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OFFICE OF THE SECRETARIAT
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July 27, 2010

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. Submission # 10-207:
Notification Regarding the Listing of Options on Palladium Futures for Trading on
the NYMEX Trading Floor and for Clearing through CME ClearPort®**

Dear Mr. Stawick:

The New York Mercantile Exchange, Inc. ("NYMEX" or the "Exchange") is notifying the Commodity Futures Trading Commission ("CFTC" or "Commission") that it is self-certifying the listing of options on its Palladium Futures contract for trading on the NYMEX trading floor and for clearing through CME ClearPort. The option contract will be listed on the Exchange effective Sunday, August 8, 2010 for trade date Monday, August 9, 2010.

The Palladium Option contract (commodity code "PAO") and its governing rules are found under Chapter 119.

The Palladium Option contract specifications are summarized in the table below.

Palladium Option	
Contract Symbol	PAO
Contract Size	One NYMEX Palladium Futures contract
Price Quotation	U.S. Dollars and cents
Option Style	American
Minimum Price Fluctuation	\$0.01 per Troy Ounce
Trading Months	The nearest three consecutive calendar contract months, plus the next two months of the quarterly cycle of March, June, September, and December
Expiration of Trading	Expiration occurs at the close of trading on the third Wednesday of the month preceding the option contract month. In the event that such business day precedes an Exchange holiday, the expiration date shall be the preceding business day.
Strike Prices	Strike prices shall be for all months at an interval of \$1.00
Settlement Type	Physical

The first listed month for the Palladium Option contract shall be the October 2010 contract month.

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 contract complies with the Act, including regulations under the Act.

Should you have any questions concerning the above, please contact Robert Levin at (212) 299-2390 or the undersigned at (212) 299-2207.

Sincerely,

/s/ Brian Regan
Managing Director and Regulatory Counsel

Attachments: Contract terms and conditions
Market Information and Analysis of Deliverable Supply

8376

Chapter 119 Palladium Option

119.01 EXPIRATION

A Palladium Option on the Exchange shall expire at the close of trading on the third Wednesday of the month preceding the option contract month. In the event that such business day is an Exchange holiday, the expiration date shall be the preceding business day. The expiration date shall be announced prior to the listing of the option contract. In the event that the official Exchange holiday schedule changes subsequent to the listing of a Palladium Option, the originally listed expiration date shall remain in effect. In the event the originally listed expiration day is declared a holiday, expiration will move to the business day immediately prior.

119.02 TRADING UNIT

A Palladium put or call option contract traded on the Exchange represents an option to assume a short or long position in the underlying futures contract traded on the Exchange, at the strike price.

119.03 TRADING MONTHS

(A) Trading in Palladium Options shall be conducted in the months as shall be determined by the Exchange.

(B) For each Palladium Option month traded on the Exchange, the underlying Palladium Futures contract month shall be the March, June, September or December Palladium Futures contract, determined as follows:

<u>Option Contract Months Traded</u>	<u>Exercise into Underlying Futures</u>
October, November, December	December Futures
January, February, March	March Futures
April, May, June	June Futures
July, August, September	September Futures

119.04 TRADING HOURS

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[®] 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.

119.05 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 previous day's settlement price of Palladium Futures contracts in the corresponding delivery month rounded off to the nearest one dollar strike price, unless such settlement price is precisely midway between two strike prices in which case it shall be rounded off to the lower strike price and (ii) the five one-dollar increment strike prices which are five increments higher than the strike price described this Rule 119.05(A) and (iii) the five one-dollar increment strike prices which are five increments lower than the strike price described in this Rule 119.05(A)

(B) Thereafter, on any business day prior to the expiration of the option, (i) new consecutive strike prices for both puts and calls will be added such that at all times there will be at least five one-dollar strike prices above and below the at-the-money strike price available for trading.

(C) Notwithstanding the provisions of subsections (A) and (B) of this Rule, if the Exchange determines that trading in Palladium 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 Palladium Option contract in which no new strike prices may be introduced.

119.06

PRICES

Prices shall be quoted in dollars and cents per ounce. The minimum price increment will be \$0.01 per ounce, or \$1 per contract.

119.07

ABSENCE OF PRICE FLUCTUATION LIMITATIONS

Trading in Palladium Option contracts shall not be subject to price fluctuation limitations.

PALLADIUM FUTURES CONTRACT

Volume and Open Interest

The NYMEX Palladium Futures contract (also referred to as the Palladium Futures contract) began trading on January 22, 1968. Over the past ten years, trading volume in Palladium Futures has significantly increasing. In 2009, its annual volume was nearly eight times the volume reported for 2000. Through the first six months of 2010, volume has reached 88% of the record annual volume for Palladium Futures recorded in 2008. In the first half of this year, volume has increased by 162% compared to the first half of 2009. In May 2010, Palladium Futures reached a record monthly volume of 134,435 contracts and on May 12, 2010, it reached a record open interest of 25,309 contracts.

Table 1 below provides monthly volume for Palladium Futures for the period beginning January 2000 through June 2010.

Table 1. NYMEX Palladium Futures Monthly Volume

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
JAN	4,584	2,171	1,275	4,200	17,093	7,728	28,447	23,636	26,954	14,284	48,438
FEB	13,976	6,090	3,372	7,266	41,036	43,268	59,279	62,815	105,845	41,726	90,368
MAR	2,803	1,397	1,538	3,256	20,508	16,979	32,573	14,987	49,411	14,509	48,314
APR	1,833	1,121	1,527	3,971	30,214	13,316	23,135	25,166	24,750	17,332	58,104
MAY	7,034	3,325	6,126	8,420	27,343	46,112	64,863	69,089	66,939	51,635	134,435
JUN	2,622	1,013	2,166	3,430	11,433	13,594	25,857	16,322	18,934	23,403	45,840
JUL	3,120	1,173	2,154	4,221	7,606	17,185	13,464	15,072	26,245	25,689	
AUG	5,169	3,221	8,971	15,645	28,895	49,268	41,123	65,106	53,692	57,502	
SEP	2,523	523	1,452	8,152	10,690	17,747	16,222	16,975	25,253	25,393	
OCT	2,460	1,255	1,710	7,587	15,036	21,680	14,351	26,385	28,627	26,441	
NOV	3,041	3,261	8,118	18,323	41,269	50,643	47,797	52,411	43,879	71,228	
DEC	1,601	1,375	2,644	11,142	16,429	24,403	11,005	13,029	13,299	28,719	
Total	50,766	25,925	41,053	95,613	267,552	321,923	378,116	400,993	483,828	397,861	425,499

Table 2 below provides month-end open interest for Palladium Futures for the period beginning January 2005 through June 2010.

Table 2. NYMEX Palladium Futures Month-End Open Interest

Jan-05	7,933	Jan-07	15,512	Jan-09	12,653
Feb-05	13,824	Feb-07	17,120	Feb-09	11,541
Mar-05	12,763	Mar-07	15,761	Mar-09	13,174
Apr-05	13,523	Apr-07	19,945	Apr-09	13,921
May-05	13,212	May-07	18,296	May-09	15,562
Jun-05	11,180	Jun-07	17,511	Jun-09	16,444
Jul-05	9,734	Jul-07	18,623	Jul-09	18,822
Aug-05	13,300	Aug-07	16,280	Aug-09	22,275
Sep-05	13,275	Sep-07	16,047	Sep-09	20,522
Oct-05	14,624	Oct-07	16,647	Oct-09	22,241
Nov-05	14,934	Nov-07	14,864	Nov-09	23,801
Dec-05	14,063	Dec-07	15,978	Dec-09	22,615
Jan-06	15,939	Jan-08	21,103	Jan-10	23,070
Feb-06	16,905	Feb-08	21,829	Feb-10	21,801
Mar-06	16,018	Mar-08	19,289	Mar-10	23,287
Apr-06	16,899	Apr-08	19,212	Apr-10	24,440
May-06	17,204	May-08	17,641	May-10	21,566
Jun-06	13,400	Jun-08	17,294	Jun-10	20,475
Jul-06	14,109	Jul-08	13,774		
Aug-06	11,468	Aug-08	13,456		
Sep-06	11,127	Sep-08	14,933		
Oct-06	12,707	Oct-08	13,532		
Nov-06	11,717	Nov-08	13,247		
Dec-06	11,867	Dec-08	12,006		

Prices

Prices for the NYMEX Palladium Futures contract in 2010 have risen significantly compared to the past two years, increasing 33% over 2008 and 77% over 2009. Table 3 below provides the average monthly nearby settlement price for the period beginning July 2007 through June 2010.

Table 3. NYMEX Palladium Futures Average Monthly Nearby Settlement Price

Jul-07	369.90	Jan-08	381.61	Jul-08	425.08	Jan-09	189.86	Jul-09	251.32	Jan-10	432.74
Aug-07	344.80	Feb-08	478.47	Aug-08	311.26	Feb-09	207.29	Aug-09	279.81	Feb-10	426.56
Sep-07	337.14	Mar-08	491.13	Sep-08	245.99	Mar-09	205.05	Sep-09	296.57	Mar-10	464.09
Oct-07	370.88	Apr-08	453.69	Oct-08	191.82	Apr-09	229.19	Oct-09	324.54	Apr-10	535.84
Nov-07	366.10	May-08	439.91	Nov-08	207.02	May-09	231.25	Nov-09	353.39	May-10	492.76
Dec-07	355.23	Jun-08	451.59	Dec-08	177.61	Jun-09	247.76	Dec-09	376.28	Jun-10	463.08

CASH MARKET OVERVIEW

Palladium is a rare precious metal and, along with Platinum, is a major metal of the Platinum Group Metals (PGMs). The physical and chemical properties of Palladium are of essential use for various industrial applications. Of its applications including jewelry, electronics, dental, and chemicals, the most significant demand comes from the auto catalyst industry, the largest and fastest growing sector. Sources of palladium production are quite scarce. In fact, more than 90% of world palladium production is concentrated in just two countries: the Russian Federation and South Africa. The Russian Federation alone accounts for more than two thirds of total palladium supply. In 2009, newly refined supply and fabrication demand were in close balance resulting in a slim gross deficit. In 2009, the supply of Palladium decreased by 3% mainly as a result of lower recycling. On the demand side, Palladium suffered an 11% decline mostly due to a fall in the auto catalyst sector and decrease in global vehicle production. In 2009, the area of increasing demand however came from the retail investment sector on a background of weak stock markets and long-term inflation concerns.

Table 4 below provides the total supply of palladium from mining production, auto catalyst scrap and old jewelry scrap for the periods of 2004 through 2009.

Table 4. Palladium Supply 2004-2009 (000's of ounces)

	2004	2005	2006	2007	2008	2009
Total Mine Production	6630	6953	7355	7050	6379	6307
Total Auto Catalyst Scrap	486	626	744	951	1184	1067
Total Old Jewelry Scrap	74	103	235	185	194	122
Total Supply	7190	7682	8334	8186	7756	7497

Source: GFMS "Platinum and Palladium Survey 2010"

Table 5 below provides the total demand for palladium for the periods of 2004 through 2009.

Table 5. Palladium Demand 2004-2009 (000's of ounces)

	2004	2005	2006	2007	2008	2009
Total Auto Catalyst Demand	4073	4034	4427	4788	4547	3911
Total Jewelry Demand	1022	1363	1281	1281	1296	1150
Total Dental Demand	719	592	587	639	653	646
Total Chemical Demand	297	326	421	412	380	315
Total Electronics Demand	1066	1121	1219	1275	1347	1240
Total Retail Investment	100	238	107	20	94	170
Other	90	95	95	95	91	76
Total Demand	7367	7769	8136	8511	8408	7509

Source: GFMS "Platinum and Palladium Survey 2010"

Source: GFMS, Platinum & Palladium Survey 2010

GFMS, *Gold Field Mineral Services*, is an independent precious metals consultancy specializing in research in the global gold, silver, platinum and palladium markets. GFMS, which was established in 1989, is based in London with representatives located in Australia, India, China, Germany, France, Spain and Russia. Its research team is comprised of fifteen analysts, economists and geologists. GFMS produces authoritative assessments of the global supply and demand for precious metals and publishes the evaluations in the "Gold Survey", "World Silver Survey" and the "Platinum and Palladium Survey". These surveys feature in-depth analysis of individual markets as well as historical statistics on production, recycling, trading, fabrication, and consumption. GFMS is an associate member of the London Bullion Market Association (LBMA).

ANALYSIS OF DELIVERABLE SUPPLY

According to Gold Field Mineral Services (GFMS), the average total deliverable supply for years 2004 through 2009 was approximately 7.7 million ounces of Palladium per year, which represents approximately 77,000 contract equivalents per year or approximately 6,417 contract equivalents per month (futures contract size: 100 ounces). In 2009, according to GFMS, the total deliverable supply was approximately 7.5 million ounces of Palladium which represents approximately 75,000 contract equivalents per year or approximately 6,250 contract equivalents per month.

The Exchange has determined to set spot month position limits at 650 contract units, which is approximately 10.1% of the average monthly deliverable supply of Palladium for years 2004 through 2009 or 10.4% of the monthly deliverable supply of Palladium for 2009.

Palladium Market Participants:

Refiners: BASF
DeGussa AG
Heraeus

Trading Companies: International Assets
Mitsui & Co.
Mitsubishi Corporation
First New York Securities
Sumitomo Corporation

Hedge Funds: ARCIM
Flintlock Capital
Moore Capital
Dicken Commodities
Clive Capital

Banks: HSBC
JP Morgan
Standard Bank
Deutsche Bank
Credit Suisse
UBS
Barclays Capital

ETFs: Susquehanna Capital Group

Physical Palladium Market Participants:

Global automobile industry
Chemical companies
Electronic companies
Jewelry industry
Dental industry