

MINUTES

HEADING: AGRICULTURAL ADVISORY COMMITTEE MEETING

Date: 01 September 2016
Time: 13h00
Venue: Serengeti

Johannesburg
Stock Exchange

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Present:	Mr. C Sturgess	- Chairman
	Mr. K Baragwanath	- RMB
	Mr. R Heine	- RMB representing Clearing Members
	Mr. J du Toit	- RMB
	Mr. H Mulder	- RMD
	Mr. C Joubert	- NAMC
	Mr. A Bothma	- Cargill
	Mr. T Jacobsz	- Farmwise Grains
	Mr. J de Villiers	- AFGRI representing AGBIZ Grain
	Mr. C Schoonwinkel	- GrainSA
	Mr. D Strydom	- GrainSA
	Mr. P Faure	- CJS Securities
	Mr. W Lambrechts	- Vanguard Derivatives
	Mr. J Rakumako	- JSE representing TMS
	Mr. B Kotze	- JSE PTIS
	Mr. P Lovelace	- CEOCO representing SAOPO
	Mr. J Theron	- Polarstar Fund Management
Mr. P Mphanama	- FSB	
Mr. J Shayi	- JSE Market Regulation	
Mr. N Moloto	- JSE PTIS representing Valuations	
Ms. A Matutu	- JSE Capital Markets	
Dr. R Karuaihe	- JSE Capital Markets	
Mr. V Mpumza	- JSE Capital Markets - minute taker	
Apologies:	Ms. D. Nemer	- JSE Capital Markets
	Dr. K Keyser	- Brisen representing AFMA
	Mr. M Randall	- JSE PTIS
	Ms. M Purnell	- AGBIZ Grain
	Mr. P Jackson	- National Chamber of Milling
	Mr. D Mathews	- Private Producer
	Mr. AR Moosa	- SAOPO
Mr. W Martens	- CJS Securities	

1 WELCOME:

Mr Sturgess welcomed all attendees and thanked them for their participation.

2 CONFIRMATION OF MINUTES:

The Minutes of the previous meeting were approved with no changes.

3 MATTERS ARISING FROM PREVIOUS MEETINGS:

3.1 Update on the “commitment of traders” survey

Dr. Karuaihe made reference to a report that was circulated prior to the meeting, where feedback was disseminated on a “commitment of traders” survey conducted among white maize position holders. Of the respondents received, 75.84% of positions held could be classified as hedgers, 5.53% as speculators, and 18.64% as spread transactions.

Dr Karuaihe wanted to know if committee members saw value in the report and as something to be pursued. Also, given the share of spread transactions, do we need to consider spread trading as a separate category? The committee members affirmed the value to be had from such a report but felt that spread transactions should not be treated as a separate category.

Mr. Sturgess further added that, should the report be implemented, members would be responsible in collating the information and identifying if a client is a speculator or hedger. He also alluded stringent rules would be put in place so member firms abide and oblige in providing the information as required. A few committee members did not support that the member firms should perform this role but rather the JSE collect this information directly from clients meeting the reporting criteria.

Mr. Lambrecht suggested a web-based portal be created where clients can directly logon and complete the information. Mr. Sturgess asked committee members if they supported this reporting and majority supported it. Going forward, JSE will look at the rules and make necessary amendments to obligate clients to submit information that breaks down hedge vs speculative positions.

3.2 Feedback on the current wheat contract

On Import Tariff:

Mr Sturgess introduced the topic and said that the uncertainty surrounding the wheat import tariffs lead to Grain SA approaching the courts to ensure ITAC adhered to the current policy implementing the most recent adjustment. Industry was working off the commitment of National Treasury that had confirmed that they will keep current arrangement until end of the year after which a review of the current formula determining import tariffs would be implemented.

Mr. Sturgess further said that the above scenario has led to a significant decline in trading activity in the far dated wheat expiries. The JSE has listed March 17, May 17 and July 17 with a cautionary due to the fact that the import tariffs principles may change. He further suggested that we hold back listing the 2017/2018 marketing season expiries until there was certainty regards this policy, after some discussion the meeting supported this suggestion.

On Guaranteed Wheat Grade (GG):

Mr. Sturgess said that this issue was extensively discussed by the industry during Wheat Forum meetings earlier in the year. The JSE has been working with Agbiz Grain members to formulate a procedure that will allow and recognize a guaranteed grade wheat certificate. This certificate will be valid for 3 months with provision for an additional month of out loading.

Mr. Sturgess further confirmed that the JSE intends to have this facility ready by 01 October 2016 for the new marketing season. It is not mandatory that the storage operators issue these receipts and it remains to be seen how much appetite is out there in the market for this product.

On Grade Discount Formula:

Mr Sturgess indicated that one of the Committee members, Mr Johan Theron, queried the viability of the way we determine grade discounts in the wake of current uncertainty surrounding the import tariffs.

When asked to elaborate, Mr Theron said that the grade discount was supposed to reflect the 6-months average price. If the tariff is adjusted it will have an impact on the outcome of the calculated discount and this will affect the 2017/18 season onwards. Mr. Sturgess indicated that some of the traders in the market are of the opinion that the current price levels do not fully discount the tariff in any event and so removing the tariff from the grade discount may not fully reflect the fundamentals.

After some discussion it was resolved to maintain the status quo for now.

3.3 Update on STT release and move to only accepting electronic receipts

Ms. Matutu reported that on the 19th of November JSE will be upgrading its trading and clearing software with a STT release. She mentioned there are couple of changes and specifically highlighted the discontinuation of paper certificates. The JSE plans to no longer print paper certificates for those long position holders who have not signed up as clients of ESC. The way this will work going forward is diverting any paper certificates to the member firm that will then carry out that administration of these certs. Some committee members were not supportive of this proposal, suggesting rather that the JSE consider amending rules and letting clients know that, if they want to take delivery, then they should have an ESC account.

Mr. Sturgess assured members that all outstanding paper certificates still in circulation will be accommodated until 01 May 2017. A detailed market notice will be issued in due course to describe this change.



3.4 Feedback on CEC request for more granular provincial data

Mr. Sturgess made reference to the previous advisory meeting where a request was made for additional information from the CEC. He reported that CEC mentioned they will not be doing granular work on this as part of their standard data release. Instead, the CEC is available to provide information per district level however those clients interested would need to contact the CEC directly for this as nothing would be included in the standard published reports.

3.5 Update by JSE to create a transparent platform to display out loading constraints

Dr Karuaihe informed the Committee of some of the value-added enhancements the JSE has embarked upon in the grain storage space for all JSE-registered silos. He said that the JSE Commodities team has collaborated with the IT division to automate the upload and matching of the 255 silos belonging to 16 storage operators. This has considerably reduced the time spent on manually checking all locations for compliance of their monthly audit requirements.

Additional enhancements are being envisaged where any out loading issues can be recorded in advance in a web-based environment. Dr Karuaihe then invited Mr Willem Fick from the JSE IT division to elaborate on how this functionality is going to work.

Mr Fick commented the use of excel spreadsheets in organizations has become commonplace and the JSE is no exception. However, imagine a situation where a storage operator can go to the JSE website and, through a pin and password, upload all relevant silo information on a standardised template through this portal. This will substantially minimise human errors while improving on turn-around times.

Mr Fick went on to say that these enhancements can be improved even further to the benefit of the rest of the market. Anyone with interest in the grain can go to a map showing all registered silos and by hovering over the selected silos, it will flag either red to say you can't outload due to fumigation or other technical issues. By clicking on it you may also be provided with additional information like a silo calendar of fumigations and maintenance etc. We are looking at Q2/Q3 of 2017 to implement this. He concluded that they will consult with the Commodities Team to adopt a phased approach in implementing this.

3.6 Feedback from Agbiz Grain technical committee

Mr. Jacob de Villiers, representing Agbiz Grain, referred Committee members to a separate document from Agbiz Grain Technical Committee circulated earlier. In response to the complaints on out loading delays at silos Agbiz Grain decided to establish a dedicated committee to deal with delays resulting from operational issues.

Mr. De Villiers also highlighted the four major issues that impact on out loading, namely, unexpected insect infestations, breakages, power outages, and deliveries during harvest. He emphasized that all these factors are beyond the control of the storage operator.

Mr. De Villiers concluded by saying that Agbiz Grain would like to understand the extent of the out loading problems and also the impact of logistics in the supply of commodities since there are instances where trucks allocated do not show up and this also impacts operations.

Mr. Sturgess responded that we may need a separate platform to look into the suggestion of trading a transport contract and would consider this further. From the JSE's side, since May 2016 it has begun recording all complaints received from the market related to out loading and this would be shared with AGBIZ and its members on a quarterly basis. The JSE also uses this information as trigger for random inspections at selected silos and so again encouraged Advisory Members to report their out loading issues to the JSE

4 TRADING AND SETTLEMENT ITEMS:

4.1 Proposed changes to the futures MTM process

On MtM process:

Mr. Moloto from Post Trade and Information Service (PTIS) division reported that a current proposal is an attempt to reflect the price levels of which the individual contract trades at market close. He touched on the current methodology and principles applied.

Mr. Sturgess reported that JSE had received constructive feedback from the market regarding the VWAP as calculated by the JSE. The current methodology has seen that in the effort to maintain the spread relationship this has led to anomalies, especially on the far out illiquid expiries. The market has observed instances where the MtM for these expiries could be significantly higher or lower than the last traded price.

Mr. Moloto further elaborated on the proposed methodology whereby five snapshots will be taken in the last five minutes of trade. For each of those snapshots, they will employ the methodology of checking the better bid, lower offer and last traded price. Thereafter they will then take a simple average of those five times and that will be the MtM close. After some discussion, it was resolved that the frequency of snapshots be increased to 10 during the same 5-minute period.

Mr. Sturgess also mentioned the Valuations team has started automating the cash settled commodities MTM process where they will go and take snapshots directly from the underlying international market and then include the various currency components.

On Option close-out:

Pin risk scenario – where the MTM expired at the money. The JSE rules are clear and stipulate options **AT THE MONEY** will not be automatically exercised by the JSE. Mr. Sturgess shared a request from participants to amend the MTM process on option close out to avoid this scenario. The JSE suggested that a number of iterations be considered. The likelihood of getting decimals in the MTM process is greater, so on option-closeout JSE will still do the random 10 iterations but based on the decimal, JSE will either round up or down to reduce the likelihood of publishing a MTM at the same level as a strike price.

On moving price limits:

- Price limits – Mr. Sturgess alluded that these limits, which normally get removed on First Positions Day, will be moved earlier to avoid a situation where, during options close out, the market will be locked at the limit. In that case, option holders wouldn't really discover where the market is trading at expiry. So it is proposed to simply remove price limits on options close-out, five days earlier.

Committee members suggested consultation with the wider market before any of the above is implemented.

4.2 Introduction of dynamic price bands

Ms. Matutu reported that the JSE is proposing to implement dynamic price bands on the spot months on the physically settled, all months for the cash settled contracts and contracts with zero open interest. The thought around it was purely to try and avoid fat finger errors or a type of flash crash from algo' traders. She made reference to appendix D on page 2 and outlined how the dynamic price band works. Mr. Sturgess highlighted the pros and cons and asked the committee members if they see value in this. There was no clear support for the proposal with various committee members highlighting the possible constraints with the current system and so the JSE would need to make a final decision regarding the way forward.

4.3 Request to increase tick size intervals for all deliverable grain contracts from R0.20 to R1 per ton

Dr. Karuaihe referred to a market notice published earlier to consider increasing tick sizes for the deliverable grain contracts. Dr. Karuaihe reported that the JSE received some valuable feedback from the market, and felt the status quo should remain as is. The committee supported this and so going forward there shall be no changes implemented.

4.4 Proposed changes to the error trade policy

Mr. Sturgess reported that a workshop was held earlier in the year and Market Regulation team has come back with a number of changes. He referred to appendix F and gave a brief summary of the key points. Mr. Sturgess stated the JSE will be moving away from re-pricing an error trade. Preference will rather be to cancel the transaction outright provided it was executed within a certain price range. Secondly, JSE will create a no-cancellation range for trades that are not significantly away from the market.

Mr. Sturgess also mentioned there to be a non-reviewable range within the no-cancellation range and the JSE is suggesting non-reviewable range to be 50% of the current no-cancellation range. Any trades between the non-reviewable and cancellation range, the JSE will contact counterparties to engage and see whether the trade can be cancelled amicably. Then the counterparties can sort the error trade themselves and that is if both parties agreed to disclose themselves. Lastly, there was a request to consult each member and create a list of members willing to be disclosed.

The JSE suggested a telephonic survey be carried out to members to see if they willing to disclose themselves to test how this would be considered going forward.

Overall the committee supported the proposal and so the JSE will proceed with the next steps and commence drafting of the amended rules and would again start the consultation process with the market. Committee Members where encouraged to apply their minds to the proposed changes and comment during this consultation round.

5 GENERAL:

5.1 Feedback re proposed rules for EFR and EFP

Mr. Sturgess reported that the JSE will be moving EFR/EFP trades back to the member firms to capture these themselves via Nutron. Mr. Sturgess reported that reservations were received from a committee member to adopting this approach. The JSE had met and discussed the concerns raised by the party.

The JSE was proceeding with the next round of market wide consultations and so would again review the situation should further concerns be received.

5.2 Update to the officer registration process

Mr. Sturgess reported the JSE is in the process of streamlining this process. This is to reduce the turnaround time in registering a dealer/officer. This will be an improvement on the 10 day notice to the market. It is envisaged the process will be implemented in early October.

Mr. Sturgess reported on a further change that the JSE will no longer publish market notices regarding deregistering or registering of dealers. Committee members fully supported all the changes to be implemented.

Mr. Lambrechts suggested a portal be created with all registered dealers on the website. The JSE indicated this suggestion would be shared with the team working on this at the JSE.

5.3 Market initiatives – Beef contract at ALPHA show

Dr. Karuaihe gave an update on the Beef contract with how many volumes have traded thus far and value traded. Dr. Karuaihe reported that the JSE has partnered with ALFA livestock show, which is an annual show that takes place in Parys and members are welcome to join the JSE. The JSE is also running a competition where it will be recognizing the best broker by contracts traded.

Mr. Bothma reiterated that this product can only pick up if the live cattle contract took off. Dr. Karuaihe alluded that JSE is busy looking at the Weaners contract and also in discussion with ABSA to see if the JSE can use their price data for settlement of this contract.

Mr. Sturgess reported that the annual spire awards would be on the cards. This will be in October, where best commodities broker and commodities market maker will be recognized. Mr. Sturgess further added that a database of clients registered with more than one broker would be contacted to participate in the electronic survey.

5.4 Potential new products

Zambia grain contracts

Mr. Sturgess reported that the Zambian contract is still work in progress and has reached an advanced stage. The JSE has partnered with two clearing members in a joint campaign to reach out to clients to open up US dollar bank accounts.

Soybean Crush

Mr. Sturgess reported that the product is an inter-commodity complex that includes SA Soya bean, US Soybean meal, and US Soybean oil. The same CME ratio will be applied. Contract specifications would be published shortly.

Reverse Quanto WMAZ

Mr. Sturgess reported that a request came from the market to list this product. He further added that this product will be traded as a WMAZ contract where the Rand is pegged to the USD on a one-to-one basis but where payoff will be in Rands.

Deliverable diesel

Mr. Sturgess reported that the JSE recently had a meeting with involved stakeholders to try finalising the way forward with this product. Mr. Sturgess further elaborated that the contract targeted the wholesale diesel market with a standardised contract size of 40 000 lt.

Lamb carcass contract

Mr. Sturgess reported that this is a potential product the JSE is looking at on the same basis as beef carcass contract and was busy signing up abattoir price contributors for the final settlement value.

Feeder calf

Dr Karuaihe already reported on this product and the work in progress.

Hominy chop

Mr. Sturgess indicated the JSE was still very much interested in exploring the possibility of a deliverable contract and so kindly requested committee members to forward any possible contacts.

5.5 Trading hours

Raised by Mr. Lambrechts, Mr. Lambrechts suggested introducing an afternoon session to overlap with international markets. Mr. Lambrecht further suggested a one hour overlap considering daylight saving.

Mr. Faure wanted to know what will happen to physical deliveries. There were mixed opinions from the Committee members and it was suggested that the JSE take this to the wider market via a market notice.

6 NEXT MEETING:

The next meeting date was set to be on 17 November 2016

Mr Sturgess thanked the committee for their input and called the meeting to a close.