



New York
Mercantile Exchange

NYMEX/COMEX. Two divisions, one marketplace

GLOSSARY OF TERMS



INTRODUCTION

As commerce and industry have matured, each craft developed a vocabulary that uniquely describes its products, technology, and business practices.

Often, these words seem incomprehensible to the layman. The terms that are central to the New York Mercantile Exchange can at times seem formidable, especially those pertaining to our industry, futures and options, as well as those of our principal customers, energy and metals producers, vendors, and consumers.

The New York Mercantile Exchange, Inc., offers trading in futures and options on crude oil, heating oil, unleaded gasoline, natural gas, electricity, gold, silver, copper, aluminum, platinum, and the EuroTop 100® index; futures on the FTSE Eurotop 300® index; and options on propane, palladium; and the heating oil/crude oil and gasoline/crude oil price differential.

In the lingo of the institution, “sweet crude” is not the exclamation of an oil driller who has just brought in a successful well, wet barrels are different from paper barrels, mogas is something most people use everyday, hallmark is not a brand of greeting card, a lease does not involve real estate, fine weight is not the result of a diet program, and contango is not a dance step.

This short lexicon is not meant to be a comprehensive dictionary; its aim is to foster a better understanding of our business by the trading community, our customers, and the public at large.

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ACCOUNT EXECUTIVE

The agent of a commission house who serves customers/traders by entering their commodity futures and options orders, reporting trade executions, advising on trading strategies, etc.

ACTIVE MONTH

In the metals markets, the nearest cycle contract month that is not the current delivery month. The cycle months for each metals futures contract are defined by each individual contract.

ACTUALS

Physical cash commodities as opposed to futures contracts.

ADMINISTRATIVE WORKSTATION

A NYMEX ACCESS® workstation through which Exchange clearing members monitor all activity in accounts they carry and set limits on their customers' accounts through the Trade Limit Monitoring System.

ALL-OR-NONE

An order which must be filled in its entirety or not at all.

ALTERNATIVE DELIVERY PROCEDURE (ADP)

A provision of a futures contract that allows buyers and sellers to make and take delivery under terms or conditions that differ from those prescribed in the contract. An ADP may occur at any time during the delivery period, after long and short futures positions have been matched by the Exchange for the purpose of delivery.

AMERICAN GAS ASSOCIATION (AGA)

Major natural gas industry trade association, based in Washington, DC. AGA conducts technical research and helps create standards for equipment and products involved in every facet of the natural gas industry. It also compiles statistics which are considered industry standards.

AMERICAN OPTION

An options contract that may be exercised at any time prior to expiration. This differs from a "European option," which may only be exercised on the expiration date. The Exchange options contracts are "American."

AMERICAN PETROLEUM INSTITUTE (API)

The primary U.S. oil industry trade association, based in Washington, D.C. API conducts research and sets technical standards for industry equipment and products from wellhead to retail outlet. It also compiles statistics which are regarded as industry benchmarks.

AMERICAN SOCIETY FOR TESTING MATERIALS (ASTM)

Grade and quality specifications for petroleum products and metals are determined by the ASTM in test methods.

ANTHRACITE

Sometimes called hard coal, it has the highest energy content of all coals, and is generally mined in the Appalachian region of Pennsylvania.

API GRAVITY

Gravity (weight per unit volume) of oils as measured by the API scale whereby:

$$\text{API Gravity} = \frac{141.5}{\text{specific gravity at } 60^{\circ}\text{ F}} - 131.5$$

APPROVED CARRIERS

Armored carriers approved by the Exchange for the transportation of gold, platinum, and palladium.

ARBITRAGE

The simultaneous purchase of one commodity against the sale of another in order to profit from fluctuations in the usual price relationships. Variations include the simultaneous purchase and sale of different delivery months of the same commodity; of the same delivery month, but different grades of the same commodity; and of different commodities.

ASK

A motion to sell. The same as offer.

ASSAY

To test a metal or an oil for purity or quality.

ASSIGNMENT

The process by which the seller of an options contract is notified of a buyer's intention to exercise the rights associated with the option.

ASSOCIATED GAS

Natural gas present in a crude oil reservoir, either separate from or in solution with the oil.

AT-THE-MARKET

An order to buy or sell a futures contract at whatever price is obtainable when the order reaches the trading floor. Also called a market order.

AT-THE-MONEY

An option whose exercise, or strike, price is closest to the futures price.

AVOIRDUPOIS UNIT

Customary U.S. weights. 1 troy ounce = 1.09 ounces avoirdupois.

AUTOMATIC EXERCISE

Following options expiration, an option which is in-the-money by \$100 or more is exercised automatically by the clearinghouse, unless the holder of the option submits specific instructions to the contrary.

BACK MONTHS

Contract months that are further out in time are collectively referred to as back months. See Front Months for comparison.

BACKWARDATION

Market situation in which futures prices are lower in each succeeding delivery month. Also known as an inverted market. The opposite of contango.

BANKER'S ACCEPTANCE

A draft or bill of exchange accepted by a bank; payment is guaranteed by the accepting institution.

BARGE

A vessel, either motorized or towed, used to carry products in navigable waterways. Inland river barges that carry oil products generally hold 25,000 barrels. Ocean-going barges range in size up to 120,000 barrels.

BARREL

A unit of volume measure used for petroleum and refined products. 1 barrel = 42 U.S. gallons.

BASE METAL

Copper, aluminum, lead, nickel, and tin.

BASELOAD

The minimum amount of electric power delivered or required over a given period of time at a steady rate.

BASELOAD CAPACITY

Electric generating equipment normally operated to serve loads on an around-the-clock basis.

BASIS

The differential that exists at any time between the cash, or spot, price of a given commodity and the price of the nearest futures contract for the same or a related commodity. Basis may reflect different time periods, product forms, qualities, or locations. Cash minus futures equals basis.

BASIS RISK

The uncertainty as to whether the cash-futures spread will widen or narrow between the time a hedge position is implemented and liquidated.

BATCH

A measured amount in which crude oil and refined product shipments are sent through a pipeline.

BATCHING SEQUENCE

The order in which shipments are sent through a pipeline.

Bcf

Billion cubic feet.

B/D

Barrels per Day. Usually used to quantify a refiner's output capacity or an oilfield's rate of flow.

BEAR

One who anticipates a decline in price or volatility. Opposite of a bull.

BEAR MARKET

Market in which prices are in a declining trend.

BEAR SPREAD

1) The simultaneous purchase and sale of two futures contracts in the same or related commodities with the intention of profiting from a decline in prices but, at the same time, limiting the potential loss if this expectation is wrong. This can usually be accomplished by selling a nearby delivery and buying a deferred delivery.

2) A delta-negative options position composed of long and short options of the same type, either calls or puts, designed to be profitable in a declining market. An options contract with a lower strike price is sold and one with a higher strike price is bought.

BID

A motion to buy a futures or options contract at a specified price. Opposite of offer.

BITUMINOUS

Sometimes called "soft" coal, it has a higher heating value than subbituminous and is the most commonly used coal for electric power generation in the United States. It is mined chiefly in Appalachia and the Midwest.

BLACK-SCHOLES MODEL

An options pricing formula initially derived by Fisher Black and Myron Scholes for securities options and later refined by Mr. Black for options on futures.

BOILER ROOM

An enterprise which often is operated out of inexpensive, low-rent quarters that uses high pressure sales tactics, generally over the telephone, and possibly false or misleading information to solicit generally unsophisticated investors.

BOOK TRANSFER

Transfer of title without actually delivering the product.

BOTTOM SEDIMENT AND WATER (BS&W)

Often found in crude oil and residual fuel.

BOX SPREAD

An options market arbitrage in which both a bull spread and a bear spread are established for a risk-free profit. One spread includes put options and the other includes calls.

BRAND

Insignia identifying the producer of a specific commodity.

BREAK

A rapid and sharp price decline.

BREAKEVEN POINT

The underlying futures price at which a given options strategy is neither profitable nor unprofitable. For call options, it is the strike price plus the premium. For put options, it is the strike price minus the premium.

BRITISH THERMAL UNIT (BTU)

The amount of heat required to increase the temperature of one pound of water one-degree Fahrenheit. A Btu is used as a common measure of heating value for different fuels. Prices of different fuels and their units of measure (dollars per barrel of crude, dollars per ton of coal, cents per gallon of gasoline, dollars per thousand cubic feet of natural gas) can be easily compared when expressed as dollars and cents per million Btus.

BROKER

1) An individual who is paid a fee or commission for acting as an agent in making contracts, sales, or purchases. 2) A floor broker is a person who actually executes trading orders on the floor of an exchange. 3) An account executive, registered commodity representative, or customers' man who deals with customers and their orders in commission house offices. See also Futures Commission Merchant, Introducing Broker.

BTU

See British thermal unit.

BULGE

A rapid advance in futures prices.

BULL

One who anticipates an increase in price or volatility. Opposite of a bear.

BULLION

Precious metals cast into bars or other uncoined form.

BULLION COIN

A precious metal coin whose market value is determined by its inherent precious metal content. They are bought and sold mainly for investment purposes.

BULL MARKET

Market in which prices are in an upward trend.

BULL SPREAD

1) The simultaneous purchase and sale of two futures contracts in the same or related commodities with the intention of profiting from a rise in prices but, at the same time, limiting the potential loss if this expectation is wrong. This can be accomplished by buying the nearby delivery and selling the deferred. 2) A delta-positive options position composed of both long and short options of the same type, either calls or puts, designed to be profitable in a rising market. An options contract with a lower strike price is bought and one with a higher strike price is sold.

BUNDLE

A stack of copper cathodes strapped together for shipping.

BUNKER C FUEL OIL (OR BUNKERING FUEL)

Fuel used for ships. Generally refers to a No. 6 grade of residual fuel oil with an API gravity about 10.5 degrees.

BUSINESS DAY

For electric utilities, as determined by the North American Electric Reliability Council (NERC), the business day typically begins at 6 A.M. (the hour ending 0700) for a 24-hour period. Holidays are also determined by NERC and are separate from U.S.-designated holidays.

For futures and options contracts, business days are trading days as determined by the Exchange board prior to the start of the year.

BUYERS' MARKET

A condition of the market in which there is an abundance of goods available and hence buyers can afford to be selective and may be able to buy at less than the price that previously prevailed. See sellers' market.

BUYING HEDGE

Also called a long hedge. Buying futures contracts to protect against possible increased costs of commodities that will be needed in the future.

CALENDAR SPREAD

An options position composed of the purchase and sale of two options contracts of the same type that have the same strike prices but different expiration dates. Also known as a horizontal, or time spread.

CALL OPTION

An option that gives the buyer (holder) the right, but not the obligation, to buy a futures contract (enter into a long futures position) for a specified price within a specified period of time in exchange for a one-time premium payment. It obligates the seller (writer) of an option to sell the underlying futures contract (enter into a short futures position) at the designated price, should the option be exercised at that price.

CANDLESTICK CHARTING

A technical analysis charting technique indicating the range of a day's prices and illustrating the overall movement of the market. The chart that results tends to resemble a row of candlesticks.

CAP

A supply contract between a buyer and a seller, whereby the buyer is assured that he will not have to pay more than a given maximum price. This type of contract is analogous to a call option.

CAPACITY

In general, the maximum volume of liquid or gas that can be pumped through a pipeline, or the maximum load that a generating unit or station can carry under specified conditions for a given period of time, or the total storage space or volume of a warehouse or storage container or tank farm.

CARRY MARKET

A market situation in which prices are higher in the succeeding delivery months than in the nearest delivery month. Also known as contango, it is the opposite of backwardation.

CARRYING CHARGE

The total cost of storing a physical commodity over a period of time. Includes storage charges, insurance, interest, and opportunity costs.

CASH COMMODITY

The actual physical commodity. Sometimes called a spot commodity or actuals.

CASH MARKET

The market for a cash commodity where the actual physical product is traded.

CASH-SETTLED

Futures contracts that are settled in cash without the option to deliver the underlying commodity.

CASINGHEAD GAS

Gas present in an oil well that is removed when it flows to the surface at the well's casing.

CATHODE

A flat rectangular piece of metal which has been refined by electrolysis. Copper is commonly traded and delivered in this form.

CENTRAL BANK

A national bank that operates to establish monetary and fiscal policy and to control the money supply and interest rates. In the United States, the Federal Reserve Board is often referred to as the central bank.

CETANE NUMBER

A measure of the ignitability of diesel fuel. Diesel fuel generally has to meet a cetane number specification of 40. As a measure of performance, the cetane number serves a similar purpose to the octane number of gasoline.

CUBIC FEET PER DAY (CF/D)

Usually used to quantify the rate of flow of a gas well or pipeline.

CFTC

See Commodity Futures Trading Commission.

CHARTING

The use of graphs and charts in the analysis of market behavior, so as to plot trends of price movements, average movements of price, volume, and open interest, in the hope that such graphs and charts will help one to anticipate and profit from price trends. Contrasts with fundamental analysis. (See Candlestick Charting)

COST, INSURANCE, FREIGHT (CIF)

Term refers to a sale in which the buyer agrees to pay a unit price that includes the free on board (FOB) value at the port of origin plus all costs of insurance and transportation. This type of transaction differs from a "delivered" agreement in that it is generally ex-duty, and the buyer accepts the quantity and quality at the loading port rather than paying for quality and quantity as determined at the unloading port. Risk and title are transferred from the seller to the buyer at the loading port, although the seller is obliged to provide insurance in a transferable policy at the time of loading.

CITY GATE

Generally refers to the location at which gas changes ownership or transportation responsibility from a pipeline to a local distribution company or gas utility.

CLASS OF OPTIONS

All call options, or all put options, exercisable for the same underlying futures contract and which expire on the same expiration date.

CLASS OF SERVICE

A utility's sales categories such as residential, commercial, industrial, other, and sales for resale.

CLEAN CARGO

Refined products such as kerosene, gasoline, home heating oil, and jet fuel carried by tankers, barges, and tank cars. All refined products except bunker fuels, residual fuel oil, asphalt, and coke.

CLEARING

The registration and settlement of a trade that includes provisions for margin requirement and performance guarantee.

CLEARING MEMBER

Clearing members of the New York Mercantile Exchange accept responsibility for all trades cleared through them, and share secondary responsibility for the liquidity of the Exchange's clearing operation. They earn commissions for clearing their customers' trades, and enjoy special margin privileges. Original margin requirements for clearing members are lower than for non-clearing members and customers, and clearing members may use letters of credit posted with the clearinghouse as original margin for customer accounts as well as for their own trades. Clearing members must meet a minimum capital requirement.

CLEARINGHOUSE

An Exchange-associated body charged with the function of insuring the financial integrity of each trade. Orders are "cleared" by means of the clearinghouse acting as the buyer to all sellers and the seller to all buyers.

CLOSE

A period defined by the Exchange and occurring at the end of each trading session wherein any transactions are considered to be made "at the close."

CLOSING RANGE

A range of prices at which transactions took place at the closing of the market; buying and selling orders during the closing period might have been filled at any point within such a range.

COGENERATOR

A generating facility that produces electricity and another form of useful thermal energy (such as heat or steam), used for industrial, commercial, heating, or cooling purposes.

COLLAR

A supply contract between a buyer and seller of a commodity, whereby the buyer is assured that he will not have to pay more than some maximum price, and whereby the seller is assured of receiving some minimum price. This is analogous to an options fence, also known as a range forward.

COMBINATION UTILITY

A utility which provides both gas and electric service.

COMMISSION

The fee charged by a futures broker for the execution of an order.

COMMISSION HOUSE

An organization that trades commodities and/or futures and options contracts for customer accounts in return for a fee.

COMMISSION MERCHANT

One who makes a trade, either for another member of an exchange or for a non-member client, but who makes the trade in his own name and becomes liable as principal to the other.

COMMITMENT OR OPEN INTEREST

The number of open or outstanding contracts for which an individual or entity is obligated to the Exchange because that individual or entity has not yet made an off-setting sale or purchase, an actual contract delivery, or, in the case of options, exercised the option.

COMMODITY

As defined by the Commodity Futures Trading Commission, specifically enumerated agricultural commodities, all other goods and articles, except onions, and all services, rights, and interests in which contracts for future delivery are presently, or in the future may be, dealt.

COMMODITY FUTURES TRADING COMMISSION (CFTC)

A federal regulatory agency authorized under the Commodity Futures Trading Commission Act of 1974 to regulate futures trading in all commodities. The commission has five commissioners, one of whom is designated as chairman, all appointed by the President, subject to Senate confirmation. The CFTC is independent of the Cabinet departments.

COMMODITY POOL

A venture, usually a limited partnership, in which funds contributed by a number of investors are combined for the purpose of trading futures. Also called a commodity fund or a futures fund.

COMMODITY POOL OPERATOR (CPO)

Acts as a general partner of commodity pools. CPOs hire independent commodity trading advisors to handle daily trading decisions. Responsible for the pool's administration, structure, and selecting and monitoring the traders who conduct transactions using the fund's money.

COMMODITY TRADING ADVISOR (CTA)

Directs trading in the managed accounts of a commodity pool. Professional money managers who manage client assets on a discretionary basis, using global futures markets as an investment medium.

CONTANGO

A market situation in which prices are higher in the succeeding delivery months than in the nearest delivery month. Also known as a carry market, it is the opposite of backwardation.

CONTINGENCY ORDER

An order which becomes effective only upon the fulfillment of some condition in the marketplace.

CONTRACT

1) A term of reference describing a unit of trading for a commodity future or option. 2) An agreement to buy or sell a specified commodity, detailing the amount and grade of the product and the date on which the contract will mature and become deliverable.

CONTRACT GRADE

That grade of product established in the rules of a commodity futures exchange as being suitable for delivery against a futures contract.

CONTRACT MONTH

See delivery month.

CONTROL AREA

A large geographic area within which a utility (or group of utilities) regulates electric power generation in order to maintain scheduled interchanges of power with other control areas and to maintain the required system frequency.

CONTROL AREA OPERATOR

An electric entity that operates generating capacity to meet area demand, monitors actual interchange (electric energy flowing between control areas), and can dispatch generating resources to ensure that actual interchange equals scheduled interchange.

CONVERSION

A delta-neutral arbitrage transaction involving a long futures contract, a long put option, and a short call option. The put and call options have the same strike price and same expiration date.

COOPERATIVE

A group organized under law into a utility company that will generate, transmit, or distribute supplies of electric energy to a specified area not being serviced by another utility. Typically, a co-op is a not-for-profit organization.

COORDINATION TRANSACTIONS

Short-term transactions undertaken primarily to maintain the integrity of an electricity distribution system.

COVER

To offset a short futures or options position.

COVERED WRITING

The sale of an option against an existing position in the underlying futures contract. For example, a short call and long futures position.

CRACKING

The process of breaking down the molecular structure of a substance into smaller units. Petroleum is cracked as part of the refining process to extract products such as heating oil and gasoline.

CRACK SPREADS

The simultaneous purchase or sale of crude oil against the sale or purchase of refined petroleum products. These spread differentials which represent refining margins are normally quoted in dollars per barrel by converting the product prices into dollars per barrel (divide the cents-per-gallon price by 42) and subtracting the crude oil price.

CROSS TRADE

Offsetting match by a broker of the buy order of one customer against the sell order of another, or a match of a trade made by a broker with his customer, a practice that is permissible only when executed in accordance with the Commodity Exchange Act, Commodity Futures Trading Commission regulations, and rules of the contract market. Neither NYMEX Division nor COMEX Division members are permitted to take the opposite side of a customer's order, except, under certain circumstances, for trades involving long-dated (nine months or more forward) COMEX Division copper futures.

CRUDE OIL

A mixture of hydrocarbons that exists as a liquid in natural underground reservoirs and remains liquid at atmospheric pressure after passing through surface separating facilities. Crude is the raw material which is refined into gasoline, heating oil, jet fuel, propane, petrochemicals, and other products.

CUBIC FOOT

The most common measure of gas volume, referring to the amount of gas needed to fill a volume of one cubic foot at 14.73 pounds per square inch absolute pressure and 60⁰ Fahrenheit. One cubic foot of natural gas contains, on average, 1,027 Btus.

CURRENT DELIVERY MONTH

The futures contract which ceases trading and becomes deliverable during the present month or the month closest to delivery. Also called the spot month.

CUSHION GAS

The amount of gas required in a storage pool to maintain sufficient pressure to keep the working gas recoverable.

DAILY LIMIT

The maximum futures contract price advance or decline from the previous day's settlement price permitted during one trading session, as fixed by the rules of the Exchange.

DAY TRADE

The purchase and sale of a futures or an options contract on the same day.

DEALER TANK WAGON PRICE (DTW)

The price, usually of branded gasoline, offered by major refiners and delivered to service stations on a cost, insurance, and freight basis.

DEGREE DAY

A measure of the coldness of the weather (heating degree day) or its heat (cooling degree day) based on the extent to which the daily mean temperature falls below or rises above 65⁰ Fahrenheit.

DEKATHERM

Ten therms, 1 million British thermal units.

DELIVERED

Often regarded as synonymous with cost, insurance, and freight in the international cargo trade, its terms differ from the latter in a number of ways. Generally, the seller's risks are greater in a delivered transaction because the buyer pays on the basis of landed quality/quantity. Risk and title are borne by the seller until such time as the commodity, such as oil, passes from shipboard into the connecting flange of the buyer's shore installation. The seller is responsible for clearance through customs and payment of all duties. Any in-transit contamination or loss of cargo is the seller's liability. In delivered transactions, the buyer pays only for the quantity of oil actually received in storage.

DELIVERY

Delivery generally refers to the change of ownership or control of a commodity under specific terms and procedures established by the Exchange upon which the contract is traded. Typically, except for energy, the commodity must be placed in an approved warehouse, depository, or other storage facility, and be inspected by approved personnel, after which the facility issues a warehouse receipt, shipping certificate, demand certificate, or due bill, which becomes a transferable delivery instrument. Delivery of the instrument usually is preceded by a notice of intention to deliver.

DELIVERY MONTH

The month specified in a given futures contract for delivery of the actual physical spot or cash commodity.

DELIVERY NOTICE

A notice presented through an exchange's clearinghouse by a clearing member announcing the intention to deliver the actual commodity in satisfaction of a contract obligation. See delivery.

DELIVERY POINT(S)

Location(s) designated by an exchange at which delivery may be made in fulfillment of contract terms.

DELTA

The sensitivity of an option's value to a change in the price of the underlying futures contract, also referred to as an option's futures-equivalent position. Deltas are positive for calls, and negative for puts. Deltas of deep in-the-money options are approximately equal to one; deltas of at-the-money options are 0.5; and deltas of deep out-of-the-money options approach zero.

DELTA NEUTRAL SPREAD

A spread where the total delta position on the long side and the total delta on the short side add up to approximately zero.

DEPOSITORY OR WAREHOUSE RECEIPT

A document issued by a bank or warehouse indicating ownership of a commodity stored in a bank depository or warehouse. In the case of many commodities deliverable against futures contracts, transfer of ownership of an appropriate depository receipt may affect contract delivery.

DERIVATIVE

Financial instrument derived from a cash market commodity, futures contract, or other financial instrument. Derivatives can be traded on regulated exchange markets or over-the-counter. For example, futures contracts are derivatives of physical commodities, options on futures are derivatives of futures contracts.

DIESEL FUEL

Distillate fuel oil used in compression-ignition engines. It is similar to home heating oil, but must meet a cetane number specification of 40 or more.

DIFFERENTIALS

Price differences between classes, grades, and locations of different stocks of the same commodity.

DIRTY CARGO

Those petroleum products which leave significant amounts of residue in tanks. Generally applies to crude oil and residual fuel oil.

DISCOUNT

1) A downward adjustment in price allowed for delivery of stocks of a commodity of lesser than contract grade against a futures contract. 2) Sometimes used to refer to the price differences between futures of different delivery months.

DISCRETIONARY ACCOUNT

An arrangement by which the holder of an account gives written power of attorney to someone else, often a broker, to buy and sell without prior approval of the account holder. Often referred to as a "managed account."

DISTILLATE FUEL OIL

Products of refinery distillation sometimes referred to as middle distillates; kerosene, diesel fuel, and home heating oil.

DISTRIBUTION LINES

Low voltage (2,300 to 69,000 volts) electric power lines that service homes and business. (See Transmission Lines for comparison.)

DOCTOR TEST

A qualitative method of detecting undesirable sulfur compounds in petroleum distillates; that is, determining whether an oil is sour or sweet.

DOUBLE BOTTOMS

A chart pattern of the price movement of a commodity that shows resistance to a falling market; the inverse of double tops. The price patterns are used by technical analysts to recognize a reversal of a price trend.

DOUBLE TOPS

A chart pattern of commodity price movements that depict a rising market which hits resistance at a certain level, retreats, rises again, but still cannot breach the previous resistance point, and falls back again. The price patterns are used by technical analysts to recognize a reversal of a price trend.

DOWNSTREAM

An industry term referring to commercial oil and gas operations beyond the production phase; oil refining and marketing, and natural gas transmission and distribution.

DRY GAS

Gas that does not contain liquid hydrocarbons.

EFP

See Exchange of Futures for Physicals.

ELECTRIC UTILITY

An enterprise that is engaged in the generation, transmission, and/or distribution of electric energy primarily for use by the public and is the major power supplier within a designated service area. Electric utilities include: investor-owned, publicly owned, cooperatively owned, and government-owned entities.

ELECTRONIC TRADER

A person who is authorized to enter orders for his own account and/or for customers' accounts on the NYMEX ACCESS[®] electronic trading system.

END-USER

The ultimate consumer of petroleum products or natural gas; most commonly refers to large commercial, industrial, or utility consumers.

enymexSM

An internet-based electronic trading system offering trading and clearing in products that are tied to traditional New York Mercantile Exchange, Inc., futures contracts.

EUROPEAN OPTION

An option that may be exercised only on its expiration date.

EXCHANGE-CERTIFIED STOCKS

Stocks of commodities held in depositories or warehouses certified by an Exchange-approved inspection authority as constituting good delivery against a futures contract position. Current total certified stocks are reported in the press for many important commodities such as gold, silver, copper, platinum, and palladium.

EXCHANGE OF FUTURES FOR PHYSICALS

A futures contract provision involving an agreement for delivery of physical product that does not necessarily conform to contract specifications in all terms from one market participant to another and a concomitant assumption of equal and opposite futures positions by the same participants at the time of the agreement.

EXERCISE

The process of converting an options contract into a futures position.

EXERCISE PRICE

The price at which the underlying futures contract will be bought or sold in the event an options contract is exercised. Also called the strike price.

EXPIRATION DATE

The date and time after which trading in an options contract terminates, and after which all contract rights or obligations become null and void.

EXTRINSIC VALUE

The amount by which the premium exceeds its intrinsic value. Also known as time value.

FAIR VALUE

Theoretical value.

FAST MARKET

Transactions in the ring that take place in such volume and with such rapidity that price reporters may fall behind with price quotations, so they insert "Fast" and show a range of prices.

FEEDSTOCK

The supply of crude oil, natural gas liquids, or natural gas to a refinery or petrochemical plant or the supply of some refined fraction of intermediate product to some other manufacturing process.

FENCE

A long (short) underlying position together with a long (short) out-of-the-money put and a short (long) out-of-the-money call. All options must expire at the same time.

FILL

The price at which an order is executed.

FILL-OR-KILL

An order which must be filled immediately, and in its entirety. Failing this, the order will be canceled.

FINENESS

The purity of precious metal measured in parts per thousand.

FINE WEIGHT

The weight of precious metal contained in a coin or bullion as determined by multiplying the gross weight by the fineness.

FIRM ENERGY

The highest quality sales of electric transmission service offered to customers under a filed rate schedule that anticipates no planned interruption.

FIRM SERVICE

Utility service which assumes no interruption except if residential customers' supply is threatened. Opposite of interruptible service.

FIRST NOTICE DAY

For Exchange metals contracts, the first day on which the clearinghouse notifies clearing members of delivery allocations. Energy contracts have only one notice day.

FLOOR

- 1) The main trading area of an exchange.
- 2) A supply contract between a buyer and seller of a commodity, whereby the seller is assured that he will receive at least some minimum price. This type of contract is analogous to a put option.

FLOOR BROKER

An exchange member who executes orders to buy or sell futures and options on behalf of customers in the trading ring on the floor of a commodities exchange.

FLOOR TRADER

An exchange member who buys or sells futures and/or options on the floor of the Exchange.

FORCE MAJEURE

A standard clause which indemnifies either or both parties to a transaction whenever events which the Exchange declares to be reasonably beyond the control of either party occur to prevent fulfillment of the terms of the contract.

FORWARD CONTRACT

A supply contract between a buyer and seller, whereby the buyer is obligated to take delivery and the seller is obligated to provide delivery of a fixed amount of a commodity at a predetermined price on a specified future date. Payment in full is due at the time of, or following, delivery. This differs from a futures contract where settlement is made daily, resulting in partial payment over the life of the contract.

FRACTIONATION

The process whereby saturated hydrocarbons from natural gas are separated into distinct parts or "fractions" such as propane, butane, ethane, etc.

FREE ON BOARD (FOB)

A transaction in which the seller provides a commodity at an agreed unit price, at a specified loading point within a specified period; it is the responsibility of the buyer to arrange for transportation and insurance.

FRONT MONTHS

Depending on the commodity, each of which tends to have its own level of trading activity, front months may refer to any of the first few contract months.

FUEL OIL

Refined petroleum products used as a fuel for home heating and industrial and utility boilers. Fuel oil is divided into two broad categories, distillate fuel oil, also known as No. 2 fuel, gasoil, or diesel fuel; and residual fuel oil, also known as No. 6 fuel, or, outside the United States, just as fuel oil. No. 2 fuel is a light oil used for home heating, in compression ignition engines, and in light industrial applications. No. 6 oil is a heavy fuel used in large commercial, industrial, and electric utility boilers.

FUNDAMENTAL ANALYSIS

The study of pertinent supply and demand factors which influence the specific price behavior of commodities. Also see Technical Analysis.

FUNGIBLE

Interchangeable. Products which can be substituted for purposes of shipment or storage.

FUTURES CONTRACT

A contract between a buyer and seller, whereby the buyer is obligated to take delivery and the seller is obligated to provide future delivery of a fixed amount of a commodity at a predetermined price at a specified location. Futures contracts are most often liquidated prior to the delivery date and are generally used as a financial risk management and investment tool rather than for supply purposes. These contracts are traded exclusively on regulated exchanges and are settled daily based on their current value in the marketplace.

FUTURES COMMISSION MERCHANT (FCM)

An FCM is the only industry participant who receives, handles, and manages customer funds, margin payments, and commission charges. He is also responsible for confirmation of trade slips, customer statements, and guarantees.

FUTURES-EQUIVALENT

A term frequently used with reference to speculative position limits for options on futures contracts. The futures-equivalent of an options position is the number of options multiplied by the previous day's risk factor or delta for the options series. For example, 10 deep out-of-the money options with a risk factor of 0.20 would be considered two futures-equivalent contracts. The delta or risk factors used for this purpose is the same as that used in delta-based margining and risk analysis systems.

FUTURES INDUSTRY ASSOCIATION (FIA)

A national not-for-profit futures industry trade association that represents the brokerage community on industry, regulatory, political, and educational issues.

GAMMA

The sensitivity of an option's delta to changes in the price of the underlying futures contract.

GASOIL

European designation for No. 2 heating oil and diesel fuel.

GASOLINE, STRAIGHT-RUN

Also known as raw gasoline. Gasoline which is obtained directly from crude oil by fractional distillation. Straight-run gasoline generally must be upgraded to meet current motor fuel specifications.

GATHERING

The collection of hydrocarbons, such as natural gas or crude oil, from wellheads via pipeline or truck.

GENERATION

The process of producing electric energy by transforming other forms of energy. The amount of energy produced is expressed in watthours.

GIGAJoule (GJ)

One billion joules, approximately equal to 948,211 British thermal units. One million Btus equals 1.0546175 GJ.

GIGAWATT (GW)

One billion watts.

GOLD/SILVER RATIO

The number of ounces of silver required to buy one ounce of gold at current spot prices.

GOOD DELIVERY

Approved metals brands acceptable for delivery against the metals contracts.

GOOD 'TIL CANCELED

An order to be held by a broker until it can be filled or until canceled.

GRADE 1 COPPER

Copper which is good for delivery against the COMEX Division high grade copper futures contract and meets the ASTM specification B115-91.

GREENHOUSE EFFECT

The sequence of atmospheric effects wherein the earth's absorption of solar radiation is greater than its re-emission of radiation into space, facilitating global warming.

HALLMARK

A stamped impression on the surface of a precious metals bar that indicates the producer, serial number, weight, and purity of metal content.

HARDNESS/GRINDABILITY

Hardness measures based on the Hardgrove Index, how difficult it is to pulverize coal for injection into the boiler flame.

HARDGROVE INDEX

An index, with a scale of 1 to 100, for measuring the hardness of a mineral. Diamond is a 1 on the Hardgrove Index, while talc is 100.

HEATING OIL

No. 2 fuel oil, a distillate fuel oil used either for domestic heating or in moderate capacity commercial-industrial burners.

HEAVY CRUDE

Crude oil with a high specific gravity and a low API gravity due to the presence of a high proportion of heavy hydrocarbon fractions.

HEDGE

The initiation of a position in a futures or options market that is intended as a temporary substitute for the sale or purchase of the actual commodity. For example: the sale of futures contracts in anticipation of future sales of cash commodities as a protection against possible price declines, or the purchase of futures contracts in anticipation of future purchases of cash commodities as a protection against the possibility of increasing costs.

HEDGER

A trader who enters the market with the specific intent of protecting an existing or anticipated physical market exposure from unexpected or adverse price fluctuations.

HEDGE RATIO

1) Ratio of the value of futures contracts purchased or sold to the value of the cash commodity being hedged, a computation necessary to minimize basis risk.
2) The ratio, determined by an option's delta, of futures to options required to establish a risk-free position. For example, if a \$1/barrel change in the underlying futures price leads to a \$0.25/barrel change in the options premium, the hedge ratio is four (four options for each futures contract).

HISTORICAL VOLATILITY

The annualized standard deviation of percent changes in futures prices over a specific period. It is an indication of past volatility in the marketplace.

HORIZONTAL SPREAD

Calendar or time spread.

HYDROCARBONS

Organic chemical compounds containing hydrogen and carbon atoms. They form the basis of all petroleum products.

IMBALANCE ENERGY

Discrepancy between the amount that a seller contracted to deliver and the actual volume of power delivered. Imbalances are resolved through monetary payment.

IMMEDIATE-OR-CANCEL

An order which must be filled immediately or be canceled. IOC orders need not be filled in their entirety.

IMPLIED VOLATILITY

A measurement of the market's expected price range of the underlying commodity futures based on market-traded options premiums.

INTERCONNECTION

1. Any of the five subdivisions of the North American electric power system: Eastern, Western; ERCOT (the state of Texas), Quebec, and Alaska. 2. The facilities that connect two systems or control areas, or nonutility generators to a control area or system.

IN-THE-MONEY

An options contract that can be exercised and immediately closed out against the underlying market for a cash credit. The option is in-the-money if the underlying futures price is above a call option's strike price, or below a put option's strike price.

INADVERTENT ENERGY

The imbalance of energy flows back and forth that are on-going and routine between a generator of power and the centers of demand. These imbalances are typically settled through exchanges of physical product.

INDEPENDENT

Term generally applies to a non-integrated oil or natural gas company, usually active in only one or two sectors of the industry. An independent marketer buys petroleum products from major or independent refiners and resells them under his own brand name or buys natural gas from producers and resells it. There are also independents which are active exclusively either in oil or gas production or refining.

INDEPENDENT POWER PRODUCER (IPP)

A non-utility power generating company that is not a qualifying facility (See Qualifying Facility).

INDEPENDENT SYSTEM OPERATOR (ISO)

ISOs are responsible for overseeing the operation and scheduling of power through regional power grids. Tasks may include scheduling, managing emergency demands, and balancing generation and dissemination of power.

INTEGRATION

A term that describes the degree in, and to, which one given company participates in all phases of the petroleum industry.

INTERRUPTIBLE SERVICE

Utility service which expects and permits interruption on short notice, generally in peak-load periods, in order to meet the demand by firm service customers. Interruptible service customers usually pay a lower rate than firm service customers. Opposite of Firm Service.

INTRINSIC VALUE

The amount by which an option is in-the-money. An option which is not in-the-money has no intrinsic value. For calls, intrinsic value equals the difference between the underlying futures price and the option's strike price. For puts, intrinsic value equals the option's strike price minus the underlying futures price. Intrinsic value is never less than zero.

INTRODUCING BROKER

A firm engaged in soliciting or in accepting orders for the purchase or sale of any commodity for future delivery, but does not accept money, securities or property to margin, guarantee, or secure trades or contracts.

INVERTED MARKET

A futures market is said to be inverted when distant contract months are selling at a discount to nearby contract months; also known as backwardation.

INVISIBLE SUPPLY

Uncounted stocks of a commodity in the hands of wholesalers, manufacturers, and producers which cannot be identified accurately; stocks outside commercial channels but theoretically available to the market.

IN-WELL TRANSFER

An inventory transfer of propane held in underground caverns or storage.

JET FUEL

Kerosene-type; high-quality kerosene product used primarily as fuel for commercial turbojet and turbo-prop aircraft engines.

JOBBER

A middleman. A gasoline jobber, for example, might buy from refiners and would resell to small distributors or consumers.

JOULE

A metric unit of energy.

KARAT

A measure of the purity of gold. Pure gold is 24-karat.

KILOWATT (Kw)

One thousand watts.

KILOWATT HOUR (KWH)

Amount of electricity needed to light 10, 100-watt light bulbs for a one-hour period. One thousand watts used for one hour.

KYOTO PROTOCOL

The international agreement signed in 1997 to limit the level of greenhouse gas emissions in an effort to inhibit damage to the earth's ozone layer and thereby reduce the rate of global warming.

LANDED PRICE

The actual delivered cost of oil to a refiner, taking into account all costs from production or purchase to the refinery.

LAST NOTICE DAY

For Exchange metals contracts, the final day on which notices of intent to deliver on futures contracts may be issued. There is only one notice day for Exchange energy contracts.

LAST TRADING DAY

The final trading day for a particular delivery month futures contract or options contract. Any futures contracts left open following this session must be settled by delivery.

LEASE

Financial instrument based upon the contango in the gold or silver market to finance precious metals inventory.

LEGAL TENDER

Coins that have been authorized by Congress. This includes circulating coins and all commemorative coins legislated by Congress.

LICENSED WAREHOUSES

Warehouses which have been approved for the storage of copper or aluminum deliverable against the COMEX Division copper and aluminum futures contracts.

LICENSED WEIGHMASTER

An organization approved by the Exchange to witness and verify the weighing of copper or aluminum delivered against the COMEX Division copper or aluminum futures contract.

LIFTING

Refers to tankers and barges loading cargoes of petroleum at a terminal or transshipment point.

LIGHT CRUDE

Crude oil with a low specific gravity and high API gravity due to the presence of a high proportion of light hydrocarbon fractions.

LIGHT ENDS

The more volatile products of petroleum refining, such as butane, propane, and ethane.

LIGNITE

An abundant, brownish-black coal with generally high moisture and ash content and lower heating value.

LIMIT

The maximum daily allowable amount a futures price may advance or decline in any one day's trading session. Limits are also placed on the number of positions a participant may hold in the market.

LIMIT ORDER

A contingent order for an options or futures trade specifying a certain maximum (or minimum) price, beyond which the order (buy or sell) is not to be executed.

LIQUEFIED NATURAL GAS (LNG)

Natural gas which has been made liquid by reducing its temperature to minus 258^o Fahrenheit at atmospheric pressure. Its volume is 1/600 of gas in vapor form.

LIQUEFIED PETROLEUM GAS (LPG)

Propane, butane, or propane-butane mixtures derived from crude oil refining or natural gas fractionation. For convenience of transportation, these gases are liquefied through pressurization.

LIQUIDATION

The closing out of futures and options positions.

LIQUIDITY

A market is said to be "liquid" when it has a high level of trading activity and open interest.

LIQUID MARKET

A market characterized by the ability to buy and sell with relative ease.

LOAD

The amount of power carried by a utility system or subsystem, or the amount of power consumed by an electric device, at a specified time. Load is also referred to as demand.

LOAD FOLLOWING

The daily varying of power output by a generator.

LOCAL

An Exchange member who buys or sells futures and/or options for his own account.

LOCAL DISTRIBUTION COMPANY (LDC)

Company that distributes natural gas primarily to end-users. A gas utility.

LOCKED MARKET

A market where prices have reached their daily trading limit and trading can only be conducted at that price or prices which are closer to the previous day's settlement price.

LONG

1) The market position of a futures contract buyer whose purchase obligates him to accept delivery unless he liquidates his contract with an offsetting sale. 2) One who has bought a futures contract to establish a market position. 3) In the options market, position of the buyer of a call or put options contract. Opposite of short.

LONG HEDGE

Purchase of futures against the future market price purchase or fixed price forward sale of a cash commodity to protect against price increases.

LONG-THE-BASIS

A person or firm that owns the spot commodity and hedges with a sale of futures is said to be long-the-basis.

LONG TON

A weight measurement equaling 2,240 pounds versus the 2,000 pounds of a short ton.

LOT

A specific quantity of a futures commodity of uniform grade; the standard contract unit of trading.

MAJOR

A term broadly applied to those multinational oil companies which by virtue of size, age, or degree of integration are among the preeminent companies in the international petroleum industry.

MARGIN

The amount of money or collateral deposited by a customer with his broker, or deposited by a broker with a clearing member, or by a clearing member with the clearinghouse, for the purpose of insuring the broker or clearinghouse against adverse price movement on open futures contracts. The margin is not partial payment on a purchase. 1) Initial margin is the minimum deposit per contract required when a futures position is opened. 2) Maintenance margin is a sum which must be maintained on deposit at all times. If the equity in a customer's account drops to, or under, that level because of an adverse price movement, the clearing member must issue a margin call to restore the customer's equity. Margins are set by the Exchange based on its analysis of price risk volatility in the market at that time. (See Variation Margin; Refinery Margin.)

MARGIN CALL

A demand for additional margin funds when futures prices move in an adverse direction to a trader's position, or if margin requirements are increased. Buyers of options are not subject to margin calls.

MARKED-TO-MARKET

Daily cash flow system used by U.S. futures exchanges to maintain a minimum level of margin equity for a given futures or options contract position by calculating the gain or loss in each contract position resulting from changes in the price of the futures or options contracts each trading day.

MARKET CORRECTION

In technical analysis, a small reversal in prices following a significant trending period.

MARKET-IF-TOUCHED

An order that becomes a market order when a particular price is reached. A sell MIT is placed above the market; a buy MIT is placed below the market.

MARKET MAKER

An independent trader or trading firm which is prepared to buy and sell futures or options contracts in a designated market. Market makers provide a two-sided (bid and ask) market and greater liquidity. See specialist market maker for information on a specific program introduced by the New York Mercantile Exchange in 1999.

MARKET-ON-CLOSE

An order to buy or sell at the end of the trading session at a price within the closing range of prices.

MARKET ORDER

An order to be filled immediately at the current market price.

MAXIMUM PRICE FLUCTUATION

A commodity exchange's established maximum limits for movements in futures prices during any one trading session.

MCF

Thousand cubic feet.

MEGAWATT (Mw)

One million watts.

MEGAWATT HOUR (MWH)

Amount of electricity needed to light 10,000 100-watt light bulbs for a one-hour period. One million watts used for one hour.

MIDDLE DISTILLATE

Hydrocarbons that are in the so-called "middle boiling range" of refinery distillation. Examples are heating oil, diesel fuels, and kerosene.

MINIMUM PRICE FLUCTUATION

Minimum unit by which a futures price or an options premium can fluctuate per trade, also known as tick size.

MMBTU

One million British thermal units, equal to one dekatherm. Approximately equal to a thousand cubic feet (Mcf) of natural gas.

MOGAS

Industry slang for motor gasoline.

MOTOR GASOLINE

A complex mixture of relatively volatile hydrocarbons, with or without small quantities of additives, which have been blended to form a fuel suitable for use in spark-ignition engines.

MOTOR OIL

Refined lubricating oil, usually containing additives, used in internal combustion engines.

NAKED

A long or short market position taken without having an offsetting short or long position. For options, the term "uncovered" is used interchangeably and refers to a position that is taken without the benefit of an offsetting position in the futures market.

A trader who executes one side of a spread is said to be naked until he executes the other side.

NAPHTHA

A volatile, colorless product of petroleum distillation. Used primarily as a paint solvent, cleaning fluid, and blendstock in gasoline production.

NAPHTHENES

One of the three basic hydrocarbon classifications found naturally in crude oil. Naphthenes are widely used as petrochemical feedstocks.

NATIONAL FUTURES ASSOCIATION (NFA)

Futures industry trade association which promulgates rules of conduct and mediates disputes between customers and brokers.

NATURAL GAS

A naturally occurring mixture of hydrocarbon and non-hydrocarbon gases found in porous rock formations. Its principal component is methane.

NATURAL GAS LIQUIDS (NGL)

A general term for all liquid products separated from natural gas in a gas processing plant. NGLs include propane, butane, ethane, and natural gasoline.

NETBACK

Industry term referring to the net free on board cost of product offered on a delivered or cost, insurance, and freight basis. It is derived by subtracting all costs of shipment from the landed price.

NET POSITION

The difference between an individual or firm's open long contracts and open short contracts in any one commodity.

NEUTRAL SPREAD

Another name for a delta neutral spread. Spreads may also be lot neutral, where the total number of long contracts and the total number of short contracts of the same type are approximately equal.

NOMINAL PRICE

The declared price for a futures month sometimes used in place of a closing price when no recent trading has taken place in that particular delivery month; usually an average of the bid and asked prices.

NOMINATION

1) The process whereby the holder of a long Exchange petroleum product futures position who has elected to stand for delivery tells the seller (the short) where the product is to be delivered and the method of transport. 2) A shipper's offer to move gas on a pipeline during a given period. Most nominations are made on a daily basis, although mid-day hourly nominations are possible on some systems. 3) A request for a physical quantity of gas under a specific purchase, sales or transportation agreement or for all contracts at a specific point.

NON-ASSOCIATED GAS

Natural gas in a reservoir which contains no crude oil.

NON-FIRM ENERGY

The quality sale of transmission service offered to customers that anticipates possible interruption of deliveries.

NORTH AMERICA ELECTRIC RELIABILITY COUNCIL (NERC)

A group formed in 1968 by the electric utility industry to promote the reliability and adequacy of bulk power supply in the electric utility systems of North America. NERC consists of 10 regional reliability councils and encompasses essentially all the power regions of the contiguous United States, Canada, and Mexico. The NERC regions are: Alaskan System Coordination Council (ASCC); East Central Area Reliability Coordination Agreement (ECAR); Electric Reliability Council of Texas (ERCOT); Mid-America Interpool Network (MAIN); Mid-Atlantic Area Council, (MAAC); Mid-Continent Area Power Pool (MAPP); Northeast Power Coordinating Council (NPCC); Southeastern Electric Reliability Council (SERC); Southwest Power Pool (SPP); Western System Coordinating Council (WSCC).

NOTICE DAY

The day on which an exchange clearinghouse issues delivery allocation notices to clearing members. See delivery.

NOTIONAL SETTLEMENT

A reference price based on trading activity during a certain range close to the end of the day that is used to calculate the maximum daily price fluctuation for trading on the NYMEX ACCESS[®] electronic trading system when the regular settlement price has not been established in time for the start of the NYMEX ACCESS[®] session. The system is then updated with final settlement prices later in the session.

NYMEX ACCESS[®]

NYMEX ACCESS[®] is an international electronic trading system offered by the New York Mercantile Exchange. The Exchange provides the user with the equipment, software, and services. ACCESS stands for American Computerized Commodity Exchange System and Services.

OCTANE NUMBER

A measure of the resistance of gasoline to pre-ignite or knock when burned in an internal combustion engine.

OFFER

A motion to sell a futures or options contract at a specified price. Opposite of bid.

OFF-PEAK

The load for the remaining hours that are not on-peak. (See On-peak.)

OFFSET

A transaction which liquidates or closes out an open contract position. In spread positions, one side offsets the other without liquidating the entire position. Risk is reduced when one side offsets the other.

OMNIBUS ACCOUNT

An account carried by one futures commission merchant with another in which the transactions of two or more persons are combined rather than designated separately and the identity of the individual accounts is not disclosed.

ON-PEAK

Refers to hours of the business day when demand is at its peak. For example, the NYMEX Division California-Oregon border and Palo Verde electricity futures contracts define the on-peak period from the hour ending 0700 to the hour ending 2200 (6 A.M. to 10 P.M.), Pacific prevailing time. In the physical market, on-peak definitions vary by North America Electric Reliability Council region. Can also refer to the number of business days in any one month on which it is contracted that electricity is delivered. Patterns of the number of on-peak days in a week generally also vary by region.

ONE-CANCELS-THE-OTHER

Two orders submitted simultaneously, either of which may be filled. If one order is filled, the other is considered to be canceled.

OPEN INTEREST OR COMMITMENT

The number of open or outstanding contracts for which an individual or entity is obligated to the Exchange because that individual or entity has not yet made an off-setting sale or purchase, an actual contract delivery, or, in the case of options, exercised the option.

OPEN ORDER

A resting order that is good until canceled.

OPEN OUTCRY

A method of two-way public auction through which verbal bids, offers, and trades are made in the trading rings of commodity exchanges.

OPENING PRICE

The price for a given commodity futures contract that is generated by open trading during the opening range of trading on a commodity exchange.

OPENING RANGE

The range of prices determined by trades executed within the opening period for each trading session.

OPTIONS

A contract which gives the holder the right, but not the obligation, to purchase or to sell the underlying futures contract at a specified price within a specified period of time in exchange for a one-time premium payment. The contract also obligates the writer, who receives the premium, to meet these obligations.

ORIGINAL MARGIN

The initial deposit of funds, as good faith monies, when a position is initiated in order to guarantee fulfillment of its obligations. Also known as initial margin.

OUT-OF-THE-MONEY

An option which has no intrinsic value. For calls, an option whose exercise price is above the market price of the underlying future. For puts, an option whose exercise price is below the futures price.

OUTAGE

A planned outage is the shutdown of a generating unit, transmission line, or other facility for inspection and maintenance, in accordance with an advance schedule. A forced outage is the unplanned loss of service of a generating unit, transmission line, or other facility for purposes other than inspection and maintenance.

OVERBOUGHT

A technical opinion that the market price has risen too steeply and too fast in relation to underlying fundamental factors.

OVERSOLD

A technical opinion that the market price has declined too steeply and too fast in relation to underlying fundamental factors.

OVER-THE-COUNTER (OTC)

A term referring to derivative transactions that are conducted outside the realm of regulated exchanges. Transactions are conducted directly through banks or brokerage houses, or by principal-to-principal in the over-the-counter market.

OVERWRITE

The writing of more options than one expects to have exercised. Call options are overwritten because the writer considers the underlying overvalued. Put options are overwritten because the underlying is considered undervalued.

PAD (OR PADD)

Petroleum Administration for Defense District. The United States is divided into five distinct marketing regions in which prices might differ due to variations in the supply or demand.

PAPER BARRELS

A term used to denote trade in non-physical oil (futures, forwards, swaps) markets which give a buyer or seller the right to a certain quantity and quality of crude oil or refined products at a future date, but not to any specific physical lot.

PAR OR BASIS GRADE

The grade or grades specified in a given futures contract for delivery. A contract may permit substitutions for and deviations from the par grade subject to specified premiums or discounts.

PETROCHEMICAL

An intermediate chemical derived from petroleum, hydrocarbon liquids, or natural gas, such as ethylene, propylene, benzene, toluene, and xylene.

PETROLEUM

A generic name for hydrocarbons, including crude oil, natural gas liquids, refined, and product derivatives.

PIN RISK

The risk to a trader who has sold an option that, at expiration, has a strike price identical to, or pinned to, the underlying futures price. In this case, the trader will not know whether he will be required to assume his options obligations.

PIPELINE

A pipe through which oil or natural gas is pumped between two points, either offshore or onshore.

PIT OR RING

The place on the floor of an exchange where a commodity futures or options contract is traded by open outcry.

PLATINUM GROUP METALS (PGM)

Platinum and related metals, including palladium, rhodium, ruthenium, and iridium.

POINT OR TICK

The smallest monetary unit of change in a futures price or an options premium.

POSITION

The net total of a trader's open contracts, either long or short, in a particular underlying commodity.

POSITION LIMIT

For a single trader or firm, the maximum number of permitted outstanding obligations in a particular commodity.

POSTED PRICE

The price some refiners will pay for crude of a certain API gravity from a particular field or area.

POUR POINTS

A temperature 5⁰ Fahrenheit higher than the temperature at which crude oil or a refined product stops flowing.

POWER MARKETER

A wholesale power entity that has registered with the Federal Energy Regulatory Commission to buy and sell wholesale power from and to each other and other public entities at market-derived prices. Power marketing companies include investor-owned, utility-affiliated companies; natural gas marketing companies; financial intermediaries; independent power producers; and entrepreneurs. Typically, power marketers do not own generating facilities.

POWER POOL

Cooperation between two or more interconnected electric power systems.

PREMIUM

1) The price or cost of an options contract determined competitively by buyers and sellers. 2) An upward adjustment in price allowed for delivery of a commodity of higher grade against a futures contract.

PRICE DISCOVERY

The manner of making prices visible and readily available to the public.

PRICE GAPS

A chart pattern of the price movement of a commodity when the low price of one bar on a chart is higher than the high of the preceding bar (or inversely, the high is lower than the low of the preceding bar); depicting a price or price range where no trades take place. The price patterns are used by technical analysts to try to recognize changes in a price trend.

PRIMARY STOCKS

Stocks of crude oil or refined products held in storage at leases, refineries, natural gas processing plants, pipelines, tankfarms, and bulk terminals that can store at least 50,000 barrels of refined products.

PROCESSING PLANT

Plant which separates natural gas into methane and the various other gases such as, propane, butane, ethanewa.

PROMPT BARREL

Product which will move or become available within three to four days.

PROPANE

A natural hydrocarbon occurring in a gaseous state under normal atmospheric pressure and temperature, however, propane is usually liquefied through pressurization for transportation and storage. Propane is primarily used for rural heating and cooking and as a fuel gas in areas not serviced by natural gas mains and as a petrochemical feed stock.

PUMP-OVER

An intra- or inter-facility transfer. For example, when one pipeline pumps crude oil or refined products from its tanks or mainline into the mainline or storage tank of the receiving pipeline.

PUT OPTION

An option which gives the buyer, or holder, the right, but not the obligation, to sell a futures contract at a specific price within a specific period of time in exchange for a one-time premium payment. It obligates the seller, or writer, of the option to buy the underlying futures contract at the designated price, should an option be exercised at that price. See call option.

QUALIFYING FACILITY (QF)

A generator or small power producer that meets certain ownership, operating, and efficiency criteria established by the Federal Energy Regulatory Commission, and has filed with FERC for QF status or has self-certified. QFs are physical generating facilities.

RACK PRICE

Price charged by a supplier to a customer that buys transport truck lots at a terminal, on a free on board basis.

RALLY

An advancing price movement following a decline in a market.

RANGE

The difference between the highest and lowest prices recorded during a given trading period.

RATIO SPREAD

Any spread where the number of long market contracts and the number of short market contracts are unequal.

REFINER-DISTRIBUTOR

A company that acts as a wholesaler of gasoline, heating oil, or other products which operates its own refinery; may also retail and buy additional supplies to supplement its own refining output.

REFINERY

A plant used to process crude oil or metals. An oil refinery separates the fractions of crude oil and converts them into usable products. A metals refinery removes impurities, bringing the metal up to designated purity specifications.

REFINERY MARGIN

The difference between a refinery's cost to produce a product and the amount it will procure from the sale of the product.

REFORMING PROCESS

The use of heat and catalysts to effect the rearrangement of certain hydrocarbon molecules without altering their composition appreciably; for example, the conversion of low-octane naphthas or gasolines into high-octane number products.

REPORTABLE POSITION

The number of futures contracts, as determined by the Exchange or the Commodity Futures Trading Commission, above which a customer must be identified daily to the Exchange and to the Commission with regard to the size of his position by commodity, by delivery month, and by purpose of the trading.

RESIDUAL FUEL OIL

Heavy fuel oil produced from the residue in the fractional distillation process rather than from the distilled fractions.

RESISTANCE

Opposite of support.

RESTING ORDER

An order away from the market, waiting to be executed.

ROLLOVER

A special futures straddle trading procedure involving the shift of one month of a straddle into another future month while maintaining the other contract month of the original spread position. The shift can take place in either the long or short straddle month.

ROUND LOT

A quantity of a commodity equal in size to the corresponding futures contract for the commodity, as distinguished from a job lot, which may be larger or smaller than the contract.

ROUND-TURN

The completion of both a purchase and sale of a commodity futures contract.

SCALPER

A speculator on the trading floor of an exchange who buys and sells rapidly, with small profits or losses, holding his positions for only a short time during a trading session. Typically, a scalper will stand ready to buy at a fraction below the last transaction price and to sell at a fraction above, thus creating market liquidity.

SECURITIES AND EXCHANGE COMMISSION (SEC)

An independent agency that administers federal securities laws and regulates the firms that buy and sell those securities.

SELF-REGULATORY ORGANIZATION

Although United States commodity exchanges ultimately function under the auspices of the Commodity Futures Trading Commission, daily operations are regulated from within the organization. Trade, market, and financial surveillance are performed to ensure the utmost integrity of futures trading.

SELLERS' MARKET

A condition of the market in which there is a scarcity of goods available and hence sellers can obtain better conditions of sale or higher prices. Opposite of buyer's market.

SELLING HEDGE (OR SHORT HEDGE)

Selling futures contracts to protect against possible decreased prices of commodities. Also see hedging.

SERIAL EXPIRATION

Options on the same underlying futures contract which expire in more than one month. NYMEX Division platinum options have serial expiration.

SERIES

All options of the same class which share a common strike price.

SETTLEMENT OR SETTLING PRICE

The price established by the Exchange settlement committee at the close of each trading session as the official price to be used by the clearinghouse in determining net gains or losses, margin requirements, and the next day's price limits. The term "settlement price" is often used as an approximate equivalent to the term "closing price." The close in futures trading refers to a brief period at the end of the day, during which transactions frequently take place quickly and at a range of prices immediately before the bell. Therefore, there frequently is no single closing price, but a range of prices. In months with significant activity, the settlement price is

derived by calculating the weighted average of the prices at which trades were conducted during that period.

SHORT

1) The market position of a futures contract seller whose sale obligates him to deliver the commodity unless he liquidates his contract by an offsetting purchase. 2) A trader whose net position in the futures market shows an excess of open sales over open purchases. 3) The holder of a short position. 4) In the options market, the position of the seller of a call or a put option. The short in the options market is obliged to take a futures position if he is assigned for exercise. Opposite of long.

SHORT SELLING

Selling a contract with the idea of delivering or of buying to offset it at a later date.

SHORT-THE-BASIS

A person or firm that has a commitment to sell in the cash or spot markets and hedges through the purchase of futures is said to be short-the-basis.

SHORT TON

A weight measurement equaling 2,000 pounds.

SOUR OR SWEET CRUDE

Industry terms which denote the relative degree of a given crude oil's sulfur content. Sour crude refers to those crudes with a comparatively high sulfur content, 0.5% by weight and above; sweet refers to those crudes with sulfur content of less than 0.5%.

SOUR GAS

Natural gas found with a sufficiently high quantity of sulfur to require purifying prior to shipment or use.

SOW

A molded shape consisting of 600 to 1,575 pounds of aluminum.

STANDARD PORTFOLIO ANALYSIS (SPAN)

The Standard Portfolio Analysis of Risk system developed by the Chicago Mercantile Exchange and now utilized by the New York Mercantile Exchange and most other commodity exchanges to calculate margin requirements.

SPARK SPREAD

A trading strategy that reflects the difference in value between the cost of the energy used to produce electricity and the electricity. Hedging the spark spread currently involves the simultaneous purchase of natural gas contracts and sale of electricity contracts, or vice-versa, allowing market participants to procure a profit on the margin between the contracts, to hedge the cost of producing electricity. The spread itself is the difference between the market value of

electricity and the cost of natural gas calculated in megawatt hours. The introduction of the coal futures contract will expand the spark spread trading opportunities.

SPECIALIST MARKET-MAKER

A New York Mercantile Exchange-sponsored program under which a designated trader provides liquidity in a new or stagnant market by facilitating any trade within an established bid/ask spread and accepting all limit orders it is requested to execute. In return for the specialist market maker's commitment and to compensate for the risk it will incur, the market's proprietary account gets priority of execution in a certain percentage of the trades in the market, and the Exchange pays it an execution fee for every outside order it fills, as well as helping to offset some of its direct floor operation costs. The function of the specialist market maker lasts until average daily volume and open interest in the contract reaches a predetermined level.

SPECIFICATIONS

1) Contract terms specified by the Exchange. 2) Term referring to the properties of a given crude oil or refined petroleum product, which are "specified" since they often vary widely even within the same grade of product. In the normal process of negotiation, the seller will guarantee the buyer that the product or crude to be sold will meet certain specified limits. Generally, the major properties of oil that are guaranteed are API gravity, sulfur, pour point, viscosity, and BS&W.

SPECIFIC GRAVITY

The ratio of the density of a substance at 60^o Fahrenheit to the density of water at the same temperature.

SPECULATIVE POSITION LIMIT

The maximum position, either net long or net short, in one commodity futures or options, or in all futures or options of one commodity combined, which may be held or controlled by an entity without a hedge exemption as prescribed by an exchange.

SPECULATOR

A trader who hopes to profit from the specific directional price move of a futures or options contract, or commodity.

SPOT

Term which describes one-time open market cash transaction, where a commodity is purchased "on the spot" at current market rates. Spot transactions are in contrast to term sales, which specify a steady supply of product over a period of time.

SPOT MARKET

A market of immediate delivery of product and immediate payment.

SPOT MONTH

The futures contract closest to maturity. The nearby delivery month.

SPREAD (FUTURES)

The simultaneous purchase and sale of futures contracts for different months, different commodities, or different grades of the same commodity.

SPREAD (OPTIONS)

The purchase and sale of options which vary in terms of type (call or put), strike prices, expiration dates, or both. May also refer to an options contract purchase (sale) and the simultaneous sale (purchase) of a futures contract for the same underlying commodity.

STOCK-TYPE SETTLEMENT

A settlement procedure in which the purchase of a contract requires immediate and full payment by the buyer to the seller. In stock-type settlement, the actual cash profit or loss from a trade is not realized until the position is liquidated. Exchange options have this type of settlement procedure, which differs from that in the futures market where gains and losses are realized on a daily basis.

STOP ORDER

An order that becomes a market order when the market reaches the elected price of the stop order. See market order.

STOP LIMIT ORDER

An order that goes into force as soon as there is a trade at the specified stop price. The order, however, can only be filled at the limit price or better. The stop price and the limit price can be the same or different. The stop price is the price level specified in the order.

STOP-LOSS

A resting order designed to close out a losing position when the price reaches a level specified in the order. It becomes an at-the-market order when the "stop" price is reached. Individuals also use stops to enter the market when the prices reach a specified level.

STRADDLE (FUTURES)

Also known as a spread, the purchase of one futures month against the sale of another futures month of the same commodity. A straddle trade is based on a price relationship between the two months.

STRADDLE (OPTIONS)

The purchase or sale of both a put and a call having the same strike price and expiration date. The buyer of a straddle benefits from increased volatility, and the seller benefits from decreased volatility.

STRANGLE

An options position consisting of the purchase or sale of put and call options having the same expiration but different strike prices.

STRIKE PRICE

The price at which the underlying futures contract is bought or sold in the event an options contract is exercised. Also called an exercise price.

STRIP

The simultaneous purchase (or sale) of an equal number of futures positions in consecutive months. The average of the prices for the futures contracts bought (or sold) is the price level of the hedge. A six-month strip, for example, consists of an equal number of futures contracts for each of six consecutive contract months. Also known as a calendar strip.

SUBBITUMINOUS COAL

A dull black coal with a higher heating value than lignite. It is found primarily in the western United States.

SULFUR

An element that is present in some oil, gas, and coal as an impurity in the form of its various compounds.

SUPPORT

In technical analysis, a price area where new buying is likely to come in and stem any decline.

SWAP

A custom-tailored, individually negotiated transaction designed to manage financial risk, usually over a period of one to 12 years. Swaps can be conducted directly by two counterparties, or through a third party such as a bank or brokerage house. The writer of the swap, such as a bank or brokerage house, may elect to assume the risk itself, or manage its own market exposure on an exchange. Swap transactions include interest rate swaps, currency swaps, and price swaps for commodities, including energy and metals. In a typical commodity or price swap, parties exchange payments based on changes in the price of a commodity or a market index, while fixing the price they effectively pay for the physical commodity. The transaction enables each party to manage exposure to commodity prices or index values. Settlements are usually made in cash.

SWEET CRUDE

Crude oil typically containing less than 1% sulfur, by weight.

SYNTHETIC FUTURES

A position created by combining call and put options. A synthetic long futures position is created by combining a long call options contract and a short put options contract for the same expiration date and the same strike price. A synthetic short futures position is created by combining a long put and a short call with the same expiration date and the same strike price.

T-BARS

A molded shape consisting of 600 to 1,575 pounds of aluminum.

TANK TRAIN

A procedure in the rail shipment of crude oil, refined products, and other liquids developed by General American Transportation (GATX). "Tank Train" tank cars are interconnected, which permits loading and unloading of the entire train of cars from one connection.

TARIFF

A schedule of rates or charges permitted a common carrier or utility; pipeline tariffs are the charges made by pipelines for transporting crude oil, refined products, or natural gas from an origin to a destination.

TECHNICAL ANALYSIS

An approach to forecasting commodity prices which examines patterns of price change, rates of change, and changes in trading volume and open interest, without regard to underlying fundamental market conditions.

THEORETICAL VALUE

An option's value generated by a mathematical model given certain prior assumptions about the term of the options contract, the characteristics of the underlying futures contract, and prevailing interest rates.

THERM

100,000 British thermal units. Ten therms, a dekatherm, is 1 million Btus.

THETA

The sensitivity of an option's value to a change in the amount of time to expiration.

THROUGHPUT

1) A term used to describe the total volume of raw materials that are processed by a plant such as an oil refinery in a given period. 2) The total volume of crude oil and refined products that are handled by a tank farm, pipeline, or terminal loading facility.

TICK

A minimum change in price, up or down.

TIME SPREAD

The selling of a nearby options contract and buying of a more deferred options contract with the same strike price.

TIME VALUE

Part of the options premium which reflects the excess over the intrinsic value, or the entire premium if there is no intrinsic value. At given price levels, the option's time value will decline until expiration. It is this decrease in time value that makes options a wasting asset.

TRADE HOUSE

A firm which deals in the physical commodity.

TRADE LIMIT MONITORING SYSTEM

The system through which clearing members set and monitor limits on their customers' NYMEX ACCESS® accounts, including maximum order size, maximum position size per session, and session trading losses.

TRADER WORKSTATION

A NYMEX ACCESS® terminal through which bids and offers are entered.

TRADING

Buying and selling.

TRADING VOLUME

The number of contracts that change hands during a specified period of time.

TRANSMISSION

The movement of electricity across power lines.

TRANSMISSION COMPANY

Company that transports gas for resale on its own behalf or transports gas for others. Also known as a pipeline company.

TRANSMISSION LINES

High voltage (69,000 to 765,000 volts) electric power lines running between cities. (See distribution lines for comparison.)

TREND

The general direction of price movement.

TRIANGULAR FLAGS

Chart patterns of the price movement of a commodity when the market consolidates sideways. The price patterns are used by technical analysts to try to recognize changes in a price trend.

TROY OUNCE

A unit weight, equal to about 1.1 avoirdupois ounces. The troy ounce is the traditional unit weight for precious metals, believed to be named after a weight used at the annual fair at Troyes in France in the Middle Ages.

1 ounce troy = 480 grains = 31.04 grams

1,000 grams = 1 kilogram = 32.15 ounces troy

1,000 kilograms = 1 metric ton = 32,150 ounces troy

TYPE OF OPTION

Either puts or calls.

UNDERLYING

The stock, commodity, futures contract, or cash index against which the futures or options contract is valued.

UNIT TRAIN

A train, usually with several locomotives, devoted to the transportation of a sole commodity. Unit trains consisting of 100 hopper cars of coal hold the rough equivalent of seven jumbo bargeloads, which in turn equals seven Exchange coal futures contracts.

VARIATION MARGIN

Payment made on a daily or intraday basis by a clearing member to the clearinghouse to cover losses created by adverse price movement in positions carried by the clearing member, calculated separately for customer and proprietary positions.

VEGA

The sensitivity of an option's value to a change in volatility.

VISCOSITY

A method of measuring a given liquid's resistance to flow, usually decreasing with increasing temperatures. Material with higher viscosity is more resistant to flow.

VOLATILE

Refers to liquids that change to gas at moderate, room temperatures.

VOLATILE MARKETS

Commodity markets with exceptional price movements in both directions, generally driven by the economic forces of supply and demand as well as world events.

VOLATILE MATTER

Vapor products (gasses) exclusive of moisture given off by the combustion of coal.

VOLATILITY

The market's price range and movement within that range. The direction of the price move, whether up or down, is not relevant. Historical volatility indicates how much prices have changed in the past and is derived by using daily settlement prices for futures. Implied volatility measures how much the market thinks prices will change in the future, and is obtained from daily settlement prices for options.

VOLUME OR TRADING VOLUME

The total number of contracts traded in a designated period of time.

WEST TEXAS INTERMEDIATE

A global benchmark grade of crude oil deliverable against the New York Mercantile Exchange light, sweet crude oil contract and used as the basis for an enymexsm contract.

WET BARREL

A physical barrel of crude oil or refined product as opposed to a "paper barrel."

WET GAS

Natural gas containing condensable hydrocarbons.

WRITER

The seller of an options contract. Also known as the grantor of the option.

YIELD

1) A measure of the annual return on an investment expressed as a percentage. 2) The proportion of heavy or light products which can be derived from a given barrel of crude oil.

EXCHANGE INFORMATION

24-Hour Market Information Services

The Exchange's public information office makes information available 24 hours a day through phone systems which put you in touch with vital Exchange information faster than ever.

Important information, such as prices and trading volume are available through the NYMEX Division *Fastfacts* line with updates provided every five minutes by the Exchange's mainframe computer. New information is available within 30 minutes of real-time. Information pertaining to Exchange holidays, delayed openings, and closings is also available.

The COMEX Division Information Line offers essential data including volume, open interest, daily highs and lows, settlement prices warehouse stocks, current day delivery notices, and new additions to strike prices. Recorded data is updates daily.

NYMEX Division *Fastfacts*: (212) 301-4871

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For a directory of access codes for all Exchange messages, contact the Exchange publications office at (212) 299-2777.

Internet Access

The Exchange's homepage, located at www.nymex.com, provides regular trading hour information on settlements, including daily highs and lows, expiration dates, estimated volume, and prices for both futures and options; as well as contract specifications, Exchange announcements, and holiday closings.

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Price histories for all Exchange contracts are available on diskette, including gold; silver; copper; platinum; palladium; aluminum, light sweet crude oil; heating oil; unleaded gasoline; natural gas; electricity; and propane; options on the heating oil/crude oil and the New York Harbor unleaded gasoline/crude oil crack spread; and futures and options on the FTSE Eurotop 100® index and futures on the FTSE Eurotop 300® futures index. To order, contact the Exchange public information office at (212) 299-2318.

Quote Services

The Exchange's daily futures and options price quotations are disseminated by a large number of information service vendors. The commodity code directory available on The Exchange's website lists the principal information service vendors and the information retrieval codes for Exchange contracts.

Publications

The Exchange publishes magazines, a monthly newsletter, and brochures relating to the metals and energy markets and the Exchange's contracts. For a current list of publications, to order publications, or for more information about the Exchange and its futures and options contracts, write, call, or e-mail:

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