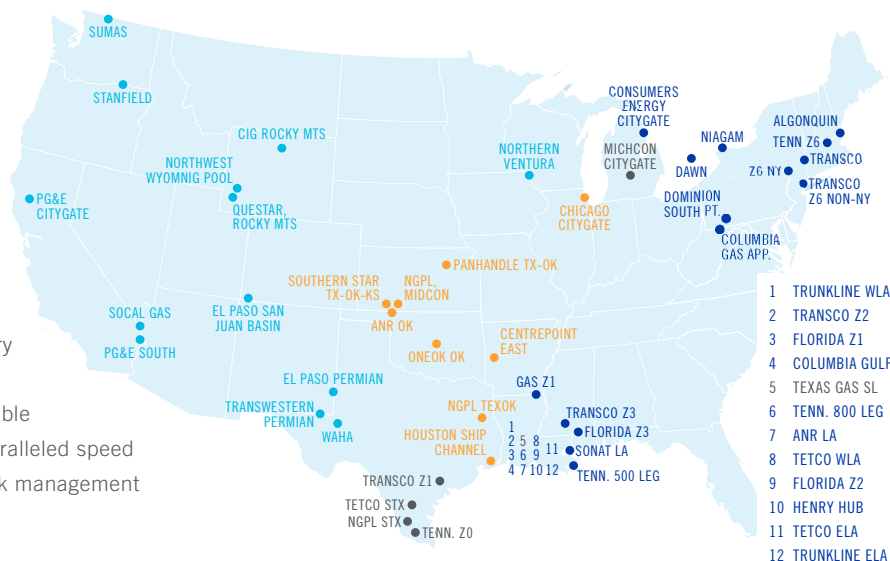


# TRADING NATURAL GAS ON ICE

## NATURAL GAS ON ICE

As one of the cleanest, safest and most abundant energy supplies available, natural gas (NG) is a primary component of the world's energy supply, and recent advancements in drilling technologies ensures it will remain an integral part of meeting our energy needs in the future. Thousands of traders across the globe rely on ICE's natural gas markets every day to meet their risk management needs. Our electronic trading platform, WebICE, offers reliable connectivity and mobile options providing unparalleled speed and flexibility for customizing and executing risk management strategies in natural gas.



## BASIC NG FUNDAMENTALS

Natural gas is in greatest demand during the winter season to meet commercial and domestic heating needs. From April through October, natural gas is injected into storage fields across the U.S. to ensure there is supply to meet this demand. Natural gas is produced domestically, as well as imported from Canada and other parts of the world, in the form of Liquefied Natural Gas (LNG).

Just a little over a decade ago it was thought that we would have to greatly increase LNG imports to meet U.S. demand for natural gas. However, recent improvements in drilling techniques have created a dramatic increase in the U.S. natural gas supply. Now some of those import facilities are being modified so they can also export gas to markets where prices are stronger.

Each week the U.S. Energy Information Administration (EIA) releases a storage number indicating how much natural gas was either injected or withdrawn from storage the previous week. Market participants use both subscription services and proprietary in-house models to predict storage numbers and make trading decisions. Inclement weather such as extreme or prolonged cold temperatures or hurricanes is also an important factor in determining the demand and thus the price of natural gas.

## ICE'S MOST LIQUID PRODUCTS

ICE offers the world's most heavily traded natural gas contracts including Henry Hub futures, cash settled basis futures, cash settled swing futures and NG options.

## HENRY LD1 CASH SETTLED FUTURE

The most commonly traded natural gas contract is our Henry LD1 cash settled future. This financially settled future references the price of natural gas per MMBTU on the NYMEX.

The contract trades in both a "flow-contract" and in ICE Lots. An ICE Lot is 2,500 MMBtus; the flow-contract is 2,500 MMBtus for each day of the month. On WebICE the flow-contract is listed as "NG LD1 Futures," the ICE Lots contract is listed as "NG LD1 Futures ICE Lots."

ICE has approximately 40% of the open interest in Henry Hub contracts, with an average daily volume in 2014 of 593,000 contracts.

- 1 Lot ICE Henry Hub futures = 2,500 MMBTU
- BUY '1' July 17 ICE Henry Hub futures 'flow' = 77,500 MMBTU (1 lot per day)
- Tick = \$0.001/MMBTU \*77,500 MMBTU = \$77.50

#### TRADING EXAMPLE

- TO CALCULATE YOUR P&L TAKE THE PRICE MOVE, AND MULTIPLE IT BY YOUR CURRENT POSITION

USING THE ONE FLOW-CONTRACT POSITION IN JULY, IF YOU WERE LONG AND SOLD AFTER A GAIN OF \$0.001 YOUR P&L WOULD \$77.50.

- $\$0.001 \times 77,500 = \$77.50$

## BASIS MARKETS

Natural gas trades at different prices at different delivery points throughout the country. The difference in value between gas at one delivery point and another is known as “basis.” The standard reference for basis is Henry Hub. One highly traded basis market is Algonquin, which is in New England. Algonquin will trade with a slight premium to Henry Hub during the summer, but when it gets cold and demand spikes, the price will usually rise well over the price of natural gas at Henry Hub. Basis points can also trade below the cost of gas at Henry Hub and thus the basis will be negative. SoCal Gas is a basis point located in southern California and will trade both above and below the cost of gas at Henry Hub throughout the year.

## CASH SETTLED SWING FUTURE

Natural gas is also traded at other locations than Henry Hub using our cash settled swing future. This contract is a daily cash settled product vs. a monthly settled product. Each day Platts Gas Daily lists the cost of natural gas at specified locations which is the daily settle price for the swing swap future. These prices represent the total cost of delivered gas to a specified point, rather than the delivered cost minus Henry Hub.

ICE's basis market represents over 90% of open interest and an average daily volume in 2015 of 128,000 contracts.

## OPTIONS

ICE's European Style options trade both on WebICE, as well as through brokers who clear through ICE. In addition to Henry Hub

Fixed Price options we offer 1, 3, and 6 month calendar spread options, same-day options, Cal 1x options and options on our swing swap. Our options exercise automatically when “in the money” by converting to the underlying future with a contract price equal to the strike. If an option is “out of the money” it expires automatically.

ICE's Henry European Style options had an average daily volume in 2015 of 175,000 contracts.

## SPREADS, STRIPS, CALS

Natural gas trades in multiple forms beyond simply buying and selling a single month. Seasons in natural gas are broken down by the traditional storage injection and withdrawal periods of April through October and November through March.

These strips are traded in addition to full calendar years (Cals) and quarters. ICE also allows you to trade a custom strip if you would like to trade other months together. Trading calendar spreads is a common strategy in natural gas as fundamentals drive different amounts of contango and backwardation in the market.

## EIA FUTURE

ICE's EIA Future has steadily increased in liquidity as a viable way to hedge positions against a possible surprise in the weekly storage number. This contract represents a cleared market for the change in Billion Cubic Feet (BCF) of the Natural Gas Financial Weekly Gas Storage Inventory Number as reported by the U.S. Energy Information Administration (EIA) Weekly Natural Gas Report. This product prices at \$1,000 per BCF.

As an example, if you were to buy 1 contract at 50 BCF and the actual injection was 56 BCF, you would receive \$1,000 for each of the 6 BCF over the 50 that you bought, for \$6,000 in profit.

For a complete list of all ICE North American Natural Gas contracts, please visit: [theice.com/natgas](http://theice.com/natgas)

## GETTING STARTED

To get started trading natural gas on ICE you will need to execute the **ICE Futures U.S. Participant Agreement**. The ICE PA is a standard agreement that has been signed by all of ICE's participants. Once it is signed and returned to our **Account Services** group, **ICE User Administration** will work with you to complete the user set-up process and provide IDs for access to WebICE. In order to clear on ICE, you will also need an account at a **Futures Commission Merchant (FCM)** and that account will need to be linked by your risk manager.

## FOR MORE INFORMATION

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[theice.com](http://theice.com)

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