

SUBMISSION COVER SHEET

IMPORTANT: Check box if Confidential Treatment is requested

Registered Entity Identifier Code (optional): 23-155

Organization: Commodity Exchange, Inc. ("COMEX")

Filing as a: **DCM** **SEF** **DCO** **SDR**

Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): 04/27/23 **Filing Description:** Increase of Spot Month Position Limit, Single Month Accountability Level and All Month Accountability Level of the Cobalt Metal (Fastmarkets) Futures Contract

SPECIFY FILING TYPE

Please note only ONE choice allowed per Submission.

Organization Rules and Rule Amendments

- | | | |
|--------------------------|-------------------------------------|------------|
| <input type="checkbox"/> | Certification | § 40.6(a) |
| <input type="checkbox"/> | Approval | § 40.5(a) |
| <input type="checkbox"/> | Notification | § 40.6(d) |
| <input type="checkbox"/> | Advance Notice of SIDCO Rule Change | § 40.10(a) |
| <input type="checkbox"/> | SIDCO Emergency Rule Change | § 40.10(h) |

Rule Numbers:

New Product

Please note only ONE product per Submission.

- | | | |
|--------------------------|---------------------------------------|------------|
| <input type="checkbox"/> | Certification | § 40.2(a) |
| <input type="checkbox"/> | Certification Security Futures | § 41.23(a) |
| <input type="checkbox"/> | Certification Swap Class | § 40.2(d) |
| <input type="checkbox"/> | Approval | § 40.3(a) |
| <input type="checkbox"/> | Approval Security Futures | § 41.23(b) |
| <input type="checkbox"/> | Novel Derivative Product Notification | § 40.12(a) |
| <input type="checkbox"/> | Swap Submission | § 39.5 |

Product Terms and Conditions (product related Rules and Rule Amendments)

- | | | |
|-------------------------------------|---|----------------------|
| <input checked="" type="checkbox"/> | Certification | § 40.6(a) |
| <input type="checkbox"/> | Certification Made Available to Trade Determination | § 40.6(a) |
| <input type="checkbox"/> | Certification Security Futures | § 41.24(a) |
| <input type="checkbox"/> | Delisting (No Open Interest) | § 40.6(a) |
| <input type="checkbox"/> | Approval | § 40.5(a) |
| <input type="checkbox"/> | Approval Made Available to Trade Determination | § 40.5(a) |
| <input type="checkbox"/> | Approval Security Futures | § 41.24(c) |
| <input type="checkbox"/> | Approval Amendments to enumerated agricultural products | § 40.4(a), § 40.5(a) |
| <input type="checkbox"/> | “Non-Material Agricultural Rule Change” | § 40.4(b)(5) |
| <input type="checkbox"/> | Notification | § 40.6(d) |

Official Name(s) of Product(s) Affected: See filing.

Rule Numbers: See filing.

April 27, 2023

VIA ELECTRONIC PORTAL

Mr. Christopher J. Kirkpatrick
 Office of the Secretariat
 Commodity Futures Trading Commission
 Three Lafayette Centre
 1155 21st Street, N.W.
 Washington, DC 20581

Re: CFTC Regulation 40.6(a) Certification. Increase of Spot Month Limit, Single Month Accountability Level and All Month Accountability Level of the Cobalt Metal (Fastmarkets) Futures Contract. COMEX Submission No. 23-155

Dear Mr. Kirkpatrick:

Commodity Exchange, Inc. (“COMEX” or “Exchange”) certifies to the Commodity Futures Trading Commission (“CFTC” or “Commission”) an increase of the spot month limit, single month accountability levels and all month accountability levels of the Cobalt Metal (Fastmarkets) Futures contract (the “Contract”) as noted in the table below effective on May 12, 2023 and commencing with the June 2023 contract month and beyond (collectively, the “Rule Amendments”).

**COMEX Rulebook
 Chapter 5
 (“Trading Qualifications and Practices”)**
 (additions underscoring; deletions ~~struck through~~)

Contract Title	Rulebook Chapter	CME Globex and CME ClearPort Code	Spot-Month Limit	Single Month Accountability Level	All Month Accountability Level
Cobalt Metal (Fastmarkets) Futures	645	COB	400 <u>800</u>	800 <u>1,600</u>	4,600 <u>3,200</u>

The Position Limit, Position Accountability and Reportable Level Table (the “Table”) located in the Chapter 5 of the COMEX Rulebook is being amended to reflect the changes in the spot month limit, single month accountability levels and all month accountability levels for the Contract. Exhibit A provides amendments to the Table effective on May 12, 2023 and Exhibit B provides amendments to the Table effective on June 1, 2023, the date that June 2023 becomes the spot contract month. Both Exhibit A and Exhibit B are provided under separate cover in blackline format.

Fastmarkets, the Price Reporting Agency whose cobalt assessment is used to financially settle the Contract, recently announced that an additional metal brand would be included in the underlying assessment (see Fastmarkets’ [pricing notice dated April 13, 2023](#)). The Exchange conducted a comprehensive update of the Contract’s deliverable supply to include the additional brand: Sherritt briquettes. Exhibit C below provides the Exchange’s updated cash market overview and analysis of deliverable supply in connection with the Contract.

The Exchange reviewed the designated contract market core principles (“Core Principles”) as set forth in the Commodity Exchange Act (“Act” or “CEA”) and identified that the Rule Amendments may have some bearing on the following Core Principles:

- **Contract Not Readily Susceptible to Manipulation**: Due to the liquidity and robustness in the underlying cash markets, the Contract is not readily susceptible to manipulation.
- **Position Limitations or Accountability**: The speculative position limits for the Contract as demonstrated in this submission are consistent with the Commission’s guidance.
- **Availability of General Information**: The information contained herein will be disseminated to the marketplace via a Market Surveillance Notice (“MSN”). The MSN will also be posted on the CME Group website. In addition, the Exchange will continue to publish information on the contract specifications on its website, together with daily trading volume, open interest, and price information.

Pursuant to Section 5c(c) of the Act and CFTC Regulations 40.6(a), the Exchange hereby certifies that the Rule Amendments comply with the Act, including regulations under the Act. There were no substantive opposing views to the proposal.

The Exchange certifies that this submission has been concurrently posted on the CME Group website at <http://www.cmegroup.com/market-regulation/rule-filings.html>.

Should you have any questions concerning the above, please contact the undersigned at (212) 299-2200 or via e-mail at CMEGSubmissionInquiry@cmegroup.com.

Sincerely,

/s/ Christopher Bowen
Managing Director and Chief Regulatory Counsel

Attachments: Exhibit A: Position Limits, Position Accountability and Reportable Level Table in Chapter 5 of the COMEX Rulebook (effective May 12, 2023) (attached under separate cover)

Exhibit B: Position Limits, Position Accountability and Reportable Level Table in Chapter 5 of the COMEX Rulebook (effective June 1, 2023) (attached under separate cover)

Exhibit C: Cash Market Overview and Analysis of Deliverable Supply

Exhibit A
COMEX Rulebook
Chapter 5
(“Trading Qualifications and Practices”)

Position Limits, Position Accountability and Reportable Level Table

(attached under separate cover)

[effective May 12, 2023]

Exhibit B
COMEX Rulebook
Chapter 5
(“Trading Qualifications and Practices”)

Position Limits, Position Accountability and Reportable Level Table

(attached under separate cover)

[effective June 1, 2023]

Exhibit C

Cash Market Overview and Analysis of Deliverable Supply

Commodity Exchange, Inc. (“COMEX” or “Exchange”) lists the Cobalt Metal (Fastmarkets) Futures contract (the “Contract”) for trading on the CME Globex electronic trading platform (“CME Globex”) and for submission of clearing via CME ClearPort.

Contract Title	Rulebook Chapter	CME Globex and CME ClearPort Code
Cobalt Metal (Fastmarkets) Futures	645	COB

In its cash market and deliverable supply analysis, the Exchange has incorporated data from a range of sources as described below.

Fastmarkets (FM) is a leading global provider of price information for metals, agriculture and forestry products. FM’s assessment methodologies for cobalt are available on its website¹. CME Group Inc. (parent company of COMEX) is a party to license agreements with Fastmarkets to utilize its pricing data for final settlement of the contract.

The United States Geological Survey (USGS) is a scientific public agency in the United States. USGS is tasked with studying the landscape of the United States, its natural resources, and the natural hazards that threaten the landscape.

Final settlement of the Contract is based on the monthly average of all daily price assessments for Fastmarkets “Cobalt standard grade, in-whs Rotterdam, \$/lb.” The methodology refers to cobalt metal with a quality of minimum 99.8% cobalt metal content and matching the standard specifications of the following brands in original packaging: Katanga cathodes, Chambishi broken cathodes, CTT broken cathodes, Minara briquettes, Ambatovy briquettes, Norilsk grade 1 and grade 2 cut cathodes (production since January 2019). On April 13, 2013, Fastmarkets announced that effective immediately, Sherritt briquettes shall also be eligible for inclusion in the standard grade cobalt assessment.² The quantity required for inclusion is minimum 1 metric ton, maximum 100 metric tons and the location is in-warehouse, Rotterdam. Fastmarkets’ price assessment is based on spot market activity which are settled deals consummated within a 30-day period and with all other terms normalized. The denomination is \$/lb. The assessment is provided daily Monday-Friday on UK business days at 3:00 p.m. London local time. The cobalt metal price in Rotterdam serves as a worldwide reference price due to its central location between producing countries and global demand centers in Asia, Europe and the United States. In particular, cobalt hydroxide used in the battery manufacturing sold is bought and sold as a percent price of the cobalt metal price (the “cobalt hydroxide payable”).

¹ <https://www.fastmarkets.com/methodology/metals/cobalt>

² <https://www.fastmarkets.com/insights/amendments-extension-to-cobalt-standard-grade-in-whs-rotterdam-cobalt-alloy-grade-in-whs-rotterdam-prices>

CASH MARKET OVERVIEW

Cobalt is a ferromagnetic metal found in the earth's crust. It is typically mined as a by-product of copper and nickel mining operations. The Democratic Republic of Congo (DRC) is the world's largest producer of cobalt. According to the USGS, it produced 68% of the global total in 2022.

Table 1 – Global cobalt production (source: USGS³)

Mine production (metric tons)	2020	2021	2022 estimated
United States	600	650	800
Australia	5,630	5,295	5,900
Canada	3,690	4,361	3,900
China	2,200	2,200	2,200
Congo (Kinshasa)	98,000	119,000	130,000
Cuba	3,800	4,000	3,800
Indonesia	1,100	2,700	10,000
Madagascar	850	2,800	3,000
Morocco	2,300	2,300	2,300
Papua New Guinea	2,940	2,953	3,000
Philippines	4,500	3,600	3,800
Russia	9,000	8,000	8,900
Turkey	-	2,400	2,700
Other Countries	7,640	4,567	5,200
World Total (rounded)	142,000	165,000	190,000

Cobalt is used in many applications, among which: use in of cobalt in alloys (for aerospace, gas turbines, medical equipment, etc.), lithium-ion batteries, various electronics (integrated circuits, semi-conductors) and catalysts. Since cobalt is a key component in battery manufacturing, it is expected that growth in electric vehicle usage will translate into increased demand for cobalt in the coming years.

³ <https://pubs.usgs.gov/periodicals/mcs2023/mcs2023-cobalt.pdf>, <https://pubs.usgs.gov/periodicals/mcs2022/mcs2022-cobalt.pdf>

The cobalt brands currently contemplated in Fastmarkets' assessment are mined and refined in the following regions and by the following firms:

Table 2 – Cobalt brands used in assessment (source: Fastmarkets)

Name	Location	Ownership
Katanga cathodes	Katanga Province, DRC	Katanga Mining/ Glencore
Chambishi broken cathodes	Kitwe, Zambia	Eurasian Resources Group
CTT broken cathodes	Bou-Azzer mine, Morocco	Managem Group
Minara briquettes	Perth, Australia	Glencore
Ambatovy briquettes	Moramanga, Madagascar	Sumitomo
Norilsk grade 1 and 2 cut cathodes	Norilsk, Russia	Nornickel
Sherritt Briquettes	Cuba/Canada ⁴	Sherritt Corporation

Based on publicly available annual reports, the Exchange determined annual production volume for the locations producing the assessed brands as follows. Overall, the locations account for about 1/5 of global cobalt production.

Table 3 – Production volumes of assessed brands (source: company reports)

Production ('000 MT)	2020-2022			
	2020	2021	2022	average
Katanga cathodes	23.9	23.8	25.5	24.4
Chambishi broken cathodes*	3.4	3.4	3.4	3.4
CTT broken cathodes**	2.4	1.8	1.8	2.0
Minara briquettes	2.9	2.5	3.0	2.8
Ambatovy briquettes***	2.8	2.8	2.8	2.8
Norilsk grade 1 and grade 2 cut cathodes****	6.0	5.0	5.0	5.3
Sherritt	3.4	3.5	3.4	3.4
Total	44.8	42.8	44.9	44.1

Notes:

* Production data for Chambishi was not available. The Chambishi refinery has an annual capacity of 6,800 tons/ year. We assumed that it was producing at 50% of capacity.

** 2022 data for CTT not available, assumed same production as prior year

*** Production data for Ambatovy was not available. The Ambatovy refinery has an annual capacity of 5,600 tons/ year. We assumed that it was producing at 50% of capacity.

**** 2022 data for Norilsk not available, assumed same production as prior year

For links to various company reports regarding production volume, see Appendix A below.

⁴ Sherritt briquettes are refined in Alberta province, Canada, from material mined and processed in Moa, Cuba.

Physical trade in cobalt takes place throughout a complex supply chain involving producers, refiners, merchants, and end-users. Cobalt is traded in the spot market as well as using floating index prices or on a fixed price basis for term contracts. Term contracts typically allow to freely re-trade contracted volume.

The growth in electric vehicle manufacturing has led to higher demand for cobalt sulfate, the cobalt intermediate product used in lithium-ion batteries. Cobalt sulfate can be manufactured from cobalt metal but is typically refined directly from cobalt intermediate products such as cobalt hydroxide. Because cobalt metal is consumed in traditional industrial applications and can also find its way in lithium-ion batteries via chemical conversion, it serves as the benchmark price in both sectors. Intermediate products in the cobalt supply chain are priced with reference to the price of cobalt metal on a “percent payable basis.”

ANALYSIS OF DELIVERABLE SUPPLY

Appendix C to part 38 of the Commission’s regulations defines deliverable supply as “*the quantity of the commodity meeting the contract’s delivery specifications that can reasonably be expected to be readily available to short traders and saleable by long traders at its market value in normal cash marketing channels at the derivative contract’s delivery points during the specified delivery period, barring abnormal movement in interstate commerce.*”

The Exchange assessed spot month limits for the Contract based on production data for the mines whose brands are eligible for inclusion in the underlying Fastmarkets market assessment.

The Contract was initially launched on December 14, 2020 (see Submission No. [20-463](#) dated November 24, 2020). At that time, an adjustment of 50% to the deliverable supply was made to account for: a) the share of mining production that may go directly into chemical refining for the battery manufacturing sector without processing into cobalt metal; and b) regional availability of the commodity by removing material that may not necessarily be readily available in Rotterdam warehouses.

Following feedback from market participants and the Exchange’s recent review of the underlying physical cobalt market, the Exchange believes that the adjustment adopted at launch due to an abundance of caution in a previously unfamiliar market is no longer required. Pricing across the cobalt supply chain is inherently linked to cobalt metal – the battery sector buys cobalt products on a metal payable basis. The reason behind this close price linkage is that market participants have the possibility to convert metal into other cobalt products, and vice-versa. Physical arbitrage between the two forms of cobalt will keep prices from disconnecting. Arbitrage trading will move material in and out of warehouses in China (the main hub of cobalt demand) into or out of Rotterdam and other locations. The Exchange therefore believes that its original adjustment unnecessarily restricted the amount of the commodity that could potentially be made available for sale on a spot basis.

Deliverable supply in the Contract is defined as the average annual production volumes of 44,100 MT, equivalent to 3,675MT per month. This is equivalent to 3,675 contract lots per month. The Exchange proposes a spot month position limit of 800 contracts, equivalent to 21.7% of deliverable supply.

Appendix A – company reports for production volumes

Glencore

https://www.glencore.com/dam/jcr:e43e5f94-6484-4332-9f09-e3601aafb44f/GLEN_2022-FY_ProductionReport.pdf

https://www.glencore.com/dam/jcr:90d4d8f9-a85e-42ec-ad8a-b75b657f55d2/GLEN_2021-full-year_ProductionReport.pdf

Chambishi

<https://www.ergafrica.com/cobalt-copper-division/chambishi-metals/>

CTT

https://managemgroup.com/files/2022-04/RFA%20MANAGEM%202021_0.pdf

Ambatovy

<https://ambatovy.com/en/operations/operations-components/>

Norilsk

https://www.nornickel.com/upload/iblock/1cc/sju417vvrpj0kytcmkflm0eu87rgtmx/NN_AR_2021_Book_EN_G_26.09.22.pdf

https://www.nornickel.com/upload/iblock/305/2020_annual_report_of_nornickel.pdf

Sherritt

<https://www.sherritt.com/English/Investor-Relations/News-Releases/News-Release-Details/2023/Sherritt-Reports-Strong-2022-Production-Results-and-Provides-2023-Guidance/default.aspx>

<https://www.sherritt.com/English/Investor-Relations/News-Releases/News-Release-Details/2022/Sherritt-Ends-2021-With-Strong-Production-Results-and-a-Favourable-Outlook-for-Nickel-and-Cobalt-Markets/>