

MINUTES

HEADING: COMMODITY ADVISORY COMMITTEE MEETING

Date: 21 July 2022
Time: 13h00
Venue: Virtual Meeting – MS Teams

Present:	Ms. A Matutu	Chairperson
	Dr. D Strydom	GrainSA
	Mr. R Krige	GrainSA
	Mr. D Mathews	GrainSA
	Ms. H Viljoen	GrainSA
	Dr. A van der Vyver	SACOTA
	Mr. P Faure	CJS Securities
	Mr. W Martens	CJS Securities
	Mr. B de Klerk	Agbiz Grain
	Mr. W Lemmer	Agbiz Grain
	Mr. J du Toit	RMB
	Mr. W Strauss	RMB
	Mr. R Heine	RMB Clearing
	Mr. T Jacobsz	Farmwise
	Mr. G Schulze	Cargill RSA
	Mr. F Breedt	AFMA
	Ms. F Sundai	NAMC
	Mr. R Olwagen	BVG Commodities
	Mr. J Theron	PolarStar
	Mr. S van Rensburg	BESC
	Ms. V Reddy	Director Capital Markets
	Ms. Q Mthembu	JSE CRO
	Mr. C Joubert	NAMC
	Mr. P Jackson	National Chamber of Milling
	Mr. C Sturgess	JSE Capital Markets
	Ms. Z Dastile	JSE Capital Markets
	Mr. V Mpumza	JSE Capital Markets
	Mr. A Comninos	JSE Clear
	Mr. T Zwane	JSE Clear
	Ms. T Mhango	JSE Clear
	Mr. R Koovarjee	JSE Clear
	Ms. A Clayton	JSE GOSF

Apologies: Mr. P Lovelace CEOCO

1 WELCOME

The chairperson 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 Revised and expanded sliding scale for Net Financial Worth requirement for JSE Approved Storage Operators

Mr. Sturgess reported that the net financial worth for approved JSE storage operators was last revised in 2018. The JSE believes it is prudent to update these as the circumstances allow for and to recognise more categories in the higher tiers of the sliding scale allowing existing operators to expand their business.

The committee acknowledged this, and the JSE will update the detailed contract specifications to reflect the changes.

3.2 Storage operator failure document

Mr. Sturgess stated that the document has been reviewed by various departments internally by the JSE. The document is an excerpt from the detailed contract specifications that ultimately guides the Storage Operator failure process. The JSE also referred to previous incidents and how the JSE responded to them as part of the document. Mr. Sturgess requested that the committee members review the document and provide any feedback that they may have.

The next step is to disseminate this document to the broader market and host a workshop to address any questions that may arise.

3.3 Soybean origin discount and recognition of foreign origins

Mr. Mpumza reported that a document addressing soyabean origin discount and recognition of foreign origins had been distributed to committee members. Based on the information provided in the document the JSE decided against implementing origin discount, however, recognized foreign origin stock in completion a futures contract. The following countries of origin were proposed for recognition:

- Argentina
- Brazil
- Malawi
- the United States of America
- Zambia

The proposal was accepted by the committee.

4 TRADING AND SETTLEMENT ISSUES

4.1 Revised speculative position limits for soya beans

Mr. Mpumza referred to a document that had been distributed to committee members and presented the proposed speculative position limits. The committee supported the changes in addition asked that the JSE investigate increasing the speculative limits further to boost growth and trading activity in the soya bean contract.

4.2 Price limits on the physically deliverable contracts

Mr. Mpumza reported that the JSE reviewed price limits in the previous year and highlighted the fundamental differences between the two years. Also, the Ukraine Russia crisis increased the liquidity of various contracts and the respective values of the underlying commodities had changed .as a result the exchange increased the price limits accordingly. This was for noting and a market notice will be disseminated communicating when the changes will go into effect.

4.3 Update on Basis futures

Ms. Matutu reported that the JSE tested the product, and it can fit in our existing technology. She went further to say, the contract can be listed as a standalone with a unique trading code. The JSE will also be able to load splits between the underlying and the basis futures contract. The only difference is the silo certificate linked to location of the basis futures contract will require that the silo certificates adopt the unique code of the basis futures contract. The biggest hurdle is the number of locations that can be listed for this contract. The listing of many locations can have an impact on the performance of the trading system as it will create too many implied orders, exacerbating latency and disconnects. The aim is to limit the number of locations to ten as a starting point.

Way forward:

- Draft contract specifications and get them approved by JSE legal
- Agree on a wash out penalty in an event of a client default
- Reach out to clearers to solicit support for the contract
- Engage with storage operators to see if they will be able to issue certificates with the new unique code

Once the above points have been closed, then the JSE will be able to list the contract.

4.4 Update on technical upgrade & maximum order threshold

Ms. Dastile reported that internal testing for the technical upgrade is progressing well and according to plan. JSE internal testing will continue for the year and external testing is planned for Q1 2023. Clients will be required to do regression testing and participate in a mandatory dress rehearsal. More information will be communicated with the market in due course. The plan is still on track for go-live in October 2023.

Ms. Dastile then reported on the progress of maximum order threshold system change. She indicated that the JSE is busy with analysis using existing order message and trade data. Once the analysis is concluded, the propose maximum order threshold will be communicated to the market. The market will be afforded an opportunity to test and only thereafter will the JSE communicate the official number that will be implemented to the new functionality.

5 TECHNICAL ADVISORY UPDATE

5.1 **Progress on multiple reference points methodology for calculating location differentials**

Mr. Sturgess reported that the technical advisory committee has in principle supported the concept/theory of multiple reference points. The JSE is keen to trial the new methodology on the SOYA contract for two years effective from the 2024 season. TAC members requested details of the model particularly inputs used for the proposed methodology to interrogate and further understand the methodology. The inputs include quantity crushed per crushing plant and stock levels per JSE registered SOYA location. Mr Sturgess highlighted that this would entail releasing all this information to TAC members and ultimately market participants so they may be able to replicate the model. The most important thing is ensuring that the market understands the model and that this will only be trialed on SOYA contract.

5.2 **Access to physical stock**

Mr Sturgess stated that this is another key theme being tackled at the Technical Advisory Committee. This point speaks to providing buyers a definitive timeframe to access their product at a JSE registered silo. The JSE with the committee is exploring increasing requirements for storage operators such that all registered silo operators take 150 days to outload their total capacity. In cases where operators do not meet the requirement, they will be approached by the JSE to improve their infrastructure to ensure the out load of the product meets the requirement.

The JSE will collaborate with Agbiz Grain to resolve some of these issues.

6 **GENERAL: ANY OTHER BUSINESS**

6.1 **Load-shedding Update – JSE/Industry Contingency Plan**

Ms. Mthembu reported that the JSE notes that the ongoing power outages, which have recently escalated to levels not previously experienced, have heightened concerns regarding amongst others, diesel shortages that could cause disruption to business operations and impact market continuity. The JSE is focused on ensuring that JSE markets remain fully operational with limited or no disruptions, to the extent possible, within the broader South African infrastructure, which supports the South African capital markets.

Ms. Mthembu also referred the committee to a market notice circulated a week earlier and asked member firms to please respond to those questions posed as this will help understand the impact of power outages on the market as a whole.

6.2 **Financial levies**

Ms. Clayton reported that the financial sector levies and deposit insurance bill is moving quickly through parliament. National Treasury and SARB are eager for these levies to be implemented on April 1, 2023.

JSE will manage how those charges are recovered through fees. The work is ongoing, and the approach that JSE will take will be communicated.

6.3 **Initial Margin Requirements**

Ms. Mhango reported that the market risk team have seen heightened volatility in the commodities market products at the back of Russia Ukraine crisis. This has put pressure on global prices resulting in hedging activity which has driven up the net notional exposure. This has led to corresponding initial margin requirements increases. The Committee took note of Ms. Mhango presentation which highlighted some of the initiatives underway on their radar (Annexure).

6.4 **Application for the deliveries of imported Sunflower Seed**

Ms. Matutu reported that the JSE received an application for delivery of imported Sunflower Seed. The JSE will not be defining the minimum oil content which means storage operators will not be required to test the oil content. Imported Sunflower Seed will be required to be stored and maintained separately. It is important that the imported Sunflower Seed conforms to the grading regulations of South Africa. The JSE will reach out to the Crushers and Agbiz Grain to solicit final support.

6.5 **JSE incident management emergency calls**

Ms. Matutu stated that this point stems from the JSE's technical outage, which halted all markets. We had emergency calls with the advisory committee right away to keep members informed of what the JSE is doing and to seek guidance. Some members, particularly member compliance officers and technical clients, have asked to be included in these emergency calls (system vendors). Compliance officers and system vendors will now be included in emergency calls in the future. This was for noting.

6.6 **Feedback from members on visibility of spot basis member codes**

The feedback received from some committee members is that member code visibility has certainly improved the trading activity on the spot basis platform and benefitted their own trading member firms.

6.7 **Wheat Location Differentials**

The JSE is confident that rail will not be considered for the wheat differentials similarly to the approach adapted for the maize differentials. The JSE will use the maize rates in effect as of April of this year as the baseline adjustment, followed by changes in diesel prices. The JSE will endeavor to publish the location differentials as soon as possible.

7 NEXT MEETING DATE FOR 2022

Thursday 17 November 2022

The chairperson thanked Committee members for their valuable input and called the meeting to a close.