2008
<b>Exports, Fuel Oil<sup>6</sup></b>				
France	129	135	130	131
Germany	104	95	78	92
Netherlands	314	318	296	309
Total Exports	546	548	504	533

### Prices

In this submission, NYMEX is self-certifying the listing of the 1% Fuel Oil Barges FOB Rdam vs. 1% Fuel Oil (Platts) Cargoes FOB NWE BALMO Swap Futures contract. Table 2 below reflects the final settlement prices provided by NYMEX in U.S. dollars and cents per metric ton for its existing European 1% Fuel Oil (Platts) Barges FOB Rdam Calendar Swap Futures and European 1% Fuel Oil (Platts) Cargoes FOB NWE Calendar Swap Futures contracts, which constitute the two legs of the spread for the new product under this self-certification.

Over the annual period of January 2008 to December 2010, 1% fuel oil barges fob Rotterdam prices varied from a high of 749.455 in July 2008 to a low of 233.690 in December 2008. According to the most recent data provided by NYMEX, the monthly average price was at 483.885 for the month of December 2010. Over the annual period of January 2008 to December 2010, 1% fuel oil cargoes fob North-West Europe reached a high of 773.185 in July 2008 and a low of 227.605 in December 2008. According to the most recent data provided by NYMEX, the monthly average price was at 489.066 for the month of December 2010.

**Table 2. Selected Statistics for Fuel Oil: Prices**

Year	Date	European 1% Fuel Oil (Platts) Barges FOB Rdam Calendar Swap Futures	European 1% Fuel Oil (Platts) Cargoes FOB NWE Calendar Swap Futures
2008	Jan	477.818	494.304
	Feb	459.204	474.689
	Mar	497.219	509.833
	Apr	532.182	554.973
	May	581.945	583.397
	Jun	641.253	653.740
	Jul	749.455	773.185
	Aug	634.082	667.893
	Sep	541.437	561.568
	Oct	429.640	465.744
	Nov	292.413	305.857
	Dec	233.690	227.605

<sup>6</sup>EIA Export Data,  
<http://tonto.eia.doe.gov/cfapps/ipdbproject/iedindex3.cfm?tid=5&pid=66&aid=4&cid=r3,&syid=2006&eyid=2008&unit=TBPD>

Year	Date	European 1% Fuel Oil (Platts) Barges FOB Rdam Calendar Swap Futures	European 1% Fuel Oil (Platts) Cargoes FOB NWE Calendar Swap Futures
2009	Jan	246.379	242.573
	Feb	244.505	243.168
	Mar	238.062	231.464
	Apr	278.682	281.276
	May	322.878	317.164
	Jun	381.900	381.796
	Jul	368.780	373.948
	Aug	426.585	431.565
	Sep	412.968	414.885
	Oct	419.587	425.843
	Nov	462.764	469.454
	Dec	446.891	447.305
2010	Jan	466.241	N/A
	Feb	436.524	445.113
	Mar	454.538	462.959
	Apr	485.059	490.717
	May	460.511	466.037
	Jun	430.878	438.592
	Jul	444.239	450.862
	Aug	466.286	473.450
	Sep	444.951	451.014
	Oct	464.714	471.794
	Nov	479.785	486.419
	Dec	483.885	489.066

### Market Activity

The European fuel oil market is priced in units of dollars per metric ton. The conversion factor is 6.35 barrels per metric ton. According to industry sources, the estimated trading volume of fuel oil (converted to barrel equivalents) in the ARA cash market is approximately 500,000 to 700,000 barrels per day. The typical transaction size is around 35,000 to 40,000 barrels. The volume of spot transactions is typically more than half of all cash transactions. There is active trading in forward cash deals and in the OTC swaps market. The bid/ask spreads are typically in increments of 50 cents per metric ton (or around 0.10 cents per gallon equivalent), which reflects robust liquidity in the cash market.

### Market Participants

The market participation in European fuel oil is diverse and includes many of the same commercial entities that are active in the New York Harbor market. The European cash market and OTC market participants number 30 to 40 commercial companies. A partial listing is as follows:



**Refiners**

ConocoPhillips  
Valero  
Shell  
ExxonMobil  
BP  
Total  
Koch Petroleum  
Repsol  
CEPSA  
Netherlands Refining  
OMV

**Traders/End Users**

Sempra  
Vitol  
Glencore  
Trafigura  
Northville  
Cargill  
Morgan Stanley  
Goldman Sachs  
Koch  
Mabanaft  
Phibro  
Arcadia  
Mercuria  
Noble Energy

**Brokers**

GFI Starsupply  
PVM  
Man Financial  
ICAP  
Aspen Oil  
GFI Spectron  
TFS  
Amerex  
Prebon

**Financial (Swaps)**

Citibank  
Deutsche Bank  
Barclays

## ANALYSIS OF DELIVERABLE SUPPLY

In its analysis of deliverable supply, the Exchange focused on the EIA production data from the ARA region (Netherlands, Germany, and France). The BALMO petroleum contract contained in this submission is set up as a spread between two existing petroleum contracts. The spot month limit for this new contract will be aggregated into the existing underlying contracts that are already listed on the Exchange.

The Exchange has determined to not include stocks data in its analysis of deliverable supply due to the variability of the stocks. Further, The Exchange has determined not to adjust the deliverable supply estimate based on the spot availability of the petroleum products because spot market liquidity is not restrictive and tends to vary depending on the market fundamentals of demand and supply. Also, the spot trading is not restricted in that it could increase if the market demand increases. Therefore, we believe that it is not necessary to adjust the deliverable supply estimate on the basis of the spot trading, because this does not restrict the deliverable supply, and spot trading volume can expand to allow for more supply to flow if needed in the spot market.

To be conservative, we have set the spot month position limits based on the production data for the petroleum products from the EIA. For the European 1% Fuel Oil (Platts) Barges FOB Rdam Calendar Swap Futures and European 1% Fuel Oil (Platts) Cargoes FOB NWE Calendar Swap Futures, the spot month position limits are set at 150 contract equivalents, which is equivalent to 950,000 barrels of fuel oil, which is approximately 5% of the total monthly supply of fuel oil of 19 million barrels, as shown in the production data in Table 1.