

FREQUENTLY ASKED QUESTIONS

CME Group Palm Complex

FEBRUARY 2022

The CME Group, in partnership with Bursa Malaysia and Thomson Reuters, provides a range of palm products for trading and hedging. These include the following products:

Futures and Options

- USD Malaysian Crude Palm Oil Calendar Futures (CPO)
- USD Malaysian Crude Palm Oil Average Price Options (POO)
- USD Malaysian Crude Palm Oil Day 15th Bullet Futures (CPV)
- USD Malaysian Crude Palm Oil Day 10th Financial Options (POX)
- USD Malaysian Palm Olein Calendar Futures (OPF)
- Bursa Malaysia Crude Palm Oil – Gasoil Spread Futures (POG)

Swaps

USD Malaysian Palm Olein Calendar Swaps (OPS)

1. What is the underlying instrument?

CPO, CPV: Each contract month of CPO and CPV are based on the respective third forward month Bursa Malaysia Derivatives Berhad (BMD) Crude Palm Oil Futures (FCPO) Contract. For more information on the BMD FCPO futures contract, visit bursamalaysia.com

OPS, OPF: Each contract month of OPS and OPF are based on the respective third forward month Thomson Reuters assessment of Malaysian RBD Palm Olein.

POO: Contract months of POO references the same CPO contract month and cash settles to the final settle of CPO.

POX: Contract months of POX reference the same CPV contract months which are based on the respective third forward month FCPO contract.

2. How are daily and final settlement prices determined?

CPO, CPV: For CPO, final settlement price is the average of the settlement prices for the third forward month BMD FCPO contract for each trading day in the contract month converted to USD using the Kuala Lumpur USD/MYR Reference Rate published daily at approximately 3:30 p.m. (Singapore time) rounded to the nearest \$0.25. The Kuala Lumpur USD/MYR Reference Rate is available on the Thomson Reuters MYRFIX02 page.

In the case of CPV, final settlement price will likewise be the USD converted settlement price for the third forward month BMD FCPO contract, but with only a single day's settlement value used. These will be the values on the 15th calendar day of the contract month. If the 15th calendar day of the contract month is not a BMD business day, the price on the preceding BMD business day shall be used.

Daily settlement will be determined by Exchange staff basing on relevant market data including, but not limited to, pricing data from market participants such as broker quotes, cleared prices, the settlement prices of related products and any other pricing data from sources deemed reliable by staff.

OPS, OPF: Final settlement price is the average of each Thomson Reuters "Malaysia RBD Palm Olein" third forward month closing time assessment for each business day of the contract month rounded to the nearest \$0.25.

Daily settlement other than settlement on the final settlement day or during the last month of clearing shall be the price assessment of the Thomson Reuters Malaysia RBD Palm Olein third forward month from the CME contract month rounded to the nearest \$0.25. The final settlement price shall be determined on the final settlement day.

POO: Final settlement is accomplished by cash settlement. Payment is made or received through the CME Clearing House in accordance with normal settlement procedures based on the final settlement price of the underlying which is the expiring CPO contract. As these options are European style, there will be no early exercise. As these options are cash settled, there will be no assignment of futures positions.

Daily settlement will be determined by Exchange staff basing on relevant market data including, but not limited to, pricing data from market participants such as broker quotes, cleared prices, the settlement prices of related products and any other pricing data from sources deemed reliable by staff.

POX: Final settlement is accomplished by cash settlement. Payment is made or received through the CME Clearing House in accordance with normal settlement procedures based on the settlement price for the third forward month BMD FCPO contract on the 10th calendar day of the contract month, converted to USD using the Kuala Lumpur USD/MYR Reference Rate published that day at approximately 3:30 p.m. (Singapore time) rounded to the nearest \$0.25. The Kuala Lumpur USD/MYR Reference Rate is available on the Thomson Reuters MYRFIX02 page. If the 10th calendar day of the contract month is not a BMD business day, the price on the preceding BMD business day shall be used. As these options are European style, there will be no early exercise. As these options are cash settled, there will be no assignment of futures positions.

Daily settlement will be determined by Exchange staff basing on relevant market data including, but not limited to, pricing data from market participants such as broker quotes, cleared prices, the settlement prices of related products and any other pricing data from sources deemed reliable by staff.

All daily settlements are available on the CME Group website cmegroup.com/palm

3. How do the CME spot month contracts that are settled on averages match up with their underlying, and how are they final settled?

CPO: BMD FCPO futures contracts expire on the 15th calendar day of each month, or if the 15th is a non-market day, the preceding BMD business day. For example, on February 1st 2020, the first three contract months listed on BMD were February, March and April, with April being the third-forward month. On February 14th after market close, February FCPO contract expired, and May contract became the third-forward month for trade date February 17th. Thus, the third-forward FCPO futures contract during the month of February 2020 was the April contract during the first part of February, and the May contract during the second part of February. Final settlement would be the average of the USD converted prices from these contracts each day during the month of February.

OPS, OPF: Rollover dates for Thomson Reuters Malaysian RBD palm olein assessment are after the 15th of each month, following the Bursa Malaysia crude palm oil futures schedule. For example, for all business days during the period of February 1st through February 15th, 2020, the CME February 2020 Palm Olein Calendar Swap/ Future is underlined by Thomson Reuters third month, April 2020 assessment. Starting 17th, the first business day after the 15th, Thomson Reuters no longer reported February 2020 assessments, and the third month assessment became May. Therefore, the CME February contract is priced off the May 2020 assessment for the remainder of the contract month. Thus, final settlement for the CME February 2020 contract will be an average of Thomson Reuters April assessments (1st February to 14th February) and Thomson Reuters May assessments (17th February to 28th February).

CME Crude Palm Oil February Calendar Futures (CPO) Final Settlement Price Example

DATE	THIRD FORWARD FCPO CONTRACT	FCPO PRICE IN MYR	KUALA LUMPUR USD/MYR REFERENCE RATE	USD PRICE
2/3/2020	April 2020	2613	4.1110	635.50
2/4/2020	April 2020	2668	4.1169	648.00
2/5/2020	April 2020	2804	4.1195	680.75
2/6/2020	April 2020	2850	4.1210	691.50
2/7/2020	April 2020	2813	4.1327	680.75
2/10/2020	April 2020	2754	4.1465	664.25
2/11/2020	April 2020	2695	4.1401	651.00
2/12/2020	April 2020	2709	4.1331	655.50
2/13/2020	April 2020	2625	4.1407	634.00
2/14/2020	April 2020	2660	4.1427	642.00
2/17/2020	May 2020	2649	4.1375	640.25
2/18/2020	May 2020	2639	4.1489	636.00
2/19/2020	May 2020	2547	4.1588	612.50
2/20/2020	May 2020	2590	4.1768	620.00
2/21/2020	May 2020	2622	4.1925	625.50
2/24/2020	May 2020	2543	4.2177	603.00
2/25/2020	May 2020	2438	4.2217	577.50
2/26/2020	May 2020	2419	4.2407	570.50
2/27/2020	May 2020	2459	4.2167	583.25
2/28/2020	May 2020	2319	4.2202	549.50
CALENDAR AVERAGE				630.00

CME Palm Olein February Calendar Futures (OPF) Final Settlement Price Example

DATE	THOMSON REUTERS THIRD MONTH ASSESSMENT	ASSESSMENT PRICE
2/3/2020	April 2020	672.50
2/4/2020	April 2020	680.00
2/5/2020	April 2020	710.00
2/6/2020	April 2020	720.00
2/7/2020	April 2020	705.00
2/10/2020	April 2020	690.00
2/11/2020	April 2020	677.50
2/12/2020	April 2020	682.50
2/13/2020	April 2020	662.50
2/14/2020	April 2020	667.50
2/17/2020	May 2020	665.00
2/18/2020	May 2020	662.50
2/19/2020	May 2020	642.50
2/20/2020	May 2020	645.00
2/21/2020	May 2020	650.00
2/24/2020	May 2020	630.00
2/25/2020	May 2020	605.00
2/26/2020	May 2020	600.00
2/27/2020	May 2020	612.50
2/28/2020	May 2020	580.00
CALENDAR AVERAGE		658.00

4. How do the CME spot month contracts that are settled as bullets match up with their underlying, and how are they final settled?

CPV: The final settlement price is based on the third forward month BMD FCPO contract. For example, on February 1st 2020, the first three contract months listed on BMD were February, March and April, with April being the third-forward month. As Feb 15th is a weekend, the settlement on the 14th is used. Final settlement would be based on the USD converted price rounded to the nearest \$0.25.

CME Crude Palm Oil February Bullet Futures (CPV) Final Settlement Price Example

DATE	THIRD FORWARD FCPO CONTRACT	FCPO PRICE IN MYR	KUALA LUMPUR USD/MYR REFERENCE RATE	USD PRICE
2/14/2020	April 2020	2660	4.1427	642.09
AFTER ROUNDING				642.00

POX: The final settlement price is based on the third forward month BMD FCPO contract. For example, on February 1st 2020, the first three contract months listed on BMD were February, March and April, with April being the third-forward month. The settlement on the 10th is used. Final settlement would be based on the USD converted price rounded to the nearest \$0.25.

CME Crude Palm Oil February Day 10th Financial Options (POX) Final Settlement Price Example

DATE	THIRD FORWARD FCPO CONTRACT	FCPO PRICE IN MYR	KUALA LUMPUR USD/MYR REFERENCE RATE	USD PRICE
2/10/2020	April 2020	2754	4.1465	664.17
AFTER ROUNDING				664.25

5. How is the final settlement price impacted if there is a Malaysian holiday on the Last Trade date?

In the event BMD is closed and there is no trading in the reference FCPO contract, for the bullet CPV and POX contracts, the settlement price of the preceding BMD business day will be used. For example, if the 10th of the month is such a holiday, then the settlement of the 9th will be used instead for POX. Take note that in this example CPV is not impacted as it expires on a different day, i.e. 15th.

In the case of the calendar average CPO and POO contracts, the average of the month excluding that holiday, will be used.

6. What is the main rationale behind the 2021 launch of bullet futures (CPV) and options (POX) when there are already calendar futures (CPO) and options (POO) since 2016?

Based on market feedback, there is a group of potential users that are more familiar with the bullet style method of contract expiration that is more commonly found in agricultural markets. CPV and POX will better cater to the needs of this potential group of users.

7. Are there price limits?

There are no price limits.

8. What are the hours for trade entry on CME ClearPort?

Trades may be entered on CME ClearPort Sunday 5:00 p.m. – Friday 5:45 p.m. Chicago Time with no reporting Monday – Thursday from 5:45 p.m. – 6:00 p.m. Chicago Time.

9. Are trades executed at 1.30 pm Chicago time for today or tomorrow's trade?

All trades executed through 5:45 p.m. Chicago time will be considered today's trade.

10. Are there Position Limits?

CPO: Has a maximum Position Limit of 3,000 contracts in the spot month, and a Position Accountability Level of 8,000 contracts in any single month, or in all months combined.

CPV: Has a maximum Position Limit of 3,000 contracts in the spot month, and a Position Accountability Level of 8,000 contracts in any single month, or in all months combined.

OPS: Has a Position Accountability Level of 1,000 contracts in any single month, or in all months combined.

OPF: Has a maximum Position Limit of 1,000 contracts in any single month, or in all months combined.

POO: Positions are aggregated into the underlining CPO futures contracts based on a delta equivalent value.

POX: Positions are aggregated into the underlining CPV futures contracts based on a delta equivalent value.

11. What is the difference between a Position Accountability Level and a Position Limit?

Position Limits are levels which a market participant may not exceed unless they have an approved exemption.

Position Limits are calculated on a net futures-equivalent basis by contract, for example, positions in CPO and POO are aggregated into one limit with option positions calculated on a delta equivalent value.

Position Accountability Levels are levels which a market participant may exceed and not be in violation of an Exchange Rule. A market participant who exceeds an accountability (or reportable) level may be asked by the Market Regulation Department (the "Department") to provide information relating to the position, including, but not limited to, the nature and size of the position, the trading strategy employed with respect to the position, and hedging information, if applicable.

A more detailed explanation is found in Rules 559, 560 of the CME Rulebook.

12. I am a bona-fide hedger and I need to exceed Position Limits. Can I apply for a hedge exemption?

Yes, you can apply for a hedge exemption. Market participants may be eligible to receive an exemption from Position Limits in accordance with Rule 559 based on having bona fide hedging positions (as defined by CFTC Regulation §150.1) risk management positions and/or arbitrage and spread positions.

To obtain an exemption application or for further information on the exemption application process, please contact us at Hedgeprogram@cmegroup.com

13. Are the future/option contracts available for clearing as well?

Yes, the future/option contracts can be privately negotiated as blocks and registered for clearing through CME ClearPort.

14. Is there a minimum block size that needs to be met?

For futures/options there is a minimum block size of 10 contracts, and trades need to be reported within 15 minutes. For swaps, there is no minimum size requirement nor a reporting time requirement.

15. Are there margin offsets between the futures and other future contracts at CME Group?

Yes, margin offsets are available between futures and other CME Group future contracts such as corn, soybean, soybean oil, etc.

16. Are there margin offsets between the swaps and future contracts at CME Group?

There are margin offsets between OPS and OPF. However, margin offsets are not available between OPS and other futures.

17. Why are there fewer contract month listings for options than futures?

The intention is to simplify with a shorter listing for options instead of equaling the listing schedule for futures. The Exchange will expand the options contract month listings should there be market demand.

18. Why are the strike intervals of POO and POX at \$10?

Based on market feedback, we decided to start with \$10 strike interval. The Exchange will seek to list strike prices in smaller intervals should there be market demand.

19. Why are the strike listings of POO and POX only limited to 10 strikes above and below the at-the-money options?

Everyday 10 strikes above and below the at-the-money are generated for these options. However, trades at customized strike prices can be processed with the support of dynamic strike price listing function, as long as the strikes are in \$10 intervals to the at-the-money strike.

20. How do I access the privately negotiated markets for these products?

The easiest and most convenient way you can access these privately negotiated markets would be through Inter Dealer Brokers (IDBs). A list of IDBs is available on the CME Group website cmegroup.com/palm

21. What is an EFRP and are EFRPs available for trading in CME Group palm oil futures and options?

The term EFRP is an acronym for Exchange for Related Position. An EFRP is a transaction that involves a privately negotiated, off-exchange execution of an exchange futures or options contract and, on the opposite side of the market, the simultaneous execution of an equivalent quantity of the cash product, by-product, related product or OTC derivative instrument corresponding to the asset underlying the exchange contract.

Types of EFRPs include: **Exchange of Futures for Physical (EFP)**, **Exchange of Futures for Risk (EFR)** and **Exchange of Option for Option (EOO)**.

EFRPs may be executed for any futures or options contracts on any CME Group exchange, provided that all exchange and CFTC regulatory requirements are met. More information is available on the CME Group website

22. What would be an example of how EFRPs can be used in CME Group palm futures and options?

One example would be in the use of EFPs to price physical shipments. Buyers and sellers can enter into an agreement to purchase physical palm shipments using basis pricing. Basis pricing refers to a premium or discount to the CME palm futures contracts such as CPO, CPV, OPF. The buyer would then purchase a similar tonnage in futures contracts, whose prices, when added with the premium/discount, will determine the final price of the physical contract. The buyer would then EFP these future contracts to the seller in the final stage. The benefit of transacting using basis pricing is that it gives the buyer and seller the ability to determine the final price at other dates and times independently of one other. By the use of futures contracts and EFPs, both buyers and sellers will have more flexibility in terms of pricing.

[Learn more about EFRPs, here](#)

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Mailing Address: 20 South Wacker Drive, Chicago, Illinois 60606

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