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April 25, 2011

**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

OFFICE OF THE  
SECRETARIAT

**Re: Rule Certification. New York Mercantile Exchange, Inc. Submission #11-163:  
Notification Regarding the Listing of Two Mini LPG Swap Futures Contracts for  
Open Outcry Trading and for Clearing through CME ClearPort®**

Dear Mr. Stawick:

The 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 Mini Argus Propane Far East Index Swap Futures (Chapter 850) and Mini Argus Propane (Saudi Aramco) Swap Futures (Chapter 851) for open outcry trading and for submission for clearing through CME ClearPort beginning at 6:00 p.m. on Sunday, May 1, 2011 for trade date Monday, May 2, 2011.

The product specifications are as follows:

- **Commodity Codes:** MAE & MAS
- **Settlement Type:** Financial
- **First Listed Month:** June 2011
- **Listing Period:** 36 consecutive months.
- **Contract Size:** 100 metric tons
- **Termination of Trading:** Trading shall cease on the last business day of the contract month.
- **Minimum Price Fluctuation:** \$0.001 (0.1¢) per metric ton
- **Final Settlement Price:** Minimum settlement tick = \$0.001
- **Fee Schedule:**

Exchange Fees					
	Member Day	Member	Cross Division	Non-Member	IIP
Pit	n/a	\$0.85	\$1.05	\$1.25	
Globex	n/a	n/a	n/a	n/a	n/a
ClearPort		\$0.85		\$1.25	

Processing Fees		
	Member	Non-Member
Cash Settlement	\$0.10	\$0.10
Futures from E/A	n/a	n/a
	House Acct	Cust Acct
Options E/A Notice	n/a	n/a
Delivery Notice	n/a	n/a

<b>Additional Fees and Surcharges</b>	
<b>EFS Surcharge</b>	\$0.00
<b>Block Surcharge</b>	\$0.00
<b>Facilitation Desk Fee</b>	\$0.20

- The Exchange will allow the exchange for related position (EFRP) transactions to be submitted through CME ClearPort. EFRP transactions in these futures contracts will be governed by the provisions of Exchange Rule 538.

Pursuant to Section 5c(c) of the Commodity Exchange Act ("Act") and CFTC Rules 40.2 and 40.6, the Exchange hereby certifies that the attached contracts comply with the Act, including regulations under the Act. There were no substantive opposing views to this proposal. The listing of these contracts will become effective on trade date May 2, 2011.

Should you have any questions concerning the above, please contact Owain Johnson, at +65 6593 5568, or via e-mail at [owain.johnson@cmegroup.com](mailto:owain.johnson@cmegroup.com).

Sincerely,

/s/ Felix Khalatnikov  
Dir & Assoc General Counsel

Attachments: Contract terms and conditions

## **Chapter 850**

### **Mini Argus Propane Far East Index Swap Futures**

#### **850.01 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.

#### **850.02 FLOATING PRICE**

The Floating Price for each contract month is equal to the arithmetic average of the mid-point of the high and low quotations from Argus Media for Propane (Far East Index) for each business day that it is determined during the contract month.

#### **850.03 CONTRACT QUANTITY AND VALUE**

The contract quantity shall be one hundred (100) metric tons. Each contract shall be valued as the contract quantity multiplied by the settlement price.

#### **850.04 CONTRACT MONTHS**

Trading shall be conducted in contracts in such months as shall be determined by the Exchange.

#### **850.05 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.

#### **850.06 TERMINATION OF TRADING**

Trading shall terminate on the last business day of the contract month. Business days are based on the Singapore Public Holiday calendar.

#### **850.07 FINAL SETTLEMENT**

Delivery under the contract shall be by cash settlement. Final settlement, following termination of the 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.

#### **850.08 EXCHANGE FOR RELATED POSITION**

Any Exchange for Related Position (EFRP) shall be governed by the provision of Exchange Rule 538.

#### **850.09 DISCLAIMERS**

Argus Media ("Argus") licenses the New York Mercantile Exchange, Inc. ("NYMEX") to use various Argus price assessments in connection with the trading of the contract.

NEITHER NYMEX AND ITS AFFILIATES NOR ARGUS GUARANTEES THE ACCURACY AND/OR COMPLETENESS OF THE ASSESSMENT OR ANY OF THE DATA INCLUDED THEREIN. NYMEX AND ITS AFFILIATES AND ARGUS MAKE NO WARRANTIES, EXPRESS OR IMPLIED, AS TO THE RESULTS TO BE OBTAINED BY ANY PERSON OR ENTITY FROM USE OF THE ASSESSMENT, TRADING BASED ON THE ASSESSMENT, OR ANY DATA INCLUDED THEREIN IN CONNECTION WITH THE TRADING OF THE CONTRACT, OR, FOR ANY OTHER USE. NYMEX AND ITS AFFILIATES AND ARGUS 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 ASSESSMENT OR ANY DATA INCLUDED THEREIN. WITHOUT LIMITING ANY OF THE FOREGOING, IN NO EVENT SHALL NYMEX AND ITS AFFILIATES OR ARGUS 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 DAMAGES.

**Chapter 851**  
**Mini Argus Propane (Saudi Aramco) Swap Futures**

**851.01 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.

**851.02 FLOATING PRICE**

The Floating Price for each contract month is equal to the arithmetic average of the mid-point of the high and low quotations from the Argus Media for Propane (Saudi Arabia) contract price for each business day that it is determined during the contract month.

**851.03 CONTRACT QUANTITY AND VALUE**

The contract quantity shall be one hundred (100) metric tons. Each contract shall be valued as the contract quantity multiplied by the settlement price.

**851.04 CONTRACT MONTHS**

Trading shall be conducted in contracts in such months as shall be determined by the Exchange.

**851.05 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.

**851.06 TERMINATION OF TRADING**

Trading shall terminate on the last business day of the contract month. Business days are based on the Singapore Public Holiday calendar.

**851.07 FINAL SETTLEMENT**

Delivery under the contract shall be by cash settlement. Final settlement, following termination of the 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.

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## CASH MARKET OVERVIEW

### a) Propane as a traded commodity

Propane is an essential feedstock for the petrochemical industry. Propane is also used for domestic cooking and residential central heating. Propane is a gas, but it can be liquefied and then transported and stored as a liquid. Propane is found naturally occurring in hydrocarbon structures and is also created as a by-product of petroleum refining.

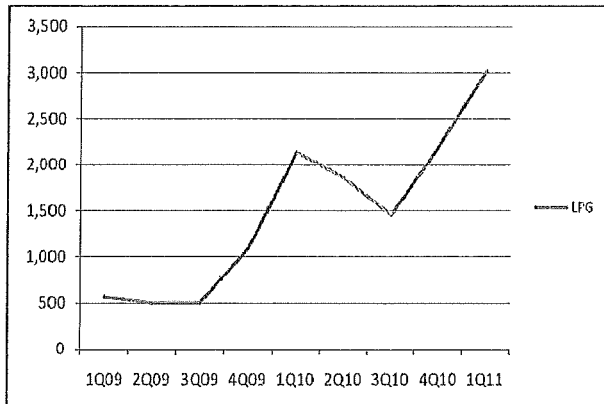
Propane and butane are typically referred to together as liquefied petroleum gas (LPG) in Europe and Asia and as natural gas liquids (NGLs) in the United States.

In Asia, liquefied propane is typically shipped in specially designed vessels that carry up to 22,000 metric tons. Each shipment will be either 100% propane, 100% butane or frequently will comprise half butane and half propane in separate compartments.

### b) Existing use of derivatives in the propane market

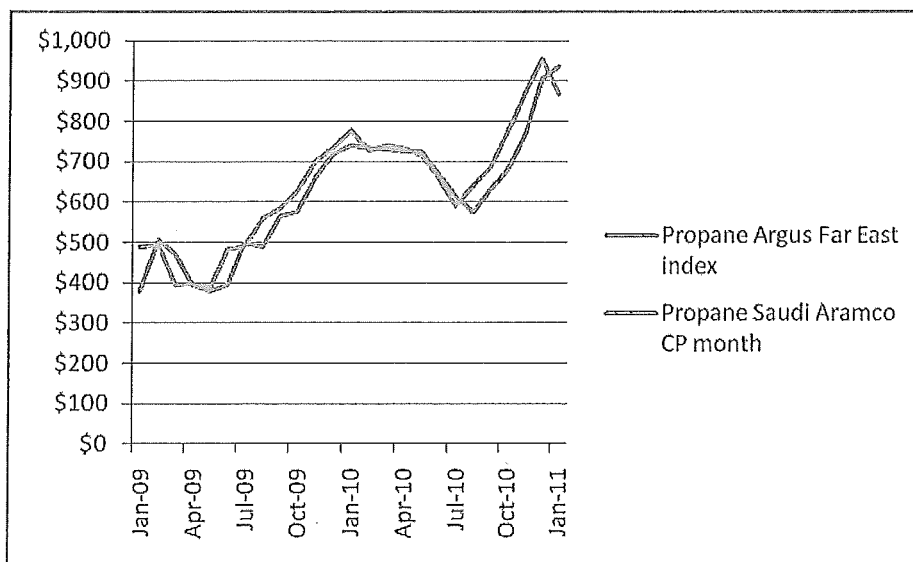
The Asian propane market has made use of derivatives for risk management for some time, and usage of derivatives is growing, in part, as a response to the greater fluctuations in price experienced in recent years.

**Table 1** shows the upturn in cleared Asian propane derivatives on CME's ClearPort platform:



Price movements in the Asian propane markets closely correlate to the price of naphtha, a refined petroleum product, which competes with propane as a petrochemical feedstock. Both naphtha and propane prices are also highly correlated to crude oil prices. This has ensured that prices for Asian propane cargoes have been relatively volatile in recent years, encouraging a trend towards greater use of risk management tools.

**Table 2** shows recent price trends for Asian propane cargoes:



NYMEX currently lists two outright Asian propane swap futures on its trading floor and through CME ClearPort: Argus Propane Far East Index Swap Futures (7E) and Argus Propane (Saudi Aramco) Swap Futures (9N). Both of these contracts set out a lot size of 1,000 tons.

In recent months there has been growing demand for smaller versions of these contracts from north Asian market participants that are looking to manage the risk of smaller deliveries of propane, particularly in trade with petrochemical producers with lower volume requirements. Traders would also like the flexibility to manage the risk of more bespoke deliveries that do not match the current 1,000t lot size, such as a 5,500t delivery.

In response to this customer demand for greater flexibility in managing risk, NYMEX is planning to launch 'mini' versions of Argus Propane Far East Index Swap Futures (7E) and Argus Propane (Saudi Aramco) Swap Futures (9N), which would reduce the lot size from 1,000t to 100t.

c) **Size of the underlying cash market**

Asia-Pacific

Japan and China are two of the most important Asian importers of propane. Argus Media assesses its Far East Index, which is the underlying settlement basis for the Argus Propane Far East Index swap futures, on the basis of a 50/50 average of the propane imports into both countries. See below for a more detailed description of the Argus propane methodology.

According to the U.S. Energy Information Administration ("EIA"), in 2009 Japan imported around 376,000 b/d of liquefied petroleum gases (LPG), while China imported 129,000 b/d in 2007 – the latest year for which the EIA shows data.

**Table 3: Asian imports of Liquefied Petroleum Gases (Thousand Barrels Per Day)<sup>1</sup>**

	2005	2006	2007	2008	2009
Asia & Oceania	956	982	952	NA	NA
<i>of which</i> China	196	170	129	NA	NA
<i>of which</i> Japan	426	450	427	439	376

There is significant trading in forward cash deals, with bid/ask spreads typically in increments of 50 cents per metric ton. The over-the-counter ("OTC") LPG swaps market in Asia-Pacific is liquid with diverse market participation.

Middle East

Saudi Arabia is one of the world's major exporters of propane, and the monthly reference set by national oil and gas producer Saudi Aramco has become a key benchmark for all of the exporters of LPG from the Middle East, such as Kuwait Petroleum and the Abu Dhabi National Oil company.

Saudi Arabia is the largest producer of LPG in the Middle East. The country's exports of LPG totaled around 586,000 b/d in 2007, the last year for which the EIA has data.

**Table 4: Middle East exports of Liquefied Petroleum Gases (Thousand Barrels Per Day)<sup>2</sup>**

	2005	2006	2007	2008	2009
Middle East	1053	1005	998	NA	NA
<i>of which</i> Saudi Arabia	636	606	586	NA	NA

<sup>1</sup> EIA Import Data for LPG in Asia can be found here:  
<http://tonto.eia.doe.gov/cfapps/ipdbproject/iedindex3.cfm?tid=5&pid=67&aid=3&cid=r7.&syid=2005&eyid=2009&unit=TBPD>

<sup>2</sup> EIA Export Data for the Middle East can be found here:  
<http://tonto.eia.doe.gov/cfapps/ipdbproject/iedindex3.cfm?tid=5&pid=67&aid=4&cid=r5.&syid=2005&eyid=2009&unit=TBPD>

Asian consumers of propane and butane are highly exposed to the Saudi Arabian contract price as they import a substantial percentage of their needs from the Middle East. The Saudi Aramco benchmark, as reported by Argus Media, has therefore attracted a liquid swaps market, with diverse market participation, as end-users in Asia seek to mitigate the risk of changing prices in the Middle East.

**d) Price source**

The price references for the financial settlement of the two mini propane swaps are licensed by CME Group from Argus Media. Argus is one of the major pricing services that are used in the over-the-counter (OTC) market for pricing swap contracts, and the methodology utilized by Argus is well-known in the global LPG industry. Their pricing methodology is derived from telephone surveys and electronic data collected from multiple market participants to determine market value.

Argus describes its business as follows: Argus is a leading provider of price assessments, business intelligence and market data for the global crude oil, petroleum products, gas, LPG, coal, electricity, biofuels, biomass, emissions and transportation industries. It is headquartered in London, and has offices in Moscow, Washington, Houston, Calgary, Singapore, Tokyo, Beijing, New York, Kiev, Sydney, Astana, Portland, Johannesburg and Dubai as well as employees in other key locations including Germany, France, Nigeria, South Africa, Venezuela, Argentina and Chile. Argus was founded in 1970 and is a privately held UK-registered company, owned by its employees and the family of its founder<sup>3</sup>.

**e) Argus methodology for assessing the Argus Propane Far East Index**

The Far East Index is an average of the daily CFR Japan and CFR South China prices published by Argus. Argus will separately assess each market. Argus will not make any presumption that one market is structurally lower or higher than the other.

For the purposes of assessing the Far East Index for propane and butane, Argus establishes a viable buy-sell range at the timestamp (currently 5:30 p.m. Singapore time). To accomplish this, Argus considers a wide range of information, including bids and offers, transactions, informed market views and the performance of other related markets.

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<sup>3</sup> Further details about Argus Media can be found here:  
<http://www.argusmedia.com/pages/StaticPage.aspx?tname=About&pname=History>



Market information may not be consistent regarding prevailing price levels so if contradictory information regarding a viable buy-sell range is in the market Argus will give the greatest weight to deals for cargoes that conform to Argus' published specification done in the run up to the timestamp.

For inclusion in the Far East Index (FEI), deals must be judged by Argus to be repeatable and representative. Bid and offers must be firm, made in the open market, not subject to special conditions and be valid for a period of time during which a deal could reasonably be transacted. In the absence of any firm bids and/or offers, Argus shall use inputs from its regular market surveys, plus any other inputs from brokers, market participants or market portals, to establish a valid buy-sell range. This buy-sell range shall be determined using informed market opinions and other indicators judged by Argus to be indicative of market values.

Argus LPG assessments are for cargoes delivered to destination ports 25-40 days forward from the date of assessments. It is usual that part of this assessment period would be determined by market prices for one delivery period, and another part would be determined by different delivery period. In such cases, Argus will pro-rate the values of the relevant delivery periods<sup>4</sup>.

**f) Argus methodology for assessing the Argus Propane (Saudi Aramco) benchmark**

Prices are established in US dollars per metric ton.

The basis for the price benchmark is the month's CP (Saudi Contract Price) as set by Saudi oil and gas producer Saudi Aramco. The specifications are for refrigerated cargoes of field-grade quality. Fob Gulf quotes are for 5,000-10,000t cargoes loading at Ras Tanura.

The fob Mideast Gulf roll date from one month loading to the next will occur on the 10th of the month. Time stamp is 4.30pm London time.

**g) Market Participants**

There is a wide range of participants trading Asian propane physical cargoes and derivatives. The following table highlights some of the more active participants.

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<sup>4</sup> More detailed descriptions of the Argus propane methodology for both the Far East Index and the Saudi Aramco benchmark can be found here:  
[http://web04.us.argusmedia.com/ArgusStaticContent/Meth/IntLPG\\_meth\\_latest.pdf](http://web04.us.argusmedia.com/ArgusStaticContent/Meth/IntLPG_meth_latest.pdf)

<b>Brokers</b>	<b>Commercial</b>	<b>Banks</b>
Ginga Petroleum	BP	JP Morgan
Nordico Energy	Mitsubishi	Deutsche Bank
Tradition	Itochu	Morgan Stanley
	SK Gas	Societe Generale
	Gunvor	Goldman Sachs
	StatoilHydro	
	E1 Energy	
	Vitol	

## ANALYSIS OF DELIVERABLE SUPPLY

### **1. OTC Market**

Propane is traded all over the world, with liquefied propane shipped huge distances by sea to reach markets. Over the last twenty years, seaborne trade in propane has increased significantly in line with the growth of demand in the Asian economies.

Global imports of LPG stood at around 2.3 million barrels per day in 2007 according to data from the EIA<sup>5</sup>; an extremely high proportion of the 3.6 million barrels per day of global LPG production that the EIA calculated in 2007<sup>6</sup>.

Transportation costs for LPG are higher than for many other petroleum products due to the need for specialist pressurized and refrigerated vessels to keep the gas in liquid form. International trade in propane is therefore effectively divided into two regional markets – the Atlantic and the Pacific. The Atlantic market is made up of importing countries in Western Europe, notably the Mediterranean countries. The Pacific market consists of developing and OECD Asian importers, notably China, Japan, India, South Korea and Taiwan.

### **2. Proposed Position Limits**

In its analysis of deliverable supply, the Exchange determined to use the data collected by the EIA for 2007, as the latest completely available calendar year.

Deliverable supply of propane into China and Japan was approximately 556,000 barrels per day (129,000 barrels per day for China and 427,000 barrels per day for Japan) in 2007. This is equivalent to 45,000 metric tons per day or 1,350,000 metric tons per month, assuming a barrels-to-metric ton conversion rate of 12.4.

The Exchange has set the spot month speculative limits for the Mini Argus Propane Far East Index Swap Futures contract at 150 contracts of 100 metric tons (equivalent to 15,000 metric tons or around 124,000 barrels). The spot limit speculative limits for the Mini Argus Propane Far East Index Swap

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<sup>5</sup><http://tonto.eia.doe.gov/cfapps/ipdbproject/iedindex3.cfm?tid=5&pid=67&aid=3&cid=ww.&syid=2005&eyid=2009&unit=TBDP>

<sup>6</sup><http://tonto.eia.doe.gov/cfapps/ipdbproject/iedindex3.cfm?tid=5&pid=67&aid=1&cid=ww.&syid=2006&eyid=2010&unit=TBDP>

Futures contract are therefore estimated to be around 1% of the monthly deliverable supply for LPG in Japan and China.

Deliverable supply of LPG from Saudi Arabia was approximately 586,000 barrels per day in 2007. This is equivalent to around 47,000 metric tons per day or 1,400,000 metric tons per month, assuming a barrels-to-metric ton conversion rate of 12.4.

The Exchange has set the spot month speculative limits for the Mini Argus Propane (Saudi Aramco) Swap Futures contract at 100 contracts of 100 metric tons (equivalent to 10,000 metric tons or around 124,000 barrels). The spot limit speculative limits for the Argus Propane (Saudi Aramco) Swap Futures contract are therefore estimated to be around 1% of the monthly deliverable supply for LPG from Saudi Arabia.

The position limits for Mini Argus Propane Far East Index Swap Futures and Mini Argus Propane (Saudi Aramco) Swap Futures also aggregate into the position limits previously established for their equivalent full-size contracts. The proposed spot month limits for the Mini Argus Propane Far East Index Swap Futures and Mini Argus Propane (Saudi Aramco) Swap Futures, which are self-certified under separate submission, are listed below.

<u>Contract Name</u>	<u>Rule Chapter</u>	<u>Commodity Code</u>	<u>Diminishing Balances Contracts</u>	<u>All Month Account-ability Level</u>	<u>Any One Month Account-ability Level</u>	<u>Expira-tion Month Limit</u>	<u>Report-ing Level</u>	<u>Aggre-gate Into (1)</u>
				<u>Rule 560</u>	<u>Rule 560</u>	<u>Rule 559</u>	<u>Rule 561</u>	
<i>Petroleum</i>								
<i>Middle East</i>								
<i>AG-FOB</i>								
<u>Mini Argus Propane (Saudi Aramco) Swap Futures</u>	<u>851</u>	<u>MAS</u>	<u>*</u>	<u>1,500</u>	<u>1,000</u>	<u>100</u>	<u>25</u>	<u>9N</u>
<i>Asia/Pacific Far East</i>								
<u>Mini Argus Propane Far East Index Swap Futures</u>	<u>850</u>	<u>MAE</u>	<u>*</u>	<u>1,750</u>	<u>1,250</u>	<u>150</u>	<u>25</u>	<u>7E</u>