

MINUTES

HEADING: AGRICULTURAL ADVISORY COMMITTEE MEETING

Date: 15 March 2018
Time: 13h15
Venue: Serengeti Meeting Room

Johannesburg
Stock Exchange

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Present:

Dr. R Karuaihe	- Chairman
Mr. C Sturgess	- JSE Capital Markets
Mr. W Martens	- CJS Securities
Mr. R Heine	- RMB representing Clearing Members
Mr. W Lambrechts	- Vanguard Derivatives
Dr. D Strydom	- GrainSA
Mr. C Schoonwinkel	- GrainSA
Dr. K Keyser	- Brisen/AFMA
Mr. B de klerk	- Agbiz
Mr. L Joseph	- Cargill
Mr. T Jacobsz	- Farmwise
Mr. A Connellan	- RMB
Mr. A Van Den Berg	- RMB
Mr. J Theron	- Polarstar Fund Management
Mr. A Wienand	- ETG/SACOTA
Mr. D Mathews	- Private Producer
Mr. P Jackson	- NCM/RCL Foods
Dr. K Muganiwa	- JSE Market Regulation
Mr. J Shayi	- JSE Market Regulation
Ms. A Matutu	- JSE Capital Markets
Ms. Z Dastile	- JSE Capital Markets
Mr. V Mpumza	- JSE Capital Markets
Mr. J Rakumako	- JSE Trading and Market Services

Apologies:

Mr. AR Moosa	- SAOPA
Ms. D. Nemer	- JSE Director: Capital Markets
Mr. J du Toit	- RMB
Mr. H Mulder	- RMD
Mr. C Joubert	- NAMC

WELCOME:

Dr Karuaihe welcomed all attendees and thanked them for their participation.

1 CONFIRMATION OF MINUTES:

The Minutes of the previous meeting were accepted and approved with no changes.

2 MATTERS ARISING FROM PREVIOUS MEETINGS:

2.1 DOTs and SOTs

Dr Karuaihe reported that the JSE has ultimately resolved to allow members to book their own trades. Consequently the rules have been updated the JSE Market Regulation team and a draft document has been circulated to this effect.

The process was to scrutinize the draft rules first before going out to the Option writers who are directly affected by the rule change. The JSE will be meeting with the Option writers to sensitise them and and hear their comments and only then circulate to the wider market for comments.

This was acknowledged by the Committee members.

2.2 Financial standing of approved Storage Operators

Dr Karuaihe reported that the Committee would recall at the last meeting the JSE had discussed the current requirements extensively which allow storage operators to register storage facilities. E stressed that the existing financial net worth requirements were understated given the dynamics in which we currently operate. The storage space market has evolved over time and currently has added flexible storage options. The number of delivery points has increased substantially over the past few years from 50 to 250. In essence, a lot has changed overtime and the JSE has not kept abreast with the financial requirements of the individual storage operator.

As a result the JSE has introduced new financial standing requirements that were sent out to all storage operators as advised by the Committee. They have been given a grace period of six months. The new requirements are effective 02 July 2018. The JSE received one objection and the other participants just noted. In a nutshell, it was well received by the majority of storage operators.

This was acknowledged by the Committee members.

2.3 Soybean and Sunflower meal contracts

Mr Mpumza reported that a meeting was convened by AFMA and SACOTA in Centurion, on 08 February 2018 to discuss the possibility of listing the MEAL contracts on the JSE for the local feed manufacturers. There were extensive discussions on both the contracts it was later resolved that AFMA would do their own investigation and come up with minimum quality contract specifications that the market can trade. The Crushers agreed to come up with a proposal for storage requirements as well as storage costs.

Mr Mpumza concluded that the JSE will continue to be guided by the oilseed industry until a final product specification is agreed upon.

This was acknowledged by the Committee members.

2.4 Increasing Soybean and Sunflower contract size

Dr Karuaihe reported that this was requested by the market to increase the respective contract sizes of both Soya and Sunflower seeds from 50 tons to 100 tons. The JSE decided to put focus on Soybeans instead of Sunflower given the production statistics of the two products over the past years. A market note was circulated to the market to test if there is appetite to adjust the contract size for Soya and the JSE received resistance. Many felt liquidity will dry up and production is not at a critical mass yet. The general consensus was that it will negatively impact the current status quo. Given that feedback, the JSE has decided to retain the 50 ton contract size.

Dr Strydom further added that the matter was discussed at the congress for producers. The producers feel it will complicate hedging. The JSE will revisit this at some point in the future.

2.5 Composition of Agricultural Advisory Committee

Dr Karuaihe briefed the Committee on a discussion that was held at the last meeting where the JSE had not conducted regular elections of member-elected committee members from time to time. Dr Karuaihe emphasised that the industry associations send in their own representatives. As a result the JSE sent out an invitation to industry participants to nominate representatives to the advisory committee and a number of nominations were received.

After a review process five new members were added, namely Stefan Janse van Rensburg, James Bucknall, Gido Janse van Rensburg, Henk Grobler and Lee Sewpersadh. Dr Karuaihe closed off by mentioning that the current committee members will remain as is.

This was acknowledged by the Committee members.

3 **TRADING AND SETTLEMENT ITEMS:**

3.1 Feedback on recent operational issues

3.1.1. Physical deliveries

Ms Dastile reported that two incidents occurred on 28 February and 8 March 2018. The first incident occurred on the last day of the Soya and Suns marketing season, 28 Feb 2018. Clients could not deliver certificates that were issued on the day and storage was paid up to and including the 28th of February. This resulted in a manual intervention to facilitate physical deliveries for that day. Subsequent to that incident, on the 1st of March, the JSE picked up storage issues which were a result of the issue experienced on previous day. The JSE is in a process of rectifying the issue.

On 8th of March, connectivity issues were experienced between the JSE and Electronic Silo Certificates, ESC. The JSE managed to move to DR to facilitate all the physical deliveries of the day. The JSE had a meeting with ESC after the incident to discuss measures that can be put in place to prevent the incident from occurring in the future. The conclusion from the meeting was in the worst case scenario, the JSE will facilitate any physical deliveries using paper certificates and documenting a thorough process in case moving to DR has to occurs again.

Furthermore, the JSE is in a process of finalising all remaining certificates with incorrect storage dates. This was acknowledged by the Committee members.

3.1.2. Service Delivery

Mr Lambrechts raised a service delivery issues at the JSE. He felt things have improved from last year however the publication of DOTs and SOTs is still being delayed. He further added that service delivery levels are lacking in some departments and clients are finding it frustrating.

The JSE took note of service delivery issues and will liaise internally with the respective departments.

3.2 Wheat Grading

Dr Strydom reported that at the last meeting the JSE was requested to delay listing the December 2018 Wheat expiry. The reason for the request was that there could be a change to the wheat grades that was being discussed by industry stakeholders. Several meetings took place earlier this year and there was no consensus reached. Therefore the JSE was given the go ahead to proceed and list the December expiry. Dr Strydom mentioned that there will be major changes in the whole wheat industry especially on grading in 2019.

Dr Strydom alluded that the outcomes from the meetings were that the JSE has to revisit origin discounts and implement position limits on wheat. He further added that the industry wants government to revisit the formula used to calculate the import duty tariff and the announcement thereof. There was also a proposal to look at the new EPA trade agreement between SACU and EU. Lastly, the industry is requesting the JSE to consider an alternative reference point for Wheat, the market feels Randfontein is no longer applicable because production and processing of Wheat has transformed substantially.

Dr Strydom closed off by saying this is a request from the whole wheat market. Dr Karuaihe thanked Dr Strydom for the feedback and said that the JSE will be joining those working groups to revive this market.

Mr Theron also put his hand up to be invited into the working groups.

This was acknowledged by the Committee members.

3.3 Position limits - Wheat

Dr Karuaihe reported that this point came from the market. Sometime in February the JSE received communication from two institutions enquiring why there are no position limits for wheat. Dr Karuaihe provided some background and emphasised that position limits are currently only in place for white maize and soya.

Mr Jackson mentioned that producers, millers and processors were surprised that there are no limits in place for wheat. They feel there is no regulatory control and the market could be cornered by large position holders.

Mr Sturgess responded that, if there is anyone who feels the market is cornered regardless of position limits, it is critical to always report such market abuse and indicated that the Market Regulation team is here to assistance with such cases. It is imperative to provide full details of the abuse at all times. The Market Regulation team will do their due diligence and if there is market abuse then it will be investigated.

After several divergent views, the Committee agreed that the JSE revisit position limits across the board. In principle all products must have position limit. The JSE agreed to do some research and look at what the global markets i.e. CME are doing. The JSE will further do scenario analysis and send all the details before the next advisory meeting.

4 **GENERAL:**

4.1 Zambian update

Mr. Sturgess reported that testing is underway with ABSA clearing which continues to support the JSE. The JSE has been experiencing technical challenges with the test environments however the intention is certainly there to complete the testing and start trading the Zambian contract by June

Mr Sturgess further added that the US AID and FC Stone are working on a trade seminar which will be held from the 26th -29th of June and the intention is to launch the Zambian contract at this event. This will take place in Zambia and if any member wants to know more, please let the JSE know.

The JSE will communicate to the market once all systems are ready for go live.

4.2 COT – Recent FSB meeting

Mr Sturgess reported that the JSE met with the FSB on 14 February 2018. The JSE informed all the concerned parties with regards to the meeting with the FSB but unfortunately not all industry players could join the meeting. The industry players include SACOTA, GRAIN SA, NCM, NAMC and AFMA.

The FSB was approached and the request from the market was for them to assist with statutory measures that will compel traders to provide Commitment of Traders information from members and clients of members. FSB was informed that the JSE was willing and able to collect the information from the market on behalf of the FSB. Mr Sturgess said that the current regulation allows the JSE to request for information from the member only and not the client

The case study conducted by the JSE was submitted to the FSB and they support it. It was suggested and supported that the FSB hold a workshop with the industry players involved in this process and see what categories will be reported.

The Committee members took note.

4.3 Aureus differential calculation and recurring deliveries

Mr Jacobsz raised this item and asked if the JSE could revisit the location differential calculation for Aureus. Mr Jacobsz added that there are only two transporters willing to transport grain to/from Aureus at the provided rate, once a week.

Mr Jacobsz further added that if there are recurring deliveries of certificates at a particular location, it may imply that the location differential is out of sync.

Mr Jacobsz asked if the JSE can look at the locations with recurring deliveries when determining location differentials before sending it out to the market. The JSE committed to go back and check for any anomalies.

This was noted by the Committee members.

5 **ADDITIONS TO AGENDA:**

5.1 Location Differentials

Dr Strydom raised this issue and highlighted that GrainSA along with its members had intensive discussions in their regional meetings. The producers feel that location differentials need to be relooked at. There were also discussions that took place for each commodity group.

Dr Strydom highlighted the reason behind this request is the shift that is occurring in the markets. A lot has changed from production to processing. One of the resolutions raised was GrainSA to chair a steering committee discussing the location differentials across all commodities and everyone is invited.

This steering committee will look to see if location differential are still relevant in the commodities market. The JSE, Mr Theron and Mr Jacobsz put up their hands for participation.

The Committee members acknowledged the comments.

6 PROPOSED MEETING DATES FOR 2018:

Thursday 21 June 2018

Thursday 23 August 2018

Thursday 22 November 2018

Dr Karuaihe thanked the committee for their input and called the meeting to a close.