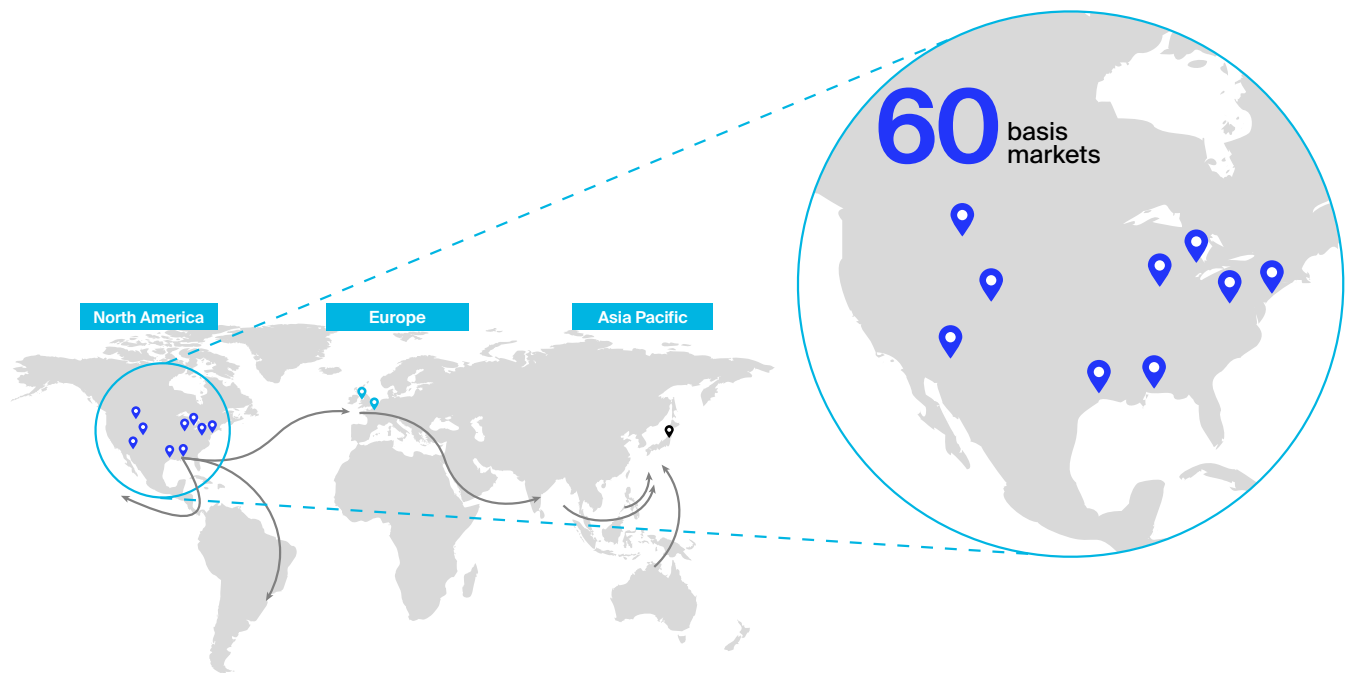


# Trading U.S. Natural Gas on ICE



## North American Natural Gas

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.

## The Fundamentals

Natural gas is in greatest demand during winter 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).

In the early 21st century improvements in drilling led to an increase in U.S. natural gas supply, it was thought that the U.S. would need to greatly increase LNG imports to meet the new demand for natural gas. Since then, various LNG import facilities were modified to also export, while newer facilities have been built specifically for exporting. This switch in market dynamics led the U.S. to become a net exporter of natural gas.

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Information Administration (EIA) releases a storage number indicating how much natural gas was either injected or withdrawn from storage the previous week.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 and hurricanes also play a crucial role in determining the demand and the price in natural gas.

## A Liquid North American Market

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

### 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.”

### Flow Lot Example

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

### P&L 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 x 77,500 = \$77.50

### 60 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. Basis markets can trade both positively and negatively depending on regional fundamentals. ICE offers 60 different locations to trade basis, enabling customers to mitigate their risk at locations all across North America.

### Cash Settled Swing Future

Natural gas is traded at other locations than Henry Hub using our cash settled swing daily future. Each day Platts Gas Daily lists the cost of natural gas at specified locations pricing the

daily settle price for the swing swap future and representing the total cost represent the total cost of delivered gas to a specified point, rather than the delivered cost minus Henry Hub.

### Henry Hub Options

ICE’s European Style options trade both on WebICE, as well as through brokers who clear on ICE. In addition to Henry Hub Fixed Price options we offer calendar spread options, same-day 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.

### Pipe Options

With regional fundamentals varying all across North America, ICE has added options on the most active hubs to complement our Henry Hub options. These options, commonly referred to in the market as “Pipe Options”, settle based on the delivered cost of gas at the specified location. ICE currently offers Pipe Options at 25 different hubs across North America. Just like our Henry Hub options, these options are European Style and cash settled.

### Spreads, Strips, Cals

Natural gas trades in multiple forms beyond 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 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.

## Getting Started

To get started trading natural gas on ICE you will need to execute the the ICE Futures U.S. Participation Agreement (IFUS PA). The IFUS 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 need an account at a Futures Commission Merchant (FCM) and that account will need to be linked by your risk manager.

## For more information

+1 646.733.5017

[Brian.Lewis@theice.com](mailto:Brian.Lewis@theice.com)

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

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