

MARKET NOTICE

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Relates to: Equity Market
 Equity Derivatives
 Commodity Derivatives
 Interest Rate and Currency Derivatives
Date: 17 February 2020

SUBJECT: OUTCOMES OF THE RECOMMENDATIONS BY PROF MATT ROBERTS

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Dear JSE Stakeholder,

We are pleased to present to you the JSE position on the *Recommendations for Commodity Futures Delivery on the JSE* by Prof Matt Roberts. This submission comes after having considered inputs and suggestions from industry stakeholders, and, while we may not have satisfied everyone, we are satisfied that most of the industry wishes and aspirations have been accommodated.

Prof Roberts made fifteen (15) recommendations, and we would like to address each one of them and present our resolutions as well as timelines for implementation where applicable. You will notice that for some of the recommendations, resolutions are still pending as we still need further consultations and/or internal processes to be in place first before we can finalize them.

1. Maintain Location Differentials (LD) in wheat, maize and sunflower seeds

The JSE endorses this recommendation. In addition, industry submissions are all in agreement with this recommendation.

2. Implement Location Differentials for soya and sorghum

The JSE endorses this recommendation and we have communicated our intention to introduce LDs for Soya on 1 March 2021 and for Sorghum on 1 May 2021.

Given the size and structure of the Sorghum market, the intention is to adopt LD's for maize and apply them to Sorghum. This is on the premise that, in practice, sorghum prices are benchmarked off maize prices.

For Soya, the proposal to introduce LDs has long been coming, given the exponential growth in production for this commodity.

We would like to underscore the assertion by Prof Roberts that:

“Because the JSE’s physical delivery mechanism is based on a large number of geographically dispersed registered silos, as opposed to a small number of concentrated silos, a location differential system is the only way to ensure homogeneity among the delivered goods.”

Prof Roberts has recommended a phased-in approach when introducing LDs for both Soya and Sorghum, however, we have opted to provide ample notice period and then introduce the LDs at once when the respective 2021 marketing seasons commence.

3. Maintain current LD calculation

The JSE is in agreement with this recommendation. We assert that no single calculation will ever be accurate in all situations, but we acknowledge that there is room for improvement in the way we collate model inputs.

The reliance on logistics companies to provide road rates on a voluntary basis, and the reliance on storage operators to provide rail-road splits, are some of the shortcomings of this model. It would be ideal if input parameters were requested through a statutory measure of sort to ensure that verifiable information is provided timeously.

The JSE will work with the grain industry to lobby government for this as well as exploring alternative ideas to address this shortcoming.

4. Implement a Redelivery Differential (RD)

The JSE has an in-principle support for this recommendation. However, more time is needed to consider the best possible way of doing this without disrupting existing business practices.

Two key concerns were raised by the market if we were to implement this recommendation:

- a. The frequency with which we implement the Redelivery Diffs. Since most of our grain products have monthly expiries, it meant that RDs would be reviewed monthly and, if need be, adjusted accordingly.
- b. Bank financing at competitive rates is based on the certainty around **FuturesPrice-LD** in a typical marketing cycle per location. If this has to change to **FuturesPrice-LD+/-RD**, subject to monthly reviews, it will introduce uncertainty on financing rates.

We believe that the proposed RD will address the anomalies (perceived or real) in LDs that may be a result of poor input data in our model calculation. See 3 above. However, we may have to run some regression testing with historic data and see what we get. Also we need to set a threshold redelivery rate above which an RD would need to be determined.

Therefore, implementation of RD is not on the cards for 2020, but we will keep the conversation open during the course of the year.

5. Expand the Randfontein Reference Zone

This recommendation was conditional on RDs being implemented. In the absence of this, we will stick to single reference points for now.

6. Reference location for soya should be reconsidered

Soya production in the country has grown both in quantum and in geographic dispersion. Crushing plants have equally been established in other provinces away from high concentration in the Eastern Provinces (Mpumalanga, Eastern FS).

The JSE has opted for Randfontein as single reference point for Soya when LDs are introduced in March 2021 because:

- a. It is centrally located to accommodate expanding production in West.
- b. A new crushing capacity of 22,000 tons per day has been established; this is a game changer.

Other alternatives will be Bronkhorstspuit or Standerton, both in Mpumalanga but far apart. The choice in that case will be difficult. We therefore will stick with Randfontein for Soya.

7. Origin discounts should be implemented in all commodities

The JSE endorses this recommendation. Apart from wheat that is already applying origin discounts, soya and maize are only other grain commodities that are imported. Sunflower seeds and Sorghum will be exempted for now and revisited at the 2021/22 marketing season.

Starting with the 2020/21 marketing season, origin discounts will be introduced for maize but for soya, origin discounts will be introduced together with LD in 2021/22 marketing season. The industry will be consulted before implementation.

8. Anonymity of electronic trading

The proposal to introduce anonymous trading in our market has been contested for quite some time, with both sides providing very strong empirical evidence for and against it.

Prof Roberts, even though he recommended the removal of broker identification on the trading platform as a way of improving liquidity in the market, conceded that research is inconclusive that the removal of broker codes increases liquidity.

After careful consideration of all submissions received, the JSE has resolved as follows:

- a. We will maintain the status quo until we migrate to a new trading platform
- b. Once on the new platform, the earliest of which is around Q4 2021, dealers will have the option to switch between anonymity and non-anonymity as they deem fit.

We are still open to any comments or suggestions on this issue at our first Advisory meeting in March 2020.

9. Increase access to Futures and Spot Basis Window (SBW) quotes

The JSE supports this recommendation. Futures and options data are ready for deployment and will be available on the JSE website once completed. The physical delivery data will be deployed at a later stage.

We will provide more information in this regard in due course.

10. Incentivize greater SBW volumes

We are in support of this recommendation to incentivize more volumes on the SBW. We are finalizing our proposal to JSE Exco on a number of incentives they may have to consider.

More information on this regard will be provided in due course.

Other Recommendations

The above recommendations by Prof Roberts were JSE specific. Following are industry-wide recommendations that Prof Roberts believes will go a long way in improving the grain market structure in South Africa.

11. Rail and Road improvements

Most industry stakeholders agree that there must be a concerted effort from Government and Transnet to improve rail network in the country. Other initiatives that are undertaken already are for example the “road-to-rail” initiative that tries to migrate grain haulage from road to rail.

We will continue to add our voice to the industry forums that we are a part of such as the Winter Cereal Trust and Maize Trust until this migration is realized.

12. Mandatory price reporting of grain and transport

The JSE supports this recommendation. We are currently experiencing challenges when collecting road rates from industry that we use as inputs for calculation of Location Differentials.

We would support a system where submission of transport rates is mandatory and readily available; this would improve efficiencies in data collection. We will join industry bodies that will lobby Government for implementation of such measures.

13. Grain SA should facilitate and encourage “crowdsourcing” of grain premiums

This recommendation was brought about in an attempt to bring trade balance between producers and processors in a market power that is perceived to be heavily tilted in favour of processors.

This is mainly up to Grain SA and its members to decide if this is something they would like to pursue. We will render any help necessary and within our means should Grain SA call on us.

14. Concentration among end-users must be addressed

The JSE takes note of concentration of end-users in the South African grain value chain. We also observe this concentration risk getting worse in the near future as we see more agribusinesses being taken over by others. Unfortunately, these dynamics are playing off in a free market where the JSE has little influence over.

15. Import levy implementation must be improved

The JSE supports this recommendation. Delays in publishing import levies are making it impossible to take hedging decisions in such a distorted wheat market. We will continue to support that industry forum to put pressure on Government to come with an alternative measure that meets the statutory intent but without comprising on timely implementation of levies that fall due.

The process needs to be transparent and equitable so that no one is worse off as a result of implementation. We are encouraged by the new Minister of Agriculture and her intentions to address this industry problem. As member of the What Forum, the JSE will continue to lobby for speedy resolution of this problem.

Should you have any queries regarding this notice, please contact commodities@jse.co.za

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