

MINUTES

HEADING: AGRICULTURAL ADVISORY COMMITTEE MEETING

Date: 23 July 2020
Time: 13h00
Venue: Virtual Meeting – MS Teams

Present:	Dr. R Karuaihe	- Chairman
	Dr. D Strydom	- GrainSA
	Dr. K Keyser	- Brisen/AFMA
	Mr. P Faure	- CJS Securities
	Mr. T Jacobsz	- Farmwise
	Mr. B de Klerk	- Agbiz Grain
	Mr. C Joubert	- NAMC
	Mr. J Theron	- PolarStar
	Mr. J du Toit	- RMB
	Mr. H Grobler	- Zargo
	Mr. S Janse van Rensburg	- BSEC
	Ms. S Engelbrecht	- Representing BVG
	Ms. V Reddy	- Director Capital Markets
	Mr. R Bone	- JSE Market Regulation
	Mr. J Shayi	- JSE Market Regulation
	Dr. K Muganiwa	- JSE Market Regulation
Ms. Z Dastile	- JSE Capital Markets	
Ms. A Matutu	- JSE Capital Markets	
Mr. V Mpumza	- JSE Capital Markets	
Mr C Sturgess	- Consultant to JSE	
Apologies:	Mr. van der Merwe	- RMD
	Mr. W Martens	- CJS Securities
	Mr. F Bartsch	- GWK
	Mr. R Olwagen	- BVG Commodities

1 WELCOME

Dr Karuaihe welcomed all attendees and thanked them for their participation.

2 CONFIRMATION OF MINUTES

Minutes of the previous meeting were accepted and approved

3 MATTERS ARISING FROM PREVIOUS MEETING

3.1 Prof Roberts Report

3.1.1 Outstanding Issues

Dr. Karuaihe reported that the JSE circulated their position on the recommendations from Prof Roberts report. The JSE has tried to address as many recommendations as possible and doesn't want to lose track on some of the issues JSE had committed to implement.

- **Anonymous trading** – the JSE indicated that the current trading technology used in the market is not in a position to cater for this functionality as required. Only when the commodity derivatives market migrates to new technology will the JSE be in a position to offer this functionality. The market will be kept updated as soon as the JSE has decided on a date to migrate to new technology.
- **Incentive to attract volumes on SBW** – While the JSE has in principle agreed to consider introducing this incentive, it was unlikely that it will happen in the middle of a financial year and so this is pushed to early next year. The JSE will commence with budgeting and pricing for 2021 in the in the next two months, and this incentive program will form part of the discussions.
- **Delayed market data** – There has been some progress in the provision of delayed trading data to the market. The JSE is currently testing and there have been additional functionalities requested during testing. This has led to a delay in deploying this to production.
- **Differentials for Sorghum** – Dr. Karuaihe reported that the JSE is of the opinion that trading volumes for sorghum have been consistently low over the years to warrant any single reference point. He further elaborated that a month ago JSE had received a request to delist sorghum altogether but the request was objected to by some market participants. The JSE decided to continue listing sorghum expiries but without the need of introducing location differentials anytime soon. Dr. Strydom explained that, when one looks at the trading data, most sorghum contracts are traded in one or two trading sessions during a specific period of the year, and then nothing trades for the remainder of the year. In his opinion this creates lack of price convergence between the physical and futures markets over time.
 Dr. Joubert wanted to know the objections raised for delisting the contract to which Dr. Karuaihe responded, saying that the main objection was that the market is using the listed expiries to secure financing from the banks. It was concluded that the Sorghum contract will remain listed for now.
- **Redelivery Penalty** – Dr. Karuaihe reported that the JSE has pushed this to next year to allow ample time to study the different scenarios.

The Committee acknowledged the status of the abovementioned issues.

3.1.2 Introduction of Soya Differentials

Dr. Karuaihe informed the committee members that the JSE had decided to proceed with introduction of soya differentials. They will be effective 1 March 2021 in a phased-in approach over a period of four years. Subsequent to the announcement of introducing soya differentials, the JSE then proceeded to list the far-dated expiries, to which the market responded well.

Dr. Strydom said that they are busy working on a possible model and there is good progress being made. GrainSA is inviting everyone who wants to take part in the research. Mr. Theron added that it is imperative to approach any mission with an open mind and everyone must be given an opportunity to be heard. This goes for a whole lot of industry issues instead of this specific one on soya differentials. Mr. Theron encouraged everyone to support GrainSA to improve the differential situation. This will benefit the wider market as a whole.

The Committee acknowledged this.

3.2 Update from Market Regulation

3.2.1 Update on DOTs and SOTs rule amendment

Mr. Bone reported that the JSE had circulated various versions of rules providing clarity on DOTs and SOTs. The JSE has finally come up with a fine-tuned rule amendment and it will be sent out in the next few days for comments. Mr. Bone emphasized that one of the rule changes highlights that traders must take cognizance of prices on the central order book.

Mr. Shayi further elaborated that option writers have seen the draft rule and have provided their comments. The intention now is to publish the draft to the broader market for comments before FSCA considers the final approval.

The Committee acknowledged this.

3.2.2 Interpretation of mis-trade rule

Dr. Muganiwa informed the meeting that traders need to report mis-trades within 20 minutes from the time of the erroneous trade. Further the trade or trades executed in error must be R60 away from the last traded price. Mr. Muganiwa highlighted that traders have been reporting mis-trades with a loss of R2,000 which do not qualify and traders forget the admin cost of R4,000. Considering the admin cost reporting such a mis-trade does not make economic sense. He further elaborated that it is unfortunate that some trades will not qualify, however, members are not permitted to call counterparties as it is deemed illegal. Counterparties do not have the power to reverse mis-trades or error trades, only JSE has the right to cancel mis-trades or error trades. Dr. Muganiwa emphasized that the onus lies with Compliance officers to ensure traders understand the mis-trade rule.

Mr. Faure wanted to know if they cannot reach out to the counterparty in the event that the loss is R40 000 or more. Mr. Shayi stated that it is illegal and JSE can take enforcement on that. Mis-trades or error trades can only be done through the JSE and not by approaching counterparties.

The Committee acknowledged this.

3.3 COT Report - Response to FSCA

Ms. Matutu informed the meeting that FSCA had sent JSE communication trying to understand the underlying need for the COT report. FSCA had specific questions of which the JSE sent out through a market note to solicit submissions to address those questions. The JSE had received 5 submissions from the market of which 1 was in support of the introduction of the report and 4 against. Submissions against implementation cited the following:

- The report may not create the expected transparency because the market is small. It will instead expose strategies of big role players and might deter participants.
- The report will not improve regulatory oversight and the current position limits regulation already address this.
- There is no lack of transparency in the market prices. The trading platform already provides price transparency
- Considering that a delayed report has low value vs the effort in compiling the report, it offers little return to market participants
- The report as proposed is flawed and discriminates against speculators. This report will allow hedgers to embark on speculative activities under the disguise of being hedgers.

The submission in support cited the following:

- Improve transparency, market participants can use the report to identify trends and market conditions.
- Lack of transparency impedes growth and development of the local grains and oilseeds market. Transparency could attract more participants which translates to liquidity.
- Currently there is a risk that only a few large role players have access to similar information. By having this report all role players win and not specific role players.
- The report will be valuable to market participants and will be used in conjunction with other fundamental market information to understand market dynamics better.

Ms. Matutu informed the meeting that from a JSE perspective the next step is to send all submissions to FSCA and they will decide on how to take this forward. Dr. Strydom said that he was concerned about the objections from the market because initially the market had agreed in a meeting with FSCA that they supported the introduction of this report and now we are going back to the drawing board.

4 TRADING AND SETTLEMENT ISSUES

4.1 Changes to Agricultural Contracts Specifications – Outloading Procedures

Dr Karuaihe informed the meeting that the market experienced difficulties towards the new marketing season of 2020/21 for the summer crops. The market had tight stock levels particularly on white maize and this filtered to divergence in the futures and physical market prices. As a part of a remedial plan to fix these bottlenecks the JSE has decided to revisit the existing rules and make improvements where needed. Dr. Karuaihe also informed the meeting even though the JSE received complaints from the market, so far there was no evidence of storage operators being in violation of the JSE rules. Dr. Karuaihe said there were some bottlenecks and concentration risk so these issues need to be addressed. The JSE has appointed Chris Sturgess as an independent consultant to assist the Commodities with this project.

Mr. Sturgess informed the meeting that he has started his work and has seen five submissions from the market. However, he will be meeting with some industry players individually to get the finer details. He will also be consulting with the JSE Commodities team and Legal Counsel to enhance the list of those issues and ultimately come with new updated contract specifications. Mr. Sturgess stressed that updated contract specifications will give assurance to market on quality, quantity and access to product at a reasonable timeframe. Ms. Reddy

supported the mission and said this shows the JSE's commitment to give assurance and come up with an amicable solution for the wider market.

Mr. Theron said it is important that the integrity of the market is maintained. The ability of the underlying commodity is maintained to act as a collateral for finance and actual usefulness of delivery for the consumer. He advised the JSE to also look at external legal teams to analyse what actual occurred during January, February, March, April and May. This information must be shared with the market so everyone understands the impact of the possible events when one cannot receive delivery of a product with a valid JSE receipt. Dr. Karuaihe concurred with Mr. Theron and highlighted that the JSE is busy unpacking what happened and ensure that we minimize this from reoccurring.

Grain SA supported Mr Theron and explained that this project is very important to restore the integrity of the market. It is imperative that no stone must go unturned and that the JSE must make sure that all grey areas is covered and there is acted upon those that breached rules.

4.2 Oilcake contracts update

Mr. Mpumza informed committee members that good progress has been made to list these locally traded contracts. He provided feedback on the meeting held on 24 June 2020. The following was agreed upon by market participants:

- Gauteng as the reference zone (zero basis) for the respective contracts since majority of the crushing plants who supported the contracts are within Gauteng.
- Adopted the Durban port storage methodology where storage will be a zero rate for the first 15 days and from day 16 onwards a storage cost will be charged, escalating every 7 days.

Mr. Mpumza highlighted that the JSE is busy working on finalising the detailed contract specifications, which will include an agreement with each storage operator. From there, the contracts will be taken to the JSE New Products Committee for approval.

5 TECHNOLOGY

5.1 Systems Upgrade

Ms. Dastile reported that the JSE has been conducting internal testing and ready to sign off in the coming week. Software Providers have also been testing to make sure the Diesel functionality is available and ready for clients. Demo sessions have been scheduled with Clearing Members focusing on new functionality namely creation of electronic tickets on ESC and the G-PAY frontend.

The commodities team is still continuing with educational and marketing engagements to solicit support for the contract in preparation for the go live.

The Committee acknowledged this.

5.2 Skews testing and workshop

Ms. Dastile reported that a market notice was sent out in February about the JSE's intention to implement observed skew on the grains option contracts. The JSE has started with regression testing last month. Clearing members started testing on 22 June however majority of the clearing members could not participate due to

technical issues. The JSE will be conducting a second round of testing with clearing houses from 3rd August and will continue for two weeks. The skews were also implemented in CTS and trading members are encouraged to test. Trading members can still test until closer to go live and tentative date for go live is Q4 2020.

Ms. Matutu informed the meeting that whilst engaging with some members on skews they highlighted that some market participants do not understand how skew works. Market participants emphasized the need for an education session, especially for the benefit of underlying clients. The JSE has decided to start with a workshop first to sensitize option market participants on the need to implement observed skews. The JSE plans to host the workshop towards the end of August. The JSE has been considering implementing the skew on new expiries or on existing contracts with open interest, but concluded on looking at new expiries with no open interest.

Mr. Grobler said he received calls from other option writers who are concerned about the implementation. They voiced out that producers might not be informed enough about how skews work. The implementation could potentially drive liquidity from the market. Mr. Grobler advised that, while he is the one who requested for the introduction of observed skews, he wouldn't like to be seen to destroy the market if the rest of the market feel strongly about this. It was agreed to deliberate on this issue at the forthcoming workshop.

6 GENERAL: ANY OTHER BUSINESS

6.1 Members' perspectives on price convergence during June and July 2020

Mr. Theron informed the meeting that in terms of March price convergence, it was quite clear during that period the market had significant volatility in the underlying price. Actual users had difficulty out loading the commodity. This caused divergence between the futures and physical market. These prompted users to immediately source physical stock in the basis market at huge premiums to ensure they get delivery. Mr. Theron said June and July have showed better price convergence although there haven't been any issues specifically. However, the market has seen low deliveries emanating from the late crop and various other factors. The JSE needs to understand that there are two separate events here and the two need to be separated in terms of analysis. Dr. Karuaihe concurred that the JSE has seen poor deliveries since the new marketing season started but noted a recovery in late June to July now. Dr. Karuaihe highlighted that there is talk in the market of a possible repeat of what transpired this year and market could end up with a squeeze again.

Dr. Strydom asked how this will be addressed. Dr. Strydom said that there has been discussions of wrong grading conducted in the market and the market is trying to put in place strict grading rules but there is no basis yet. Mr. Sturgess added that concentration of physical stock in limited delivery points is likely to occur in future years particularly when there is a low carry-over stock level. The only solution is to try improve on the contract specifications practical enhancements so that market participants understand the fair and consistent approach to secure product from, delivery points. Dr. Karuaihe said the JSE has increased the frequency of inspections on silos to ensure that the JSE and the wider market is aware of how much physical stock is in the respective silos. He said that, while the JSE is absorbing these costs at the moment, this may be passed on to the market in future.

6.2 Covid-19 impact on CDM

Dr. Karuaihe informed the meeting that the JSE is reaching out to those trading members whose businesses may be negatively affected by the impact of Covid-19. Those trading members are encouraged to contact the JSE

Commodities team in private for some relief. Dr. Strydom said that the agricultural industry has been privileged enough to carry on working however not all were privileged. The Barley industry was hugely impacted as sale of beer was prohibited. There is a huge concern in this industry. Dr. Joubert also added that the poultry industry and Tobacco were impacted as well. The NAMC is busy conducting a report on the impact of Covid-19 in agriculture. Mr. de Klerk said that the industry also needs to take into account the temporary closure of some silos due to Covid-19 cases.

The committee took note of this.

6.3 **Wheat Import tariff**

Dr. Strydom informed the meeting that it is 80 days since the tariff was triggered and so far not action from government. The market is aware of the ripple effects this creates and it is not conducive in the trading environment. GrainSA has tried convincing the ministers to fast-track the announcement even though government committed to fast-tracking but nothing has been done about it. Dr. Joubert said this can be tried through NAMC as they have direct contact with the minister.

7 **PROPOSED MEETING DATES FOR 2020**

Thursday 19 November 2020

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