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A Brief History of Oil Prices and Middle East Tensions: Fear of a Black Gold Shortage

By Ryan Arian
Global climate change is becoming more than just a scary bedtime story that could happen to someone, somewhere, and at some time. Out of all the industries, it is the power sector that seems to be getting the hit by this monster. And it is coming much faster – and hitting much harder – than anyone may have imagined.

Scientists have been warning that climate change will bring not just warming air, but also extreme weather events. The most recent wildfire in California, the Rim Fire, started on August 17, 2013, and is expected to remain “in the wild” until October. At the time when this letter was written, the fire has been rated the third largest wildfire in California’s history. Its magnitude has earned it an article in Wikipedia, resulted in a closure of a hydroelectric plant, damaged transmission infrastructure, and cost hundreds of millions of dollars. Environmental groups have already attributed it to the global warming. While this premise is being combated by opposing parties, the research shows that the environmentalists might be right.

The U.S. Department of Energy (DoE) prepared a study on the energy sector vulnerability to the impacts of the climate change. The report shows that the critical infrastructure can be affected by the changing climate and rather severely so. A warmer temperature is apparently a scary monster with many long and daunting tentacles that can reach to the most remote nooks of the power sector (if you’re wondering, this is my metaphor, not the DoE’s).

The immediate and most obvious impact from hot weather is a growing demand that comes from increasing water consumption by agriculture, industrial, commercial, and residential customers. Of course, pumping more water to consumers requires more electricity. Growing demand for cooling services and air conditioning adds another straw to the camel’s back. The logical and reasonable answer to this challenge seems to be straightforward and simple: “Bring more power generation online”. But, not so fast! Our climate change monster is reaching out far beyond the demand side of the equation and is hitting supply side with the same, and even more destructive, hammer.

Figure 1: Impact on Power Industry from Climate Change | Source: ZE
As it turns out, hot weather makes it difficult, if not impossible, to increase generating capacity. First of all, almost all power generators use water for electricity production. Thermoelectric power generation relies heavily on water for cooling and its water withdrawals comprise 40% of the total freshwater consumption in the U.S. No doubt, there are dry cooling and water recirculating technologies, but their share is only marginal.

Scorching droughts and declining snowpacks will make water a more valuable commodity and will result in its shortage available for power generation. Fossil-fueled, nuclear, as well as concentrated solar power (CSP) generators will face shutdown threats. An interesting fact: CSP power facilities, while being renewable resources, consume even more water than fossil-fueled or nuclear generators. With the diminished hydro levels, hydroelectric power plants will be short on their fuel – actual water. Hydropower shortage is usually replaced by fast responding units, such as gas-fired generators, which will need...interestingly enough...more water.

To be fair, this scary monster tale is not universal and will differ by regions. In effect, some areas will be overwhelmed with water flows and actually “too much water” will be a dilemma for them to solve; however, the common trend will remain with the dropping water levels and the overall shortage of water. Oh, yeah, I almost forgot: increasing air temperatures cause a reduction of power carrying capacity and sagging of power lines. So add in a few chapters about the decrease in efficiency, dropping transmission capacity, and increase of power outages to the horror story.

The electricity industry’s terror will not cease with increasing air temperature. Global climate change will bring in more nightmares: floods, storms, hurricanes, wildfires (as already mentioned), and maybe even earthquakes. The damage from those fiends will be even more devastating. Picture this: coastal facilities washed away by storms, inland generators sunk in floods, power lines destroyed by fires and storms.

The resulting equation is quite unbalanced: the same weather events that will push the demand up will at the same time create many obstacles to sustain supply on the required levels. A real monster this global climate change is.

The DoE study reports that 34GW of additional capacity costing US$45 billion (in 2005 dollars) will be required by 2050 (only for the western region and only to meet spiking demand caused by global climate change). And additional transmission capacity, fuel, and O&M investments needed to actually serve this electricity to the consumers will double the bill.

And, the governments are starting to take notice and action. California, no question, is the first to respond. The California Energy Commission 2013 Integrated Energy Policy Report, which is yet in its development stage, will include a section on climate change and its impact on California’s energy supply and demand infrastructure with remediation options. U.S. federal response is coming our way too. In the recently released Economic Benefits of Increasing Electric Grid Resilience to Weather Outages report on economic benefits of increasing grid resilience to weather outages, the White House quoted the cost of $25 to $70 billion to the U.S. economy annually for weather-related outages. The report calls for increased spending for the grid to withstand storm-caused power outages. Probably the most interesting part of the report is that among strategies for achieving grid resilience, the President’s Executive Office lists increased visualization and situational awareness. For all of us, this means one thing: more data to manage and more analytical tools to employ to fend off the beast.

Olga Gorstenko
Platts Adds Daily Non-firm Electricity Assessments for the West

On August 20, 2013, Platts announced it will begin daily assessments of day-ahead, non-firm electricity delivered in the Western U.S. interconnection, effective September 13. Non-firm electricity contracts typically contain different penalty rules and trade at a discount when compared with firm electricity contracts. The non-firm assessments will be for the same Western delivery locations for which Platts already publishes firm electricity assessments. The new assessments will be for the following indexes: Mid-C, COB, Palo Verde, Mead, Mona, Four Corners, NP15 and SP15.

Platts Ends 2 Polish Electricity Assessments

On September 11, 2013, Platts announced it will discontinue its two Polish power contracts, Month-Ahead+1 and Month-Ahead+2, and their accompanying assessments, effective December 2. The remaining assessments will continue to be published in European Power Daily and European Power Alert.

Platts Changes Polish Electricity Assessments

On September 11, 2013, Platts announced it will publish the day-ahead, week-ahead, front-month, front-quarter, and year-ahead periods for Polish power assessments as single mid-point values in Zloty/MWh and Eur/MWh, effective December 2. Previously, this was published as a high-low range in European Power Daily and European Power Alert.

CME Renames Four Power Contracts

On August 15, 2013, CME Group has announced it will rename four power contracts, effective August 26, 2013. The affected products are as follows:

<table>
<thead>
<tr>
<th>Code</th>
<th>Old Description</th>
<th>New Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>R8</td>
<td>PJM PEPCO Zone Peak Calendar-Month Day-Ahead LMP Swap Futures</td>
<td>PJM PEPCO Zone Peak Calendar-Month Day-Ahead LMP 5 MW Futures</td>
</tr>
<tr>
<td>PEP</td>
<td>PJM PEPCO Zone Peak Calendar-Month Day-Ahead LMP Option</td>
<td>PJM PEPCO Zone Peak Calendar-Month Day-Ahead LMP 5 MW Option</td>
</tr>
<tr>
<td>L6</td>
<td>PJM PSEG Zone Peak Calendar Month Day-Ahead LMP Futures</td>
<td>PJM PSEG Zone Peak Calendar-Month Day-Ahead LMP 5 MW Futures</td>
</tr>
<tr>
<td>PSG</td>
<td>PJM PSEG Zone Peak Calendar Month Day-Ahead LMP Option</td>
<td>PJM PSEG Zone Peak Calendar-Month Day-Ahead LMP 5 MW Option</td>
</tr>
</tbody>
</table>

The graph below compares the prices of PJM Western Hub Peak Calendar-Month Real Time LMP Futures on CME between August 15 and September 20.

ERCOT Updates Electric Market Mobile App

On August 19, 2013, ERCOT released an updated version of their Energy Saver mobile app, which has a new user interface that encompasses real-time and hourly system conditions, access to relevant ERCOT, grid, and competitive electric market information, and wholesale prices. The app also features a map showing current competitive load zone prices and settlement point prices updated every 15 minutes. To remain updated on ERCOT market conditions throughout the day with the free app, search for “ERCOT Energy Saver” for Apple devices in the App Store/iTunes or for Android devices in the Google Play.

*Graph created with ZEMA*
Argus Changes Spanish and Polish Load Assessment

Effective August 23, 2013, Argus announced that it will change the descriptions of five Spanish and Polish load assessments. The affected codes are as follows:

<table>
<thead>
<tr>
<th>PA-Code</th>
<th>Old Description</th>
<th>New Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>PA0003546</td>
<td>Spanish OTC base load day ahead</td>
<td>Spanish OTC base load day-ahead</td>
</tr>
<tr>
<td>PA0004231</td>
<td>Polish OTC base load Euro/MWh day ahead</td>
<td>Polish OTC base load Euro/MWh day-ahead</td>
</tr>
<tr>
<td>PA0004236</td>
<td>Polish OTC base load Zloty/MWh day ahead</td>
<td>Polish OTC base load Zloty/MWh day-ahead</td>
</tr>
<tr>
<td>PA0005186</td>
<td>Polish OTC peak load Euro/MWh day ahead</td>
<td>Polish OTC peak load Euro/MWh day-ahead</td>
</tr>
<tr>
<td>PA0005188</td>
<td>Polish OTC peak load Zloty/MWh day ahead</td>
<td>Polish OTC peak load Zloty/MWh day-ahead</td>
</tr>
</tbody>
</table>
EEX Adds German Natural Gas Products

On August 14, 2013, the European Energy Exchange (EEX) has announced that it will introduce quality-specific Spot Market products for the German gas market, effective October 1, 2013. This introduction will simplify trading in control energy on the exchange gas market, enabling exchange trading and delivery of both high-calorific gas (H-gas) and low-calorific gas (L-gas). H-gas and L-gas volumes can now be traded on the PEGAS trading platform around the clock for the first time, increasing trading liquidity and transparency.

NOS to Trade Cleared Tankers In Blocks

On August 21, 2013, NOS Clearing announced that, in order to help improve post-trade transparency, all cleared tanker trades would be executed as Blocks and would be made available on its website after close of business under the Freight Daily Volume and Open Interest Section.

Marex Completes API5 Index-Linked Thermal Coal Deal

On August 23, 2013, Marex Spectron Singapore finalized a term deal for Australian 5500NAR high ash thermal coal, set to deliver in 2014. The deal was completed using Argus and McCloskey’s API5 Index, which is known to accurately portray the market for mid-CV high ash thermal coal in the Asia Pacific region, helping mitigate risk. Since being created in May 2012, the index, which tracks free-on-board (FOB) prices of Newcastle high ash coal, has become increasingly popular among traders.

Platts Adds UK-WAF 60,000 mt Assessment

On August 27, 2013, Platts announced it will launch daily UK Continent-West Africa routed 60,000 mt clean refined product cargoes assessments, effective November 4. The addition reflects an increase in flow for this route in clean products for this cargo size.

CME Adds Low Sulfur Gasoil Crack Spread Financial Futures

On August 15, 2013, CME Group announced the addition of low sulfur gasoil crack spread financial futures that refer to the spread between ICE Brent crude futures and ICE low sulfur gasoil futures, effective September 9. The futures are based on 1,000 barrels, are financially settled, and are traded on Globex, ClearPort, and NXPIT.

<table>
<thead>
<tr>
<th>Description</th>
<th>Clearing Code</th>
<th>Globex Code</th>
<th>SPAN Code</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low Sulfur Gasoil Crack Spread Financial Futures</td>
<td>LSC</td>
<td>LSC</td>
<td>LSC</td>
</tr>
</tbody>
</table>

Platts Adds V-Grade Gas Assessment

On August 27, 2013, Platts confirmed that it will create a new, sub-octane (V grade) gasoline assessment for Group 3 in the U.S. Midwest, effective September 3. To comply with recent specification revisions by Magellan Pipeline, the new assessment will either have a minimum 84 octane rating, or a minimum 83 octane rating if the shipper can demonstrate an 87 octane rating after blending 10% ethanol. The assessment will be found on page 320 of PGA and in the US Marketscan and Oilgram Price Report, and an intraday assessment will be found on page 302 of Platts Global Alert.

Platts to End 9 RVP USGC Gas Assessments

On August 20, 2013, Platts announced that it will end four U.S. Gulf Coast summer supplemental 9 RVP gasoline assessments, effective September 5, 2013. The 13.5 RVP assessments will take over as the main assessments. The affected assessments include:

<table>
<thead>
<tr>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conventional gasoline (M2)</td>
</tr>
<tr>
<td>Premium gasoline (V2)</td>
</tr>
<tr>
<td>CBOB (A2)</td>
</tr>
<tr>
<td>Premium CBOB (D2)</td>
</tr>
</tbody>
</table>
Platts Ends FOB Japan Butadiene Assessment

On September 11, 2013, Platts confirmed it will end its weekly FOB Japan spot butadiene assessments, effective November 1. The discontinuation is due to changing trading patterns in Asia.

Platts Ends Japan, Korea Fuel Oil Assessments

On September 13, 2013, Platts announced it will discontinue its assessments for FOB Korea and FOB Okinawa 1.5% 180 CST fuel oil and FOB Okinawa 3.5% 180 CST fuel oil, effective April 1, 2014. The discontinuation is due to changing market conditions, including evolving trade flows and unpopular grades.

Platts to End RON 80 Normal Unleaded Gas Assessments

On September 9, 2013, Platts announced that it proposes to terminate the two RON 80 normal unleaded gasoline assessments, basis Ufa in the Privolzhsky Federal District and basis Moscow in the Central Federal District, effective March 22, 2014. Numerous Russian refineries have cut down or eliminated productions of the grade as a result of changing production patterns and demand, along with the aim to abide by stricter environmental obligations. Since production has decreased, liquidity is not satisfactory to back a relevant price reference.

NYMEX Delists Four Natural Gas Contracts

On August 14, 2013, the New York Mercantile Exchange, Inc. (NYMEX) announced the product delisting of four Pine Energy Center (PPEC) freight products, effective August 12, 2013. The affected products are as follows:

<table>
<thead>
<tr>
<th>Product Name</th>
<th>Clearing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pine Prairie Energy Center (PPEC) Physically Delivered Natural Gas Daily/Weekend Futures</td>
<td>PPD / PPD</td>
</tr>
<tr>
<td>Pine Prairie Energy Center (PPEC) Physically Delivered Natural Gas BALMO Futures</td>
<td>PPB / PPB</td>
</tr>
<tr>
<td>Pine Prairie Energy Center (PPEC) Physically Delivered Natural Gas Monthly Futures</td>
<td>PPM / PPM</td>
</tr>
<tr>
<td>Pine Prairie Energy Center (PPEC) Physically Delivered Natural Gas Monthly Basis Futures</td>
<td>PPE / PPE</td>
</tr>
</tbody>
</table>

Argus Renames Crude Data Series Descriptions

Effective September 3, 2013, Argus announced that it will change the description in the Argus Crude and Argus Americas Crude data series, affecting the dhc files in the /DCRDEUS folder of ftp.argusmedia.com. The affected data series is as follows:

<table>
<thead>
<tr>
<th>PA-Code</th>
<th>Old Description</th>
<th>New Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>PA0010005</td>
<td>Canadian CMA month</td>
<td>Nymex CMA month</td>
</tr>
</tbody>
</table>

Argus Changes Coal Assessment

Effective, August 23, 2013, Argus announced that it will change the descriptions of three coal assessments. The affected codes are as follows:

<table>
<thead>
<tr>
<th>PA-Code</th>
<th>Old Description</th>
<th>New Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>PA0007774</td>
<td>Coal (API4) fob Richards bay daily index</td>
<td>Coal (API4) fob Richards Bay daily index</td>
</tr>
<tr>
<td>PA0011926</td>
<td>Coal API4 index fob Richards bay daily (Euro/t)</td>
<td>Coal API4 index fob Richards Bay daily (Euro/t)</td>
</tr>
<tr>
<td>PA0011930</td>
<td>Coal API4 index fob Richards bay current month average (Euro/t)</td>
<td>Coal API4 index fob Richards Bay current month average (Euro/t)</td>
</tr>
</tbody>
</table>

Platts to Change Seattle, Portland Gas Assessments

On August 23, 2013, Platts proposed to change the specifications for Portland and Seattle gasoline assessments to be in line with current standards for the Olympic and Kinder Morgan pipeline systems. The specifications for Portland and Seattle (respectively) would change from the current 91 and 87 octane to 84 octane for conventional suboctane gasoline and 90 octane for premium suboctane. Presently, Portland gasoline is published on page 350 of PGA, under the codes PGADD00 for 87 octane and PGABL00 for 91 octane. Seattle gasoline is presently published on page 350 of PGA, under the codes PGADF00 for 87 octane and PGABN00 for 91 octane.
Platts To Change USGC Gas to 11.5 RVP

On August 20, 2013, Platts announced that the below U.S. Gulf Coast gasoline assessments will reflect 11.5 RVP, instead of their present 7.8 RVP and 7 RVP levels, effective September 5, 2013.

<table>
<thead>
<tr>
<th>Assessment</th>
<th>RVP Before Sept 5</th>
<th>RVP After Sept 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conventional gasoline</td>
<td>7.8 RVP M1</td>
<td>11.5 RVP M3</td>
</tr>
<tr>
<td>Premium gasoline</td>
<td>7.8 RVP V1</td>
<td>11.5 RVP V3</td>
</tr>
<tr>
<td>CBOB</td>
<td>7.8 RVP A1</td>
<td>11.5 RVP A3</td>
</tr>
<tr>
<td>Premium CBOB</td>
<td>7.8 RVP D1</td>
<td>11.5 RVP D3</td>
</tr>
<tr>
<td>Atlanta</td>
<td>7 RVP S0</td>
<td>11.5 RVP S3</td>
</tr>
<tr>
<td>Atlanta Premium CBOB</td>
<td>7 RVP T0</td>
<td>11.5 RVP T3</td>
</tr>
</tbody>
</table>

Platts Adjusts USAC RINs RVO Calculation

On August 20, 2013, Platts announced that, in order to better align with the U.S. Environmental Protection Agency’s (EPA) 2013 renewable targets, it revised the calculation of its Renewables Identification Numbers (RINs) Renewable Volume Obligations (RVO) used in U.S. Atlantic Coast gasoline assessments. The adjusted percentages are listed below. To learn more about the EPA’s RINS and RVOs, see the EPA article here.

<table>
<thead>
<tr>
<th>Description</th>
<th>Adjusted Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Biodiesel</td>
<td>1.13%</td>
</tr>
<tr>
<td>Advanced</td>
<td>0.486%</td>
</tr>
<tr>
<td>Cellulosic</td>
<td>0.004%</td>
</tr>
<tr>
<td>Ethanol</td>
<td>8.12%</td>
</tr>
</tbody>
</table>

Platts Updates Asia Dated-Brent Basis Assessments

On August 16, 2013, Platts announced it will update its Dated Brent-related Asia and Middle East crude oil and condensates assessments in order to take into account the relationship of physical market spot premiums to Dated Brent forward market values, effective September 2. The change will help to reflect market structure value when backwardation or contango occurs. Currently, Platts publishes outright Dated Brent crude and premium values, based on the physical market premiums to Asian Dated Brent Prices. The enhanced approach will include spot market premiums being added to or subtracted from the Dated Brent forward values – not just the outright physical value of Dated Brent. For a full list of affected crudes and condensates for ADB Strip Asia and ADB Strip Middle East, see the Platts release here.

Platts to Rename FOB ARA Fuel Swaps

On August 20, 2013, Platts announced that it will rename its FOB ARA fuel oil 3.5% barge swaps, FOB ARA fuel oil 1% barge swaps, and associated derivatives assessments, effective January 2, 2014. The renaming will better represent the underlying physical market “FOB Rotterdam,” which has always been the basis location for Platts physical high sulfur fuel oil barge assessments. The table below contains the pages which contain FOB ARA fuel oil swaps assessments in Platts Forward Curve Europe.

<table>
<thead>
<tr>
<th>Page Global Alert</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Page 1684</td>
<td>Platts Fuel Oil 1% FOB ARA Barge and Brent Crack Swaps</td>
</tr>
<tr>
<td>Page 1687</td>
<td>Platts Fuel Oil 3.5% ARA/Med Diff Swaps</td>
</tr>
<tr>
<td>Page 1680</td>
<td>Platts Fuel Oil 3.5% FOB ARA Barge and Brent Crack Swaps</td>
</tr>
</tbody>
</table>

Platts Assesses Capesize Met Coal Freight Rates

On August 14, 2013, Platts announced it will assess spot freight rates for metallurgical coal Capesize cargoes From Australia to China, effective September 2. This will enable the FOB Australia netbacks calculation from CFR China assessments for Capsize vessel-shipped coal. These assessments will reflect 150,000 mt loading cargoes 7-45 days forward from assessment, in U.S. dollars per metric ton, and will cover the transportation to Qingdao, northern China, from Hay Point, eastern Australia.
**Platts to Shorten Dubai Partials Price Increments**

On September 13, 2013, Platts announced it will reduce price increment times made in the Market on Close (MOC) assessment process for the partials of cash Dubai, Oman, Upper Zakum and partials spreads (to a maximum of 10 cents/barrel every 15 seconds from the current maximum of 10 cents/barrel every 30 seconds). This will take effect October 1.

**Platts to Change Jet CIF NWE Cargo Assessment**

On September 10, 2013, Platts called for feedback on its proposal to reflect ex-duty cargoes of jet fuel in its benchmark Jet CIF Northwest Europe Cargo assessment. In this proposal, Platts assessment processes consider bids, offers and trades for any jet fuel cargoes that meet standard quality specifications, entering Europe from January 1, 2014, most of which are delivered within five-day periods.

Beginning January 1, 2014, changes will be made to European taxation policy, making large supplies of jet fuel potentially taxable, as opposed to their current “EU-qualified,” import tax-free state. Currently, jet fuel imports from the Gulf Cooperation Council states, India, Venezuela, and Libya make up for nearly 80% of Europe’s jet fuel imports, and are free of duties. Beginning January 14, 2013, jet fuel imports from these regions would no longer be considered “EU-qualified,” and could be hit with a 4.7% tax levy. Platts’ new proposal would make jet fuel ex-duty assessments free of any import taxes or import fees, regardless of origin, to prevent the negative economic effect of the potential duties.
Platts Adds 3 Sugar Market Data Categories

On August 28, 2013, Platts announced the addition of three new sugar market data categories, including, Sugar Freight (SY), launched September 10; Sugar (SG), launched August 16; and Sugar Non-Platts Data (SP), launch date to be announced. Click on the following agriculture categories to see a full list of symbols: SY and SG. SP symbols have yet to be released. All historical data associated with these assessments will be backfilled.

The graph below plots the price of a NYMEX Sugar No. 11 Futures October 2013 contract throughout this year. Price fluctuation has mostly remained within 0.5 cents.

*Graph created with ZEMA

Platts to Add Two Russian Domestic Steel Assessments

On September 5, 2013, Platts proposed to create two new Russian domestic steel market price assessments. The proposed assessments will target the weekly ruble transaction value of commodity grades 2-4 mm hot-rolled sheets and 12-16mm rebar, both located in the CPT Moscow area.

Platts to Add Asian Industrial Bullion Prices

On August 18, 2013, Platts announced that it has proposed to add third-party precious metals prices for Asia provided by Engelhard, effective September 2. The Asian Engelhard Industrial Bullion prices for platinum, palladium, rhodium, iridium, and ruthenium would be published on Platts Metals Alert real-time service Page 073 at 1:15 pm/1315 Singapore/Hong Kong time (0515 GMT) and in Platts Metals Daily, in the Exchange-Traded and Third-Party Data table.

Argus Adds Steel Feedstock Series

Effective August 29, 2013, Argus announced that will add a new series to the Argus Steel Feedstocks publication and data module (located in the dsteel module in DATA/DSteelFeedstocks folder).

<table>
<thead>
<tr>
<th>PA-Code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>PA0012886</td>
<td>Metallurgical Coal fob Hampton Roads (high-vol B) within 90 days</td>
</tr>
</tbody>
</table>

Platts to Discontinue Asian Gold and Silver Prices

On August 18, 2013, Platts announced that it has proposed to discontinue Asian gold and silver prices, provided by Johnson Matthey, effective October 1, 2013. The prices were published on PMA 072.

CME Extends Iron Ore Listing on Globex

On August 13, 2013, CME Group announced that NYMEX will extend one iron ore product listing of contract months on CME Globex, effective on trade date August 26, 2013 and pending all relevant CFTC regulatory review periods.

<table>
<thead>
<tr>
<th>Code Clearing / Globex</th>
<th>Product Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>TIO / TIO</td>
<td>Iron Ore 62% Fe, CFR China (TSI) Futures</td>
</tr>
</tbody>
</table>

Argus Changes Steel Feedstock Series

Effective August 29, 2013, Argus announced that it will change the description for an existing code located in the Argus Steel Feedstocks publication and data module.

<table>
<thead>
<tr>
<th>PA-Code</th>
<th>Old Description</th>
<th>New Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>PA0007780</td>
<td>Metallurgical Coal fob Hampton Roads (high-vol A) within 90 days</td>
<td>Metallurgical Coal fob Hampton Roads (high-vol A) within 90 days</td>
</tr>
</tbody>
</table>
Argus Changes Two NA Fertilizer Assessments

Effective September 5, 2013, Argus announced it will replace two codes from the Argus FMB North American Fertilizer report, found in the DFNA folder of the ftp.argusmedia.com server. The last data points for the old series will be August 29, 2013.

The changes are as follows:

<table>
<thead>
<tr>
<th>Old PA-Code</th>
<th>Old Description</th>
<th>New PA-Code</th>
<th>New Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>PA0012928</td>
<td>DAP bulk ex-Morocco cfr New Orleans</td>
<td>PA0010802</td>
<td>DAP bulk cfr ex-Morocco</td>
</tr>
<tr>
<td>PA0012929</td>
<td>MAP bulk ex-Baltic cfr New Orleans</td>
<td>PA0010809</td>
<td>MAP bulk cfr ex-Baltic</td>
</tr>
</tbody>
</table>

Argus Changes Toluene and Xylenes Daily Assessments

Effective August 30, 2013, Argus announced that it will update the categories for codes found in the Argus Dewitt Toluene and Xylenes Daily (located in the dtxdaily data file). For a full list of codes affected, see: [http://web04.us.argusmedia.com/ArgusStaticContent/Resources/data/announcements/pdf/20130830txdaily.pdf](http://web04.us.argusmedia.com/ArgusStaticContent/Resources/data/announcements/pdf/20130830txdaily.pdf)

Argus Changes Iron Ore Freight Assessments

Effective August 23, 2013, Argus has announced that it will be changing the descriptions for two iron ore assessments. The affected codes are as follows:

<table>
<thead>
<tr>
<th>PA-Code</th>
<th>Old Description</th>
<th>New Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>PA0012226</td>
<td>Iron ore Tubarao-Antwerp Capesize 160.000t freight</td>
<td>Iron ore Tubarao-Antwerp Capesize 160kt</td>
</tr>
<tr>
<td>PA0012227</td>
<td>Iron ore Tubarao-Qingdao Capesize 160.000t freight</td>
<td>Iron ore Tubarao-Qingdao Capesize 160kt</td>
</tr>
</tbody>
</table>

Argus Discontinues Fertilizer Assessments

Effective September 5, 2013, Argus discontinued two assessments:

<table>
<thead>
<tr>
<th>PA-Code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>PA0010802</td>
<td>DAP bulk cfr ex-Morocco</td>
</tr>
<tr>
<td>PA0010809</td>
<td>MAP bulk cfr ex-Baltic</td>
</tr>
</tbody>
</table>

Platts Changes Asia Precious Metals Prices

On August 18, 2013, Platts announced that it has proposed to change the publishing of Johnson Matthey prices for Asia, effective September 2, 2013. On page 072 of the current Platts Metal Alert, platinum, palladium and rhodium prices will be updated once daily as of 1400 Singapore/Hong Kong time (0600 GMT). Platts previously proposed to publish the prices twice daily at 0830 Singapore/Hong Kong time (0030 GMT) and 1400 Singapore/Hong Kong time (0600 GMT). On the same page, the label will be changed from "Asia precious metals: Spot prices at 0700 GMT" to "Johnson Matthey Asia precious metals at 1400." The page will also publish Johnson Matthey prices for comparison as of 0830 Singapore/Hong Kong time (0030 GMT).
EPA Launches Green Sports Resource Directory Online

On August 26, 2013, the U.S. Environmental Protection agency (EPA) announced the launch of its new online Green Sports Resource Directory designed to help teams, venues, and leagues cut down on carbon pollution and save money. The new directory will incorporate success stories of teams who have gone green and information on how other teams can do the same. EPA hopes to engage not only teams to go green, but fans as well, in alignment with President Obama's Climate Action Plan.

The graph below shows average and total goals scored by the Vancouver Canucks each year from 1970 to 2012. Data from ShrpSports.

*Graph created with ZEMA

Carbon Market Data Adds Croatia to Platform

On August 30, 2013, Carbon Market Data, a European company providing carbon market research and data supply services, announced that it had added 27 Croatian installations to its data platform. This comes on the heels of another 450 new installations and 50 new airline companies added to its databases: EU ETS, EEA ETS, and Aviation ETS.

EEX Launches Global Environmental Exchange GmbH

On August 30, 2013, The European Energy Exchange (EEX) launched Global Environmental Exchange GmbH (GEEX), a spin-off of its Emissions Spot and Derivatives Markets. The decision was in line with the company’s strategy to develop existing markets and allows them to participate in the growing market for CO₂ trading, which has grown from 3.2 million tonnes traded in 2005 to 250 million tonnes in 2012.

Argus Adds 11 Global Methanol Codes

Effective August 30, 2013, Argus announced that it will add 11 global methanol codes. The introduction is a result of renaming the Argus Dewitt Methanol and Derivatives publication into JJ&A Global Methanol Report. The new codes are as follows:

<table>
<thead>
<tr>
<th>PA-Code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>PA0012551</td>
<td>Methanol barge US Gulf coast</td>
</tr>
<tr>
<td>PA0012552</td>
<td>Methanol barge US Gulf coast weighted average month</td>
</tr>
<tr>
<td>PA0012553</td>
<td>Methanol barge US contract weighted average index month</td>
</tr>
<tr>
<td>PA0012554</td>
<td>Methanol fob Europe contract quarter</td>
</tr>
<tr>
<td>PA0012555</td>
<td>Methanol cfr South Korea</td>
</tr>
<tr>
<td>PA0012556</td>
<td>Methanol cfr Taiwan</td>
</tr>
<tr>
<td>PA0012557</td>
<td>Methanol cfr Southeast Asia</td>
</tr>
<tr>
<td>PA0012558</td>
<td>Methanol cfr India west coast</td>
</tr>
<tr>
<td>PA0012559</td>
<td>Methanol cfr east China</td>
</tr>
<tr>
<td>PA0012560</td>
<td>Methanol fob Rotterdam T2 spot</td>
</tr>
<tr>
<td>PA0012552</td>
<td>Methanol fob US Contract</td>
</tr>
</tbody>
</table>

NOAA, EUMETSAT Announce Long-Term Agreement

On August 28, 2013, the National Oceanic and Atmospheric Administration (NOAA) and the European Organisation for the Exploitation of Meteorological Satellites (EUMETSAT) announced that, after a 30-year partnership, they have entered into a long-term cooperative agreement that assures continuous space-based weather, water, and climate monitoring. The agreement includes a joint polar satellite system, from which the organizations will share the data used for weather forecasts in the U.S. and Europe. The two companies will also provide backup to one another in case either of their spacecrafts experience trouble, and will prolong the Jason-2 ocean surface topography mission, which aims to improve weather and tropical storm predicting.
NOAA Adds Great Lakes Online Mapping Tool

On September 9, 2013, the National Oceanic and Atmospheric Administration (NOAA) announced the launch of a new web-based mapping tool, which will allow stakeholders to compare environmental information over time and between locations, as they clean up hazardous materials around the Great Lakes. The tool, called the Great Lakes Environmental Response Management Application (ERMA), contains a vast collection of local natural resource and environmental contaminant data.

NOAA to Launch Hurricane-Predicting Robots

On September 9, 2013, the National Oceanic and Atmospheric Administration (NOAA) announced that they will be deploying underwater robotic vehicles, from Nova Scotia to Georgia, to collect data that can aid in predicting storm intensity forecasts throughout hurricane seasons. The robots, also known as gliders, are capable of travelling thousands of miles and collecting three-dimensional data for months at a time. Twelve to 16 of the gliders will be placed in the waters during the peak fall Atlantic storm season, starting in early September and continuing into October.

NOAA Adds Deepwater Horizon Oil Spill Data

On September 11, 2013, the National Oceanic and Atmospheric Administration (NOAA) announced the release of a thorough, quality-controlled dataset on the enormous Deepwater Horizon Oil Spill. The dataset reflects three years of analyzing the waters after the 2010 Gulf of Mexico disaster. The comprehensive dataset contains over two million analyses of sediment, tissue, water, and oil, along with toxicity testing results and related documentation, and hopes to aid oil removal activities.

You can find the comprehensive dataset here: [http://www.nodc.noaa.gov/deepwaterhorizon/specialcollections.html](http://www.nodc.noaa.gov/deepwaterhorizon/specialcollections.html)

NOAA also released another dataset, covering ocean temperature and salinity data, currents, and preliminary chemical results, which can be found here: [http://www.nodc.noaa.gov/deepwaterhorizon/insitu.html](http://www.nodc.noaa.gov/deepwaterhorizon/insitu.html)

NOAA Retires GOES-12 Satellite

On August 19, 2013, the National Oceanic and Atmospheric Administration (NOAA) announced that the GOES-12 satellite is being retired. GOES-12 became operational on April 1, 2003, monitoring weather in the U.S. East Coast and part of the Atlantic Ocean. On May 2010, the satellite was not able to be maintained by the NOAA to meet the National Weather Service requirements, shifting to monitoring weather conditions affecting South America. NOAA continues to operate GOES-13, GOES-14, GOES-15 satellites. NOAA and NASA are continuously working together to develop and launch more advanced satellite series for the future.

NYMEX Delists 5 Biofuels Futures

On August 14, 2013, the New York Mercantile Exchange, Inc. (NYMEX) announced the product delisting of five non-RED biofuels, effective August 12, 2013. The affected products are as follows:

<table>
<thead>
<tr>
<th>Code</th>
<th>Product Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>WE</td>
<td>Ethanol T1 FOB Rdam Excluding Duty (Argus) Futures</td>
</tr>
<tr>
<td>YE</td>
<td>Ethanol T2 FOB Rdam Including Duty (Argus) Futures</td>
</tr>
<tr>
<td>2M</td>
<td>Ethanol T1 FOB Rdam Excluding Duty (Platts) Futures</td>
</tr>
<tr>
<td>25</td>
<td>PME Biodiesel FOB Rdam (Argus) Futures</td>
</tr>
<tr>
<td>24</td>
<td>SME Biodiesel FOB Rdam (Argus) Futures</td>
</tr>
</tbody>
</table>

The graph below shows the price of NYMEX October 2013 contracts for RME RED-compliant biodiesel and New York ethanol futures.

*Graph created with ZEMA*
Argus Ends 10 Methanol Codes

Effective August 30, 2013, the Argus Dewitt Methanol and Derivatives publication will be renamed as JJ&A Global Methanol Report. As a part of this change, Argus has announced it will be ending 10 methanol codes, effective August 23, 2013. The affected codes are as follows:

<table>
<thead>
<tr>
<th>PA-Code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>PA0011981</td>
<td>Methanol fob USGC</td>
</tr>
<tr>
<td>PA0011982</td>
<td>Methanol fob USGC weighted average month</td>
</tr>
<tr>
<td>PA0011987</td>
<td>Methanol fob Houston contract transaction month</td>
</tr>
<tr>
<td>PA0011989</td>
<td>Methanol fob Europe contract quarter</td>
</tr>
<tr>
<td>PA0011990</td>
<td>Methanol cfr South Korea</td>
</tr>
<tr>
<td>PA0011991</td>
<td>Methanol cfr Taiwan</td>
</tr>
<tr>
<td>PA0011992</td>
<td>Methanol cfr Southeast Asia main ports</td>
</tr>
<tr>
<td>PA0011993</td>
<td>Methanol cfr West Coast India</td>
</tr>
<tr>
<td>PA0011994</td>
<td>Methanol cfr East China main ports</td>
</tr>
<tr>
<td>PA0011998</td>
<td>Methanol fob Rotterdam T2 spot</td>
</tr>
</tbody>
</table>

Argus Changes Air Daily Report, Data Feed

Effective September 3, 2013, Argus announced that it is changing the descriptions in the Argus Air Daily series assessments and the dusem data file (located in the DATA/DADR folder). The changes are as follows:

<table>
<thead>
<tr>
<th>PA-Code</th>
<th>Old Description</th>
<th>New Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>PA0002425</td>
<td>NOx US weekly index</td>
<td>NOx US seasonal weekly index</td>
</tr>
<tr>
<td>PA0002616</td>
<td>NOx US monthly index</td>
<td>NOx US seasonal monthly index</td>
</tr>
</tbody>
</table>

Argus Updates 2 East China Methanol Descriptions

Effective August 16, 2013, Argus announced it had updated two methanol East China descriptions in the Argus Dewitt Methanol and Derivatives series publication and dmethanol data file (found in the DATA/DMethanol ftp.argusmeda.com folder). The affected codes are as follows:

<table>
<thead>
<tr>
<th>PA-Code</th>
<th>Old Description</th>
<th>New Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>PA0011995</td>
<td>Methanol cfr East China domestic Yuan/t</td>
<td>Methanol ex-works East China domestic Yuan/t</td>
</tr>
<tr>
<td>PA0011996</td>
<td>Methanol cfr East China domestic $/t</td>
<td>Methanol ex-works East China domestic $/t</td>
</tr>
</tbody>
</table>

Argus Changes 5 Methanol Codes

Effective August 30, 2013, the Argus Dewitt Methanol and Derivatives publication will be renamed as JJ&A Global Methanol Report; in addition, Argus has announced it will be change five methanol codes, effective August 23, 2013.

<table>
<thead>
<tr>
<th>PA-Code</th>
<th>Old Description</th>
<th>New Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>PA0011985</td>
<td>Methanol Southern Chemical fob MPP month</td>
<td>Methanol SCC - US fob MPP month</td>
</tr>
<tr>
<td>PA0011986</td>
<td>Methanol Methanex fob Western Canada distributor month</td>
<td>Methanol fob Western Canada distributor month</td>
</tr>
<tr>
<td>PA0011988</td>
<td>Methanol Methanex fob Europe contract quarter</td>
<td>Methanol Methanex fob MEPCP quarter</td>
</tr>
<tr>
<td>PA0011995</td>
<td>Methanol ex-tank East China domestic Yuan/t</td>
<td>Methanol ex-works East China domestic Yuan/t</td>
</tr>
<tr>
<td>PA0011996</td>
<td>Methanol ex-tank East China dom $/t</td>
<td>Methanol ex-works East China dom $/t</td>
</tr>
</tbody>
</table>
Moscow, Eurex Launch EUR-RUB, USD-RUB Futures

On August 21, 2013, Moscow Exchange and Eurex, the derivatives arm of Deutsche Börse Group, announced that they have entered a partnership in which Eurex will launch cash-settled Euro/Russian Rouble and U.S. Dollar/Russian Rouble Forex futures on its trading system, effective final quarter 2013. Once expired, Eurex’s Rouble futures will be settled using settlement prices provided by Moscow Exchange, which is meant to help reinforce the integrity of futures contracts. The partnership will create new trading and hedging opportunities for investors, and expects to support Frankfurt and Moscow in their paths to becoming financial centers.

Eurex Adds Asset Class, Six Forex Derivatives

On August 21, 2013, Eurex announced that they will launch a new asset class of currency derivatives (Forex contracts), effective October 7, 2013. Most over-the-counter, daily FX transactions occur in the following currency pairs, which Eurex will offer as futures and options on its Exchange: EUR/USD, EUR/GBP, EUR/CHF, GBP/USD, GBP/CHF and USD/CHF. Physical settlement will be offered for the new derivatives, which aim to increase the transparency and security of financial markets. The FX futures will be tradable from 8:00 a.m. to 10:00 p.m. CET, and the FX options from 8:00 a.m. to 7:30 p.m. CET.

CME Adds S&P MLP Index Futures

On September 15, 2013, CME Group announced the addition of S&P MLP Index Futures, effective September 23, 2013. The futures are delivered by cash, and are traded on Globex and ClearPort.

<table>
<thead>
<tr>
<th>Description</th>
<th>Clearing Code</th>
<th>Globex Code</th>
<th>SPAN Code</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P MLP Index Futures</td>
<td>MLP</td>
<td>MLP</td>
<td>MLP</td>
</tr>
</tbody>
</table>

MIAAX Options Exchange Adds EEM Options

On September 4, 2013, MIAAX Options Exchange (MIAAX) announced that, effective immediately, they will begin listing options on the iShares MSCI Emerging Markets ETF (Symbol: EEM), a popular Exchange Traded Fund (ETF), giving clients access to Taiwanese companies as well as those in other emerging markets.

Clarus Adds US Swaps Data Repository Index

On September 11, 2013, Clarus Financial Technology announced the launch of its U.S. Swaps Data Repository (SDR), DTCC DDR, SDRFIX index, based on actual derivatives transactions data. The index complies with IOSCO recommended practices and the principles of benchmark design, transparency, and data sufficiency.
ISE, Moscow Exchange Announce MOU

On August 28, 2013, the International Securities Exchange (ISE) and the Moscow Exchange announced a Memorandum of Understanding (MOU), in which they agreed to share information regarding their various financial instruments to help improve market surveillance. The MOU gave ISE permission to use information from the Moscow Exchange for regulation purposes, including data transactions, prices, and quotation size. ISE is the first U.S. Options Exchange to sign an MOU with Moscow Exchange, further enhancing Moscow Exchange and Deutsche Börse Group’s strategic partnership. The agreement will help Moscow Exchange’s aims to expose more investors to the Russian economy using derivative offerings.

NYSE Euronext Joins SSE Initiative

On July 24, 2013, the New York Stock Exchange announced that it had joined the United Nations’ Sustainable Stock Exchanges (SSE) initiative, which was created to encourage transparency and responsibility in the realm of corporate investment. The initiative aspires to improve corporate behavior with regards to Environmental, Social, and Governance (ESG) issues. NYSE Euronext is the eighth exchange to partner with SSE; the others consist of NASDAQ OMX, BM&FBOVESPA, The Egyptian Exchange (EGX), the Johannesburg Stock Exchange (JSE), BSE Ltd., and the MCX Stock Exchange Ltd. (MCX-SX).

Reuters Releases 130,000 Clinical Trials, Intelligence

On September 11, 2013, Thomson Reuters announced the launch of its Cortellis™ Clinical Trials Intelligence (CTI) system that offers customers access to over 130,000 clinical trials for diagnostics, biologics, biomarkers, drugs targeting rare diseases, and medical devices. In addition, CTI offers access to thousands of documents and millions of articles, like abstracts, reports, transcripts, press releases, and meeting minutes from the biomedical and medicinal chemistry industries. CTI is available through a web portal or through application programming interface (API). To learn more, see http://thomsonreuters.com/cortellis-clinical-trials-intelligence/.

ICAP Files SEF Application with CFTC

On September 3, 2013, ICAP plc (IAP.L), a leading post trade risk mitigation and information services provider, announced that its subsidiary ICAP SEF (US) LLC applied to be a Swap Execution Facility (SEF) with the Commodity Futures Trading Commission (CFTC), in compliance with the Dodd-Frank Act. The application is in line with the company’s aim to fulfill the needs of the OTC derivatives marketplace. The ICAP SEF will offer trading throughout a range of asset classes, including interest rate swaps (IRS), credit default swaps (CDS), equity derivatives, commodities, and non-deliverable forwards (NDFs). It will offer trading of both cleared and uncleared swaps. Traders will be able to access the ICAP SEF via both trading applications and platforms created by independent software providers, and through the ICAP published application programming interface (API).

REGIS-TR, TriOptima Verify, Reconcile Trade Data

On September 4, 2013, REGIS-TR and TriOptima announced they will begin verifying data and reconciling portfolios for REGIS-TR’s trade repository data using data in TriOptima’s triResolve reconciliation service for OTC derivatives due to client request. This decision reflects the changing ESMA rules, which state that, effective September 15, 2013, financial and non-financial companies must reconcile their OTC derivatives portfolios, as well as mandatory trade reporting starting January 1, 2014. Collaboration between REGIS-TR and TriOptima will help their shared clients meet regulatory rules and company goals, and improve data accuracy while streamlining the workflow.

Chi-X Canada Adds Retail Market Data Program

On September 17, 2013, Chi-X Canada ATS Limited announced it had added a new market data program to help retail investors access the data they need to make timely and affordable trades. With input from consulting firm NuPont Canada Ltd and feedback from market participants, the new data program offers greater access to market data through a lower real-time market fee for both professional and non-professional retail investors.
Commerzbank, Clearstream Launch OTC Trade Lifecycle

On September 09, 2013, Commerzbank and Clearstream announced the launch of their joint product, TradeCycle, a first of its kind OTC derivative trade lifecycle integrated service. The real-time support service helps financial institutions and corporations comply with regulations, requirements and found cost-reduction opportunities. In addition, TradeCycle will increase efficiency, reduce risk and easily process cleared and uncleared OTC derivatives – offering an end-to-end management solution for trading, clearing, settling and custody.

Reuters Adds Energy, Manufacturing, Code Content

On August 27, 2013, Thomson Reuter’s Techstreet announced it had signed new agreements to add energy, manufacturing and inspection standards information to its electronic collection of content for engineers and technical professionals. The new data comes from publishers Petroleum Equipment Institute (PEI), National Board of Boiler and Pressure Vessel Inspectors (NBBI), American Nuclear Society (ANS), FM Approvals, and Aluminum Association. Users can view the catalogs from these companies in multi-user PDFs, redline documents, online and in print bundles — or, through the Techstreet subscription platform.

LCH.Clearnet Adds SWIFT MX Standard Messaging

On September 17, 2013, LCH.Clearnet Ltd and LLC (both UK and U.S. subsidiaries) announced the launch of SWIFT MX standard messaging (for securities and cash collateral instructions) for its clearing house members. The messaging system removes the need to manually intervene, which will improve the efficiency of the collateral management process and allow for easy sharing of the information.

IHS Connect Expands Content, Functionality

On September 17, 2013, IHS Inc. announced it had added a diverse range of content and functionality to its current market and business intelligence platform, IHS Connect. The content includes oil refinery, natural gas liquids (NGL), petrochemical research and forecasts, global energy acquisitions and mergers, valuation data, and more. The increased functionality includes enhanced search, filter and charting capabilities in addition to more critical research, forecasts and analysis.

IHS Adds Engineering Knowledge Collection

On September 11, 2013, IHS, a leading business information and analytics company, announced the launch of the IHS Knowledge Collections, a comprehensive set of engineering documents designed to provide engineers with the necessary technical knowledge to do their jobs. Using the new platform, engineers can access over 90 million scientific and technical documents ranging from patents, publications and journal articles to best practices and design methods. The collection is the largest of its kind, and aims to improve innovation and efficiency among the engineering profession.

MIAX, TWSE Announce MOU

On September 4, 2013, MIAX Options Exchange (MIAX) announced that it has entered into a Memorandum of Understanding (MOU) for mutual cooperation and information sharing with the Taiwan Stock Exchange (TWSE). The collaboration will aid the listing and trading of options on certain Exchange Traded Funds (ETFs) and TWSE listed stocks, and gives MIAX customers access to the Taiwan capital market.
CME Applies To Be Swap Execution Facility

On September 18, 2013, CME Group announced that they have applied to be registered as a Swap Execution Facility (SEF) with the Commodity Futures Trading Commission (CFTC). Its future SEF will be offered via CME Direct, an advanced web-based trade platform which accesses CME’s exchange and OTC energy and metals markets. CME will begin with commodity products, and plans to venture into other markets in the future.

HKEx, Henan Financial Services Sign MOU

On September 4, 2013, Hong Kong Exchanges and Clearing Limited (HKEx) announced a Memorandum of Understanding (MOU) on the cooperation and transfer of information with Henan Province’s Financial Services Office (FSO). The document was signed in Zhengzhou, Henan Province, by HKEx’s Head of Mainland Development and the Director-General of Henan’s FSO, and witnessed by HKEx representatives and the Henan Provincial Government.

HKEx Adjusts China Merchant Bank Futures, Options

On August 23, 2013, Hong Kong Exchanges and Clearing Limited (HKEx) announced the adjustment arrangements for the open China Merchants Bank Co., Ltd. (CMB) contracts for options and futures, effective August 28. Starting August 29, all open CMB contracts will account for 1.74 H rights shares for every 10 existing H shares. Highlights of this adjustment are as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underlying Stock (Code)</td>
<td>China Merchants Bank Co., Ltd. (3968)</td>
</tr>
<tr>
<td>Corporate Action</td>
<td>1.74 H Rights Shares for every 10 existing H Shares</td>
</tr>
<tr>
<td>Rights Issue Price</td>
<td>$11.68</td>
</tr>
<tr>
<td>Ex-rights day</td>
<td>August 29, 2013</td>
</tr>
</tbody>
</table>

For full adjustment term, formula, and remark details on all CMB contracts, contact your broker or read more on the HKEx News Release here.
Crude Oil Brent vs WTI: Prompt-Month Contract (NYMEX)

On the New York Mercantile Exchange (NYMEX), NYMEX Crude Oil prices went up by 2% for Western Texas Intermediate (WTI) and by 1% for Brent in September compared to August. As the market participants were closely watching new developments in the Middle East and U.S. Federal Reserve tapering, oil markets rebounded towards the end of the month.

This September marked the third month that both benchmarks were traded almost at par. The area highlighted in the graph shows an average $10 USD/bbl WTI’s discount to Brent over the past year. A production surge in the U.S. caused a buildup of crude oil inventories at Cushing, Okla., putting a downward pressure on WTI since early 2011. The elimination of Brent-WTI spread demonstrates the price of oil paid by U.S. refiners once again reflects conditions in the global market.

U.S. crude stockpiles were unexpectedly down 4.3 million barrels two weeks into the month, but climbed by 2.6 million barrels for the week ending September 20.¹

Furthermore, Syrian risk premium caused the prices to surge in the beginning of the month as the possibility of U.S. military action was still hovering over the Arab nation. Then by the second week, crude oil started to drop after Russia offered to help out by putting Syria’s chemical weapons under international control. Also, diplomatic progress with the new Iranian president gained momentum that could ultimately help lift the ban on Iran’s oil exports, which were down 17% from 4.2 million barrels a day prior to the sanctions. On the other hand, the Federal Reserve surprised market participants by saying it would continue the pace of its $85 billion-a-month bond buying program, a weakening sign for the dollar.²

Crude Oil Brent vs WTI: Forward Curve (NYMEX)

On the New York Mercantile Exchange (NYMEX), crude oil futures edged higher as market participants waited for the release of key U.S. weekly supply data to gauge the strength of the U.S. demand. Texas light sweet futures for October delivery traded at $106 USD/bbl, whereas Brent advanced by 2.7% to be traded around $111 USD/bbl for the same month delivery – widening the WTI contract’s discount to October Brent by $2 USD/bbl to $5 USD/bbl. Uncertainty over the U.S. economy and fears over a disruption to supplies from the Middle East are lingering over the crude oil futures.

WTI gained momentum towards the end of the month as a report by American Petroleum Institute showed less than expected reduction in crude inventories. However, uncertainty over the Federal Reserve’s stimulus program continues to put more pressure on WTI as the program tends to depress the value of the dollar.³ Even though WTI has been closing the gap with Brent over the last three months, the market participants do not expect this pattern to sustain. The results of futures’ trade suggest that the WTI premium over Brent may be reverted back soon.

Brent futures are expected to fall as supply tightness seems to be easing in the Middle East with improvement in Libyan output and progressive diplomatic efforts with Syria and Iran.²
North American Natural Gas Spot Prices (ICE)

On the Intercontinental Exchange (ICE), North American natural gas spot prices were on the rise in all four major hubs: Chicago Citygates, Henry Hub, New York Transco Zone 6, and TransCanada interconnect in Iroquois, Ontario. From August to September (week ending September 21, 2013), the monthly average went up in Chicago Citygates by 7% to $3.80 USD/MMBtu, in Henry Hub by 6% to $3.68 USD/MMBtu, in Trans Z6 by 9% to $3.87 USD/MMBtu, and in Iroquois by 4% to $4.07 USD/MMBtu.

For the week ending September 19, 2013, in EIA’s Natural Gas Weekly Update, Bentek Energy reported both demand and supply declined. According to Bentek’s report, total supply fell 0.8%, with a production decline of 300 million cubic feet per day due to losses from flooding in the Rockies, while Canadian pipeline imports declined by 3.5%. On the other hand, residential and commercial consumption increased 20.9%, but a 16.1% decline in gas consumption for power generation helped offset the increase in residential and commercial consumption—a 4% net decline in total consumption.

The increase in residential and commercial consumption signals that seasonally cooler weather has arrived. However, EIA reports that temperatures in the Lower 48 states averaged 4.6 degrees warmer than the 30-year normal temperature and 2.3 degrees warmer than the same period last year.

Henry Hub Natural Gas Forward Curve (ICE)

On the Intercontinental Exchange (ICE), Henry Hub Natural Gas futures went up by 4% this month compared to the previous month. The future prices for the year rose on average by $0.14 USD/MMBtu in September compared to August.

Gas inventories totaled 3.253 trillion cubic feet in the week ending September 6, 5% below year-earlier supplies, Bloomberg reported based on EIA data.

A bullish inventory report from EIA showed total domestic gas inventories rose in the third week of the month by 46 billion cubic feet to 3.299 trillion cubic feet. However, the report was 1 billion cubic feet below the lowest estimate of 47 billion cubic feet in the Reuters weekly storage poll. Also, MDA Weather Forecasts reported it did not expect much energy demand during the next few weeks, despite some warmth in the Midwest, signaling a milder-than-expected weather ahead.

It is hard not to remain skeptical of further rise in the futures without colder weather to kick up heating loads. Plus, high inventories, strong productions, and a mild future weather outlook do not support prices either.
From August to September, the average monthly temperature dropped in Sacramento by 1C to 22C, in Chicago by 2C to 21C, in Raleigh by 3C to 24C, and in New York by 3C to 22C, which marked the beginning of a rather milder autumn. Aside from the fact that Sacramento’s past two-year average dropped by 3%, the two-year average temperature in September climbed by 16% in Chicago and by 1% in Raleigh and New York.

Data from AccuWeather showed New York experienced the largest temperature fluctuations in September. The temperature in the Big Apple went above 33C in the second week and fell below 15C on the 23rd of the month.

On the Intercontinental Exchange (ICE), day-ahead prices were on the rise in all four reported North American markets in September. From the previous month to September, the prices climbed up with the highest increase of 27% on NYISO, with the average electricity prices soaring to $58 USD/MWh.

California’s SP15 prices increased by 12%; this can be attributed to the Rim Fire, which has been developing at the border of California and Nevada since August.

Electricity prices on ISO New England and PJM North also rose by 17% and 6% respectively.
New Data Reports for ZEMA

At ZE, we are continuously growing our data coverage. Our highly flexible data parsers can collect information in any electronic format, from any source and at any frequency. Since the August 2013 edition of DataWatch, we have added the following new data reports to ZEMA:

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<th>Data Source</th>
<th>Report</th>
<th>Commodity</th>
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<tbody>
<tr>
<td>Austrian Gas Clearing &amp; Settlement</td>
<td>Daily Gas Imbalance Prices</td>
<td>Natural Gas</td>
</tr>
<tr>
<td>Austrian Gas Clearing &amp; Settlement</td>
<td>Hourly Gas Imbalance Prices</td>
<td>Natural Gas</td>
</tr>
<tr>
<td>APX Environmental Markets</td>
<td>NL Power Day Ahead Market (Hourly - Public)</td>
<td>Electricity</td>
</tr>
<tr>
<td>APX Environmental Markets</td>
<td>NL Power Day Ahead Market (Peak Period - Public)</td>
<td>Electricity</td>
</tr>
<tr>
<td>Atlas Petroleum Exploration Worldwide, Ltd (APEX)</td>
<td>EOD Platts Indication</td>
<td>Petroleum &amp; Other Liquids</td>
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<tr>
<td>BGC Partners</td>
<td>REC Market Daily</td>
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</tr>
<tr>
<td>BGC Partners</td>
<td>Forward Prices</td>
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<td>Bonneville Power Administration</td>
<td>Cutplanes Hourly Loading (15-Minute)</td>
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</tr>
<tr>
<td>Bonneville Power Administration</td>
<td>Cutplanes Hourly Loading (Hour)</td>
<td>Electricity</td>
</tr>
<tr>
<td>Bonneville Power Administration</td>
<td>Intertie Hourly Loading</td>
<td>Electricity</td>
</tr>
<tr>
<td>Centrica Storage Ltd</td>
<td>Rough Aggregate Site Nominations</td>
<td>Natural Gas</td>
</tr>
<tr>
<td>Entergy Nuclear Power Marketing LLC</td>
<td>Generation</td>
<td>Electricity</td>
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<tr>
<td>International Energy Agency</td>
<td>Balance Sub-Product (Monthly)</td>
<td>Petroleum &amp; Other Liquids</td>
</tr>
<tr>
<td>Link Crude</td>
<td>Grade Strips</td>
<td>Petroleum &amp; Other Liquids</td>
</tr>
<tr>
<td>Markedskraft</td>
<td>Hydrology Daily Actual</td>
<td>Weather &amp; Hydrology</td>
</tr>
<tr>
<td>Markedskraft</td>
<td>Hydrology Daily Forecast</td>
<td>Weather &amp; Hydrology</td>
</tr>
</tbody>
</table>

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Data Source | Report | Commodity
---------|--------|-------------------
Markedskraft | Hydrology Daily Normal | Weather & Hydrology
Markedskraft | Solar Power Production Hourly Actual | Electricity
Markedskraft | Solar Power Production Hourly Forecast | Electricity
Markedskraft | Solar Power Production Hourly Normal | Electricity
Markedskraft | Temperature Hourly Actual | Weather & Hydrology
Markedskraft | Temperature Hourly Forecast | Weather & Hydrology
Markedskraft | Temperature Hourly Normal | Weather & Hydrology
Markedskraft | Wind Power Production Hourly Actual | Electricity
Markedskraft | Wind Power Production Hourly Forecast | Electricity
Markedskraft | Wind Power Production Hourly Normal | Electricity
National Grid | D-2 to D-5 NTS Demand Forecast Report (NTSDE) | Natural Gas
National Grid | End Of Day Aggregate Forecast NTS System Entry Flows (NTSAFF) | Natural Gas
National Grid | Forecast Demands (SISR03) | Natural Gas
National Grid | System Status Information (NB92) | Natural Gas
Réseau de Transport d’Électricité (RTE) | Imbalance Settlement Price | Electricity
SCB Group | Chicago Platts Settles | Petroleum & Other Liquids
Tullett Prebon | West Power Prices | Electricity
The Weather Company | Trader Daily Forecast | Weather & Hydrology
Weather Underground | Seven Day Forecast (Daily) | Weather & Hydrology
Weather Underground | Seven Day Forecast (Hourly) | Weather & Hydrology
August Power Trading
Volume Climbs 9% Year-on-Year

Paris, 3 September 2013. In August 2013, a total volume of 28.8 TWh was traded on EPEX SPOT’s Day-Ahead and Intraday markets. This is an increase of 8.9% compared to the monthly volume a year ago (August 2012: 26.4 TWh). All market segments contributed to the growth, which is proof for the central role of EPEX SPOT and its services in European power trading.

Day-Ahead markets
In August 2013, power trading on the Day-Ahead auctions on EPEX SPOT accounted for a total of 26,755,356 MWh (August 2012: 24,953,249 MWh) and can be broken down as follows:

<table>
<thead>
<tr>
<th>Areas</th>
<th>Monthly Volume MWh</th>
<th>Monthly volume – previous year MWh</th>
<th>Price – monthly average (Base / Peak*) Euro/MWh</th>
</tr>
</thead>
<tbody>
<tr>
<td>DE/AT</td>
<td>20,428,725</td>
<td>19,231,250</td>
<td>38.23 / 47.59</td>
</tr>
<tr>
<td>FR</td>
<td>4,525,800</td>
<td>4,325,750</td>
<td>35.18 / 45.36</td>
</tr>
<tr>
<td>CH</td>
<td>1,800,831</td>
<td>1,396,249</td>
<td>37.25 / 46.08</td>
</tr>
<tr>
<td>ELIX</td>
<td>– European Electricity Index</td>
<td>34.87 / 44.29</td>
<td></td>
</tr>
</tbody>
</table>

* Peak excl. weekend

Prices within the French and the German market, both coupled with the Benelux markets within Central Western Europe (CWE), converged 65% of the time.

Intraday markets
On the EPEX SPOT Intraday markets, a total volume of 2,027,165 MWh was traded in August 2013 (August 2012: 1,472,331 MWh).

<table>
<thead>
<tr>
<th>Areas</th>
<th>Monthly Volume MWh</th>
<th>Monthly volume – previous year MWh</th>
</tr>
</thead>
<tbody>
<tr>
<td>DE/AT</td>
<td>1,778,089</td>
<td>1,334,549*</td>
</tr>
<tr>
<td>FR</td>
<td>175,299</td>
<td>137,782</td>
</tr>
<tr>
<td>CH</td>
<td>73,777</td>
<td>0**</td>
</tr>
</tbody>
</table>

* without Austrian market, which was launched in October 2012 // ** Swiss market launched in June 2013

In August, cross-border trades represented 20.8% of the total Intraday volume. Volume in 15-Minute contracts amounted to 299,523 MWh. In August, they represented 16.6% of the volume traded on the German and Swiss Intraday market.

The European Power Exchange EPEX SPOT SE operates the power spot markets for France, Germany, Austria and Switzerland (Day-Ahead and Intraday). Together these countries account for more than one third of the European power consumption. EPEX SPOT is a European company (Societas Europaea) based in Paris with a branch in Leipzig. 229 TWh were traded on EPEX SPOT’s power markets in the first eight months of 2013.

EPEX SPOT’s trading rules ready for NWE

Paris, 17/09/2013 – The implementation of the Target Model for the integration of Europe’s Day-Ahead power markets is on track. At its third meeting in 2013, the Exchange Council of the European Power Exchange EPEX SPOT discussed and approved several developments concerning the North Western European (NWE) Price Coupling and the flow-based solution in Central Western Europe (CWE) Market Coupling, which both are in accordance with the Target Model and milestones for the integration of power markets across Europe.

In view of the upcoming launch of the NWE Price Coupling, the Exchange Council reviewed several amendments of the Exchange’s Rules & Regulations. In detail, the following items were discussed:

- EPEX SPOT will support the harmonization of price limits within the NWE Price Coupling project to -500 €/MWh and +3000 €/MWh. However, the market should be as less constrained as possible in terms of prices. EPEX SPOT will therefore also suggest that price boundaries should be periodically reassessed.
- The number of borders involved in the coupling concerning the area operated by EPEX SPOTs has been updated. In CWE, EPEX SPOT counted three of such borders (Germany-France, Germany-Netherlands and France-Belgium). NWE will add another three borders: France-Great Britain, Germany-Denmark and Germany-Sweden.
- EPEX SPOT will also launch smart blocks in order to facilitate the optimisation and asset trading of power plants. These orders are depending on several conditions such as the execution of previous orders.

***
The members of the Exchange Council approved these amendments and support EPEX SPOT’s work within the NWE project. “Harmonization of trading rules is one of the core tasks for the creation of an efficient pan-European power market”, underlines Jean-François Conil-Lacoste, Chairman of the Management Board of EPEX SPOT. “With these modifications in place, EPEX SPOT complies with the European consensus developed by the Price Coupling of Regions initiative.” NWE is scheduled to launch in November 2013.

Furthermore, the members of the Exchange Council discussed the impacts of the flow-based solution, an improved way to calculate transfer capacities between several countries: It takes into account all the relevant physical constraints of the grid and allows transmission system operators (TSOs) to implement an efficient coordination at operational level. Consequently, the flow-based solution allows for more trading opportunities and for more efficiently using the existing transmission capacities with the same level of security of supply, as capacities are fully optimized and not split ex ante by TSOs.

The solution is developed by the TSOs and will be implemented in the CWE area in 2014. EPEX SPOT aims at raising awareness about the flow-based solution and its impact on price formation among the Exchange Members in order to ensure a smooth and transparent implementation.

“The once the remaining issues have been solved, the first-of-its-kind implementation of the flow-based solution in CWE Market Coupling is a logical step forward, because the region comprises some of Europe’s most mature markets”, says Peter Heydecker, Chairman of the Exchange Council. “The European Target Model foresees Price Coupling based on the flow-based solution and CWE will be once again the blueprint for Europe.”

The third meeting of the Exchange Council in 2013 was held in Paris on 16 September 2013 and chaired by Peter Heydecker, Head of Origination Gas & Power at Vitol.

***

The Exchange Council of EPEX SPOT is an official body of the Exchange. 16 members and 7 permanent guests represent adequately the diversity of economic and corporate profiles that exists among the Exchange Members from various sectors: power trading companies, transmission system operators, regional suppliers, brokers and financial service providers, as well as commercial consumers and academics. Its missions include in particular the adoption of the Exchange Rules and the Code of Conduct of EPEX SPOT and their amendments.

The Exchange Council approves new trading systems as well as new Contracts or Market Areas and approves the appointment of the Head of the Market Surveillance Office. It meets up quarterly.

PEGAS: Volumes for August 2013

Leipzig, Paris, 4 September 2013 – PEGAS, the natural gas platform formed by cooperation between the European Energy Exchange (EEX) and Powernext, announced that a total volume of 16.8 TWh was traded on the platform and cleared by the European Commodity Clearing (ECC) in August 2013. In the framework of this cooperation, EEX and Powernext combine their natural gas market activities to create a pan-European gas market.

Spot Markets

Overall, trading volumes on the Spot Markets amounted to 10.4 TWh in August 2013. The German spot markets (market areas GASPOOL and NCG) recorded a volume of 3.6 TWh and in the French spot markets (market areas PEG Nord, PEG Sud, PEG TIGF) the traded volume amounted to 5.2 TWh. The Dutch spot market recorded a volume of 1.5 TWh.

On 28 August 2013, the EEX Spot Market products (Day-ahead and Within-Day) for the market areas GASPOOL, NCG and TTF have been successfully migrated onto PEGAS and the corresponding spread products have been activated. For the first time, location spreads have been traded between the EEX and Powernext market areas, amounting to a volume of 2,880 MWh until the end of the month.

Derivatives Markets

In August 2013, trading volumes on the Derivatives Markets connected to PEGAS amounted to 6.4 TWh. The German Futures markets (market areas GASPOOL and NCG) recorded a volume of 2.4 TWh. In the French PEG Nord area, the traded volume amounted to 2.9 TWh while the TTF Futures market recorded a volume of 1.1 TWh in August.

Details on the natural gas volumes and prices are available in the enclosed monthly report.
PEGAS – Monthly Figures Report for August 2013

Volumes

<table>
<thead>
<tr>
<th>Spot Market</th>
<th>Aug 2013 in MWh</th>
<th>Derivatives Market</th>
<th>Aug 2013 in MWh</th>
</tr>
</thead>
<tbody>
<tr>
<td>GASPOOL</td>
<td>1,508,522</td>
<td>NCG</td>
<td>2,138,258</td>
</tr>
<tr>
<td>NCG</td>
<td>2,138,258</td>
<td>PEG Nord</td>
<td>3,512,930</td>
</tr>
<tr>
<td>PEG Nord</td>
<td>1,727,280</td>
<td>PEG Sud</td>
<td>8,640</td>
</tr>
<tr>
<td>PEG TIGF</td>
<td>1,727,280</td>
<td>TTF</td>
<td>1,462,892*</td>
</tr>
<tr>
<td>TTF</td>
<td>8,640</td>
<td>Total</td>
<td>10,358,522</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>6,421,210</td>
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Indices

<table>
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<tr>
<th>Spot Market</th>
<th>Index Name</th>
<th>Aug 2013 Index Value (min./max. in EUR/MWh)</th>
</tr>
</thead>
<tbody>
<tr>
<td>GASPOOL</td>
<td>EEX Daily Reference Price</td>
<td>25.250 / 26.190</td>
</tr>
<tr>
<td>NCG</td>
<td>EEX Daily Reference Price</td>
<td>25.140 / 26.210</td>
</tr>
<tr>
<td>PEG Nord</td>
<td>Powernext Gas Spot DAP</td>
<td>25.20 / 26.21</td>
</tr>
<tr>
<td>PEG Sud</td>
<td>Powernext Gas Spot DAP</td>
<td>25.71 / 28.00</td>
</tr>
<tr>
<td>TTF</td>
<td>EEX Daily Reference Price</td>
<td>24.590 / 25.929</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Derivatives Market</th>
<th>Index Name</th>
<th>Aug 2013 Index Value (in EUR/MWh)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>EGIX (European Gas Index) – Monthly Average</td>
<td>25.925</td>
</tr>
<tr>
<td>GASPOOL</td>
<td>EGIX – Monthly Average</td>
<td>25.891</td>
</tr>
<tr>
<td>NCG</td>
<td>EGIX – Monthly Average</td>
<td>25.957</td>
</tr>
<tr>
<td>PEG Nord</td>
<td>Powernext Gas Futures Monthly Index</td>
<td>26.52</td>
</tr>
<tr>
<td>TTF</td>
<td>Powernext Gas Futures Monthly Index</td>
<td>26.16</td>
</tr>
</tbody>
</table>

PEGAS: Powernext to launch Futures Contract on PEG Sud

Paris, Leipzig, 11 September 2013 – Powernext announces the launch of a “Front Month” contract on the GRTgaz Sud delivery zone as of 1st October at the request of its members. This new product will be listed on PEGAS, the common natural gas platform launched by Powernext and EEX.

PEG Sud spot contracts have been traded on Powernext Gas Spot since 26 November 2008. The quick development of the liquidity has enabled the publication of the Powernext Gas Spot DAP index as of 1st April 2009, widely used within the industry. In May 2011, Powernext Gas Spot was the first organised market in Europe to offer location spread products corresponding to the actors’ trading practices. These products have allowed GRTgaz to commercialise daily North-South capacities directly on the market, thus increasing PEG Sud’s liquidity significantly.

“The PEG Sud delivery zone, which supply strongly depends on LNG imports and which connection from PEG Nord is regularly congested, suffers from a volatility comparatively stronger than on PEG Nord. The actors are confronted with real hedging needs, and call for more visibility on futures prices”, comments Jean-François Conil-Lacoste, Powernext’s CEO.

To answer these needs, starting on 1st October, Powernext Gas will propose the first monthly contract maturity for trading with delivery on PEG Sud, as well as the related PEG Sud/PEG Nord spread product. This launch will enable, for the first time, the trading of Futures contracts on PEG Sud through an anonymous, cleared and regulated organised market thus contributing to the development of the liquidity and transparency of this crucial zone for the French market.

To facilitate the development of the contract, Powernext will rely particularly on two liquidity providers among its active members.

“GDF SUEZ, through its subsidiary GDF SUEZ Trading, supports this initiative and will actively participate in the development of this new product. This contract will offer market participants a new portfolio optimisation tool for this delivery zone and will allow a more efficient use of transmission capacities between PEG Nord and PEG Sud, thus benefitting all parties”, comments Stéphane Brimont, Executive Vice-President Energy Management Trading, GDF SUEZ.
“Total and its subsidiary Total Gas & Power Ltd support the Powernext initiative to list location spread products. It enhances gas trading on all PEGs. The launch of this new contract is welcome”, adds Jean-Pierre Mateille, Vice-President Trading, Total Gas & Power.

The French Energy Regulatory Commission (“Commission de Régulation de l’Energie”) welcomes very favourably this initiative which is likely to improve liquidity on PEG Sud.

In the context of the PEGAS cooperation, the entire range of Powernext and EEX’s gas products is now available for trading on the same platform. This new contract will also be available on the PEGAS screen to the 36 members of Powernext Gas Futures, active on PEG Sud.

Additionally, on the same day, quality-specific products for the German gas market areas to be introduced by EEX will be available for trading on PEGAS, as previously announced.

Danger to European energy market transparency from EU benchmark proposal

London, 18 September 2013 – Argus Media, a news agency that specialises in reporting oil and other commodity markets, notes changes to today’s European Commission draft regulation on benchmarks compared with an earlier June draft. Even in its present form, the EU regulation includes provisions that will undermine energy market efficiency.

The proposed regulation is inconsistent with losco’s Principles for Oil Price Reporting Agencies (PRA Principles) that have been endorsed by the G20. It adds new constraints that could make it difficult for market participants to interact freely with journalists. That is likely to lead to a reduction in market engagement and less robust benchmarks — the opposite outcome to the market transparency that the regulation seeks to achieve.

The proposal requires media organizations to establish legally binding codes of conduct with market sources (Article 9, p26 and Annex 1, Section D, p51). And a new provision could make it difficult for journalists to gather bid and offer information from front offices, which is vital when reporting lower liquidity physical markets (Annex 1, Section A.8, p47).

As international security regulators at losco and UK regulators at Ofgem have already warned, imposing detailed obligations on market participants is counterproductive to transparency in international commodity markets where information is provided to reporters on a voluntary basis.

Argus Media regrets that losco’s PRA Principles are not referred to in the proposed regulation on benchmarks. losco’s PRA Principles were developed over a two-year period specifically for the reporting of commodity markets. These international standards were reaffirmed as appropriate by losco as recently as July.

Meanwhile, losco said today: “Responses to a self-assessment questionnaire on implementation indicated the PRAs had made significant efforts to implement the [PRA] Principles.”

Argus Media believes that the commission’s proposal as it stands will be detrimental to transparency in oil and other commodities markets. The consequences will include reduced market transparency and less robust benchmarks as companies refuse to accept the onerous policing requirements imposed by the regulation and stop acting as voluntary sources of information.

“The new EU draft will lead to less, not more, transparency,” said Adrian Binks, Chairman and Chief Executive of Argus Media. “They’ve taken out some of the more extreme measures, but it still isn’t fundamentally fit for purpose for the commodity markets. It still discourages market sources from contributing to the process of transparency in a voluntary system.”

Argus Media notes that the definition of a benchmark is wide and covers equity indexes, currency exchange rates, the retail market in credit and mortgages as well as commodities markets. This breadth of scope combined with the interferences in the relationship between journalists and sources will undermine and otherwise impact detrimentally on press freedoms. This concern is already very real, as seen in a statement issued by the European Publishers Council yesterday.
A Brief History of Oil Prices and Middle East Tensions: Fear of a Black Gold Shortage

By Ryan Arian

In the final weeks of summer 2013, tension over Syria’s alleged use of chemical weapons was followed by the threat of U.S. military action against the country, which sent oil prices on a roller coaster ride. The price sensitivity of the market was noticeable as the possibility of a missile strike against the Arab nation hovered over the area. This is not the first time that the tensions in the Middle East have driven up oil prices swiftly. In this article, I will dive into the historical analysis of the oil market while focusing mostly on its post-“golden age.”

The main objective of this analysis is to discover why tensions in the Middle East correlate with higher oil prices; in particular, I will take a close look at why prices can be more sensitive to the tensions in this region than others. In this month’s issue, an in-depth chronological analysis of major events in the Middle East starting in 1970 highlights Mideast political and military tensions and their relation to the oil price volatility.

1970s: Introducing the Arab Oil Embargo and Iranian Revolution

On May 3, 1970, Trans-Arabian Pipeline delivery from Saudi Arabia to the Mediterranean was interrupted in Syria, causing oil tanker rates to rise to all-time highs from June to December of that year. It might be hard for some people to believe that the price of crude oil was below $3.50 USD/bbl (nominal) in 1972, but things were about to change very quickly. On October 5, 1973, the October War (also known as the Yom Kippur War) broke out with an attack on Israel by Syria and Egypt.

The United States and many western countries showed support for Israel; reciprocally, several Arab-exporting nations (joined by Iran) imposed an embargo on the countries supporting Israel. Although other countries increased their production to offset the embargo’s effects, the net loss of 4 million barrels-per-day (Mbpd), 7% of the free world’s production at the time, was suspended through March of 1974. The nominal price of oil had tripled to more than $12 USD/bbl by the end of 1974. The oil prices increased another $2 USD/bbl in the next six months due to supply shortages, which highlighted the extreme sensitivity of the market-to-supply disruptions.

From 1974 to 1978, the oil prices were relatively stable while OPEC capacity and production was flat (near 30 Mbpd). In this period, non-OPEC countries increased production from 25 Mbpd to 31 Mbpd, which secured the production outputs for the world’s consumption. In 1979, the Iranian revolution sparked the highest prices since the Second World War, as Iranian production levels dropped by more than 4.5 Mbpd. At one point, the Iranian production was even halted. After the dust of Iranian revolution was settled, the production went back up to 4 Mbpd. However, there were subsequent events – like taking western hostages and cancelling all contracts with U.S. oil companies – that continued to shock the market.
1980s: Following the Iraq-Iran War

In the 1980s, the Middle East continued to experience ups and downs as events in Iran and Iraq led to another round of crude oil price escalations. On September 17, 1980, Iraq broke its 1975 treaty with Iran and proclaimed sovereignty over the Shatt al-Arab waterway. Only six days later, Iraq declared war on Iran, which would last eight years. By the end of 1980, the combined production of Iran and Iraq was only 1 Mbpd. This translated into a 36% increase in prices and a 6.5 Mbpd decrease in productions from the year before.

Within a couple of months from the start of the war, the oil prices surged to $37 USD/bbl in 1981 from $33 USD/bbl in 1980. Interestingly enough, both countries' production levels are still below what they were prior to the Iraq-Iran war three decades later in 2013.

Figure 2. Iran vs. Iraq Crude Oil Productions (Source: EIA)

It was during this surging period that Saudi Arabia's oil minister Ahmed Yamani warned members of OPEC that high prices could lead to a demand reduction and increased exploration and production outside of OPEC. He was not far off as the higher crude oil prices forced the consuming countries to reduce their intake and find alternative ways to increase efficiency, including: installing better insulation in homes, creating smarter industrial processes, and inventing energy-efficient cars. The demand reduction coincided with a global economic recession that ultimately caused crude prices to fall. From 1981 to 1987, non-OPEC production increased 6 Mbpd, while new discoveries and technological improvements increased oil field recovery rates and outputs by reducing production costs. This ultimately lowered oil prices from $37 USD/bbl in 1981 to $18 USD/bbl in 1987.

1990s: Being En’Gulf’ed by War

In August 1990, Iraq invaded Kuwait, sending the crude prices upward. Exchange markets reacted widely to the news while OPEC failed to revive floundering attempts to keep the production and prices under control. The Iraqi invasion of Kuwait marked the Gulf War. In the early days of 1991, oil prices jumped 12.5% and the S&P 500 index fell nearly 5% prior to Congressional authorization of Operation Desert Storm in Iraq. On Jan. 17, 1991, one day after the United States launched an air strike in Iraq, oil prices plunged 33% – one of the largest one-day drops in oil prices – while the S&P gained 3.7%. From late 1990 until 1994, the crude oil prices entered a period of steady decline where prices reached their lowest levels: $21 USD/bbl to $15 USD/bbl.

From 1994 to 1997, there was a period of economic prosperity in the United States and the Asian Pacific region, leading to an increased oil consumption of 6.2 Mbpd. Russian productions, however, declined significantly from over 11 Mbpd in 1990 to 5 Mbpd in 1997 due to the separation of the Soviet Union and other geopolitical factors. As a result, the decreased production levels and increased global demand contributed to a price recovery extending into 1997. This was in response to the Asian financial crisis in 1998, which pushed down the prices to $12 USD/bbl and forced OPEC to reduce its production levels to regain control over the oil market, resulting in higher prices ($17 USD/bbl) in 1999.

2000-2002: Putting Pressure on OPEC

In early 2000, a weakened U.S. economy and increases in non-OPEC production put downward pressure on prices. In addition, crude oil prices plummeted in the wake of the September 11, 2001 attack on the United States. In fact, by November 2001, WTI spot prices were down 35%.

To boost prices, OPEC cut its quota by 1.8 Mbpd to control the prices again in January 2002. The movement was joined by Russia, whose production was reduced by 462,500 bpd. This had the desired effect with oil prices moving into $25 USD/bbl by the end of 2002 Q1.

By the end of 2002, prices continued to rise as U.S. inventories reached a 20-year low and a strike at Petróleos de Venezuela S.A. (a Venezuelan state-owned oil and natural gas company) caused production to plummet, putting the market at a fragile state.
2003: Tracking the Iraq War

During this fragile time, inventories remained low in the U.S. and other OECD countries, while Asian demand for crude oil was growing rapidly. On March 19, 2003, just as some Venezuelan production was beginning to return, military action began in Iraq. Oil climbed almost 40%, from $18 USD/bbl in early December to $25 USD/bbl on March 18. The S&P dropped 11% during the same period. The loss of production capacity in Iraq and Venezuela led to the drop of world’s production capacity from over 6 Mbpd to below 2 Mbpd by mid-2003.

During 2004 and 2005, the war and struggle in the Middle East continued as the spare capacity fell below 1 Mbpd, which was not enough for a world consuming more than 80 Mbpd of petroleum products at the time. The lack of assurance in production ability to cope with further disruptions added a substantial risk premium to crude oil prices, which traded between $40-$50 USD/bbl. The continued rise of oil prices since the Iraq war also contributed to the weak dollar and the rapid expansion of Asian economies with their appetite for petroleum products.

2008: Rising Fear of a Supply Shortage

At the beginning of what would become the longest U.S. recession since the Great Depression, oil prices were on the rise in 2008. OPEC spare capacity (which gives the market comfort that supply can be maintained and demand can be met) dipped below a million barrels per day (as seen in Figure 4 below). Low levels of OPEC spare production capacity are correlated with rising oil prices since the market demand cannot be met. While the global economy was affected by the U.S. recession and the oil market was at yet another fragile state, in July Iran tested missiles capable of reaching Israel, which sent oil prices over $125 USD/bbl, the highest level ever recorded to date.1

In 2007, the oil market entered one of its most volatile periods in recent history as OPEC cut its production by 1.7 Mbpd and geopolitical turmoil in the Middle East and Nigeria coincided with slow non-OPEC production output.1 Furthermore, a falling U.S. dollar, growing Asian demand, and “financialization” of oil markets entered the prices into a hypersensitive state setting up the stage for the highest intraday price on record.1 The ever-growing escalations between the west and Iran created fear amongst traders that Iran may block the Strait of Hormuz, the world’s most important chokepoint with an oil flow of about 17 Mbpd in 2011, which equals about one-fifth of the world’s consumption passing through it.3

Figure 3: China’s Petroleum Consumption (Source: EIA)

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Figure 4. OPEC Spare Capacity vs. Oil Nominal & Real Price (2010 $) (Source: EIA)

At the same time, Nigeria’s main militant group threatened to resume attacks on the country’s oil production facilities. Although there were not any signs of war between Iran and Israel with the missile tests, the threat of supply disruption supported oil prices to reach the record high. The sudden price spikes were driven by the “fear premium,” the expectation that a certain event will happen that could significantly impact the market in a negative way. In mid-July, remarks to lift the ban on oil drilling and help the falling petroleum demand by then U.S. President George Bush precipitated the price drop throughout the remainder of the year to below $50 USD/bbl by November 2008.5 Additional tensions in the Gaza Strip caused oil prices to rise temporarily in January 2009.5 Although Iran and other OPEC members tried to control the prices by cutting 4.2 Mbpd, oil prices fell to nearly $35 USD/bbl by the middle of the month, based on the weakening U.S. economy and falling global demand.2
2011: Cycling Political Turmoil in the Middle East

In the beginning of 2011, political turmoil in Egypt, Libya, Yemen, Syria, and Bahrain, known as the “Arab Spring,” shook the oil markets once again. The oil market, already volatile in the aftermath of the global financial crisis of 2008, became even more volatile as fears that a drop in oil supply could occur due to the Arab Spring conflict drove oil prices to $91 USD/bbl by mid-February 2011. Oil Prices spiked to $103 USD/bbl due to the political upheaval in Libya by the end of February 2011. Events in Libya went from bad to worse, forcing the foreign oil companies operating in Libya to evacuate workers and suspend — and, even halt — production. Although Libya’s crude production only provides for 2% of the world’s consumption, market participants were cautious about the political unrest in the country and the possibility of further oil disruption in the region. The unrest in Libya followed an anti-government uprising in Egypt that was inspired by similar events in Tunisia earlier that year.

The fear of further supply disruption caused by spreading violence and instability to Algeria, Libya’s neighbor to the east, worried the market participants and traders even further. Nomura Securities estimated that 3.1 Mbpd could be taken off the world market if both Libya and Algeria ceased production. This move would have cut OPEC’s spare capacity to 2.1 Mbpd from its 5.2 Mbpd. Similar spare capacity levels happened during the Gulf War in 1991 and the financial crisis in 2008, when Brent prices rose to $147 USD/bbl. Nomura projected that such a supply shock could drive prices to $220 USD/bbl, given the global demand remains robust. Additionally, traders were concerned that the amount of spare oil in global reserves may not be enough to offset widespread supply disruptions in the Middle East as protests roiled the streets of Bahrain. In March, 2011, a significant drop in Libyan production and fears of more instability in the Middle East and North Africa pushed the price of oil over $100 USD/bbl on the New York Mercantile Exchange. In 2011, Oil prices averaged at $103 USD/bbl, about 10 % higher than in the previous record year of 2008, $93 USD/bbl.

2012: Growing Tensions in Iran and Violence in Syria

The push for tighter sanctions on Iranian oil exports (over disagreements about its atomic program) came at a time when oil prices were already high. In the early days of 2012, Iran escalated its war of words with the U.S. by threatening to close the Strait of Hormuz. In this period, rising oil prices could seriously hurt the fragile European economy, which was dealing with the backlashes of its own economic crisis from 2010. A ban on Iranian oil would affect three of Europe’s biggest importers of Iranian crude oil and most troubled economies: Greece, Spain, and Italy. In mid-February of that year, Iran’s oil ministry said it would stop exporting crude to British and French companies. This tested the European Commission’s statement days earlier that the bloc would not be short of oil if Iran stopped crude oil as there was enough oil in its stock. On February 19, 2012, Brent crude went up by $1 USD/bbl to $118 USD/bbl after Iran imposed the oil embargo on the European countries.

In August 2012, chaos in Syria erupted and made market participants nervous about any spillover effects to the neighboring countries in the region, home to 60% of the world’s oil reserves. In September 2012, the Syrian army began using cluster bombs on civilians and rising tensions between Turkey and Syria heightened concerns about possible supply disruptions. As geopolitical risks in the Middle East are reflected more in the Brent price than WTI, Brent saw a large price swing. Brent’s premium over its American counterpart reached over $20 USD/bbl, with the Brent price just above $115 USD/bbl in November 2012.

2013: Continuing Unrest and Unease

In June 2013, oil hit a nine-month high as tensions escalated between the U.S. and Syria. In response to the Syrian government’s alleged use of chemical weapons against rebels, the U.S. administration proposed to arm Syrian rebels, train them inside Jordan, and implement a no-fly zone in Syrian airspace, a huge sign of escalation in the region. WTI oil prices climbed to more than $95 USD/bbl, a level not reached since September 2012.

In July 2013, an Egyptian coup d’état helped U.S. oil prices top the $100 mark for the first time since April 2012. Although the country is not a major oil producer, Egypt controls the Suez Canal and pipeline that moves 4 Mbpd. At the same time, according to similar reports from American Petroleum Institute and the U.S. Energy Information Administration (EIA), stockpiles of crude oil dwindled by nine million barrels, keeping the traders on edge. Also, Brent oil prices went up by 7% since the start of the violence.

In August 2013, the possibility of a U.S.-led attack against Syria rose to its highest level since the tension started between Bashar al-Assad’s forces and the rebels. From August 26 to August 28, following an anticipation of a Western crackdown on Syria, WTI rose above $106 USD/bbl and Brent prices rallied 3.26%. With the rejection of UK Parliament for military involvement in Syria, concerns about supply disruption eased, helping prices to retreat. On August 29, WTI fell from the highest settlement since May 2011 as the likelihood of the attack remained small and EIA reported an increase of 3 million barrels in U.S. crude inventories to 362 million barrels for the week ending August 23.

On September 11, 2013, the price of oil rose once again as the market waited for developments regarding Syria, but the Energy Department announced supplies dropped at Cushing, Okla., fell by more than 700,000 barrels. Brent rose 25 cents to $111.50 USD/bbl on the ICE Futures, whereas WTI for October delivery rose 17 cents to close at $107.56.
As the diplomatic talks progressed in the third week of September between Syria and the West to turn over the country’s chemical weapons inventory, oil prices dropped to $107 USD/bbl.  

Figure 5. Monthly Average Oil Crude Nominal Price (Graph created by ZEMA using Data from EIA)

Looking Down the Barrel

In the last week of September 2013, the area still experienced tensions and fears, though calmer than the weeks prior. Libyan oil productions increased, military action against Syria faded away as diplomatic talks to hand over the country’s chemical weapons were deemed successful, and Iran’s newly elected president appears to be more approachable for continued talks with the West. Although these turn of events promise some relief in the Middle East, most of the region has been dealing with violence and tensions for the better half of the past 33 years. This has a major impact on the risk premium associated with doing business in this volatile region.

There is no doubt that the oil resources of the Middle East will be critical to meeting the world’s growing appetite for petroleum products. According to the International Energy Agency, the Middle East accounted for 35% of global oil output in the first quarter of 2013. When it comes to the Middle East, geopolitical factors have become a key element in driving oil prices, based largely on the weight the region bears on the global supply.

The oil market is uniquely vulnerable to geopolitical factors and tensions in Mideast due to the volatile nature of the region, but the impacts of the fear premium are amplified, then reflected, in oil prices when the level of inventory stocks are low.

The prime example of this phenomenon can be witnessed in July 2008 where the oil prices reached the highest level in history while Iran’s missile tests coincided with low OPEC spare capacity (below 1 Mbd). The fear that further escalations in the region would cripple the supply of oil to the market which was low on the inventory stocks drove up prices to an unprecedented level. Once fears abated, prices fell substantially in November 2008 to $49 USD/bbl from $128 USD/bbl in July of the same year. In another example, Nomura Securities projected that the oil prices would reach to unimaginable $220 USD/bbl in 2011 when the OPEC’s spare capacity dropped to 2.1 Mbd and the tensions in the region continued.

It is interesting to note that the three longest recessions in the U.S. since the Great Depression concurred with peak oil prices: the first recession followed the 1973 Arab Oil Embargo; the second recession in July 1991 coincided with surging oil prices due to Iraq-Iran war; and, the last U.S. recession happened in December 2007 despite oil prices reaching a record high only two months earlier.

The constant tensions in and surrounding the Middle East, as well as the lack of strong global economic prospects, are putting the oil market in one of its most volatile states since 1970. Aside from hoping for a peace and stability in the region, I, for one, would like to see further developments in shale gas production and other alternative fuels that would put less pressure on the oil prices. Perhaps, only time can tell if the black gold could be substituted or not!

Notes and Sources

† “Oil Prices” used throughout this article are referred to EIA Short-Term Energy Outlook Imported Crude Oil Prices unless otherwise specified.

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