

Market Notice

Number: A1908

Date 2 December 2013

Final decision regarding proposed changes to the wheat contracts

The JSE refers to market notice A1885 and the request from Grain South Africa (GSA) to amend the standardised terms of the listed wheat futures contracts. The JSE has carefully considered all the facts and information at its disposal, including the submissions and feedback received from market participants. The JSE has also discussed GSA's request with the members of the Agricultural Advisory Committee.

In addition to these deliberations, the JSE has also discussed this matter with the Registrar of Securities Services, the Regulatory Authority established in terms of the Financial Markets Act. The Registrar has reiterated that the JSE is obliged to fulfill its regulatory duties and responsibilities as outlined in the Financial Markets Act, 2012, which include the maintenance of a fair, efficient and transparent market in all securities listed and traded on the JSE's exchange.

The JSE has carefully considered all the facts and information at its disposal with due regard to its regulatory duties and responsibilities and has decided that the proposed amendments to the terms of the wheat futures contracts would be detrimental to the JSE's derivatives market in wheat futures.

The JSE is mindful of the fact that the GSA request, including feedback received directly from producers, continues to highlight pricing issues specific to the cash market.

The JSE is continuously striving to improve the efficiency of its market and has implemented measures such as the introduction of a basis premium trading platform in 2012 that was designed to improve basis transparency during the delivery month. The JSE is working with interested participants to expand this functionality to trade premiums via a basis futures contract as described in market notice A1901. The JSE has also provided a commitment to the Registrar of Securities Services, after discussing the matter at an Advisory Committee meeting, that it would assist in publishing information similar to a "commitment of traders report" once there is a minimum threshold of market participants who hold positions either as hedgers or speculators. Currently the required minimum threshold of participants is agreed as 15 with open positions greater than 10 000 metric tons so as not to compromise individual market participant's exposure within either the category of hedger or speculator.

The standardised terms and conditions of the JSE's listed wheat futures contracts will therefore remain unchanged and will continue to allow Western Cape storage points to be deliverable on both the Paarl (CAPE) and Randfontein (WEAT) contracts. The reference points will remain unchanged and we will continue to publish a location differential.



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Market participants will continue to have a choice on which contract they would like to participate, either referencing a Randfontein or a Paarl reference point for their price risk management objectives.

Since the wheat derivative products remain unchanged the **Dec14** expiry for the WEAT and CAPE contracts will be introduced for trading on **Tuesday 3 December 2013**.

The JSE would like to thank all parties who provided feedback and expressed their views regarding the GSA proposal. We acknowledge the significant amount of emotion around the use of location differentials in facilitating a single reference point for the derivatives contract, however in referencing the independent reports available (NAMC 2008 and Dr Matthew Roberts 2009) and considering the recommendations made in these reports, we remain committed to operating an efficient derivatives market which includes maintaining location differentials for those products reliant on delivery points that are spread across the country.

We will continue to offer educational services to ensure all market participants are aware of the role and function of the derivatives market, assist in understand the pricing around the standardised contracts and how role players can participate in the basis premium platform. Please direct all interested parties to our group email address commodities@jse.co.za.

In terms of introducing wheat expiries for the 2014 marketing season that runs from 1 October 2014 to 30 September 2015, please note the grade discounts, standard storage rate and location differentials will only be determined closer to the new marketing season. The origin discounts remain unchanged for the new season and are:

- Wheat from the following origins acceptable for delivery at a **ZERO** origin discount:
USA Hard Red Spring (Dark Northern Spring and Northern Spring wheat), No 3 or better Canadian Red Western Spring wheat, Australian Hard, Australian Prime Hard, Australian Prime White and Australian Standard White wheat
- Wheat from the following origins acceptable for delivery at a **R100 per ton** discount:
Argentina, USA Hard Red Winter wheat and German Type A or B wheat

Providing a platform for price risk management remains our core priority and we trust market participants will appreciate the decision made and consider supporting the basis premium platform that is available to all registered clients.



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