

MARKET NOTICE

Johannesburg
Stock Exchange

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Number: 23/2019

Relates to: Equity Market
 Equity Derivatives
 Commodity Derivatives
 Interest Rate and Currency Derivatives
 Primary Market

Date: 28 January 2019

SUBJECT: REVISION OF SPECULATIVE POSITION LIMITS

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Designation: Head - Commodities

Dear Stakeholder,

Currently, two physically settled commodities traded on our platform, namely white maize and soya, are having speculative position limits. In terms of Derivatives Rule 10.40, as amended, existing position limits are as follows:

Table 1: Existing Speculative Position Limits

Limits by number of contracts – Futures Equivalent			
Contracts	Spot Month	Single Month	All months combined
White Maize (100 tons)	400	3000	5000
Soya Beans (50 tons)	125	900	1500

Over the past series of Agricultural Advisory meetings, the principle of extending the position limits across all physically settled commodities has been discussed in detail with a number of written submissions received. There have been various proposals submitted and each time extensively debated. The discussion was around ensuring that any changes to position limits will ensure for the continued operation of a fair and efficient derivatives market and requires a careful balance of market participants to ensure the continued development of the liquidity of each product.

To this point the most recent discussion document presented at the advisory committee meeting held on 22 November 2018 is represented in the table below:

Table 2: Speculative Position Limits tabled at Advisory Committee

Limits by number of contracts – Futures Equivalent			
Contracts	Spot Month	Single Month	All months combined
White Maize (100 tons)	1500	3500	5000
Soya Beans (50 tons)	250	650	900
Wheat (50 tons)	1000	1900	2700
Yellow Maize (100 tons)	1800	3200	4500

Committee members appreciated the effort made by the JSE and supported the use of deliverable supply as reference for the spot month position limits. Deliverable supply was based on an average of physical stock held at the end of each marketing season across the past two seasons. However they felt that, for the far-dated expiries, Open Interest (OI) would be a better benchmark. In addition, there were objections to the following:

1. The spot month position limits for **white maize** was increasing drastically from 400 to 1500 and a suggestion was made to reduce the proposed limit to 800 contracts, representing roughly 8% of deliverable supply for white maize. This meant that an 8% of deliverable supply will be applied across the board for all the other commodities as well.
2. Some members felt that we are being too restrictive on **wheat and yellow maize**, considering that they never had limits before and the fact that there is always readily available foreign stock that can fill a short supply in our market at any given time. A suggestion was then made to remove limits for these commodities for the single- and all-months limits.

The Committee agreed to the above suggestions to then only focus on extending the spot month limit across the deliverable grain contracts.

Having carefully considered all the submissions and taking into account factual information at our disposal, the JSE has resolved the following:

1. We acknowledge the need to be consistent and introduce position limits across the deliverable grain products, especially to those commodities that never had any limits before and particularly during the delivery month.
2. We also acknowledge the need to strike a balance between the levels at which we peg the limits versus the need to allow for active trading on our market.
3. It is with the objective of achieving this balance that the final speculative position limits are presented in Table 3 below and **effective 1 April 2019**.
4. The JSE will closely monitor market behavior post implementation of these limits to ensure minimum disruption to existing market structure. Should there be a need to revisit the new position limits, we will duly communicate any changes that we deem necessary, in consultation with the market.

Table 3: New Speculative Position Limits effective 1 April 2019

Limits by number of contracts – Futures Equivalent			
Contracts	Spot Month	Single Month	All months combined
White Maize (100 tons)	800	3000	5000
Soya Beans (50 tons)	145	900	1500
Wheat (50 tons)	1000	N/A	N/A
Yellow Maize (100 tons)	1800	N/A	N/A

Should you have any questions regarding the above, please do not hesitate to contact Commodities Team at 011 520 7039 or email commodities@jse.co.za

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