



STEEL FUTURES An Introduction

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Futures Market (General Comments)

- Risk Management
- Price Discovery and Price Transparency
- Credit Intermediation
- Regulatory Certainty
- Liquidity Benchmark

Risk Management

Futures Price Strongly Related to Cash-Market Prices

- Risk: Prices Rise (Sell cash-market at fixed price; Buy cash-market at floating price). Remedy: “long” (buy) futures.
- Risk: Prices Decrease (Sell cash-market at floating price; Buy cash-market at fixed price). Remedy: “short” (sell) futures.

Price Discovery and Transparency

- Transparency in Price Determination Process
 - On-Exchange Trading
 - Off-Exchange Execution and Submission to NYMEX for clearing-current transactions; aged trades
- Public Dissemination of Prices
 - On-Exchange Transactions
 - Daily Mark-to-Market Settlements

Credit Intermediation

- Exchange Clearinghouse: Counterparty to Exchange Clearing Members for all Transactions
- Clearing Members Provide Deposits to Exchange Guaranty Fund
 - Strict Capital-Based Restrictions on Total Positions that May Be Carried by a Clearing Member
 - Protected Against Systemic Risk Through a Variety of Financial Assets Serving as a Backdrop
- Risk-based Collateral Margin Requirements
- Daily Flows of Credits and Debits Based on Current Mark-to-Markets

Regulatory Safeguards

- Oversight by CFTC of NYMEX as a Regulated Exchange and as a Clearing Organization
- NYMEX has Additional Self-Regulatory Organization (“SRO”) Obligations
- A History of Market Performance Through Severe Market Upheavals
- Financial Performance Through Severe Market Upheavals
- Operational Performance Through Severe Facility Upheavals

Reliable Benchmark

- Reliable Price Relationship– futures converges with the physical commodity for physically settled contracts
- Physical Delivery Mechanism
 - Fungible Product- quality, location
 - Fungible Commercial Obligation- structure, timing, payment

Cash-Settlement Mechanism– price reference

- Index by Survey– transactions, assessments
- Mathematical Formula

Conclusion

- Risk Management tools available to sellers, buyers and traders
- Exchange traded Vs OTC
- Will Exchanges find traction from industry?

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