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**MARKET NOTICE**Johannesburg  
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**Number:** 78/2017  
**Relates to:**  Equity Market  
 Equity Derivatives  
 Commodity Derivatives  
 Interest Rate and Currency Derivatives  
**Date:** 27 February 2017

**SUBJECT:** JSE DELIVERABLE WHEAT DERIVATIVE CONTRACT – DEC17 AND MAR18 EXPIRIES

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

Dear Stakeholder,

Further to market notice 54A/2017, the JSE has held numerous interactions with various stakeholders in the wheat sector. This was further assisted with the Wheat Indaba meetings held in Pretoria and Western Cape. In appreciating the spirit of the various interactions and feedback received, the JSE would like to propose the following way forward:

1. Introduce the Guaranteed Grade (GG) wheat facility whereby storage operators, at their discretion, issue JSE silo receipts for specific grade wheat that they will honour for the period as described previously. The Detailed Agricultural Contract specifications will be updated to reflect the details. This additional enhancement will be made available when the Dec17 and Mar18 expiries are introduced
2. The origin discount of R100 will be removed, as the basis for determining the R100 quantum is no longer relevant as the volume of imported product from the selected origins utilized by local millers has proven this. Please note no new origins will be added to the list of deliverable origins, this remains unchanged.
3. In appreciating the various interactions over the past while, the JSE is of the opinion the market is ready to consider a new methodology to determine the grade discounts for B2 and B3 wheat.

According to a reliable source, the current practice of 4% and 8% price difference between B1 and B2 and B2 and B3 respectively was established by the Wheat Board at the time when the grading system was changed to accommodate protein content and not just hectolitre mass. This is estimated to be in the late 1980's or early 1990's. Research by the Wheat Board at the time established the values for the millers and bakers with hectolitre mass and protein as factors. There have been a number of enhancements to the wheat cultivars and milling practices over the years since this was applied.

The JSE gets a sense from a number of market participants that the grade discounts should not be as rigid as 4% and 8%, but varies from year to year depending on the availability of various qualities and demand for certain proteins. In consulting participants active in the international markets, the current protein difference,

considering the deliverable origins on the JSE vary from \$3-\$7 per ton to \$5-\$8 per ton per 1% protein change. Regardless of the exact \$ number you use and exchange rate conversion, it is evident the grade discount is smaller than the current 4% applied. The JSE, in considering the above ranges per ton in US Dollar terms and the current exchange rate therefore **proposes moving to a 2% and 4% grade discount for the 2017/2018 marketing season** and will calculate the exact Rand value based on the methodology below:

- *An arithmetic average of the near dated December expiry daily mark-to-market (mtm) for the JSE Wheat (WEAT) futures contract will be referenced*
- *The rate will be finalized including mtm data on the 15th September each year (if this not a business day, the first business day prior)*
- *A six month reference period will be applied commencing from and including 15th March each year (if this is not a business day, the first business day prior)*
- *The December WEAT expiry is the only expiry month considered in the methodology*
- *Once the average futures price is calculated for the period, then 2% and 4% is applied to this value to determine the B2 and B3 wheat grade discounts for the next marketing season*
- *The final grade discount will be rounded off to the closest R5 interval*

For derivative markets it is not uncommon to publish grade discounts especially when the standardized futures contract trades a single reference grade, but then allow for other grades to be delivered in completion of the futures contract. The JSE is no different here with this proposal. The grade discounts will again be considered before introducing the 2018/2019 season inviting market participants for their inputs.

The JSE, in striving to reach a way forward on the above and appreciating the urgency to introduce the 2017/18 expiries, invites market participants for the final comments before a decision will be made by the JSE. Please feel free to forward this notice to any interested parties, **any objections regards proceeding on the above basis must be sent in writing to [commodities@jse.co.za](mailto:commodities@jse.co.za) no later than 9 March 2017.**

The JSE will then make the final decision in terms of the criteria applicable to the delivery of wheat in completion of a JSE futures contract and aims to introduce the Dec17 and Mar18 expiries during the week of 13 March 2017.

Thank you to everyone for their constructive and committed interactions especially over the past few weeks in order to consider the above changes and for your patience whilst we undertake this final feedback period.

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>