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OFFICE OF THE SECRETARIAT

July 7, 2010

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**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. New York Mercantile Exchange, Inc. and CME Clearing Submission #10-184: Notification Regarding the Listing of European Gasoil Calendar Spread Option Contract on NYMEX Trading Floor and CME ClearPort®**

Dear Mr. Stawick:

The New York Mercantile Exchange, Inc. ("NYMEX" or "Exchange") and CME Clearing are notifying the Commodity Futures Trading Commission ("CFTC" or "Commission") that they are self-certifying the listing of a new option contract, the European Gasoil Calendar Spread Option (Chapter 552), for trading on the NYMEX trading floor and for submission for clearing through CME ClearPort beginning at 6:00 p.m. on Sunday, July 11, 2010 for trade date Monday, July 12, 2010. The new calendar spread option will exercise into the Gasoil Bullet Swap Futures contract (code BG). Please note that the underlying European Gasoil Bullet Swap Futures contract settles against the ICE Gasoil Futures contract.

The new Gasoil calendar spread option 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. to 2:30 p.m. (New York Prevailing Time), except on Exchange holidays. CME ClearPort is available 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).

The first listed month for these options will be September 2010 contract for option on one-month spread, option on two-month spread, and option on three-month spread. With regard to option on six-month spread and option on twelve-month spread, the first listed month will be the December 2010 contract. The spreads, associated commodity codes and listing period are provided in the table below for your convenience.

Spreads	Code	Listing Period
One-Month Spread	GXA	12 consecutive contracts
Two-Month Spread	GXB	2 contracts: First/Third Nearby and Second/Fourth Nearby Spreads
Three-Month Spread	GXC	1 contract: First/Fourth Nearby Spread
Six-Month Spread	GXM	2 contract: Nearest June/December and December/June Spreads
Twelve-Month Spread	GXZ	1 contract: Nearest December/December Spread

In addition, the Exchange and CME Clearing will allow exchange for related position (EFRP) transactions to be submitted through CME ClearPort. EFRP transactions in these 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 and CME Clearing hereby certify that the attached contract complies with the Act, including regulations under the Act. The listing shall be effective trade date July 12, 2010.

Should you have any questions concerning the above, please contact Bob Biolsi at (212) 299-2610 or me at (312) 648-5422.

Sincerely,

/s/ Stephen M. Szarmack  
Regulatory Counsel

Attachments: Contract Terms and Conditions  
Supplemental Market Information

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## Chapter 552

### European Gasoil Calendar Spread Option

#### 552.01 EXPIRATION

A European Gasoil Calendar Spread Option contract on the Exchange shall expire at the close of trading one business day immediately preceding the expiration of the first expiring European Gasoil Bullet Swap Futures (BG) contract in the spread.

#### 552.02 TRADING UNIT

A European Gasoil Calendar Spread Put Option contract traded on the Exchange represents an option to assume a short position in the first expiring European Gasoil Bullet Swap Futures (BG) contract in the spread and a long position in the second expiring European Gasoil Bullet Swap Futures (BG) contract in the spread traded on the Exchange. A European Gasoil Calendar Spread Call Option represents an option to assume a long position in the first expiring European Gasoil Bullet Swap Futures (BG) contract in the spread and a short position in the second expiring European Gasoil Bullet Swap Futures (BG) contract in the spread traded on the Exchange.

#### 552.03 TRADING MONTHS

Trading in European Gasoil Calendar Spread Option contracts shall be conducted in the months determined by the Exchange.

#### 552.04 HOURS OF TRADING

The option contract is available for open outcry trading on the Exchange trading floor between 9:00 a.m. and 2:30 p.m. (New York Prevailing time) Monday through Friday, except on Exchange Holidays.

The option contract is available for clearing through CME ClearPort<sup>®</sup> from 6:00 p.m. Sundays through 5:15 p.m. Fridays (New York Prevailing time), with a 45-minute break each day between 5:15 p.m. and 6:00 p.m., except on Exchange Holidays.

#### 552.05 STRIKE PRICES

Trading shall be conducted for options with strike prices in increments as set forth below.

(A) On the first business day of trading in an option contract month, trading shall be at the following strike prices; (i) the difference between the previous day's settlement price for the first European Gasoil Bullet Swap Futures (BG) contract in the spread and the second European Gasoil Bullet Swap Futures (BG) contract in the spread, whether positive or negative in sign, and rounded off to the nearest twenty-five cent increment, unless such settlement price is precisely midway between two twenty-five cent increments in which case it shall be rounded off to the lower twenty-five cent increment.

(B) Thereafter, on any business day prior to the expiration of the option, new strike prices for both puts and calls will be added, such that at all times there will be at least five twenty-five cent (\$0.25) increment strike prices above and below the at-the-money strike price available for trading in all option contract months. The at-the-money strike price will be determined in accordance with the procedures set forth in Subsection (A) of this Rule 552.05.

(C) Notwithstanding the provisions of subsections (A) and (B) of this Rule, if the Exchange determines that trading in European Gasoil Calendar Spread Option contracts will be facilitated thereby, the Exchange may, by resolution, change the increments between strike prices, the number of strike prices which shall be traded on the first day in any new option contract month, the number of new strike prices which will be introduced on each business day or the period preceding the expiration of a European Gasoil Calendar Spread Option in which no new strike prices may be introduced.

#### 552.06 PRICES

Prices shall be quoted in dollars and cents per ton and prices shall be in multiples of \$0.01 (1 cent) per ton. The minimum price increment shall be \$.01 per ton. A cabinet trade may occur at a price of \$0.001 per ton, or \$1.00 a contract, however, if it results in the liquidation of positions for both parties in the trade.

#### 552.07 ABSENCE OF PRICE FLUCTUATION LIMITATIONS

Trading in European Gasoil Calendar Spread Option contracts shall not be subject to price fluctuation limitations.

## CASH MARKET OVERVIEW

### CASH MARKET

The European petroleum products market in the Amsterdam-Rotterdam-Antwerp (ARA) area represents a robust and liquid trading hub in Northwest Europe, with extensive storage capacity and refining capacity. The ARA market is a vibrant import/export and refining hub for distillate fuel, with around two million barrels per day of distillate fuel supplied by refineries in the Northwest Europe region, which encompasses Netherlands, Northern France, and Northern Germany (Table I). The ARA market is a key supply center for European distillate fuels, which include heating oil (or gasoil) and diesel fuel (also called ULSD 10ppm). Distillate demand in the ARA area, which includes the Netherlands, Northern France, and Northern Germany, is more than three million barrels per day (Table I). In addition, there is a large volume of imports and exports of gasoil, with a net import balance of approximately 60,000 barrels per day (Table I).

**Table I. Selected U.S. Energy Information Administration (EIA) Statistics for Middle Distillate Fuel Oil: Europe (Thousand Barrels per Day)**

Item and Region	2006	2007	2008	Average 2006-2008
<b>Annual Consumption, Middle Distillate Fuel Oil<sup>1</sup></b>				
France	993	982	1,008	995
Germany	1,200	1,014	1,137	1,117
Netherlands	199	194	194	196
<b>Total</b>				<b>3,302</b>
<b>Annual Production, Middle Distillate Fuel Oil<sup>2</sup></b>				
France	701	711	754	722
Germany	1,060	1,037	1,026	1,041
Netherlands	402	399	418	406
<b>Total</b>				<b>2,169</b>

<sup>1</sup> EIA Consumption Data,  
<http://tonto.eia.doe.gov/cfapps/ipdbproject/iedindex3.cfm?tid=5&pid=65&aid=2&cid=r3,&syid=2006&eyid=2008&unit=TBD>

<sup>2</sup> EIA Production Data,  
<http://tonto.eia.doe.gov/cfapps/ipdbproject/iedindex3.cfm?tid=5&pid=65&aid=1&cid=r3,&syid=2006&eyid=2008&unit=TBD>

Item and Region	2006	2007	2008	Average 2006-2008
<b>Imports, Middle Distillate Fuel Oil<sup>3</sup></b>				
France	322	273	292	295
Germany	333	190	317	280
Netherlands	279	191	251	240
<b>Total</b>				<b>816</b>
<b>Exports, Middle Distillate Fuel Oil<sup>4</sup></b>				
France	70	69	69	70
Germany	223	251	203	226
Netherlands	497	421	464	460
<b>Total</b>				<b>756</b>

Although EIA does not report statistics on gasoil or middle distillate fuel stocks in Europe, PJK International provides data on stocks of gasoil in the ARA region from January 2008 through June 2010. The data in Table II below are in monthly average format from PJK's weekly publication, which is published by Bloomberg. Stocks fluctuate from month to month, ranging from 1.1 million metric tons (or approximately 8.5 million barrels) to over 3 million metric tons (or 22 million barrels) using the conversion factor of 7.45 metric tons per barrel. The fluctuating levels of stocks are one of the main reasons that market participants can utilize calendar spread options to hedge their price risk associated with inventory levels.

**Table II. Gasoil ARA-Region Stocks (Source: PJK International)**

Month	ARA Stocks in thousands of tonnes <sup>5</sup>	Stocks in Million Barrels
January-08	1,373	10.23
February-08	1,244	9.27
March-08	1,236	9.21
April-08	1,218	9.08
May-08	1,147	8.54
June-08	1,326	9.88

<sup>3</sup> EIA Import Data,  
<http://tonto.eia.doe.gov/cfapps/ipdbproject/iedindex3.cfm?tid=5&pid=65&aid=3&cid=r3.&syid=2006&eyid=2008&unit=TBD>

<sup>4</sup> EIA Export Data,  
<http://tonto.eia.doe.gov/cfapps/ipdbproject/iedindex3.cfm?tid=5&pid=65&aid=4&cid=r3.&syid=2006&eyid=2008&unit=TBD>

<sup>5</sup> Gasoil ARA stocks data provided by PJK international b.v. on Bloomberg with function code PJKI

Month	ARA Stocks in thousands of tonnes <sup>6</sup>	Stocks in Million Barrels
July-08	1,583	11.79
August-08	1,885	14.04
September-08	2,016	15.02
October-08	1,895	14.11
November-08	1,641	12.22
December-08	1,968	14.66
January-09	2,453	18.27
February-09	2,178	16.23
March-09	2,257	16.82
April-09	2,328	17.34
May-09	2,592	19.31
June-09	2,642	19.68
July-09	2,713	20.21
August-09	2,875	21.42
September-09	3,006	22.39
October-09	2,773	20.66
November-09	2,707	20.17
December-09	2,770	20.64
January-10	2,764	20.59
February-10	2,638	19.65
March-10	2,279	16.98
April-10	2,176	16.21
May-10	2,534	18.88
June-10	2,415	17.99

Calendar spread options have developed in the petroleum industry as an important tool for hedging inventories of petroleum products. Petroleum producers, gatherers, and marketers will produce or buy the product and store it until it can be resold on the spot market. The time lag in between the date of storage and its sale to end-user consumers entails price risk. For this reason, calendar spread options have developed to hedge the price difference between two calendar months, as seasonal swings, supply and demand imbalances, and storage costs can vary from one month to the next. Consequently, the proposed options entail an exercise algorithm which involves buying (selling) a prompt month product and simultaneously selling (buying) a deferred month at a predetermined strike price. Table III below provides

<sup>6</sup> Gasoil ARA stocks data provided by PJK international b.v. on Bloomberg with function code PJKI

monthly average spread calculations – the average spreads (1<sup>st</sup> nearby – 2<sup>nd</sup> nearby) between the 1<sup>st</sup> and 2<sup>nd</sup> Gasoil futures contract months – for the periods beginning January 2007 through May 2010. The price swings in these spreads indicate that commercial entities accrue a great deal of price risk in the inventory accumulations. Spreads can move substantially from positive to negative values over very short time periods. Negative spreads tend to coincide with periods of low demand relative to supply, while positive spreads are indicative of potential shortfalls in supply relative to demand.

**Table III**

	<b>Monthly Average Spread<sup>7</sup></b>
<b>Date</b>	<b>1st-2nd Nearby</b>
Jan-07	-\$4.05
Feb-07	-\$2.76
Mar-07	-\$3.22
Apr-07	-\$3.19
May-07	-\$3.33
Jun-07	-\$3.42
Jul-07	-\$3.78
Aug-07	-\$1.98
Sep-07	\$1.61
Oct-07	-\$2.08
Nov-07	\$6.72
Dec-07	\$5.59
Jan-08	\$8.89
Feb-08	\$16.62
Mar-08	\$19.23
Apr-08	\$14.90
May-08	\$7.10
Jun-08	-\$1.20
Jul-08	-\$7.11
Aug-08	-\$6.31
Sep-08	\$0.19
Oct-08	\$4.27
Nov-08	-\$2.13
Dec-08	-\$10.06
Jan-09	-\$5.21
Feb-09	-\$6.40

<sup>7</sup> ICE Gasoil Futures front vs. second month price differential. Data source: Bloomberg

Date	1st-2nd Nearby
Mar-09	-\$7.80
Apr-09	-\$8.14
May-09	-\$9.17
Jun-09	-\$12.22
Jul-09	-\$7.50
Aug-09	-\$6.55
Sep-09	-\$7.08
Oct-09	-\$7.90
Nov-09	-\$9.56
Dec-09	-\$8.09
Jan-10	-\$6.73
Feb-10	-\$6.65
Mar-10	-\$0.13
Apr-10	-\$2.04
May-10	-\$3.63

For Gasoil, which is primarily used as a heating fuel in Europe, storage is an important economic necessity. With the fluctuations in temperatures that are difficult to forecast with accuracy, commercial entities rely on storage facilities in order to even out temporary imbalances between supply and demand. The proposed calendar spread options have developed into an important hedging tool to protect against the price swings while the product is in storage. For example, a sharp drop in winter temperatures may lead to a sharp rise in physical Gasoil prices but if seen as temporary will not necessarily lead to proportional price increases in price of deferred futures months. By simultaneously exercising into a long and short position, the calendar spread option replicates this commercial risk.

#### **PRICE SOURCE**

The Exchange does not have an information sharing agreement with the Intercontinental Exchange ("ICE"). While the Exchange intends for the proposed option to exercise into the NYMEX Division European Gasoil Bullet Swap Futures (code: BG) contract, this futures contract is financially settled based on the ICE Gasoil Futures contract. The ICE Gasoil Futures contract is regulated by the U.K. Financial Services Authority ("FSA"). Based on our discussions with market participants, we believe that there are hundreds of active participants in the ICE futures market and that its prices are determined competitively. Since the CFTC has reviewed the FSA regulatory structure and determined it to be



comparable to that of the CFTC, we feel justified in placing confidence in the disseminated settlement price.

### **OTC FORWARD MARKET**

There is active trading in forward cash deals and in the OTC swaps market. While no published data exists for the OTC Gasoil market, it is possible to estimate OTC volumes based upon aggregate survey data published by the Bank for International Settlements (BIS). According to the BIS survey data, the exchange-traded futures notional value is approximately 40% of the OTC forwards and swap market notional value. The BIS surveys the aggregate commodity OTC data by large dealer banks. This 40% factor, when applied to Gasoil futures trading, allows the OTC forward market to be approximated at 300,000 to 350,000 calendar spread option contract-equivalents per day. The bid/ask spread on the forwards and swaps OTC markets have been quoted at around \$2.00/metric ton by such data vendors as Bloomberg.

### **FUTURES MARKET**

Both Gasoil futures and options are actively traded, especially on ICE Europe. As the below Table IV illustrates, , futures volumes achieved a record 35 million contracts traded in 2009, which is equivalent to nearly 140,000 contracts per day while options have traded at approximately 875 contracts per day in 2009.

**Table IV. ICE Gasoil Futures and Options Monthly Volume Traded**

Date	ICE Gasoil <sup>8</sup>	
	Futures Volume	Option Volume
Jan-07	2,115,816	11,590
Feb-07	1,630,335	9,256
Mar-07	1,887,895	14,286
Apr-07	1,611,447	9,419
May-07	1,889,000	17,367
Jun-07	1,833,481	13,331
Jul-07	2,028,517	14,835
Aug-07	2,277,876	22,235
Sep-07	2,300,489	21,615

<sup>8</sup> ICE Gasoil Futures and Option volume from Bloomberg

Date	Futures Volume	Option Volume
Oct-07	2,580,530	12,035
Nov-07	2,501,179	13,388
Dec-07	1,796,308	5,423
<b>2007 Total</b>	<b>24,452,873</b>	<b>164,780</b>
Jan-08	2,530,541	8,384
Feb-08	2,465,601	21,548
Mar-08	2,239,607	9,481
Apr-08	2,094,942	7,201
May-08	2,127,697	10,224
Jun-08	2,188,166	5,572
Jul-08	2,415,859	8,333
Aug-08	2,159,378	6,617
Sep-08	2,997,149	17,588
Oct-08	2,865,178	28,629
Nov-08	2,092,480	33,255
Dec-08	2,491,198	25,712
<b>2008 Total</b>	<b>28,667,796</b>	<b>182,544</b>
Jan-09	3,058,836	24,101
Feb-09	2,246,038	9,417
Mar-09	2,829,095	19,199
Apr-09	2,407,514	5,820
May-09	2,802,738	12,965
Jun-09	3,122,102	22,337
Jul-09	3,541,946	20,232
Aug-09	2,591,694	22,267
Sep-09	3,209,424	21,500
Oct-09	3,298,178	31,565
Nov-09	3,323,780	13,826
Dec-09	2,877,198	16,004
<b>2009 Total</b>	<b>35,308,543</b>	<b>219,233</b>
Jan-10	3,690,429	4,624
Feb-10	4,022,880	22,174
Mar-10	4,999,787	20,639
Apr-10	3,795,140	21,170

The ICE Gasoil Futures contract, which is the benchmark for pricing European middle distillate fuels, is based on physical delivery of gasoil in the ARA market. Table V below presents open interest data of ICE Gasoil Futures for periods January 2007 through May 2010.

Table V. ICE Gasoil Futures Open Interest

Date	ICE Gasoil Futures Open Interest <sup>9</sup>
Jan-07	338,605
Feb-07	307,118
Mar-07	336,785
Apr-07	338,163
May-07	328,027
Jun-07	334,075
Jul-07	338,850
Aug-07	337,956
Sep-07	369,725
Oct-07	328,926
Nov-07	301,715
Dec-07	276,039
Jan-08	268,425
Feb-08	293,275
Mar-08	253,689
Apr-08	287,986
May-08	284,830
Jun-08	308,955
Jul-08	323,132
Aug-08	338,655
Sep-08	345,468
Oct-08	352,164
Nov-08	365,832
Dec-08	410,060
Jan-09	460,084
Feb-09	431,051
Mar-09	470,705
Apr-09	469,982
May-09	522,240
Jun-09	501,292
Jul-09	516,538
Aug-09	531,412
Sep-09	571,500
Oct-09	588,822
Nov-09	539,798
Dec-09	544,533

<sup>9</sup> ICE Gasoil Futures open interest acquired through Bloomberg

Date	ICE Gasoil Futures Open Interest <sup>10</sup>
Jan-10	625,930
Feb-10	613,152
Mar-10	587,083
Apr-10	582,655
May-10	559,691

Table VI below provides the end-of-month price of front month ICE Gasoil Futures for the last 36 months.

**TABLE VI. ICE Gasoil Futures Settlement Price (End of Month)**

Date	ICE Gasoil Futures Price <sup>11</sup>
Jun-07	626.00
Jul-07	654.75
Aug-07	641.25
Sep-07	712.50
Oct-07	787.00
Nov-07	792.75
Dec-07	839.25
Jan-08	797.00
Feb-08	915.00
Mar-08	969.00
Apr-08	1073.25
May-08	1187.75
Jun-08	1262.50
Jul-08	1127.75
Aug-08	1030.25
Sep-08	914.50
Oct-08	636.50
Nov-08	525.50
Dec-08	418.50
Jan-09	449.50
Feb-09	386.50
Mar-09	420
Apr-09	428
May-09	523

<sup>10</sup> ICE Gasoil Futures open interest acquired through Bloomberg

<sup>11</sup> ICE Gasoil Futures front month price from Bloomberg

Date	ICE Gasoil Futures Price <sup>12</sup>
Jun-09	557
Jul-09	570.5
Aug-09	562.75
Sep-09	552
Oct-09	624.75
Nov-09	614.25
Dec-09	635.5
Jan-10	586.5
Feb-10	628.75
Mar-10	683.75
Apr-10	731.75
May-10	637.75

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<sup>12</sup> ICE Gasoil Futures front month price from Bloomberg

## ANALYSIS OF DELIVERABLE SUPPLY

In its analysis of deliverable supply, the Exchange focused on the production and net imports of gasoil in the ARA market. Using data provided by the Energy Information Agency (EIA) in Table I above, production volume amounts to over 2 million barrels per day, and net imports are approximately 60,000 barrels per day. The total monthly deliverable supply of gasoil in the ARA market based on production and net imports is approximately 65 million barrels. Using a conversion factor of 7.45 barrels per metric ton, the total monthly deliverable supply of gasoil in the ARA market, based on production and net imports, is approximately 8.7 million metric tons per month or 8,700 option contract-equivalents.

Please note that the Exchange is not including gasoil stocks data in its analysis of the monthly deliverable supply estimate due to the variability of the stocks. In addition, the Exchange prefers not to adjust the deliverable supply estimate based on the spot availability of gasoil, because spot market liquidity is not restrictive, and tends to vary depending on the market fundamentals of demand and supply. In addition, the spot trading volume is an estimate of reported transactions that are conducted by market participants where many transactions are conducted confidentially, as there is no requirement to report such transactions. Also, the spot trading of gasoil is not restricted and can increase if the market demand increases. As a market matures, the spot trading volume tends to increase. Therefore, the Exchange believes 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.

The Exchange therefore proposes to aggregate positions of the European Gasoil Calendar Spread Option contract into its underlying European Gasoil Bullet Swap Futures contract (commodity code BG). The speculative position limits for this contract are 1,000 contracts for the spot delivery month, which is less than 12% of the monthly deliverable supply of approximately 8,700 option contract-equivalents.

## MARKET PARTICIPANTS

The market participation in the European gasoil market is diverse. The European cash market and OTC market participants include 30 to 40 commercial companies with whom the Exchange maintains contact. The Exchange maintains a working relationship with all of the brokers listed below, and has through face to face meetings and conferences dialogued with the commercial entities listed below. A partial listing is as follows:

<u>Refiners</u>	<u>Traders/End Users</u>	<u>Brokers</u>	<u>Financial (Swaps)</u>
ConocoPhillips	Hess Energy Trading	GFI Starsupply	Citibank
Valero	Vitol	PVM	Deutsche Bank
Shell	Glencore	Man Financial	Barclays
ExxonMobil	Arcadia	ICAP	BankAmerica
BP	Northville	Aspen Oil	
Total	Cargill	Prebon	
OMV	Morgan Stanley	TFS	
Repsol	Goldman Sachs	Amerex	
CEPSA	Koch		
Netherlands Refining	Mabanaft		
AGIP (Italy)	Phibro		
	Arcadia		
	Mercuria		
	Sempra		
	Trafigura		