

Minutes

HEADING: COMMODITY ADVISORY COMMITTEE MEETING
Date: 18 July 2024
Time: 13H00 – 15H00
Venue: Online

Johannesburg Stock Exchange
 One Exchange Square Gwen Lane Sandown South Africa
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Present:

Ms. A	Matutu	Chairperson
Mr. W	Lemmer	Agbiz Grain
Mr. G	Schulze	Cargill
Mr. P	Faure	CJS Securities
Mr. C	Sturgess	Consultant
Mr. R	Olwagen	BVG
Mr. W	Martens	CJS Securities
Ms. H	Viljoen	GRAIN SA
Ms. Z	Dastile	JSE CDM
Mr. V	Mpumza	JSE CDM
Ms. V	Reddy	JSE CM
Mr. A	Comninos	JSE Risk
Mr. L	Mantshimuli	JSE Risk
Mr. T	Zwane	JSE Risk
Mr. J	Theron	PolarStar
Mr. P	Jackson	RCL Foods/ NCM
Mr. J	Du Toit	RMB
Dr. A	Van Der Vyver	SACOTA
Mr. S	Van Rensburg	BSEC
Mr. W	Strauss	RMB
Mr. R	Heine	RMB Clearing
Mr. L	Phaleng	AFMA
Mr. T	Jacobsz	Farmwise

Apologies:

Mr. D	Mathews	GrainSA
Dr. D	Strydom	GrainSA

Executive Directors: Dr L Fourie (Group CEO), F Suliman (Group CFO)

Non-Executive Directors: P Nhleko (Chairman), ZBM Bassa, MS Cleary, VN Fakude, Dr SP Kana, FN Khanyile, IM Kirk, BJ Kruger

Group Company Secretary: GA Brookes

JSE Limited Reg No: 2005/022939/06

Member of the World Federation of Exchanges

14 March 2024

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. MATTERS ARISING FROM PREVIOUS MEETING

2.1. Origin Discount – Wheat futures contract

Mr. Mpumza indicated that following the meeting on April 11, 2024, he communicated the JSE's methodology for determining the wheat origin discount. Mr. Mpumza followed up with Mr Jackson, who stated that he is pleased with how origin discounts are determined under the present methodology.

Mr. Jackson recommended that the process be reassessed on a yearly basis. JSE took note.

2.2. Concentration Risk Report

Mr. Mpumza stated that JSE had an engagement with Agbiz Grain following the meeting on April 11, 2024. Members of Agbiz Grain stated that there were in no position to give JSE permission to publish such a report as some of the information relates to stock held by clients which remains confidential information. Mr Mpumza reported that subsequently, the commodities team met with JSE legal to seek their opinion on publishing the report. Legal advised not to publish this information as the FMA narrowly defines our powers and responsibilities, limiting JSE to matters immediately relevant to our listed securities. As a result, unregulated folio stock levels and silo operator own stock fall outside the scope of our licensed functions.

Mr. Theron stated that if the JSE is unable to publish the Concentration Risk report to the market, they should issue a market communication outlining the risk and difficulties that could be experienced with physical deliveries concentrated in only a few silo locations. Mr Theron highlighted that such concentration may result in market participants being unable to access physical stock in a timely manner. Furthermore, Mr Schulz stated that he agrees with communicating to the market early so that market participants may plan for such foreseeable difficulties and work toward a solution immediately and avoid challenges with access to physical stock, particularly in March and April 2025.

JSE took note and stated they will keep inspecting silos on a regular basis, and if a client takes delivery, the JSE will make every effort to ensure they have access to stock as soon as possible.

It was suggested that the JSE setup a meeting with the regulator (FSCA) and SAGIS to find an avenue to publish a concentration risk report.

2.3. Soyabean contract size increase

Mr. Mpumza referred members to market notices [195/2024](#), [200/2024](#), [201A/2024](#) & [201B/2024](#)

The March 2025 SOYA will trade as is until expiration leading to the April 2025 contract. A May 2025 SOYB will be listed to run concurrently with the SOYA May 2025 to allow clients to transition to the 100-ton contract. The JSE is aiming to list the contract for 31 July, but that is pending the regulatory approval process. The regulatory process relates to amending the JSE Derivatives Directives, to add the Soya Beans 100-ton contract to the speculative position limits table as provided for in rule 10.40

2.4. Update on Basis futures contract

Mr. Mpumza indicated that JSE has received support from one clearing member which is ABSA and still waiting for the others to confirm. The Commodities team will be presenting the product to the New Product Committee scheduled for 29 July 2024. The team doesn't foresee any issues as they have received approval from Legal, Market Risk, ClearOps, and Valuations.

Testing is scheduled to begin on July 24, and clearing members will be available to observe the flow of trades to settlement.

2.5. Update on maximum daily outstanding storage rates

Ms. Matutu stated that a second consultation regarding the revision of base storage rates was sent to the market. The JSE received seven comments, which was a significant improvement from the initial consultation. Ms. Matutu went on to say that most of the contributions were high-level, and that the remarks were pushing the JSE to discontinue using PPI in adjusting the JSE's yearly maximum daily outstanding storage rate. The main argument was that the JSE undertakes research to establish actual silo storage costs.

JSE is currently examining the comments or input and consulting internally to determine the best course of action. The JSE will convey its final decision to the market and anticipates entering the wheat marketing season with a new base or storage cost.

2.6. Update on Commitment of trader's report

Ms. Matutu indicated that the FSCA had extended an apology for their absence at this meeting. However, they have issued us an email pointing out that they will send formal responses in due course, but the comments will not arrive in time for this meeting.

3. TRADING AND SETTLEMENT ITEMS

3.1. Upcoming System Updates

Ms. Dastile stated that this will be the second release in 2024. The release intends to resolve all the bugs discovered post system updates which went live in August 2024 and Release A, which went live in March 2025. The list of changes was released via a market notice sent on the 27th of June 2024. In terms of testing Ms. Dastile reported the following:

- Internal testing ongoing and progressing well.
- The code was deployed to the Client Testing Environment and would be ready for testing on 24th of July 2024.
- Software providers, members with their own solutions, and clearing members were required to test.
- Nutron users highly urged to test their regular BAU activities.
- On completion of testing, trading member would be required to provide sign-off before go-live.
- The planned go-live date scheduled for 16th of August 2024.

3.2. Connectivity Bandwidth requirements

Ms. Dastile stated that this is part of the JSE's continuing evaluation to enhance and ensure robustness of the trading system. The JSE recognizes the need to upgrade the minimum bandwidth requirements. The existing requirements were developed over 15 years ago, and the market has changed over time. The JSE is busy with analysis to determine

a more suitable requirement. On completion of the analysis, market participants will be informed and given sufficient time to make the necessary changes. Clients will be required to make the changes on their end.

4. GENERAL: ANY OTHER BUSINESS

4.1. BRICS Grain Exchange

Mr. Mpumza stated that the JSE was invited to a closed meeting of the BRICS nations' commodity exchanges. During the discussion, each exchange was given the chance to discuss their product offerings and express their thoughts on the BRICS Commodity Exchange Concept. One of the conditions for creating the BRICS Commodity Exchange was to assist accelerate the trade flow of agricultural products between the BRICS nations and maintain food security in the long run.

It was unclear what the next steps are following the meeting however the JSE will continue to engage and provide input as needed.

4.2. Update on New Products

Canola Feedback

Mr. Mpumza stated that the JSE was approached to consider launching a Canola futures contract. The JSE has held several engagements with canola industry stakeholders to solicit their views on launching Canola commodity futures. The discussions revealed that the sector still needs to mature considering that it is still monopolistic and that listing a derivative would be ineffective at this point.

Soymeal Feedback

Mr. Mpumza reported that following previous engagements on the soymeal contract, in which the crushers argued that the market has not developed and hence a listed derivatives contract will not function, AFMA urged JSE to reconsider the possibility of listing the instrument, citing growth and progress in the market's maturity. JSE, in partnership with AFMA, has been meeting with crushers individually, and the conversations have been constructive. JSE is busy finalizing storage commitment with crushers as well as the physical delivery details. Once all of these have been completed, to the commodities team will proceed to the next phases of obtaining support from JSE internal processes and clearing members.

4.3. Zambian Grains

Ms. Matutu stated that the JSE was invited to participate in a roundtable discussion organized by Zambia. The conversation focused on agricultural reforms, specifically policy, infrastructure, and trade. Ms. Matutu stated that Zambia hopes to produce 10 million tons of maize by 2026, but this can be accomplished through changes in their policies and infrastructure to enable the growth they are aiming for. Furthermore, ZAMACE is performing well, and the sector believes the market has developed and is ready to move to derivatives contracts, thus the JSE was urged to revive discussions about trading Zambian grains on the JSE market.

4.4. Market Risk

Mr. Comminos reported that the market would have noted a margin reduction in the past couple of weeks in some of the contracts. This was a result of price volatility rolling out of the look back period in the margin methodology.

In Q2 of 2024 mid-June, risk implemented a change to stress testing scenarios which are used to size the default fund and used to size large exposure add-on. This change has resulted in margin reduction on a few accounts that were impacted.

Price Limits

In the previous meeting, Mr. Comninos mentioned the committee was updated on how price limits are considered into the hedging contracts. The JSE risk team discovered an issue with the methodology's execution in terms of how price limits are accounted for in hedge contract margining. They are now addressing and finalising the impact analysis and back testing of the change to ensure that the required coverage ratio is maintained. According to the analysis, the results show estimated 2.3% - 3.8% margin drop on maize contracts, but much larger on several other grain contracts.

Implementation is pending the completion of back testing, margin impact analysis, and, most significantly, governance steps. They anticipate implementing the change between the end of August and mid-September.

Enhancement to margin methodology

Mr. Comninos reminded the committee that the enhancement was approved in the fourth quarter of 2023. It has been implemented on the Equity and FX markets that are on the RTC platform. The team is conducting quantitative analysis to calibrate the margin parameters to the right levels. The analysis will be presented to the Risk Committee in the first quarter of 2025.

5. NEXT MEETING DATE FOR 2024

1. Thursday 21 November 2024