



September 2, 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

**Re: Rule Certification. New York Mercantile Exchange, Inc. Submission #11-303: Notification Regarding the Listing of China Coal (IHS McCloskey/Xinhua Infolink South China CFR Marker 5,500kc NAR) Swap Futures Contract 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 China Coal (IHS McCloskey/Xinhua Infolink South China CFR Marker 5,500kc NAR) Swap futures (Chapter 1121) for open outcry trading and for submission for clearing through CME ClearPort beginning at 6:00 p.m. on Sunday, September 11, 2011 for trade date Monday, September 12, 2011.

The product specifications are as follows:

- **Commodity Code:** CMC
- **Settlement Type:** Financial
- **First Listed Month:** October 2011
- **Listing Period:** Current year plus next full calendar year - up to 24 months. A new calendar year will be added following the termination of trading in the December contract month of the current year.
- **Contract Size:** 1,000 metric tons
- **Termination of Trading:** The contract shall terminate at the close of trading on the last Friday of the contract month. If such Friday is a UK holiday, the contract will terminate on the UK business day immediately prior to the last Friday of the contract month.
- **Minimum Price Fluctuation:** \$0.05 (5¢) per metric ton
- **Final Settlement Price:** Settlement tick = \$0.01
- **Fee Schedule:**

Exchange Fees					
	Member Day	Member	Cross Division	Non-Member	IIP
Pit	n/a	\$5.00	\$6.00	\$7.00	
Globex	n/a	n/a	n/a	n/a	n/a
ClearPort		\$5.00		\$7.00	

Processing Fees			Additional Fees and Surcharges	
	Member	Non-Member	EFS Surcharge	\$0.00
Cash Settlement	\$1.00	\$1.00	Block Surcharge	\$0.00
Futures from E/A	n/a	n/a	Facilitation Desk Fee	\$0.20
	House Acct	Cust Acct		
Options E/A Notice	n/a	n/a		
Delivery Notice	n/a	n/a		

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.

The Exchange is also notifying the CFTC that it is self-certifying the insertion of the terms and conditions for the China Coal (IHS McCloskey/Xinhua Infolink South China CFR Marker 5,500kc NAR) Swap futures contract into 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 in relation to the listing of the new China Coal (IHS McCloskey/Xinhua Infolink South China CFR Marker 5,500kc NAR) Swap futures contract. These terms and conditions establish the all month/any one month accountability levels, expiration month position limit, reportable level, and aggregation allocation for the new contract.

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. There were no substantive opposing views to the proposal. This contract will become effective on trade date September 12, 2011.

Should you have any questions concerning the above, please contact Owain Johnson, +65 6593 5568, or [owain.johnson@cmegroup.com](mailto:owain.johnson@cmegroup.com). Alternatively, you may contact the undersigned at (212) 299-2207, (347) 463-5347 or [Felix.Khalatnikov@cmegroup.com](mailto:Felix.Khalatnikov@cmegroup.com). Please reference NYMEX Submission 11-303 in any related correspondence.

Sincerely,

/s/Felix Khalatnikov  
Dir & Assoc General Counsel

Attachments: Appendix A: Rule Chapter  
Appendix B: Chapter 5 Table  
Appendix C: Cash Market Overview and Analysis of Deliverable Supply

**Chapter 1121**  
**China Coal (IHS McCloskey/Xinhua Infolink South China CFR Marker 5,500kc NAR) Swap Futures**

**1121100. SCOPE OF CHAPTER**

The provisions of these rules shall apply to all futures contracts bought or sold on the Exchange for cash settlement based on the Floating Price. The procedures for trading, clearing and cash settlement of this contract, and any other matters not specifically covered herein shall be governed by the general rules of the Exchange.

**1121101. CONTRACT SPECIFICATIONS**

The Floating Price for each contract month is equal to the arithmetic mean of all available price assessments for the corresponding month for South China CFR Marker 5,500kc NAR as published each Friday in the McCloskey Coalfax in the table entitled "McCloskey Key Market Prices".

**1121102. TRADING SPECIFICATIONS**

The number of months open for trading at a given time shall be determined by the Exchange.

**1121102.A. Trading Schedule**

The hours of trading for this contract shall be determined by the Exchange.

**1121102.B. Trading Unit**

The contract quantity shall be one thousand (1,000) metric tons. Each contract shall be valued as the contract quantity (1,000) multiplied by the settlement price.

**1121102.C. Price Increments**

Prices shall be quoted in U.S. dollars and cents per ton. The minimum price fluctuation shall be \$0.05 (5¢) per metric ton. The minimum final settlement is \$0.01 per metric ton.

**1121102.D. Position Limits and Position Accountability**

In accordance with Rule 559, no person shall own or control positions in excess of 1,500 contracts net long or net short in the spot month.

In accordance with Rule 560:

1. the all-months accountability level shall be 6,000 contracts net long or net short in all months combined;
2. the any-one month accountability level shall be 4,500 contracts net long or net short in any single contract month excluding the spot month.

Refer to Rule 559 for requirements concerning the aggregation of positions and allowable exemptions from the specified position limits.

**1121102.E. Termination of Trading**

The contract shall terminate at the close of trading on the last Friday of the contract month. If such Friday is a UK holiday, the contract will terminate on the UK business day immediately prior to the last Friday of the contract month unless such day is not an Exchange business day, in which case the contract shall terminate on the Exchange business day immediately prior.

**1121103. FINAL SETTLEMENT**

Final settlement 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.

**1121104. DISCLAIMER**

The China Coal (IHS McCloskey/Xinhua Infolink South China CFR Marker 5,500kc NAR) Swap futures is not sponsored, endorsed, sold or promoted by IHS. IHS makes no representation or warranty, express or implied, to the owners of the China Coal (IHS McCloskey/Xinhua Infolink South China CFR Marker 5,500kc NAR) Swap futures or any member of the public regarding the advisability of trading in the China Coal (IHS McCloskey/Xinhua Infolink South China CFR Marker 5,500kc NAR) Swap futures. IHS' only relationship to Chicago Mercantile Exchange Inc. and New York Mercantile Exchange, Inc. (together "CME") with respect to the China Coal (IHS McCloskey/Xinhua Infolink South China CFR Marker 5,500kc NAR) Swap futures is the licensing of certain trademarks and trade names of IHS and of the IHS McCloskey/Xinhua Infolink South China CFR (5,500kc NAR) marker which is determined, composed and calculated by IHS without regard to CME or the China Coal (IHS McCloskey/Xinhua Infolink South China CFR Marker 5,500kc NAR)

Swap futures, IHS have no obligation to take the needs of CME or the owners of the China Coal (IHS McCloskey/Xinhua Infolink South China CFR Marker 5,500kc NAR) Swap futures into consideration in determining, composing or calculating the IHS McCloskey/Xinhua Infolink South China CFR (5,500kc NAR) marker. IHS is not responsible for and has not participated in the determination of the timing of, prices at, or quantities of the China Coal (IHS McCloskey/Xinhua Infolink South China CFR Marker 5,500kc NAR) Swap futures to be listed or in the determination or calculation of the equation by which the China Coal (IHS McCloskey/Xinhua Infolink South China CFR Marker 5,500kc NAR) Swap futures are to be converted into cash. IHS has no obligation or liability in connection with the administration, marketing or trading of the China Coal (IHS McCloskey/Xinhua Infolink South China CFR Marker 5,500kc NAR) Swap futures.

IHS AND CME DO NOT GUARANTEE THE ACCURACY AND/OR THE COMPLETENESS OF THE IHS MCCLOSKEY/XINHUA INFOLINK SOUTH CHINA CFR (5,500KC NAR) MARKER OR ANY DATA RELATED THERETO AND NEITHER, IHS NOR CME SHALL HAVE ANY LIABILITY FOR ANY ERRORS, OMISSIONS, OR INTERRUPTIONS THEREIN. IHS AND CME MAKE NO WARRANTY, EXPRESS OR IMPLIED, AS TO RESULTS TO BE OBTAINED BY CME, OWNERS OF THE CHINA COAL (IHS MCCLOSKEY/XINHUA INFOLINK SOUTH CHINA CFR MARKER 5,500KC NAR) SWAP FUTURES, OR ANY OTHER PERSON OR ENTITY FROM THE USE OF THE IHS MCCLOSKEY/XINHUA INFOLINK SOUTH CHINA CFR (5,500KC NAR) MARKER OR ANY DATA RELATED THERETO. IHS AND CME MAKE NO EXPRESS OR IMPLIED WARRANTIES, AND EXPRESSLY DISCLAIM ALL WARRANTIES, OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE WITH RESPECT TO THE IHS MCCLOSKEY/XINHUA INFOLINK SOUTH CHINA CFR (5,500KC NAR) MARKER OR ANY DATA RELATED THERETO. WITHOUT LIMITING ANY OF THE FOREGOING, IN NO EVENT SHALL IHS OR CME HAVE ANY LIABILITY FOR ANY DAMAGES WHATSOEVER, WHETHER DIRECT OR INDIRECT, INCLUDING WITHOUT LIMITATION, LOST PROFITS OR INDIRECT, PUNITIVE, SPECIAL OR CONSEQUENTIAL DAMAGES (INCLUDING LOST PROFITS), EVEN IF NOTIFIED OF THE POSSIBILITY OF SUCH DAMAGES. THERE ARE NO THIRD PARTY BENEFICIARIES OF ANY AGREEMENTS OR ARRANGEMENTS BETWEEN IHS AND CME.

### **Limitation of Liability**

**Without prejudice to any of the above provisions and in addition to them, each and every third party should and must note that, insofar as New York Mercantile Exchange, Inc. ("NYMEX") may list any index for trading in or in connection or by reference therewith, none of:**

- a. NYMEX;
- b. its directors or officers; or
- c. any relevant party that NYMEX may contract with for the supply of the index or information in relation thereto;

**(each of the foregoing, a "Relevant Party") assume any obligation or liability in connection with the trading of any contract based on such index. Accordingly, no Relevant Party shall be in any way responsible for any losses, expenses or damages (in all cases direct or indirect) arising in connection with or referable to the trading of any contract linked or referable to the said index, provided that nothing herein shall affect either the obligations of NYMEX or its Members as parties trading in any contract so linked or referable. None of the Relevant parties guarantee or warrant or undertake in any manner the accuracy or completeness of any such index or any information or data included in or referable to it.**

NONE OF THE RELEVANT PARTIES MAKE ANY WARRANTY OR GIVES ANY GUARANTEE OR UNDERTAKING, EXPRESS OR IMPLIED, AS TO THE ACCURACY OR COMPLETENESS OF, OR THE RESULTS TO BE OBTAINED BY ANY PERSON OR ENTITY FROM THE USE OF ANY SUCH INDEX, AND PROXY RELATED OR REFERABLE THERETO OR ANY INFORMATION OR DATA INCLUDED IN OR REFERABLE TO IT IN CONNECTION WITH ANY TRADING OR ANY CONTRACTS OR FOR ANY OTHER USE. NONE OF THE RELEVANT PARTIES MAKE ANY EXPRESS OR IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE WITH RESPECT TO ANY SUCH INDEX, ANY RELATED OR REFERABLE THERETO OR ANY INFORMATION OR DATA INCLUDED IN OR REFERABLE TO ANY SUCH INDEX.

## NYMEX RULEBOOK CHAPTER 5 POSITION LIMIT TABLE

(Bold/underline indicates additions)

<u>Contract Name</u>	<u>Rule Chapter</u>	<u>Commodity Code</u>	<u>All Month Accountability Level</u>	<u>Any One Month Accountability Level</u>	<u>Expiration Month Limit</u>	<u>Reporting Level</u>	<u>Aggregate Into (1)</u>
			<u>Rule 560</u>	<u>Rule 560</u>	<u>Rule 559</u>	<u>Rule 561</u>	
<i>Coal</i>							
<u>China Coal (IHS McCloskey/Xinhua Infolink South China CFR Marker 5,500kc NAR) Swap Futures</u>	<u>1121</u>	<u>CMC</u>	<u>6,000</u>	<u>4,500</u>	<u>1,500</u>	<u>25</u>	<u>CMC</u>

## CASH MARKET OVERVIEW

### a) Coal as a traded commodity

Thermal coal, also known as steam coal, is a globally traded commodity. Thermal coal is burned to generate electricity. Coal is usually transported by truck, trains or barges within the domestic markets, but for international trade, dry-bulk vessels are used, primarily handysize, panamax, and capesize vessels. Seaborne trade in steam coal has increased by an average of around 7% per year over the last 10 years<sup>1</sup>.

The two major thermal coal markets are the Atlantic and Pacific markets. In the Atlantic, the main importers are Western European countries, such as the UK, Germany and Spain. In the Pacific market, import demand comes mainly from Japan, China, South Korea and Taiwan. India is also a major importer from both Atlantic and Pacific suppliers.

China is the world's largest producer and consumer of thermal coal and is also one of the world's largest coal importers. Estimates of Chinese imports vary, according to the statistical source, as some estimates will include anthracite along with thermal coal. Imports equaled 92.4 million tons, according to data from the China Customs Service<sup>2</sup>, but the World Coal Institute estimates that imports could have been as high as 129 million tons in 2010<sup>3</sup>.

**Table 1: China's monthly imports of thermal coal (2009-10) (tons, according to China Customs Service)**

Jan-09	1,389,119
Feb-09	1,271,577
Mar-09	1,138,764
Apr-09	2,651,899
May-09	4,015,086
Jun-09	7,568,926
Jul-09	5,349,608
Aug-09	5,135,949
Sep-09	5,986,324
Oct-09	6,358,758
Nov-09	7,281,710
Dec-09	9,607,765
Jan-10	9,395,066

<sup>1</sup> Data from the International Energy agency.

<sup>2</sup> <http://english.customs.gov.cn/publish/portal191/>

<sup>3</sup> The World Coal Institute is a global industry association comprising the major international coal producers and stakeholders (<http://www.worldcoal.org/resources/coal-statistics/>).

Feb-10	8,701,507
Mar-10	9,270,357
Apr-10	7,115,419
May-10	4,801,415
Jun-10	6,247,960
Jul-10	8,010,025
Aug-10	7,163,267
Sep-10	8,884,100
Oct-10	6,406,606
Nov-10	7,628,113
Dec-10	8,861,982

Tables 2 and 3 show the world's most important coal consuming and importing countries:

**Table 2: Top Coal Consumers (2010e) (million tons)**

	Total
China	2,516
USA	733
India	434
Russia	177
Japan	165
South Africa	141
Germany	105

**Source: World Coal Institute**

**Table 3: Top Coal Importers (2010e) (million tons)**

	Total	Thermal	Coking
Japan	187	129	58
PR China	177	129	48
South Korea	119	91	28
India	90	60	50
Taiwan	63	58	5
Germany	46	38	8
Turkey	27	20	7

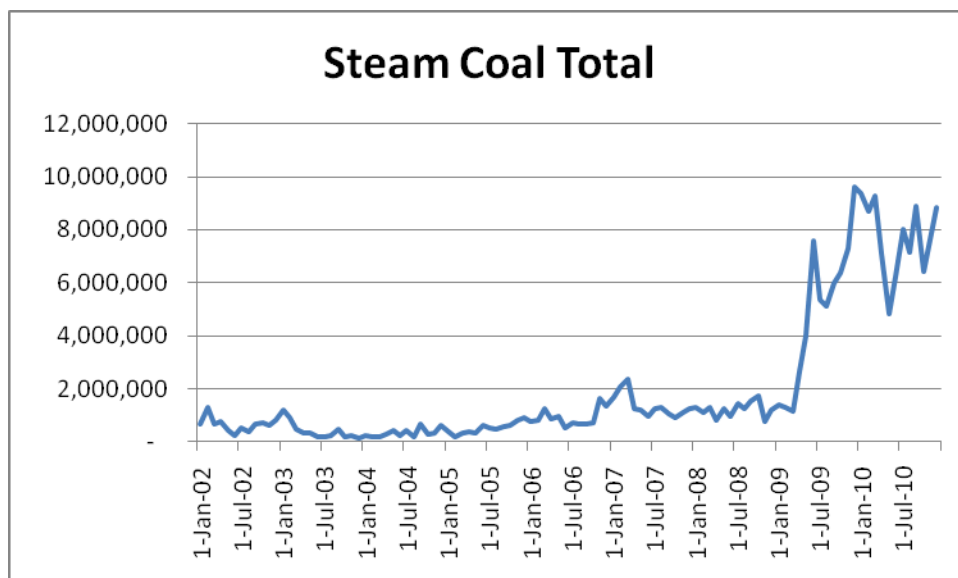
**Source: World Coal Institute<sup>4</sup>**

#### **b) China's role in the world coal market**

Chinese imports have grown extremely strongly in recent years in line with the rapid economic growth experienced in China. China is currently the world's second largest importer of thermal coal.

<sup>4</sup> <http://www.worldcoal.org/resources/coal-statistics/>

**Table 4: Growth of Chinese thermal coal imports (data provided by the China Customs Service).**



Even though China is the world's largest producer of thermal coal, logistical constraints mean that it is sometimes problematic to supply the southern industrialized regions with coal produced in the production heartlands of the north. This ensures that the south of the country often relied on imported material in order to make up any deficit.

Apart from logistical constraints, there is also an economic factor at play. Transporting coal from the north of China to the south can often prove costly, as the distances involved are large and demand is so high. Coal is typically transported from the mine head to the nearest port by rail, then shipped to the south in coastal vessels, or else it is transported all the way by rail. Either way, the logistics of domestic Chinese transportation can often prove more expensive than transporting imported coal to China by sea, as seaborne imports typically move in much larger vessels and thus enjoy economies of scale.

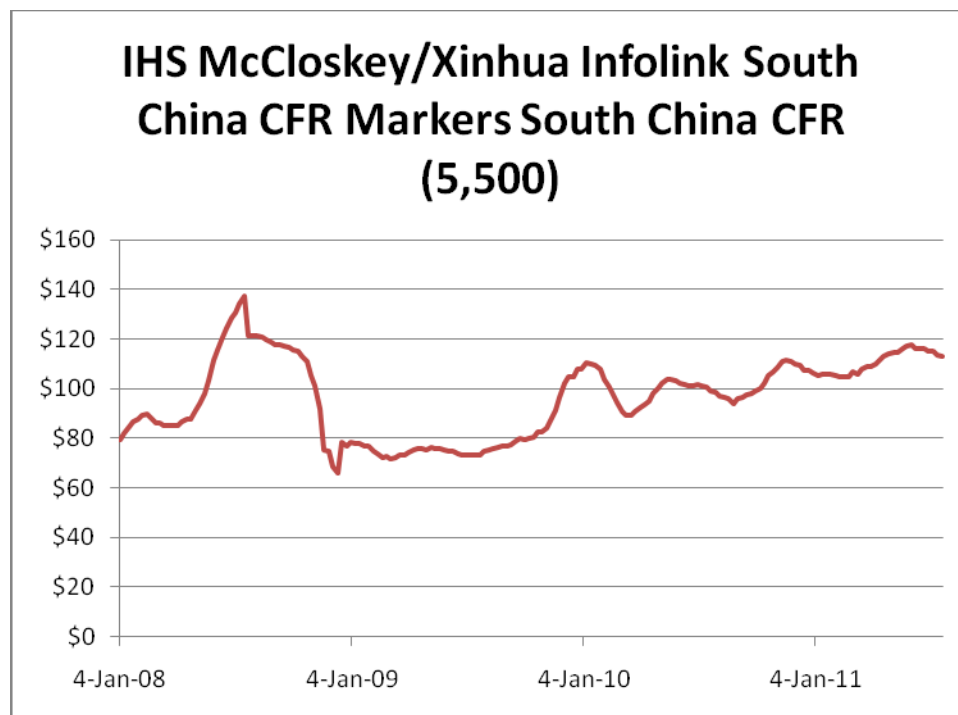
Chinese coal users in the south of the country carefully watch the difference in price between the cost of delivering domestic coal from the north of the country versus the cost of importing coal from countries such as Indonesia, Australia and Russia. When imported coals are at a discount to domestic coal of similar quality, then Chinese imports surge.

Commodity prices in every region have experienced significant volatility in recent years, although Chinese coal prices have proved more stable than most global commodities (see table 5 below). This is a result of the relative price stability of domestic coal prices, which is promoted by the Chinese government.



Nonetheless, prices have proved relatively more volatile than Chinese users had come to expect previously and this has led to a greater focus on risk management. The negative experiences associated with long-term pricing arrangements have also led participants to move towards shorter term and index-linked contracts that correspond more closely with market conditions at the time of delivery.

**Table 5: Historic prices for the China Coal (IHS McCloskey/Xinhua Infolink South China CFR Marker (5,500kc NAR) (US\$ per ton)**



There is now active trade in over-the-counter swaps by participants in the Australian, Indonesian and Chinese coal markets.

The Exchange intends to provide trading and clearing services for swaps and options contracts based on this benchmark. CME Group has license arrangements in place with publishers of the China Coal (IHS McCloskey/Xinhua Infolink South China CFR Marker (5,500kc NAR) benchmark to reference this index for this purpose. Further details on the index follow.

### **c) Existing use of derivatives in the international coal market**

The US and European coal markets have made use of derivatives for risk management for some time, but usage of derivatives is also becoming increasingly widespread in Asia, in part as a response to the fluctuations in price experienced in recent years.

NYMEX currently lists several coal swap futures on its trading floor and through the CME ClearPort platform, most of which have open interest:

**Table 6: List of existing coal swap futures contracts on the NYMEX Trading Floor and CME ClearPort:**

QX	CSX Coal (Platts OTC Broker Index) Swap Futures
QL	Central Appalachian Coal Futures
QP	Powder River Basin Coal (Platts OTC Broker Index) Swap Futures
MTF	Coal (API 2) cif ARA (Argus/McCloskey) Swap Futures
MFF	Coal (API 4) fob Richards Bay (Argus/McCloskey) Swap Futures
MCC	Indonesian Coal (McCloskey sub-bituminous) Swap Futures
MC6	Indonesian Coal (McCloskey sub-bituminous 6,000 kcal basis) Swap Futures

**d) Formation of the China Coal (IHS McCloskey/Xinhua Infolink South China CFR Marker (5,500kc NAR) benchmark**

The China Coal (IHS McCloskey/Xinhua Infolink South China CFR Marker (5,500kc NAR) benchmark is an average of two assessments made independently by two well international price reporting agencies, IHS McCloskey.

The IHS McCloskey/Xinhua Infolink Chinese steam coal markers are constructed using the existing IHS McCloskey Coal Price Methodology. We compile three South China CFR markers and three FOB Qinhuangdao markers which are delineated by typical calorific values in the Chinese markets.

The South China CFR markers assess the most competitive price for both Chinese domestic and imported coal into the region for delivery over the next 90 days, while the FOB Qinhuangdao markers assess the price for material going into the domestic Chinese markets, for loading in the next 90 days.

**e) Methodology for the IHS McCloskey/Xinhua Infolink CFR South China (5,500kc NAR) benchmark**

The South China CFR markers assess the spot price for coal delivered into South China, basis Guangzhou (GZ), from domestic or international origins. The price discovery process factors in both of these related markets and presents the marker on a normalized international coal equivalent.

The domestic coastal trade between north and southern China is around the same volume as the entire international seaborne steam coal market. The attractiveness of international coals to Chinese buyers is largely dependent on domestic CFR prices. The CFR price for domestic coal is currently heavily influenced by Qinhuangdao FOB prices and the appropriate domestic freight rates to GZ. Chinese buyer spot purchases from international origins are generally transacted when international prices, on a CFR basis, are competitive with Chinese domestic coals of a similar quality.

The IHS McCloskey/Xinhua Infolink South China CFR markers assess the price of the marginal spot tonne (the most economic tonne) into this region netted back to an international coal equivalent. Due to this, all prices for international and domestic coal will be calculated minus the appropriate Chinese taxes. In addition, there are various Chinese charges that favor domestic coal – such as port handling fees – over international coal. Consequently, Chinese buyers look to purchase international coal at a discount to ruling domestic prices as they factor in the added costs of taking international material over domestic. This difference is captured in the assessment of which spot coals (imports or domestic) are the most competitive in the South China market.

While it is expected that over time this value will change and possibly eventually disappear, the index provider will constantly monitor this premium and factor it into the South China CFR marker when domestic prices are more economic than international prices.

### **Specifications**

The specifications for the coal being investigated for the South China CFR and Qinhuangdao FOB markers are based on typical coal qualities that feed into the different markets in China, both for domestic and import markets.

These markets are:

- 5,000kc NAR, which will be published as a 4,900kc NAR material in line with the IHS Indonesian Sub-Bituminous FOB marker;
- 5,500kc NAR;
- 5,800kc NAR, published as 6,000kc NAR to normalize to other reported international benchmark coals.

All grades have a maximum sulfur content of 1%.

Imports into South China for assessments purposes are restricted to vessels of no less than 50,000t.

### **The price discovery process**

The markers are evaluated in the same way as the other IHS McCloskey weekly price markers, through a combination of transactions done and a market survey. This approach limits the ability of one party to determine the market through just one or two transactions. The prices for physical deals reported in the CFR South China and FOB Qinhuangdao markets are averaged over the week on a volume/tonnage weighted basis. In addition to tracking physical business, IHS McCloskey and Xinhua Infolink undertake a survey of the participants in the CFR South China and FOB Qinhuangdao markets.

The index provider enters into a detailed exchange with most of the survey participants using the information McCloskey has built up in terms of deals done and bid and offer values over the week. Market participants are asked where they see the market in terms of deals done and bid/offer levels and what value they would mark these markets. The results of the market evaluation survey are then topped and tailed. An arithmetic average is then applied to the results.

The cut off point for trades and survey numbers being accepted for inclusion in the formation of the South China CFR marker and the Qinhuangdao FOB marker is 6:30pm, Singapore time, on Friday. This equates to 11:30am GMT in London (10:30am BST). Deals done after this time will not be included in the weekly marker. In addition, no survey prices will be sought or accepted after this 6:30pm cut off point<sup>5</sup>.

#### **f) About IHS McCloskey**

IHS McCloskey is a leading source of news and analysis on the international coal industry. Known for providing valuable market information and insights, the group's suite of publications, including the McCloskey Coal Report, is recognized globally for accurate and reliable price reporting. Every day, many of the major deals in the international market are executed using McCloskey prices as a reference.

McCloskey prices account for half of the API 2 (cif ARA) and API 4 (fob Richards Bay) international coal price benchmarks, which are the two most widely referenced coal benchmarks for global derivative trade.

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<sup>5</sup> Please see IHS McCloskey methodology handbook for further details:  
[http://cr.mccloskeycoal.com/journals/McCloskey/McCloskeyCR/Issue\\_265\\_-\\_29\\_July\\_2011/attachments/IHS%20McCloskey%20Coal%20marker%20price%20methodology%20and%20specifications%20August%202011.pdf](http://cr.mccloskeycoal.com/journals/McCloskey/McCloskeyCR/Issue_265_-_29_July_2011/attachments/IHS%20McCloskey%20Coal%20marker%20price%20methodology%20and%20specifications%20August%202011.pdf)

McCloskey also hosts a number of highly regarded coal conferences throughout the world, and the consultancy practice continues to advise many of the world's leading producers and consumers on a wide range of issues<sup>6</sup>.

**g) Market Participants**

There is a wide range of participants in the Chinese coal market place. The following table highlights some of the more active participants.

<b>Brokers</b>	<b>Commercial</b>	<b>Banks</b>
Ginga Petroleum	RWE Trading	JP Morgan
Tullett Prebon	Cargill	Deutsche Bank
Spectron	EDF Trading	Morgan Stanley
ICAP	Noble Group	Societe Generale
	Peabody	Goldman Sachs
	Trafigura	
	Vitol	

<sup>6</sup> For more details about IHS McCloskey, please see: <http://www.ihs.com/products/coal-information/>

## ANALYSIS OF DELIVERABLE SUPPLY

### 1. OTC market<sup>7</sup>.

Coal is traded all over the world, with coal shipped huge distances by sea to reach markets. Over the last twenty years, seaborne trade in steam coal has increased significantly in line with the decline in coal production in Europe and the growth of demand in the Asian economies.

Overall international trade in coal reached 938 million tons in 2010; while this is a significant amount of coal it still only accounts for about 13% of total coal produced. Transportation costs account for a large share of the total delivered price of coal, therefore international trade in steam coal is 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 UK, Germany and Spain. The Pacific market consists of developing and OECD Asian importers, notably China, Japan, India, South Korea and Taiwan. The Pacific market currently accounts for about 70% of world steam coal trade. Markets tend to overlap when coal prices are high and supplies plentiful.

### 2. Proposed Position Limits:

The vast majority of coal imports are into southern China, as China has an extremely large domestic coal industry located in the north of the country, which supplies most local demand – China is the largest producer of thermal coal in the world, with total production of almost 3.0 billion metric tons in 2009, according to the World Coal Institute.

China is the world's second largest thermal coal importer, after Japan, with total imports equaling 92.4 million metric tons in 2010, according to data from the China Customs Service<sup>8</sup>, although the World Coal Institute estimates that China imports could have been as high as 129 million tons in 2010. The Exchange is conservatively basing its analysis of deliverable supply on the lower import estimates of 92.4 million metric tons in 2010, as provided by the China Customs Service. This equates to 7.7 million tons per month.

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<sup>7</sup> The statistics are available at <http://www.worldcoal.org/resources/coal-statistics/>

<sup>8</sup> <http://english.customs.gov.cn/publish/portal191/>

Based on a 1,000 metric ton monthly contract, the 7.7 million tons of Chinese imports per month imply a total deliverable supply of 7,700 contracts in the expiration month. Based on this figure, the Exchange determined the spot month position limit for the China Coal (IHS McCloskey/Xinhua Infolink South China CFR Marker 5,500kc NAR) Swap futures contract be set at 1,500 contracts, representing approximately 19% of deliverable supply.