

## MARKET NOTICE

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**Number:** 614/2016  
**Relates to:**  Equity Market  
 Equity Derivatives  
 Commodity Derivatives  
 Interest Rate and Currency Derivatives  
**Date:** 3 November 2016

**SUBJECT:** INTRODUCTION OF CASH SETTLED SOYA BEAN CRUSH CONTRACT

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**Designation:** Director: Commodities & Key Client Management

Dear Stakeholder,

*Please feel free to distribute to any interested parties.*

### 1. BACKGROUND

The JSE has been approached by a number of soya bean crushers and commodity traders who requested that we list a Soya bean crush contract on the basis to trade the entire crush complex. This crush complex includes local soya beans, and then relies on CME meal and oil as a proxy for global prices. We propose introducing a separate contract that will then trade the complex wrapped up as a single product.

### 2. THE RATIONALE

A soybean complex, a key component in the soya market is what is known as the “crush” spread. Soya beans are processed into two by products – soya bean meal and soya bean oil. The crush spread is the difference between the combined value of the products and the value of the soya beans. It is a measurement of the profit margin for the soya bean processor. The soya bean processor will be interested in the crush spread as part of its hedging strategy, and the speculator will look at the crush spread for trading opportunities. From initial consultation with market participants, we have been informed that in **percentage terms, 1 unit of soya beans produces 74% meal and 17% oil** (the remaining 9% is husks and wastage and not included in the JSE crush pricing complex). To determine the crush margin on a unit of soya beans, we take the % value of the by-products and subtract the value of the soya beans.

This example shows how the Crush is calculated using the below formula:

$(\text{Price of Soybean Meal (R/ton)} * 74\%) + (\text{Price of Soybean oil (R/ton)} * 17\%) - \text{Price of Soya Beans (R/ton)}$

If, for example, March 2017 Soybean Meal (code MEAL), Soybean oil (code OILS) and Soya bean futures (code SOYA) settlements were R4804/ton, R10808/ton, and R6150/ton respectively, then the March Crush would be calculated as  $(R4804 \times 74\% + R10808 \times 17\%) - R6150 = -R757.68/\text{ton}$ . This is then multiplied by the proposed reference contract volume of soya beans of 150 tons to get to the contract nominal exposure value of **-R113 652 per contract**. Please do review the suggested contract specifications and let us know if clients would prefer a larger contract size with the reference to the crush index. Please also note since this product has the potential to trade at a negative value, for the trading system to accommodate this it will be loaded under the can-do window but in no way relates to the can-do product range.

A detailed contract specification is appended at the end of this document.

### 3. COMMITMENT FROM REGISTERED MEMBERS

This product will not progress without the active support and feedback from our member firms and soya clients. We are therefore keen to understand who will be interested in further developing and promoting this new product. Please do send us an email to ensure we include your firm in our marketing drive.

Thank you again for your time and consideration of this notice; we look forward to your constructive feedback. Please can all comments regarding the proposed contract specifications reach us **by Friday 18 November 2016** as we prepare our final product design. We are particularly interested in views regarding:

- Suggested crush ratio of 1 portion of bean crushed resulting in 74% meal and 17% oil
- The nominal contract size of 150 tons of bean, thereby implying 111 tons of meal and 25.5 tons of oil
- Support for the proposed cash settlement methodology

Proposed contract specifications:

FUTURES CONTRACT	SOYA BEAN CRUSH CONTRACT
Trading system code	CRSH
Trading hours	09:00 to 12H00 South African time. (Monday to Friday except South African National Holidays)
Underlying instrument	Inter-commodity Soybean Crush future spreads comprised of:  Leg1: <b>111 tons (74% of beans)</b> CME Soybean Meal futures contracts (approx. 1 MEAL contract) Leg2: <b>25.5 tons (17% of beans)</b> CME Soybean Oil futures contracts (approx. 1 OILS contract) Leg3: <b>150 tons</b> JSE Soya bean futures contracts (3 SOYA contracts)
Contract months	March, May, July, September, December

FUTURES CONTRACT	SOYA BEAN CRUSH CONTRACT								
<b>Contract Size</b>	1 unit of the underlying instrument, which is made up of the Inter-commodity Soybean Crush future spreads referencing 150tons of soya beans as the base product. (For avoidance of any doubt, multiply the calculated spread price per ton by 150 to determine the nominal exposure per contract)								
<b>Spread Legs</b>	Short the Crush (3:1:1 ratio): Long 150 tons Soya beans, Short 111 tons Soybean Meal, Short 25.5 tons Soybean Oil Long the Crush (3:1:1 ratio) : Short 150 tons Soya beans, Long 111 tons Soybean Meal, Long 25.5 tons Soybean Oil								
<b>Quotation</b>	In South African currency per metric ton.								
<b>Minimum price movement</b>	0.20 RSA cents per ton								
<b>Listing programme</b>	Ensure a minimum of two expiries are available for trade. Should there be demand for any other calendar month combinations, these will be introduced on a demand basis and will apply to the standard contract conditions.								
<b>Expiry dates &amp; times</b>	Last trading date of the contract will be the second last business day preceding the first business day of the contract month at 12h00 South African time. The clearance date of the contract will be the first business day of the contract month. The final cash settlement value will only be finalised and released the following business day after trading has ceased. The final variation margin will therefore be settled one day after last trading day and initial margin returned on the clearance day. The clearance day can further be defined as the day on which all remaining open positions are closed off automatically by the clearing solution.								
<b>Determination of Normal and final cash settlement value</b>	<p><b>Normal Daily Settlement Procedure</b></p> <p>The Soybean Crush settlements are derived using the individual settlements from the respective Soya Beans (SOYA*), Soybean Meal (MEAL*), and Soybean Oil (OILS*) contract. *JSE contract codes</p> <p><b><u>Soybean Crush Price Calculation</u></b></p> <p>This example shows how the Soya Bean Crush is calculated using the formula: (Price of Soybean Meal (R/ton*74%)) + (Price of Soybean Oil (R/ton*17%)) – Price of Soya Beans (R/ton)</p> <table border="1" data-bbox="421 1700 1487 1848"> <tbody> <tr> <td></td> <td>Soybean Meal Futures (R/t*74%)</td> </tr> <tr> <td>Add</td> <td>Soybean Oil Futures (R/t*17*)</td> </tr> <tr> <td>Less</td> <td><u>Soya Beans Futures (R/t)</u></td> </tr> <tr> <td>=</td> <td>Soya Bean Crush (R/t)</td> </tr> </tbody> </table> <p><b>Final Settlement Calculation for Expiring Contract</b></p> <p>The JSE determines the final settlement of the expiring Soybean Crush (CRSH) contract by following the regular daily calculation for the Soybean Crush.</p>		Soybean Meal Futures (R/t*74%)	Add	Soybean Oil Futures (R/t*17*)	Less	<u>Soya Beans Futures (R/t)</u>	=	Soya Bean Crush (R/t)
	Soybean Meal Futures (R/t*74%)								
Add	Soybean Oil Futures (R/t*17*)								
Less	<u>Soya Beans Futures (R/t)</u>								
=	Soya Bean Crush (R/t)								

FUTURES CONTRACT	SOYA BEAN CRUSH CONTRACT
	<p>On the day of the Soybean crush (CRSH) expiration, assuming that all three underlying contracts expire as well, the soybean crush settlement will be based on the 12:00pm closing futures price as determined by the JSE of all three contracts.</p> <p>The JSE reserves the right to reference the CME group licensed products adjusted for exchange rates and metric conversions should pricing not be available on the JSE listed products.</p>
<b>Settlement Method</b>	Cash settled in South African Rand (ZAR).
<b>Initial Margin requirements</b>	<p><i>Current indications are that the IMR will be 7% of the nominal exposure of the contract.</i></p> <p>As per the JSE margining methodology, for the latest initial margin requirements per contract please visit the products page on the web: <a href="https://www.jse.co.za/downloadable-files?RequestNode=/Safex/APD%20Margin%20Requirements">https://www.jse.co.za/downloadable-files?RequestNode=/Safex/APD%20Margin%20Requirements</a></p>
<b>Daily mark-to-market</b>	<p>As per the defined Commodity Derivatives MTM process referencing bids, offers and trades on the local SA contracts.</p> <p><i>JSE reserves the right to consider the CBOT MTM price from time to time to align expiries that are not liquid.</i></p>
<b>Exchange fees (incl.VAT)</b>	R30.00 per contract (incl VAT)
<b>Daily price limits</b>	No price limits will be applicable
<b>Position limits</b>	No speculative position limits apply however the JSE may at its discretion implement limits as per Rule 10.4 and defined in the Derivative Directives.
<b>Volatility scanning range</b>	3.5
<b>Qualifying audience Allowed to participate</b>	<p>Since foreign reference commodities are included in this complex, the product is classified as <b>Inward Listed</b></p> <ul style="list-style-type: none"> <li>• Individuals and Foreigners have no limits.</li> <li>• Corporate entities have no limits.</li> <li>• Retirement funds and long term insurance companies subject to their 25% foreign allocation limits.</li> <li>• Investment managers and registered collective investment schemes subject to their 35% foreign allocation limits.</li> </ul>
<b>Trade types accommodated</b>	<p>The intention is that during JSE trading hours of the specific product, all trading activity (bids and offers) should be entered onto the central order book, however the JSE appreciates due to the index nature of this product including three underlying products, the JSE will accept reported trades on the following basis:</p> <ul style="list-style-type: none"> <li>• The transactions relate to hedges by the liquidity provider that were triggered on CME and not on the JSE contracts</li> <li>• Evidence that the three underlying instruments were executed at different times by the liquidity provider, the JSE will allow for the final index value to be reported</li> </ul>

FUTURES CONTRACT	SOYA BEAN CRUSH CONTRACT
	<ul style="list-style-type: none"><li>• The reported transactions are recorded as soon as possible following completion of the transaction</li><li>• Users may use the JSE's report only functionality available via the ATS, however when requested to evidence the above members will be required to provide supporting documentation</li></ul> No minimum reported volume criteria will exist

Should you have any queries regarding this notice, please contact [commodities@jse.co.za](mailto:commodities@jse.co.za)

This Market Notice will be available on the website at <https://www.jse.co.za/redirects/market-notices-and-circulars>