CME Europe Cocoa Futures

FREQUENTLY ASKED QUESTIONS

1. Why is CME Europe listing Cocoa futures?
The decision to list Cocoa futures was based on demand from our customers for an effective risk management vehicle for the European cocoa market. CME Europe has responded to that demand by developing physically delivered Cocoa futures and a cash-settled Cocoa futures contract that facilitates arbitrage opportunities.

2. What specific issues do the CME Europe Cocoa contracts address?
The CME Europe physically delivered Cocoa futures contract is designed to more closely track the underlying Cocoa cash market. CME Europe’s enhanced delivery system allows stronger convergence between our futures contract and the cash markets, offering market participants a more effective risk management vehicle.

In addition, CME Europe has developed unique methodologies for preparing, sampling and grading of cocoa during the delivery process, which provide capital efficiencies for participants in our markets.

3. How does the delivery process work?
Settlement of CME Europe physical-delivery futures is via warehouse warrant, rather than being based on an “in-store” system where the buyer pays delivery-out charges, the delivery system incorporates a mechanism where the first deliverer pre-pays the delivery-out charges, which removes any potential conflict between owners and warehousekeepers.

In addition, this contract incorporates an Alternative Delivery Process (ADP) which enables the substitution of cocoa if the buyer and seller mutually agree. This greatly enhances the flexibility of the CME Europe Cocoa futures delivery process.

Finally, we will institute an ongoing programme of warehouse inspections, which will allow customers to be confident in the delivery and quality of goods received.

4. What are the delivery points?
The delivery points for physically delivered Cocoa futures will be in Amsterdam, Antwerp and Hamburg. This consolidation of delivery provides a clear pricing basis for the contract and less delivery risk for the buyer.

5. How does CME Europe ensure quality and cost-efficiency during the sampling and grading process?
Our grading process is based on Federation of Cocoa Commerce (FCC) practices, which makes the value generated from our grading results closer to that of the underlying physical market; the grading results are valid for up to 5 delivery periods. In addition, our cost of grading reflects the actual work involved in grading, rather than the tonnage represented by the sample. Given the length of time that the results are valid, this offers market users significant capital savings.

6. How are CME Europe Cocoa futures contracts quoted?
The Cocoa futures contracts trade in units of 10 metric tonnes. The physically delivered Cocoa futures contract is quoted in Euros with a tick size of €1 per metric tonne, or €10 per contract. The cash-settled Cocoa futures contract is quoted in US dollars (USD) with a tick size of $1 per metric tonne, or $10 per contract.

The physically delivered Cocoa futures contract is priced against bulk and bagged cocoa, where bulk cocoa makes up to 70% of European imports. This allows our contract to better reflect the physical market.

7. Will the margin for the two contracts be quoted in Euros or in USD?
The margin for Cocoa futures will be quoted in Euros. However, clearing members may post margin in GBP and USD as well as in Euros.

8. Will there be margin offsets?
Since both contracts are listed with CME Europe and cleared by CME Clearing Europe, we can offer margins offsets of around 80 percent between the physically delivered Cocoa futures contract and the cash-settled Cocoa futures contract. These capital savings are unique benefits only available in the Cocoa markets at CME Europe.

9. Which contract months will be listed for CME Europe Cocoa futures?
CME Europe Cocoa futures will be listed for trading in March, May, July, September and December. At launch, trading will begin with the July, 2015 contract.
10. Are CME Europe Cocoa futures eligible for block trading?
At launch, block trading will be available with a minimum threshold of 50 contracts. This block trade facility will assist in the efficient transfer of open interest to the new contract.

11. Who do you expect to participate in the CME Europe Cocoa market?
The CME Europe Cocoa futures contract is tailored to the needs of commercial participants in the European Cocoa market. As such, we expect it to appeal to physical traders, processors and manufacturers. In addition, as an instrument that more closely tracks the cash market, the CME Europe Cocoa contracts will also be attractive to institutional investors who seek trading opportunities in the soft commodities markets.

12. How will liquidity in CME Europe Cocoa futures be developed?
Due to the strong demand and market interest in this product, we expect interest and participation in Cocoa futures across the full range of market participants. In addition, CME Europe has developed a “Softs Participation Unit” programme (SPU) that gives qualified firms the opportunity to share in the growth and revenue of our Cocoa markets in exchange for their commitment to provide solid support.

13. How can I trade CME Europe Cocoa futures?
What are the trading hours?
CME Europe Cocoa futures will be listed on CME Europe utilising CME Globex, the exchange’s state-of-the-art electronic trading system. They will be available for trading Monday – Friday from 9:00 a.m. to 4:50 p.m., London time. In addition they can also be traded via CME Direct and CME Clearport

14. How can I get access to CME Globex?
To access CME Globex you must have a relationship with a CME Clearing Member Firm. For more information on getting connected to CME Globex, visit cmegroup.com/globex.

To learn more visit cmegroup.com/cocoa or contact:

Peter Blogg
Senior Director, Agricultural Commodities
peter.blogg@cmegroup.com
+44 20 3379 3715

Jeffry Kuijpers
Executive Director, Agricultural Commodities
jeffry.kuijpers@cmegroup.com
+44 20 3379 3729

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