

# QUANTO FUTURES AND OPTIONS

Key Information Document (KID)

2018



## PURPOSE

This document provides you with key information about the Quanto Futures and Options investment products. It is not marketing material. The information is required by law to help you understand the nature, risks, costs, potential gains and losses the products and to help you compare it with other products.

## PRODUCT

Product name: Quanto Futures & Options

- Soft Commodities – Cocoa, Coffee, Corn, Cotton, Soybean and Sugar
- Energy Commodities – Brent Crude Oil, Gasoline, Heating Oil and Natural Gas
- Metal Commodities – Copper, Gold, Palladium, Platinum and Silver

Manufacturer: JSE Limited

Website: <https://www.jse.co.za/trade/derivative-market/commodity-derivatives>

Email: [commodities@jse.co.za](mailto:commodities@jse.co.za)

Tel: 011 520 7039

## WHAT IS THIS PRODUCT?

**Type:** Quanto Futures and Options

### **Product overview:**

Quanto Futures and Options are cash settled Derivatives in which the underlying traded product is denominated in a foreign currency that is settled in another domestic currency at a fixed exchange rate. These products appeal to market participants seeking foreign commodity exposure without the corresponding risk of adverse exchange rate fluctuations.

A **cocoa futures** contract that is cash settled and traded in ZAR, but mimics the performance of the foreign referenced USD price of cocoa on NYMEX (product symbol CJ), a subsidiary of the CME Group Inc.

A **coffee futures** contract that is cash settled and traded in ZAR, but mimics the performance of the foreign referenced USD price of coffee on NYMEX (product symbol KT), a subsidiary of the CME Group Inc.

A **corn futures** contract that is cash settled and traded in ZAR, but mimics the performance of the foreign referenced USD price of corn as traded on CBOT (product symbol ZC), a subsidiary of the CME Group Inc.

A **cotton futures** contract that is cash settled and traded in ZAR, but mimics the performance of the foreign referenced USD price of cotton on NYMEX (product symbol TT), a subsidiary of the CME Group Inc.

A **Soybean futures** contract that is cash settled and traded in ZAR, but mimics the performance of the foreign referenced USD price of Soybean as traded on CBOT (product symbol ZS), a subsidiary of the CME Group Inc.

A **sugar futures** contract that is cash settled and traded in ZAR, but mimics the performance of the foreign referenced USD price of sugar #11 on NYMEX (product symbol YO), a subsidiary of the CME Group Inc.

A **Brent crude oil** futures contract that is cash settled and traded in ZAR, but mimics the performance of the foreign referenced USD price of Brent crude as traded on NYMEX (product symbol BZ), a subsidiary of the CME Group Inc.

A **RBOB gasoline** futures contract that is cash settled and traded in ZAR, but mimics the performance of the foreign referenced USD price of gasoline as traded on NYMEX (product symbol RB), a subsidiary of the CME Group Inc.

A **heating oil** futures contract that is cash settled and traded in ZAR, but mimics the performance of the foreign referenced USD price of heating oil as traded on NYMEX (product symbol HO), a subsidiary of the CME Group Inc.

A **Henry Hub Natural Gas** futures contract that is cash settled and traded in ZAR, but mimics the performance of the foreign referenced USD price of natural gas as traded NYMEX (product symbol NG), a subsidiary of the CME Group Inc.

A **copper futures** contract that is cash settled and traded in ZAR, but mimics the performance of the foreign referenced USD price of copper as traded on NYMEX through its COMEX Division (product symbol HG), a subsidiary of the CME Group Inc.

A **gold futures** contract that is cash settled and traded in ZAR, but mimics the performance of the foreign referenced USD price of gold as traded on NYMEX through its COMEX Division (product symbol GC), a subsidiary of the CME Group Inc.

A **palladium futures** contract that is cash settled and traded in ZAR, but mimics the performance of the foreign referenced USD price of palladium as traded NYMEX (product symbol PA), a subsidiary of the CME Group Inc.

A **platinum futures** contract that is cash settled and traded in ZAR, but mimics the performance of the foreign referenced USD price of platinum as traded on NYMEX (product symbol PL), a subsidiary of the CME Group Inc.

A **silver futures** contract that is cash settled and traded in ZAR, but mimics the performance of the foreign referenced USD price of silver as traded on NYMEX through its COMEX Division (product symbol SI), a subsidiary of the CME Group Inc.

#### **Intended User:**

Investors will typically use this product when they have a specific view of the price of the commodity and will either buy or sell the commodity based on this view. Commodity investors and speculators hoping to make a profit on price movements in the futures or options contract price based on the foreign referenced commodity would do well to consider this product since pricing is not influenced by any exchange rate fluctuations.

#### **WHAT ARE THE RISKS AND WHAT COULD I GET IN RETURN?**

Quanto futures and options are rand-denominated commodity investment product that delivers the same payoff as a pure dollar-denominated commodity investment. Therefore, investors will be immune to the effect of USD/ZAR exchange rate fluctuations, allowing them to invest and derive a payoff, purely from the dollar price performance of the underlying commodity.

Numerical example a quanto product can simply be understood as follows: if the price of a commodity, say Brent crude, increases by 20% in dollar terms, then the value of the investor's rand position in Brent crude (via the quanto product) will also increase by 20%. The movement of the rand relative to the dollar plays no part in determining the investor's return.

- Protects investors from Rand-Dollar exchange rate fluctuations of the underlying commodity allowing them to benefit directly to the dollar price performance of the underlying commodity
- Enables identification of short and long term price and volatility patterns
- Gain exposure based on expectation of directional price, spread movement or volatility of the foreign commodity
- Easy access to the international commodity market with a contract traded in Rands
- The risk of loss given local and global environmental and socio-economic factors which can significantly impact the price of commodities

#### **WHAT HAPPENS IF THE PRIIP MANUFACTURER IS UNABLE TO PAY?**

JSE Clear, a wholly owned subsidiary of the JSE, is the clearing house for all Exchange-Traded Derivatives in South Africa. In this capacity, JSE Clear novates all matched trades transacted through the JSE. JSE Clear has a number of clearing members, who clear for its members, through which clients' trade. Each member is responsible for its client's losses (if a client defaults); just as each clearing member is responsible for the losses of the members for which it clears, should those members default. If a client (or trading member) cannot make good on its obligations, the trading member (or clearing member) will stand good for those obligations. JSE Clear, therefore, ultimately protects against the risk that one of the clearing members possibly defaults on their obligations.

For further information on the mechanisms that JSE Clear employs, please refer to the following website: <https://www.jse.co.za/services/post-trade-services/clearing-and-settlement/derivatives>

#### **WHAT ARE THE COSTS?**

The following transaction fees would be applicable:

Commodity Product		On Screen (per contract)	
Quanto Products	Contract Code	Futures	Options
Brent Crude Oil	QBRN	R 10.00	R 6.00
Coffee	QCFF	R 5.00	R 3.00
Cocoa	QCOC	R 5.00	R 3.00
Copper	QCOP	R 10.00	R 6.00
Corn	QCRN	R 5.00	R 3.00
Cotton	QCTN	R 5.00	R 3.00
Gas	QGAS	R 12.00	R 11.00
Gold	QGLD	R 13.00	R 8.00
Heating Oil	QHEA	R 11.00	R 10.00
Natural Gas	QNAT	R 5.00	R 3.00
Palladium	QPLD	R 7.00	R 6.00
Platinum	QPLT	R 13.00	R 8.00
Soybean	QSBN	R 5.00	R 3.00
Silver	QSIL	R 13.00	R 8.00
Sugar	QSUG	R 5.00	R 3.00

#### HOW LONG SHOULD I HOLD IT AND CAN I TAKE MONEY OUT EARLY?

There is no recommended holding period for these products. The optimal holding period depends upon the retail investor's individual strategy and risk profile. A derivative position can be traded and closed out on any trading day until expiration date. In particular, a long position can be closed by entering a sell order in the market on any day up to and including the expiration date of the contract, and a short position can be closed by entering a buy order in the market on any day up to and including the expiration date of the contract. An investor should contact a broker who will be able to provide a recommendation.

#### HOW CAN I COMPLAIN?

Retail investors should address complaints to the broker or intermediary with whom the investor has a contractual relationship or directly to the Financial Services Board (FSB) at 012 428 8000. Furthermore, the retail investor can address complaints to the JSE at [info@jse.co.za](mailto:info@jse.co.za)

#### OTHER RELEVANT INFORMATION

Product specifications:

<https://www.jse.co.za/content/JSEContractSpecificationItems/QuantosSoftCommodities.pdf>

<https://www.jse.co.za/content/JSEContractSpecificationItems/QuantosEnergy.pdf>

<https://www.jse.co.za/content/JSEContractSpecificationItems/QuantosMetals.pdf>

Qualifying factors:

- No limits apply to individuals, foreigners or corporate entities
- Pension funds and long term insurance companies subject to their 25% foreign allocation limits
- Asset managers and registered collective investment schemes subject to their 35% foreign allocation limits