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## Argus White Paper: New Argus LLS and Mars Swaps Contracts

The Intercontinental Exchange (ICE) has launched two new swaps contracts that capture the spread between Argus LLS and Brent, and the spread between Argus Mars and Brent. The new swaps follow the success of several contracts based on Argus LLS, Argus Mars and Argus WTS listed on CME Clearport. Activity on LLS and Mars swaps has been growing over the past year in part due to WTI's inversion to North Sea Dated.

### LLS and Mars Crude: The emergence of secondary benchmarks

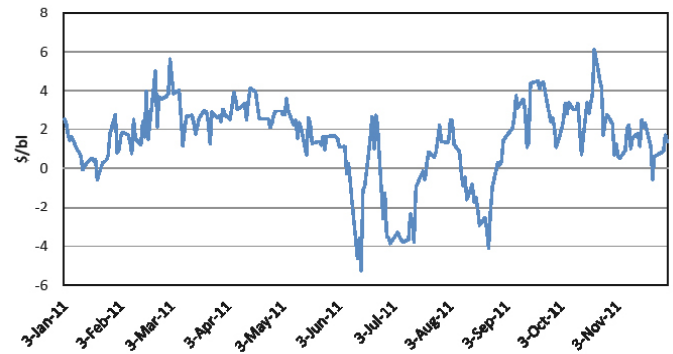
Companies are turning to LLS as a benchmark for light sweet domestic crude at the Gulf coast. Mars also continues to grow in its role as a potential alternative sour benchmark. Open interest in LLS and Mars swaps on CME Clearport continues to increase. Open interest in LLS swaps has grown by around 75pc in the past year with Mars swaps open interest up by around 20pc over the same period.

LLS and Mars are growing as alternative benchmarks because they both have the attributes required from marker crudes:

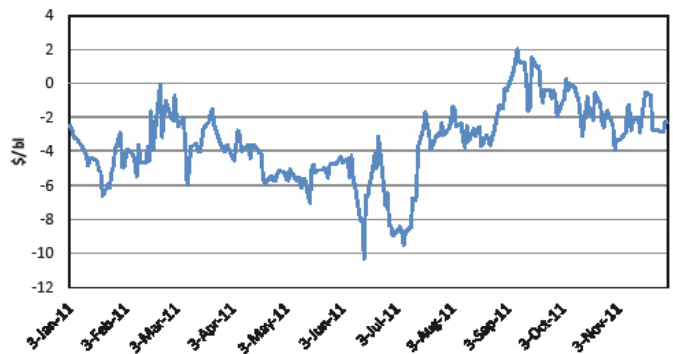
- Both grades have active and transparent spot markets in which a diverse array of buyers and sellers participate regularly.
- LLS and Mars react to both global and local fundamentals because they compete directly with foreign grades coming into the US Gulf coast while also being affected by local demand and supply issues.
- Both grades are traded as a differential to WTI, which is backed by a deep financial market with a robust regulatory structure.
- LLS and Mars swaps can be cleared on both the CME Group's NYMEX and The Ice.
- The LLS and Mars physical price indexes for swaps are Argus LLS and Argus Mars, which use a volume-weighted average of deals done methodology that has gained wide acceptance.

LLS and Mars also are increasingly being used in physical spot and term deals. In early December, Plains Exploration & Production signed a five-year deal to sell Eagle Ford shale crude volumes to oil major Shell based on a \$7-8/bl discount to LLS prices. Recently, spot cargoes of Latin American crude have been traded at a differential to Mars.

ARGUS LLS VS ICE BRENT



ARGUS MARS VS ICE BRENT



Petroleum

illuminating the markets

### The WTI disconnect

Over the past few weeks WTI's discount to North Sea Dated has narrowed and is now around \$8-10/bl after having climbed to above \$20/bl earlier in 2011.

An announcement that the Seaway pipeline will be reversed to move crude from Cushing to the US Gulf coast starting in the second quarter of 2012 helped narrow the WTI discount to Dated. The line initially will move 150,000 b/d of crude to the Houston area. But remaining uncertainty over the duration of the WTI inversion even after Seaway is reversed has meant that market participants continue to seek alternative hedging strategies to supplement the traditional futures hedge.

Going forward, WTI's disconnect is expected to continue and market participants look increasingly willing to make long term commitments to using LLS and Mars in both the swaps and physical markets.

CME Clearport	Code
Argus LLS Trade Month Swap Futures	A4
Argus LLS vs. WTI (Argus) Trade Month Swap Futures	E5
LLS (Argus) Trade Month Swap Futures	LI
LLS (Argus) vs. WTI Spread Calendar Swap Futures	WJ
LLS (Argus) Calendar Swap Futures	XA
Mars (Argus) Trade Month Swap Futures	MO
Mars (Argus) Calendar Swap Futures	MX
Mars (Argus) vs. WTI Spread Trade Month Swap Futures	YV
Mars (Argus) vs. WTI Spread Calendar Swap Futures	YX

ICE	Code
Crude Outright - Argus Mars Swap	ARM
Crude Diff - Argus Mars vs Brent 1st Line Swap	ARN
Crude Diff - Argus Mars vs WTI 1st Line Swap	ARO
Argus Mars vs Brent NX Swap	NJX
Crude Outright - Argus LLS Swap	ARH
Crude Diff - Argus LLS vs Brent 1st Line Swap	ARI
Crude Diff - Argus LLS vs Dated Brent Swap	ARJ
Crude Diff - Argus LLS vs WTI 1st Line Swap	ARK
Crude Diff - Argus LLS vs WTI Trade Month Swap	ARL



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