



CME Group

A CME/Chicago Board of Trade/NYMEX Company

September 3, 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

C.F.T.C.
OFFICE OF THE SECRETARIAT
2010 SEP 3 PM 2 35

**Re: Rule Certification. New York Mercantile Exchange, Inc. Submission #: 10-173
Notification Regarding the Listing of Four (4) New Coal Futures and Option
Contracts on NYMEX Trading Floor and 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 four (4) new coal futures and option contracts for trading on the NYMEX trading floor and for submission for clearing through CME ClearPort effective trade date September 13, 2010.

The indexes used for clearing and settlement are compilations of prices for steam coal, which is used for the production of electrical power, and are jointly calculated and published by Argus and IHS McCloskey, part of IHS. The API 2 index is the international price benchmark for coal imported to northwestern Europe. The API 4 index is the international price benchmark for coal exported from the Richards Bay terminal in South Africa.

The monthly contract listing schedule for the four coal futures and option contracts will be current year plus the next two calendar years, consecutively. The four new financially settled listings beginning with the October 2010 contract month are:

- Coal (API 2) cif ARA (Argus/McCloskey) Swap Futures (commodity code **MTF**, Chapter 926)
- Coal (API 2) cif ARA (Argus/McCloskey) Option (commodity code **MTO**, Rule Chapter 927)
- Coal (API 4) fob Richards Bay (Argus/McCloskey) Swap Futures (commodity code **MFF**, Chapter 928)
- Coal (API 4) fob Richards Bay (Argus/McCloskey) Option (commodity code **MFO**, Chapter 929)

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.

Should you have any questions concerning the above, please contact Brad Leach at (212) 299-2609 or the undersigned at (212) 299-2207.

Sincerely,

/s /Brian Regan
Managing Director and Regulatory Counsel

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

Chapter 926

Coal (API 2) cif ARA (Argus/McCloskey) Swap Futures

926.01 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.

926.02. FLOATING PRICE

The Floating Price for each contract month shall be equal to the (API 2) cif ARA Monthly Coal Price Index published in the Argus/McCloskey's Coal Price Index Report (i.e. being the average of weekly prices during the contract month).

926.03. CONTRACT QUANTITY AND VALUE

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

926.04. CONTRACT MONTHS

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

926.05. PRICES AND FLUCTUATIONS

Prices shall be quoted in U.S. dollars and cents per metric ton. The minimum price fluctuation shall be \$0.05 (5¢) per metric ton. The minimum final settlement is \$0.01 per metric ton. There shall be no maximum price fluctuation.

926.06. 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.

926.07. 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.

926.08. EXCHANGE FOR RELATED POSITION TRANSACTIONS

Any exchange for related position ("EFRP") transactions shall be governed by the provisions of Exchange rule 538.

926.09. DISCLAIMER

The Coal (API 2) cif ARA (Argus/McCloskey) Swap Futures (the "Product") is not sponsored, endorsed, sold or promoted by Argus Media Inc. ("Argus") or IHS Global Ltd. ("IHS"). Argus and IHS make no representation or warranty, express or implied, to the owners of the Product or any member of the public regarding the advisability of trading in the Product. Argus' and IHS' only relationship to Chicago Mercantile Exchange Inc., CME Clearing Europe Ltd. and New York Mercantile Exchange, Inc. (together, "CME") is the licensing of certain trademarks and trade names of Argus and IHS, and of the API 2 and API 4 indexes (which are determined, composed and calculated by Argus and IHS without regard to CME or the Product), and Argus and IHS have no obligation to take the needs of CME or the owners of the Product into consideration in determining, composing or calculating the API 2 and API 4 indexes. Argus and IHS are not responsible for and have not participated in the determination of the timing of, prices at, or quantities of the Product to be listed or in the determination or calculation of the equation by which the Product is to be converted into cash. Argus and IHS have no obligation or liability in connection with the administration, marketing or trading of the Product.

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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.

Chapter 927
Coal (API 2) cif ARA (Argus/McCloskey) Option

927.01. EXPIRATION

The Coal (API 2) cif ARA (Argus/McCloskey) Option expiration shall be on the last Friday of the contract month. If such Friday is a UK holiday, the contract will expire 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 will expire on the Exchange business day immediately prior.

927.02. TYPE OF OPTION

Coal (API 2) cif ARA (Argus/McCloskey) Option is a financially settled European-style option. The option cannot be exercised prior to expiration.

927.03. TRADING UNIT

On the expiration of a call option, the option will be financially settled to the greater of zero or the value produced by subtracting the strike price from the Floating Price of the Coal (API 2) cif ARA (Argus/McCloskey) Swap Futures contract for the same contract month, multiplied by 1,000 metric tons. On the expiration of a put option, the option will be financially settled to the greater of zero or the value produced by subtracting the Floating Price of the Coal (API 2) cif ARA (Argus/McCloskey) Swap Futures contract for the same contract month from the strike price, multiplied by 1,000 metric tons.

927.04. 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[®] 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.

927.05. TRADING MONTHS

Trading in Coal (API 2) cif ARA (Argus/McCloskey) Option contracts shall be conducted in the months as shall be determined by the Exchange.

927.06. 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 for the underlying Coal (API 2) cif ARA (Argus/McCloskey) Swap Futures contract rounded off to the nearest fifty-cent increment, unless such settlement price is precisely midway between two fifty-cent increments in which case it shall be rounded off to the lower fifty-cent increment; (ii) the three strike prices which are three fifty-cent increments higher than the strike price described in section (i) of this Rule 927.06(A); and (iii) the three strike prices which are three fifty-cent increments lower than the strike price described in section (i) of this Rule 927.06(A).

(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 three fifty-cent 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 927.06.

(C) Notwithstanding the provisions of subsections (A) and (B) of this Rule, if the Exchange determines that trading in financially settled Coal (API 2) cif ARA (Argus/McCloskey) Option contract 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 Coal (API 2) cif ARA (Argus/McCloskey) Option contract in which no new strike prices may be introduced.

927.07. PRICES

Prices shall be quoted in dollars and cents per metric ton. The minimum price fluctuation shall be \$0.01 per metric ton. The minimum final settlement is \$0.01 per metric ton. A cabinet trade may occur at the price of \$0.01 per metric ton or \$1.00, however, if it results in the liquidation of positions of both parties to the trade.

927.08. ABSENCE OF PRICE FLUCTUATION LIMITATIONS

Trading in Coal (API 2) cif ARA (Argus/McCloskey) Option shall not be subject to price fluctuation limitations.

927.09. DISCLAIMER

The Coal (API 2) cif ARA (Argus/McCloskey) Option (the "Product") is not sponsored, endorsed, sold or promoted by Argus Media Inc. ("Argus") or IHS Global Ltd. ("IHS"). Argus and IHS make no representation or warranty, express or implied, to the owners of the Product or any member of the public regarding the advisability of trading in the Product. Argus' and IHS' only relationship to Chicago Mercantile Exchange Inc., CME Clearing Europe Ltd. and New York Mercantile Exchange, Inc. (together, "CME") is the licensing of certain trademarks and trade names of Argus and IHS, and of the API 2 and API 4 indexes (which are determined, composed and calculated by Argus and IHS without regard to CME or the Product), and Argus and IHS have no obligation to take the needs of CME or the owners of the Product into consideration in determining, composing or calculating the API 2 and API 4 indexes. Argus and IHS are not responsible for and have not participated in the determination of the timing of, prices at, or quantities of the Product to be listed or in the determination or calculation of the equation by which the Product is to be converted into cash. Argus and IHS have no obligation or liability in connection with the administration, marketing or trading of the Product.

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- a. NYMEX;
- b. its directors or officers; or
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Chapter 928

Coal (API 4) fob Richards Bay (Argus/McCloskey) Swap Futures

928.01. 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.

928.02. FLOATING PRICE

The Floating Price for each contract month shall be equal to the (API 4) fob Richards Bay Monthly Coal Price Index published in the Argus/McCloskey's Coal Price Index Report (i.e. being the average of weekly prices during the contract month).

928.03. CONTRACT QUANTITY AND VALUE

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

928.04. CONTRACT MONTHS

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

928.05. PRICES AND FLUCTUATIONS

Prices shall be quoted in U.S. dollars and cents per metric ton. The minimum price fluctuation shall be \$0.05 (5¢) per metric ton. The minimum final settlement is \$0.01 per metric ton. There shall be no maximum price fluctuation.

928.06. 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.

928.07. 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.

928.08. EXCHANGE FOR RELATED POSITION TRANSACTIONS

Any exchange for related position ("EFRP") transactions shall be governed by the provisions of Exchange rule 538.

928.09. DISCLAIMER

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- 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;

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Chapter 929

Coal (API 4) fob Richards Bay (Argus/McCloskey) Option

929.01. EXPIRATION

The Coal (API 4) fob Richards Bay (Argus/McCloskey) Option expiration shall be on the last Friday of the contract month. If such Friday is a UK holiday, the contract will expire 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 will expire on the Exchange business day immediately prior.

929.02. TYPE OF OPTION

Coal (API 4) fob Richards Bay (Argus/McCloskey) Option is a financially settled European-style option. The option cannot be exercised prior to expiration.

929.03. TRADING UNIT

On the expiration of a call option, the option will be financially settled to the greater of zero or the value produced by subtracting the strike price from the Floating Price of Coal (API 4) fob Richards Bay (Argus/McCloskey) Swap Futures contract for the same contract month, multiplied by 1,000 metric tons. On the expiration of a put option, the option will be financially settled to the greater of zero or the value produced by subtracting the Floating Price of the Coal (API 4) fob Richards Bay (Argus/McCloskey) Swap Futures contract for the same contract month from the strike price, multiplied by 1,000 metric tons.

929.04. 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[®] 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.

929.05. TRADING MONTHS

Trading in Coal (API 4) fob Richards Bay (Argus/McCloskey) Option contracts shall be conducted in the months as shall be determined by the Exchange.

929.06. 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 for the underlying Coal (API 4) fob Richards Bay (Argus/McCloskey) Futures contract rounded off to the nearest fifty-cent increment, unless such settlement price is precisely midway between two fifty-cent increments in which case it shall be rounded off to the lower fifty-cent increment; (ii) the three strike prices which are three fifty-cent increments higher than the strike price described in section (i) of this Rule 929.06(A); and (iii) the three strike prices which are three fifty-cent increments lower than the strike price described in section (i) of this Rule 929.06(A).
- (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 three fifty-cent 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 929.06.
- (C) Notwithstanding the provisions of subsections (A) and (B) of this Rule, if the Exchange determines that trading in financially settled Coal (API 4) fob Richards Bay (Argus/McCloskey) Option contract 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 Coal (API 4) fob Richards Bay (Argus/McCloskey) Option contract in which no new strike prices may be introduced.

929.07. PRICES

Prices shall be quoted in dollars and cents per metric ton. The minimum price fluctuation shall be \$0.01 per metric ton. The minimum final settlement is \$0.01 per metric ton. A cabinet trade may occur at the price of \$.001 per metric ton or \$1.00, however, if it results in the liquidation of positions of both parties to the trade.

929.08. ABSENCE OF PRICE FLUCTUATION LIMITATIONS

Trading in Coal (API 4) fob Richards Bay (Argus/McCloskey) Option shall not be subject to price fluctuation limitations.

929.09. DISCLAIMER

The Coal (API 4) fob Richards Bay (Argus/McCloskey) Option (the "Product") is not sponsored, endorsed, sold or promoted by Argus Media Inc. ("Argus") or IHS Global Ltd. ("IHS"). Argus and IHS make no representation or warranty, express or implied, to the owners of the Product or any member of the public regarding the advisability of trading in the Product. Argus' and IHS' only relationship to Chicago Mercantile Exchange Inc., CME Clearing Europe Ltd. and New York Mercantile Exchange, Inc. (together, "CME") is the licensing of certain trademarks and trade names of Argus and IHS, and of the API 2 and API 4 indexes (which are determined, composed and calculated by Argus and IHS without regard to CME or the Product), and Argus and IHS have no obligation to take the needs of CME or the owners of the Product into consideration in determining, composing or calculating the API 2 and API 4 indexes. Argus and IHS are not responsible for and have not participated in the determination of the timing of, prices at, or quantities of the Product to be listed or in the determination or calculation of the equation by which the Product is to be converted into cash. Argus and IHS have no obligation or liability in connection with the administration, marketing or trading of the Product.

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CASH MARKET OVERVIEW

I. DESCRIPTION

Coal is a globally traded commodity. As a naturally occurring substance, coal is found with a range of qualities and levels of impurities, and is traded accordingly. There are two primary classifications of coal that are traded internationally. Coking coal, or metallurgical coal, is used in the production of steel. Steam coal, or thermal coal, is used in the production of electrical power. With its higher carbon content, and lower levels of impurities, coking coal can be considered the superior class, and typically trades at a premium to steam coal. The majority of coal is utilized in power generation. Coal is usually transported by truck over short distances. Trains and barges are used for relatively longer distances within the domestic markets. Ships are generally used for long distances, including international transportation of coal. Steam coal is traded in the international markets mainly through three types of vessels: handysize, panamax, and capesize vessels. Seaborne trade in steam coal has increased on average in recent years. The two major steam or thermal coal regional markets are the Atlantic and Pacific markets. Western European nations, mainly UK, Germany, and Spain, are the main importing countries of the Atlantic market. Import demand comes mainly from Japan, South Korea and Taiwan in the Pacific market. Tables 1 and 2 show the top coal exporting and importing countries, respectively. According to the World Coal Institute, in 2009, Australia was the world's largest coal exporter, with total exports equaling approximately 259 million tons (steam coal at 134 million tons and coking coal at 125 million tons).

Table 1: Top Coal Exporters (2009e) (million tons)

	Total of which	Steam	Coking
Australia	259Mt	134Mt	125Mt
Indonesia	230Mt	200Mt	30Mt
Russia	116Mt	105Mt	11Mt
Colombia	69Mt	69Mt	-
South Africa	67Mt	66Mt	1Mt
USA	53Mt	20Mt	33Mt
Canada	28Mt	7Mt	21Mt

Source: World Coal Institute¹

¹ <http://www.worldcoal.org/coal/market-amp-transportation/>

Table 2: Top Coal Importers (2009e) (million tons)

	Total of which	Steam	Coking
Japan	165Mt	113Mt	52Mt
PR China	137Mt	102Mt	35Mt
South Korea	103Mt	82Mt	21Mt
India	67Mt	44Mt	23Mt
Chinese Tapei	60Mt	57Mt	3Mt
Germany	38Mt	32Mt	6Mt
UK	38Mt	33Mt	5Mt

Source: World Coal Institute²

The Exchange intends to provide trading and clearing services for futures and options contracts based on the API 2 and API 4 indices, which are international benchmarks for steam coal. These indices are owned and published jointly by Argus Media and IHS McCloskey, part of IHS. CME Group has license arrangements in place to reference these indices for this purpose. Further details on these indices follow.

II. METHODOLOGY

About Argus Media

Argus Media is a leading provider of price assessments, business intelligence and market data on the global coal, electricity, oil, gas, emissions and transportation industries. It is headquartered in London, and has offices in Houston, New York, Washington, Dubai, Singapore, Tokyo, Beijing, Moscow, Astana, Kiev and other key centers of the energy industry. Argus was founded in 1970 and is a privately held UK-registered company³.

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.

² <http://www.worldcoal.org/coal/market-amp-transportation/>

³ <http://www.argusmedia.com/pages/StaticPage.aspx?tname=Argus+Home&pname=Coal>

The group 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 issues⁴.

ARA (Rotterdam area) Prices

Argus Coal Daily International averages the buy sell ranges it has identified for cif ARA (Amsterdam-Rotterdam Antwerp). Argus compares the weighted transaction price daily for cargoes delivered to ARA with the consensus of the price estimates and publishes an average of these calculations. There has been a recent sustained increase in the number of deals traded on a discharge exship (des) ARA basis. For the purposes of the Argus assessment, des ARA deals are assumed to be equivalent to cif ARA. Argus constructs a volume-weighted average of transactions it records for delivery into the ARA region. This volume-weighted average is an element used in the Argus assessment of the coal price. Argus will eliminate information that appears to be "off the consensus" in its final assessment of the price.

Richards Bay Prices

For price assessments of the fob Richards Bay, South Africa physical market Argus Coal Daily International regularly contacts South African producers, lifters of South African coal and international traders. Argus makes separate averages for each type of these market participants to assist in making its final assessment. Argus also calculates a weighted average of reported transactions traded daily for coal specified in the International Coal Prices table. These averages serve as guides to the prevailing market levels. Argus will construct a separate weighted transaction average and a consensus of estimates from South African sellers and buyers of South African coal. The final assessment will take a comparison of these levels into account, and does not rely exclusively upon transactions to determine the index.

⁴ <http://www.mccloskeycoal.com/>

III. API INDICES

Since 4 January 2010, Argus has conducted daily physical assessments. The Argus CIF ARA and FOB Richards Bay prices are based 50% on deals done each day and 50% on a market survey of active participants. If no deals are conducted on a day, the price then will be based on the market survey and the best bid and best offer. If no best bid and best offer is available, the price then will be based on the market survey only. Deals must match current API specifications which are: a minimum cargo size of 50,000 tons; minimum calorific value of 5,800 kcal/kg; sulphur less than 1pc, etc. Deals must be conducted between 8:30am and 5:30pm London time. If deals are conducted after the 5:30pm deadline, they will not be included in the daily assessment. Trades booked for delivery within the next 90 days are included in the daily assessment. The third month is included in the assessment from the 15th of each month. For example; from March 15, cargoes for delivery in April, May and June are included in the daily assessment. Argus will publish the Argus component of the price each day in "Coal Daily International". The Argus/McCloskey Price Index Report will be published as usual each Friday with an average of the week's prices.

Characteristics Typical Rejection limits

API 2 and API 4 indices are published exclusively in the Argus/McCloskey Coal Price Index Report.

- API 2 (Rotterdam area) is an average of Argus cif ARA and McCloskey's NW European steam coal marker prices. The Argus component is the weekly average of daily assessments. The McCloskey component is a weekly price published on Friday.
- API 4 (fob Richards Bay) is an average of Argus fob Richards Bay assessment and McCloskey's fob Richards Bay marker prices. The Argus component is the weekly average of daily assessments. The McCloskey component is a weekly price published on Friday

ARA (Rotterdam area) Imports and Exports

Amsterdam-Rotterdam-Antwerp (ARA) is Europe's largest coal import hub, with total coal stocking capacity around 8.7 million tons. Coal is shipped from stockpiles to utilities in Northwest Europe, mainly from the port of Rotterdam. The port of Rotterdam is a hub of international goods flows, while at

the same time serving as an industrial complex of global stature. The port is the gateway to a European market of more than 350 million consumers. With an annual throughput of more than 400 million tons of goods, Rotterdam is by far the biggest seaport in Europe⁵. Rotterdam's entire port and industrial complex covers 10,500 hectares and stretches out 40 kilometers in length; from the city to the Maasvlakte along the Nieuwe Waterweg canal⁶.

According to data from the Port of Rotterdam, for the January 2010 – June 2010 period, net imports of coal were over 11 million tons. Table 3, below, reflects the incoming and outgoing coal through the Port of Rotterdam for the January 2010 – June 2010 and January 2009 – June 2009 periods.

Table 3: Coal shipments through the Port of Rotterdam (thousand metric tons)

	January 2010 - June 2010	January 2009 - June 2009
Incoming	11,551	11,484
Outgoing	449	625

Source: Port of Rotterdam⁷

Richards Bay Imports and Exports

The Port of Richards Bay rests on the shores of a lagoon formed by the Mhlatuze River in the KwaZulu-Natal Province of South Africa about 90 nautical miles northeast of the Port of Durban. The easternmost seaport in the nation, the Port of Richards Bay has the country's biggest harbor. The Port of Richards Bay's Coal Terminal is the world's biggest terminal, with capacity to handle 91 million tons per year. In addition to its busy seaport, the Port of Richards Bay is home to two aluminum smelters and a fertilizer plant. Mines in the nearby lagoon produce iron ore, zircon, and titanium oxide. The seaport exports a range of bulk cargoes that include coal, titanium, heavy minerals, ferrochrome, granite, aluminum, pulp, woodchips, and phosphoric acid.

The Richards Bay Coal Terminal (RBCT) handled 61.8 million tons of coal exports in 2008-2009. Each day, a non-stop 200-wagon train delivers coal to the RBCT carrying about 16.8 thousand tons, and

⁵ This information was obtained from the official website of the Port of Rotterdam
<http://www.portofrotterdam.com/en/Port/Pages/default.aspx>

⁶ This information was obtained from the official website of the Port of Rotterdam
<http://www.portofrotterdam.com/en/Business/about-the-port/Pages/facts-figures.aspx>

⁷ http://www.portofrotterdam.com/en/Port/port-statistics/Documents/overslag_eng_2e_kwart_2010.pdf

the terminal can stockpile up to six million tons of coal. Since the terminal opened, it has handled more than one billion tons of coal exports⁸.

IV. COAL PRODUCTION

According to the international Energy Agency (IEA), world anthracite coal production reached 77,240,000 tons in 2007⁹. The largest coal producing countries are not confined to one region – the top five producers are China, the USA, India, Australia and South Africa. Much of the global coal production is used in the country in which it was produced; only around 18% of hard coal production is destined for the international coal market. According to the U.S. Energy Information Administration (EIA) projection analysis, which is included in its International Energy Outlook 2009, coal production increased in China, the U.S. and India by 43.5 quadrillion Btu, 3.2 quadrillion Btu, and 1.8 quadrillion Btu, respectively. Coal production is also projected to increase in Australia and New Zealand. Rising international trade is also expected to support production increases in Russia, Africa, and Central and South America¹⁰. Table 4 shows the coal production levels reported by EIA from 2005 through 2009.

Table 4: Coal Production Statistics (thousand short tons)

Index	Corresponding Countries	2005	2006	2007	2008	2009
API 2	France	0	0	0	0	NA
	Germany	226,993	220,554	225,526	214,351	167,623
	Netherlands	0	0	0	0	NA
	United Kingdom	22,055	19,929	18,232	19,405	19,705
	Total	249,048	240,483	243,758	233,756	187,328
API 4	South Africa	270,051	269,817	273,005	259,597	256,862

Source: EIA¹¹

V. COAL CONSUMPTION

Coal plays a vital role in power generation and this role is set to continue. The biggest market for coal is Asia, which currently accounts for significant global coal consumption – although China is

⁸ http://www.worldportsource.com/ports/ZAF_Port_of_Richards_Bay_641.php

⁹ http://www.iea.org/stats/coaldata.asp?COUNTRY_CODE=29

¹⁰ The coal projections levels are available at <http://www.eia.doe.gov/oiaf/ieo/pdf/coal.pdf>

¹¹ <http://tonto.eia.doe.gov/cfapps/ipdbproject/iedindex3.cfm?tid=1&pid=1&aid=24&cid=BE,FR,GM,NL,SF,UK,&syid=2002&evind=2008&unit=TST>

responsible for a significant proportion of this total. Many countries do not have natural energy resources sufficient to cover their energy needs, and therefore need to import energy to help meet their requirements. For example, Japan, Taiwan and Korea import significant quantities of steam coal for electricity generation and coking coal for steel production. It is not just a lack of domestic coal supplies that prompts countries to import coal but also the importance of obtaining specific types of coal. Major coal producers such as China, the USA and India, for example, also import quantities of coal for quality and logistical reasons. According to the EIA projection analysis, which is included in the International Energy Outlook 2009, OECD countries coal consumption is expected to increase from 46.9 quadrillion Btu in 2006 to 47.8 quadrillion Btu in 2015 and 50.7 quadrillion Btu in 2030. The increase represents an average growth of 0.3 percent per year over the entire period and 0.4 percent per year from 2015 to 2030. Table 5 shows coal production levels reported by EIA from 2005 through 2009.

Table 5: Coal Consumption Statistics (thousand short tons)

Index	Corresponding Countries	2005	2006	2007	2008	2009
API 2	Belgium	8,655	8,201	7,330	7,199	4,269
	France	23,324	21,562	22,094	21,120	18,607
	Germany	270,789	270,534	281,339	269,892	222,931
	Netherlands	14,210	13,682	14,858	14,183	13,162
	United Kingdom	68,262	74,440	69,528	71,374	60,168
	Total	385,240	388,419	395,149	383,768	319,137
API 4	South Africa	193,349	196,079	202,374	193,654	187,249

Source: EIA¹²

¹²<http://tonto.eia.doe.gov/cfapps/ipdbproject/IEDIndex3.cfm?tid=1&pid=1&aid=2>

VI. COAL IMPORTS

Table 6 show coal imports levels reported by EIA from 2004 through 2008. The agency has not published 2009 levels yet.

Table 6: Coal Imports Statistics (thousand short tons)

Index	Corresponding Countries	2004	2005	2006	2007	2008
API 2	Belgium	11,306	10,099	9,274	8,762	8,793
	France	22,906	23,603	24,128	21,838	24,981
	Germany	48,461	45,092	50,565	56,226	55,665
	Netherlands	25,334	22,935	25,752	29,324	21,330
	United Kingdom	41,004	49,468	56,811	48,979	49,160
	Total		149,011	151,197	166,530	165,129
API 4	South Africa	1,879	2,049	2,043	1,925	2,226

Source: EIA¹³

VII. COAL RESERVES

Coal reserves are discovered through exploration activities. The process usually involves creating a geological map of the area, then carrying out geochemical and geophysical surveys, followed by exploration drilling.

According to EIA, total recoverable reserves of coal around the world are estimated at 929 billion tons—reflecting a current reserves-to-production ratio of 137¹⁴. Table 7 shows the recoverable hard coal reserves based on EIA data for 2005¹⁵.

Table 7: Recoverable Hard Coal Reserves- Anthracite and Bituminous (Million Short Tons)

	2005
Belgium	--
France	--
Germany	168
Netherlands	--
United Kingdom	171
South Africa	52,911

Source: EIA¹⁶

¹³ <http://tonto.eia.doe.gov/cfapps/ipdbproject/IEDIndex3.cfm?tid=1&pid=1&aid=3>

¹⁴ <http://www.eia.doe.gov/oiaf/ieo/pdf/coal.pdf>

¹⁵ EIA only reports 2005 reports

VIII. MARKET ACTIVITY¹⁷

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 on average by about 8% each year, while seaborne coking coal trade has increased by 2% a year. Overall, international trade in coal reached 718 million tons in 2003; while this is a significant amount of coal, it still only accounts for about 18% of total coal consumed. 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 Japan, Korea and Taiwan. The Pacific market currently accounts for about 60% of world steam coal trade. Markets tend to overlap when coal prices are high and supplies plentiful. South Africa is a natural point of convergence between the two markets.

IX. MARKET PARTICIPANTS

There is a wide range of participants in the marketplace. The following table highlights some of the more active participants.

Brokers	Commercial	Banks
ICAP	RWE	Morgan Stanley
GFI	Endesa	J Aron
Tullett	E.On	Deutsche
GlobalCOAL	ENEL	JP Morgan
LCB	EDF	Macquarie
Ginga	Gaselys	ML -
	Vattenfall	Citi
	DONG	

¹⁶ <http://tonto.eia.doe.gov/cfapps/ipdbproject/IEDIndex3.cfm?tid=1&pid=7&aid=6>

¹⁷ The statistics are available at www.worldcoal.org/coal/market-amp-transportation/

ANALYSIS OF DELIVERABLE SUPPLY

In its analysis of deliverable supply, the Exchange focused on the EIA production and imports data from the ARA region and the Richards Bay region to determine spot month position limits for the Coal (API 2) cif ARA (Argus/McCloskey) Swap Futures and Option and the Coal (API 4) fob Richards Bay (Argus/McCloskey) Swap Futures and Option, respectively. Specifically, the Exchange's analysis of deliverable supply is based on the total production and imports levels reported by EIA during 2008, as the agency has not yet published coal import levels for 2009.

The API 2 index is based on the ARA market. The main participant countries in the ARA region are Germany, UK, Netherlands, France, and Belgium. The API 4 index is based on the fob Richards Bay port, South Africa.

According to the EIA (Tables 4 and 6), coal production and imports data for 2008 for the ARA region was approximately 393,685,000 tons, or approximately 32,807,083 tons per month, or 32,807 contract equivalents (contract size: 1,000 tons). Therefore, 25% of the monthly contract equivalent for the ARA region would be approximately 8,202 contracts. The Exchange has determined to set the spot month position limits for the Coal (API 2) cif ARA (Argus/McCloskey) Swap Futures contract at 3,500 contract units or 11% of the total deliverable supply.

According to the EIA (Tables 4 and 6), coal production and imports data for 2008 for the Richards Bay region was approximately 261,823,000 tons, or approximately 21,818,583 tons per month or 21,819 contract equivalents (contract size: 1,000 tons). Therefore, 25% of the monthly contract equivalent for the Richards Bay region would be approximately 5,455 contracts. The Exchange has determined to set the spot month position limits for the Coal (API 4) fob Richards Bay (Argus/McCloskey) Swap Futures contract at 2,500 contract units or 11% of the total deliverable supply.