

MINUTES

HEADING: AGRICULTURAL ADVISORY COMMITTEE MEETING

Date: 25 June 2018
Time: 13h15
Venue: Ubuntu Meeting Room

Present:	Dr. R Karuaihe	- Chairman
	Mr. C Sturgess	- JSE Capital Markets
	Mr. R Heine	- RMB representing Clearing Members
	Mr. J du Toit	- RMB
	Dr. D Strydom	- GrainSA
	Mr. L van der Walt	- GrainSA
	Dr. K Keyser	- Brisen/AFMA
	Mr. T Jacobsz	- Farmwise
	Mr. C Joubert	- NAMC
	Mr. A Van Den Berg	- RMB
	Mr. J Theron	- Polarstar Fund Management
	Mr. A Wienand	- ETG/SACOTA
	Mr. P Jackson	- NCM/RCL Foods
	Mr. P Faure	- CJS Securities
	Mr. G van Rensburg	- Bester
	Mr. J Bucknall	- GWK
	Mr. R Olwagen	- BVG
	Dr. K Muganiwa	- JSE Market Regulation
	Mr. J Shayi	- JSE Market Regulation
	Ms. D. Nemer	- JSE Director: Capital Markets
	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
	Mr. H Grobler	- Zargoscape
	Mr. W Lambrechts	- Vanguard Derivatives
	Mr. L Sewpersadh	- ABSA representing Clearing Members
	Ms. M Purnell	- Agbiz
	Mr. J de Villiers	- Agbiz
	Mr. L Joseph	- Cargill
	Mr. S Janse van Rensburg	- BSEC
	Mr. H Mulder	- RMD

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 Position limits on physically settled commodities

Mr Mpumza reported that the JSE spent an extensive amount of time researching what other exchanges are doing in determining speculative position limits. He highlighted that the JSE decided to benchmark against CME Group and he elaborated on the proposed calculations and findings of speculative position limits to be considered.

Mr Theron indicated that there is difference in contract sizes and number of silo locations between the US and SA markets. In addition, the US only trades US origin commodities and so the JSE operates a very different market to CME. Mr Theron suggested the following parameters when considering position limits:

- a) Fluctuations of stock levels during seasons;
- b) Market concentration of commodities;
- c) Historical spot month limit performance; and
- d) Historical deliveries done.

He discouraged the use of open interest because when it decreases the limit will have to be adjusted. Furthermore, suggested that the JSE consider cross market trading and trade types when determining the limits.

On the use of 3-year historical ending stock level data, Mr du Toit felt that the relevance of this on prevailing market conditions will distort determination of limits. He wanted to know whether or not the limits will be adjusted on a yearly basis.

In discussions that followed, it was agreed that the JSE will continue researching on this and welcome any suggestions from the Committee members.

This was acknowledged by the Committee members.

2.2 Zambian Update

Dr Karuaihe reported that after consulting extensively with internal stakeholders, the launch of Zambian contracts was called off for a possible go-live date sometime in Q1 2019. Dr Karuaihe thanked ABSA in particular, the clearing member who has been on this journey with the JSE in trying to roll out this product.

Ms Nemer apologised for the delay in rolling out the product but reemphasised the JSE's commitment to ensure this product does go live. She further elaborated that there still some work to be done internally for this product to be rolled-out. The JSE will prioritize it and ensure the necessary focus on it next year.

This was acknowledged by the Committee members.

2.3 Soybean and Sunflower meal contracts - Update

Dr Keyser reported that committee members are still struggling to meet and agree on contract specifications. There is a meeting schedule towards end of August and hopefully there will be fruitful results coming out of it.

This was acknowledged by the Committee members.

2.4 COT Report

Dr Karuaihe reported that with all the changes happening at FSCA, they haven't had an opportunity to look at the request submitted earlier this year. The JSE is still waiting for feedback from FSCA.

This was acknowledged by the Committee members.

3 **TRADING AND SETTLEMENT ITEMS:**

3.1 Enhancement of DOTs & SOTs automation

Mr Rakumako reported that enhancement will be done on the webpage link. This link will allow members to download the day's DOT/SOT data from the page. Further to this, a link will be created on the same page to access historical DOT/SOT data. This will ensure that members only visit one source to retrieve all the data required for DOT/SOT trades

This was acknowledged by the Committee members.

3.2 Proposal for Members to book trade corrections/allocations

Mr Rakumako reported that a new trade type will be introduced to allow Members to book trade corrections themselves in order to correct the incorrect allocation. This trade type will be "ALE" Allocation Error.

Trades that were not allocated the previous business day that require a reported trade to be booked will now be booked by the members and not the exchange. Members will be requested to provide the exchange

reference number on the reference fields provided in order to continue with the necessary market surveillance functions.

The market notice will detail all the requirements.

This was acknowledged by the Committee members.

3.3 CME Data Licensing Agreement

Dr Karuaihe reported that the JSE CEO met with CME where they agreed in principle to waive the annual fixed fees per product. The JSE will wait for a written confirmation. As things stand, the JSE will continue with the current contractual agreement. The JSE will convey a message once there all contractual paperwork in place.

This was acknowledged by the Committee members.

4 **GENERAL:**

4.1 DOT and SOT Rules

Mr Shayi reported that the proposed amendment rule 7.15 will be sent out for market comments. Members of the advisory committee requested that comments initially shared with the JSE during a previous workshop be taken into consideration before the draft rule is sent to the wider market for comment particularly on the minimum lot size of 10 contracts.

Mr Shayi acknowledged the comments and will go back to the surveillance team with the suggestion of 10 contracts as the minimum contract requirement for DOT transactions aswell as considering this request for SOT transactions.

4.2 Feedback from industry meeting on location differentials

Dr Strydom reported that selected industry representatives had a round-robin discussion on this topic. A workshop was also held to address certain industry concerns, the purpose of which was to find a more effective system and to get the relationship between published location differentials and actual transport costs close to reality as possible. From the meeting the following were highlighted:

- Quotes provided to the JSE to calculate the diffs are not aligned to reality
- There is no transparency and effective data publication. Examples of Willemsrus and Tierfontein were cited where the one silo is closer to Randfontein but has a higher diff, even though both are 100% road transport.
- Transporters should provide actual figures as opposed to quotes i.e. invoices.
- Concerns with redeliveries. JSE to investigate why there are redeliveries of 1.4 million tons within a 150km radius of Randfontein.

- Request for the JSE to investigate the following possibilities:
 - Split of reference point between White and Yellow Maize and consider inland reference points other than Randfontein
 - Possibility of introducing Yellow Maize FOB price with delivery location
 - Consider introducing Cape reference point for wheat
 - Considering the trading of basis futures contracts
- Wheat grading specifications to be relooked at as they are not a reflection of reality, which includes Foreign Origin Discount on delivery.

Certain industry participants were also in favour of considering statutory measures when collating grain transport information required to determine location differentials. A suggestion was made to perhaps look at independent transport quotes and consider contractual agreements with transporters to submit quotes as soon as possible.

Many of the industry participants present at the advisory committee meeting supported a proposal to consider location differentials for Soybeans. This was on the back of increased production and that further out delivery points registered on the JSE were not effective with no single reference point defined. Dr Strydom indicated that the producers will strongly object to this and that supply and demand must determine the prices and movement of stock. It was suggested that a workshop be held to discuss location diff on soybeans which will be facilitated by the JSE.

Following this extensive request, the JSE undertook to consider entering into agreements with logistic companies to ensure they provide their information on a timely basis and to arrange a workshop to discuss location differentials for soybeans.

This was acknowledged by the Committee members.

4.3 Proposed amendments to derivative rules and directives

Mr Theron reported that in his opinion there are many pre-arranged transactions taking place over the phone. He emphasised that pre-arranged trading is prohibited on CME Group. Mr Theron highlighted this pre-arranged rule poses a huge risk of losing transparency and liquidity on the South African market. Furthermore, he elaborated that JSE Market Surveillance is of the opinion that the rule is redundant and not relevant in today's trading conditions and wanted to know the view of the JSE.

Ms Nemer suggested that the JSE must investigate other ways to ensure continuity of price discovery and competitive pricing and suggested considering looking at different order types to suite the underlying market requirements. Here she referred to certain enhancements made in the Equity Market and indicated these had worked well for that specific sector.

This was acknowledged by the Committee members.

4.4 Approved JSE silos and the issuing of ESC certs on year storage

Mr Theron reported that there are some storage operators who refuse to issue JSE year storage silo receipts. He requested that the JSE contact registered silo owners to remind them of their obligations and provide clarity on the transferability of annual fees.

Mr Theron further said that the JSE should send out market communication regarding year storage. In his opinion storage operators should be accustomed to issuing certificates with year storage paid up to and including the last day of the marketing season in line with all other market participants. Furthermore, he requested that if a client requests to transfer a certificate they should not forfeit the storage that has already been paid up.

The JSE took note of the request and undertook to approach those storage operators who had declined to issue the year storage receipts to understand their reasons for this. The JSE will start communicating with storage operators to sensitize them of the request.

4.5 Market Forum

Ms Nemer indicated the JSE Capital Markets will like to have a dedicated advisory meeting to discuss more strategic items with the commodities market participants. This could include sharing their vision for the commodities market, how to secure further market growth and how idea's around building better market places.

Ms Nemer asked if this was something the market would appreciate and partake in. The Committee members were happy and confirmed their support for such a meeting.

The JSE suggested the last meeting of the year be set aside to discuss more strategic initiatives. .

5 **ADDITIONS TO AGENDA:**

5.1 Wheat forum

Dr Keyser raised this issue and highlighted takeaways from that forum:

- There is no progress on grading requirements
- There is a request for the JSE to revisit origin discounts
- Huge discrepancy on the wheat import tariff based on the current ITAC calculation
- Forum will approach ITAC to consider other calculations

There is a meeting schedule for this month to further discuss these items. Mr van Rensburg enquired, since majority of the imported wheat is from the Black Sea, if the JSE could consider listing the Black Sea Wheat contract traded on CME. The JSE will do the necessary research and consider it for listing.

This was acknowledged by the Committee members. The JSE also indicated it would not take any further actions regards the wheat contract until it received support to do such from the wheat forum, implying that the forum had reach consensus of the requested change/s.

6 PROPOSED MEETING DATES FOR 2018:

Thursday 23 August 2018

Thursday 22 November 2018

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