Minutes

HEADING:	COMMODITY ADVISORY COMMITTEE MEETING	
Date:	11 April 2024	
Time:	13H00 – 15H00	
Venue:	Online	

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

Mr. L	Sewpersadh	ABSA
Mr. W	Lemmer	Agbiz Grain
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. A	Comninos	JSE Risk
Mr. R	Koovarjee	JSE Risk
Ms. P	Maharaj	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

Apologies:

Ms. V	Reddy	JSE Capital Markets
Mr. F	Bartsch	GWK
Mr. R	Olwagen	BVG
Mr. W	Martens	CJS Securities

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. Feedback from Technical Advisory Committee (TAC) Matters

Ms. Matutu reported that the JSE will be sending out market communication on issues put forward at Technical Advisory Committee meetings last year. A synopsis of the issues discussed at Technical Advisory Committee.

2.1.1. Access to stock

Current control measures in place

- Continue performing monthly inspections to monitor activity at the silos.
- Monitor compliance with 25% outloading requirement on JSE certs for hedging months. The JSE plans to collaborate with silo operators to revise the percentage allocation if the 25% priority access is fully utilized and stock access constraints are clear.
- JSE will maintain compliance with approved Storage Operators and take appropriate action if they fail to fulfill their obligations as outlined in the Contract Specifications.

Mr. J Theron suggested that the 25% outload allocation requirement for JSE certificate holders may not be enough for market convergence if stock is concentrated in one silo and takes too long to outload. The matter was debated by committee members with opposing viewpoints. The following were agreed upon.

- JSE to engage other market participants to gauge the effectiveness of futures contracts as hedging tools and not just long position holders.
- JSE to consider publishing a concentration risk report for informed decision-making.

2.1.2. Valid Acceptable delivery

Ms. A Matutu referred members to market notice 378/2023 which proposed changes to requirements on valid and acceptable delivery. The long position holder would have a period of three (3) months to be able to access delivery from the storage operator, following which, the short position holder will no longer be liable to prove that valid and acceptable delivery was made. There were no objections to this.

2.1.3. Fidelity Fund

The intention of the Fund was to protect JSE certificate holders in the event of a Storage Operator Failure.
The JSE consulted Financiers in the commodities market around the impact of such a fund on clients' risk portfolios and the potential to improve financing terms. Financiers consulted confirmed that a fund will not improve finance terms and add no value to affected clients, the JSE decided to not proceed with the establishment of the Fund.

2.1.4. Stock Turnover

The JSE has stock level data from all registered silos and would need to build a report which will analyse stock levels to determine stock turnover.

2.1.5. Basis Futures Contract

All Storage Operators will support the contract with the exception of Allem Brothers. The contract specification has been finalised after JSE legal and market risk approval and awaiting approval from JSE Clear. The next steps will be to seek approval from Clearing Members and the JSE's New Products Committee.

2.2. Origin Discount – Wheat Futures Contract

Mr Mpumza report that this was a point raised by Peter Jackson in the previous Commodities Advisory Meeting. Mr. P Jackson mentioned that his members were raising concerns around the quality of wheat in the country.. The JSE presented findings on data received from SAGL for the 2007-2023 period which confirmed that the U.S quality has indeed deteriorated. The proposal was made by the JSE to then introduce an origin discount for wheat coming from the U.S, as it currently attracts no discount.

Mr. P Jackson further clarified that quality issues were from Soft Red Wheat, not Hard Red Wheat. He suggested increasing the discount for Russian Origin from 2% to 4% for other foreign origins. Mr. Mathews suggested obtaining data to quantify the said issue.

After many deliberations the committee resolved to maintain current methodology, but rather to have members examine whether it is still relevant. The status quo for United States will remain at zero-origin discount.

Mr. Strydom suggested sharing the JSE standardised wheat discount methodology with committee members to ensure all members are aware and understand the determination of foreign wheat discounts.

2.3. Study on Maximum Daily Outstanding Storage Rate

Mr. V Mpumza referred members to market notice 111/2024, published with the aim to determining whether the base rate used in the calculation of the maximum daily outstanding storage rate is reflective of actual storage costs. The study also aimed to gauge whether the annual increase by PPI is appropriate.

Mr. J Theron cautioned that the standardisation of the storage rate be reflective of ability to access stock and outload capacity. He suggested that the review of JSE maximum outstanding storage must be aligned with a review of the minimum outload rate for JSE silos.

Mr. D Mathews posed a question to Mr. W Lemmer, as a representative of the storage operators, as to how the industry charges for storage and whether they are guided by the JSE rate or other factors outside of the JSE.

Mr. W Lemmer advised that the JSE perhaps find out from the Storage Operators themselves how do they determine their own rate, what composition they consider and how is it different from the JSE’s rate. He also mentioned that globally, the US has a storage rate index and locally the DALRRD publish a Service Cost Index for agriculture in the Abstract of Agricultural Statistics annually.

Ms. A Matutu informed members that the JSE does have sight of the data inputs from the Storage Operators and how it fairs with the rate charged by the JSE.

Ms. A Matutu concluded by advising on the next steps, which include the JSE gathering market responses, deciding on a way forward and communicating it accordingly.

3. TRADING AND SETTLEMENT ITEMS

3.1. STT Quarter 1 Release

Mr. Mpumza shared progress on system updates that were implemented in March 2024 post the August 2023 systems upgrade.
Mr. Sewpersadh asked for clarification on how all system updates will be managed, to which Mr. V Mpumza explained that these will be handled in a phased approach and possibly split into further releases. Mr Sewpersadh also cautioned the JSE on the potential disruptions of these releases on the day to day functioning of member firms as it requires capacity planning and to also avoid doing these on a month-end.

3.2. Request to increase SOYA contract size to 100 mt

Mr. Mpumza referred members to the email communication sent on Tuesday 05 March along with the agenda for the meeting, outlining the motivation to increase the contract size for SOYA from the current 50 mt to 100 mt.

The submission suggested that, increasing the contract size to 100mt will go a long way towards improving liquidity via the inter-commodity spread (BEAN/SOYA). The second motivation was that, given the payload for SOYA, it will be much easier to secure trucks with full loads if the contract size traded on exchange allows 100 tons to be deliverable.

Mr. Theron supported the proposal, highlighting the liquidity benefits and the JSE contract trading more in line with activities reflected in the OTC market.

Mr. Mathews was also in support and further highlighted that initially the 50 ton was motivated by the intentions to include participation of smaller players in the market.

Mr. Du Toit pointed out that while the BEAN/SOYA contract will align in terms of contract sizes, this will introduce a mismatch in the SOYA/SUNS split and this could cause liquidity issues in the SUNS contract.

There was unanimous support for the proposal of increasing the size of the soybean contract.

4. OTHER BUSINESS UPDATES

4.1. Update on SOYA Multiple Reference Point model

Mr. V Mpumza referred members to market notice 025A/2024 of30 January 2024

Mr Mpumza reported that the JSE will review trading activity and physical deliveries per site to assess the impact of the new soya methodology. Particular attention will be placed on sites with the zero differential, for any stock buildup or redeliveries. In addition, the JSE decided to exclude an export demand point to the new Soya methodology following discussions and guidance at the Soybean and Sunflower industry forum.

Mr. Mpumza further advised that the JSE is planning to publish indicative differentials for the 2025 season in August 2024, taking into consideration supply data from 2024 season. The final differentials are planned for publishing at the end of January.

Mr Mpumza concluded by saying a consultation paper will be published to get market views on the roll out.

4.2. Market Risk – JSE Clear

4.2.1. Margin Initiative Updates

Initial Margin Optimization

The enhanced JSE Clear Initial Margin Methodology was approved at the Q4 2023 JSE Clear Risk Committee meeting, following extensive market consultation and quantitative analysis. Implementation of the enhanced methodology is planned for mid-year 2024 for the Equity and Currency Derivatives markets (EDM and FXM, respectively). Quantitative analysis and calibration of model parameters for the enhanced methodology for the Commodities Derivatives market (CDM) will commence later in 2024.

Another margin initiative that was implemented in Q1 2024 was removal of the symmetry assumption in stress testing scenarios which led to a decline in Large Exposure Add On margins (LEAO) and consequently, default fund exposures. The change was implemented in the EDM and FXM markets in Q1 2024 and is planned for Q2 2024 in the Interest Rate Derivatives (IRD) and CDM markets with a return of margin expected.

Mr Comninos also provided an update on the following:

Enhanced Initial Margin methodology.

The key change was an enhancement to introduce time-weighting to the historic returns which puts more weight to the most recent events, making the methodology more responsive. The expectation is that as new returns data accumulates the past stress periods receive a lower weight as they are further in the past and consequently margin rates will decline and/or adjust in reaction to more recent stress periods/market volatility as that arises. These changes will be phased throughout the remainder of the year across the different markets.

4.2.2. Feedback on margin queries

Daily Price Limits

Price limits should be factored in the margin calculations as the margin rate should be based on price series including the price limits, however the Risk team will investigate the implementation of price limits and provide further feedback.

Physical Delivery Mechanisms changes the risk of market corners and limits the range of movement.

Risk re-iterated that the physical delivery factors such as supply and demand at play in the market are included in the margin calculations as they affect prices.

As expiry approaches, the potential in-the-money range of strikes in play decreases.

Risk confirmed that the JSE does factor in the 'moneyness' and time-to-expiry on options and this is reflected in the initial margins. The range of option strikes are not explicitly reduced/eliminated based on the price range informed by the price limits, but margins do reflect when options are in, at or out-the-money under the stressed price and volatility scenarios. Bearing in mind that this is in anticipation of the resultant futures positions that may be created from this transition.

5. GENERAL

5.1. BRICS Grain Exchange

Mr. D Strydom brought to the attention of the JSE that discussions may be underway of BRICS nations potentially establishing a BRICS grains exchange. Ms. A Matutu was not aware of this and instead understands that SADC is doing a feasibility study to establish a regional exchange, to which the JSE is party to.

Mr. D Strydom recommended that the JSE find more information on the matter and advise what the potential impact would be.

5.2. Commitment of Traders (COT) Report

The current challenge faced by the JSE is that there is a new team at FSCA looking at this matter. As a result, the JSE had to resubmit the terms of the initial proposal to the new team for review, which might delay the process.

Ms. A Matutu suggested that the JSE and affected member representatives come together as a collective and engage FSCA directly.

6. NEXT MEETING DATES FOR 2024

1. Thursday 18 July 2024
2. Thursday 21 November 2024