Minutes

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HEADING:	COMMODITY ADVISORY COMMITTEE MEETING
Date:	16 November 2023
Time:	13H00 – 15H00
Venue:	Online

Present:

Mr. L	Sewpersadh	ABSA
Mr. W	Lemmer	Agbiz Grain
Mr. R	Olwagen	BVG
Mr. G	Schulze	Cargill
Mr. P	Faure	CJS Securities
Mr. C	Sturgess	Consultant
Mr. D	Mathews	GRAIN SA
Dr. D	Strydom	GRAIN SA
Ms. H	Viljoen	GRAIN SA
Ms. Z	Dastile	JSE CDM
Ms. A	Matutu	JSE CDM
Ms. Y	Moshidi	JSE CDM
Mr. V	Mpumza	JSE CDM
Mr. G	Cassells	JSE Risk
Mr. A	Comninos	JSE Risk
Mr. R	Koovarjee	JSE Risk
Mr. M	Ngcobo	JSE Risk
Mr. T	Zwane	JSE Risk
Mr. J	Theron	Polarstar
Mr. P	Jackson	RCL Foods/ NCM
Mr. J	Du Toit	RMB
Mr JP	Kotze	SACOTA
Dr. A	Van Der Vyver	SACOTA
Mr. B	De Klerk	TWK
Mr. R	Tucker	JSE IT
Mr. T	Jacobsz	Farmwise

Apologies:

Ms. V	Reddy	JSE Capital Markets

1. **WELCOME**

The chairperson welcomed all attendees and thanked them for their participation.

CONFIRMATION OF MINUTES

Minutes of the previous meeting were accepted and approved.

2. **TRADING AND SETTLEMENT ITEMS**

2.1. STT Upgrade

Mr. R. Tucker provided an update on the impending trading system release, which address the functional and connectivity issues identified following the upgrade. The release is anticipated to go live in Q1 2024. JSE to publish a series of communications outlining more details on testing requirements and go live date.

2.2. Market Performance

Mr. V. Mpumza gave a presentation on the overview of commodities market statistics; the advisory committee took note. Presentation added as an annexure to the minutes.

2.3. Update on Basis Futures

Ms. A. Matutu reported that after consulting with the JSE legal team and the Commodities technical committee, the proposal was presented to the nominated Silo Operators, who approved their locations for inclusion in the trial run, except for one. The next phase of the listing process will be a review and approval by the JSE's New Products Committee and Clearing members. Ms. Matutu anticipates no obstacles and a go-live date in Q1 2024.

2.4. Options Committee Forum

Mr. V. Mpumza committed to schedule two dates in 2024 to commence work on the options committee forum.

2.5. Price Limits Review

Ms. Y. Moshidi explained the approach for calculating price limits, which involves a 45-day lookback on price movements in the most liquid contract for each commodity. The general observation is that prices largely declined. Sunflower, Yellow Maize and Wheat dropped 9, 8 & 6% respectively, followed by White Maize at a 1% drop. Ms. Y. Moshidi also noted that price volatility was subdued, and prices did not reach price limits during the review period. As a result, the current price limits will remain unchanged.

2.6. Proposed Changes to 'valid and acceptable delivery' requirements

Mr. C. Sturgess directed members to notice 378, issued on October 27, 2023, proposing amendments to the conditions for valid and acceptable delivery. The proposed change will allow the long position holder to have a period of three (3) months to be able to access the delivery from the storage operator or institute any other actions to satisfy them selves that valid and good delivery was made by the short position holder. Following this three-month period, the short position holder will no longer be liable to prove that valid and acceptable delivery was made, and the long position holder will then be responsible to institute any actions against a storage operator for their failure to honour a JSE silo receipt.

This was acknowledged by the committee members.

3. GENERAL

3.1. Study on Storage rates

Mr. V. Mpumza reported that the study was initially requested to be conducted by the JSE in collaboration with Agbiz grain. However, post consultations with JSE legal team, the guidance was that the JSE conduct the research independently. Once the JSE concludes the independent study, it will be published for market consultation before final decision is made by the JSE.

3.2. JSE Clear Risk

Mr. Rohit Koovarjee re-iterated that price limits are factored in the initial margin methodology via the historical price time series that is an input to the historical simulation VAR model.

The Risk team investigated the impact of shortening the rolling lookback period (lookback period under the current production margin methodology is comprised of a 3-year rolling lookback and 1-year stress period i.e. 1,000 days in total) which was a suggestion made during the previous Commodities Advisory meeting on 6 July 2023. The analysis performed indicated that margin rates for the major instruments would increase if the rolling lookback period was shortened from 3 years to 6 months (assuming the confidence interval remains unchanged at 99.7%). This is due to a more severe tail return being selected (higher ranked return i.e. 2nd worst vs 4th worst return) when the lookback period is shortened for a chosen confidence interval.

Mr. D Mathews asked if the JSE is comfortable with the 1,000-day lookback period. Rohit re-iterated that back testing is performed daily to test the rigorousness of the current model in ensuring the JSE adequately covers 2 days of observed price moves/returns (base margin liquidation period) within the JSE's 99.7% CI risk appetite. Furthermore, the JSE Clear Initial Margin Methodology and performance reviews of the methodology are regularly reviewed through the formal Risk governance processes.

The new JSE Clear Initial Margin Methodology was approved at the Q4 2024 Risk Committee meeting held on 2 November. The new methodology will be validated by an independent external model validator before it is implemented in production. This model places a greater (exponentially decaying) weight on more recent returns. The lambda parameter or decay factor adjusts how responsive the new methodology is to changes in returns/volatility. The new margin methodology is more responsive than the current production model. The benefit is greater margin protection when required during times of elevated volatility and margin efficiencies during less volatile, stable market conditions.

Two other factors were introduced to enhance the model, a margin floor and 25% weight to stress period observations, both of which are guided by ESMA regulations on CCP margin anti-procyclicality measures. This new model will be rolled out in the ITAC markets (Equities & Currency Derivatives) initially. The Risk team are considering further analysis in terms of the potential benefit of the introduction of portfolio VAR (instead of JSPAN) for the account-level margin requirement in the commodities market, but this requires more time and assessment to gauge its potential benefit and impact. The Risk team will update the committee on the progress of the new margin methodology in terms of the commodity derivatives market.

Other key changes under the new margin methodology are adjustments to the margin add-on thresholds, particularly the removal of the Liquidation Period Add-on threshold, currently set at R50mn and setting the Large Exposure Add-on Threshold at R150mn across all derivatives markets. Under the new model, Liquidation Period Add-on (LiPeAO) margin will be levied regardless of the magnitude of the add-on amount (currently only LiPeAO in excess of R50mn is levied as the amount exceeding the R50mn threshold).

Mr. Jacobsz raised concerns around the impact of initial margins on liquidity in the commodities market, particularly in options market. In a volatile market, generally the return series will call for an increase in margin rates, whereas during less volatile, stable periods the margins are expected to reduce. Mr. Koovarjee did acknowledge the point made by Mr. Jacobsz in terms of the structural uniqueness of the commodities market in comparison to the ITAC markets in response to a comment on consistency of the initial margin methodology. Further discussion in this regard to be taken offline in a separate meeting with Tinus to discuss the comments and questions raised.

The methodology will be published on the JSE website. Ms. Matutu gave clarity that while members in the commodity markets may have comments and inputs on the methodology, the ultimate decision lies with JSE Clear, which is independent to the JSE.

3.3. Points raised by the National Chamber of Milling

Mr. P Jackson requested feedback from the JSE on the following issues.

3.3.1. Composition and representation of the JSE advisory committee.

Ms. A. Matutu committed to share the mandate with the Advisory Committee. However, she mentioned that the mandate speaks to the composition being that of members/ authorized users, but the chairperson can apply their discretion, hence it was deemed fit to include other stakeholders in the value chain.

3.3.2. COT report

Ms. A. Matutu reported that FSCA proposed a re-submission of the initial application given the extent of staff changes within the relevant departments at FSCA. The JSE plans to resubmit a request before the end of the year.

3.3.3. Outloading guarantee of 500 tons (visibility & inspections)

Ms. A. Matutu requested that the JSE be afforded sufficient time to discuss out loading issues with the Technical Committee, she also committed to provide feedback at the next advisory committee meeting.

3.3.4. Origin Discounts

Mr. P. Jackson reported that the wheat cultivar list is no longer legislated, and based on this the millers are requesting JSE review origin discounts. In addition, Mr. P. Jackson added that the deteriorating quality of local wheat compared to imports and entrance of new cultivars warrants a review of the current origin discounts system.

Mr. D. Mathews objected to this point and highlighted that the quality topic was extensively researched and debated, and the use of current quality systems and legislation should continue to measure quality.

Dr. D. Strydom cautioned on making industry changes based on one season. Even though the cultivars have been removed, the industry still adheres to industry standards.

The JSE was guided to engage Southern African Grain Laboratories (SAGL) to ascertain whether the wheat quality changes are substantial enough to warrant making changes to the origin discounts.

3.4. Publishing of the Location Differentials for SOYA under new multiple reference Points model

Mr. V. Mpumza explained that the model is undergoing a few enhancements to incorporate stress period scenarios. These include a drought scenario and an addition of an export demand point. The JSE envisage to publish this review mid-November or latest early December. The final location differentials would be published early in the new year once the new CPK numbers are updated for January.

4. NEXT MEETING DATES FOR 2024

1. Thursday 14 March 2024
2. Thursday 18 July 2024
3. Thursday 21 November 2024