

**MARKET NOTICE**

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[www.jse.co.za](http://www.jse.co.za)

**Number:** **572/2016**

**Relates to:**

- Equity Market
- Equity Derivatives
- Commodity Derivatives
- Interest Rate and Currency Derivatives

**Date:** 14 October 2016

**SUBJECT:** **INTRODUCTION OF A CASH SETTLED REVERSE QUANTO ON WHITE MAIZE**

**Name and Surname:** Chris Sturgess

**Designation:** Director: Commodities & Key Client Management

Dear Industry Stakeholder,

*Please feel free to distribute to any interested parties.*

### **1. BACKGROUND**

The JSE is proposing the introduction of a cash-settled Quanto White Maize contract to be listed on our commodities platform. Because all existing quanto products that we have listed thus far are based on inward listed foreign referenced contracts, we refer to the white maize quanto as a Reverse Quanto. This is to differentiate between a quanto product on foreign underlying and a quanto on domestic underlying. Other than this distinction, this quanto contract is an extension of the existing quanto product range.

A detailed contract specification is appended at the end of this document.

### **2. THE RATIONALE**

The concept originated mainly from multi-national commodity trading firms and clients who have indicated the adverse impact the volatility of the exchange rate has on white maize prices. The white maize contract remains our flagship product and so this will be a further extension to the product mix.

This envisaged quanto product would reduce the currency volatility on the white maize contract and the market would have a 'US dollar' view of White Maize. We have also received interest from the speculative participants who, by removing the US\$ currency influence, see value in this product.

We may also see smaller speculators join in this product, since the contract size remains 100 tons but the exposure is smaller, initial margin requirements will be lower making this product more accessible to the investor constrained by the initial margin requirements of the WMAZ contract.

### **3. COMMITMENT FROM REGISTERED MEMBERS**

Suffice to say the obvious that this product will not progress without the active support of our member firms and registered clients. We are therefore keen to understand from our membership base whom will be interested in further developing and promoting this new product to the grain industry. Please do send us an email to ensure we include your firm in our marketing drive.

Thank you again for your time and consideration of this notice; we look forward to your constructive feedback. Please can all comments regarding the proposed contract specifications reach us **by Friday 28 October 2016** as we prepare our final product design. The JSE's New Products Committee has approved the product concept and whilst we consult with our active membership, we will also be securing support from our Commodity Clearing Members.

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

This Market Notice will be available on the website at <https://www.jse.co.za/redirects/market-notices-and-circulars>

FUTURES CONTRACT	QUANTO WHITE MAIZE												
Trading system code	QWMZ												
Trading hours	09:00 to 12H00 South African time. Admin period from 12h00 to 14h30 (Monday to Friday except South African National Holidays)												
Underlying instrument	Referencing the deliverable white maize futures contract using JSE code WMAZ, this is a cash settled contract that will take into account the rand per ton value indexed against a US Dollar forward rate to match the WMAZ reference expiry month, that is ultimately cash settled. Although the index value will reflect a US Dollar basis, all daily mark-to-market and final settlement values remain in ZAR.												
Contract months	Feb, April, June, August, November												
Contract Size	1 contract = 100 metric tons												
Quotation	Denominated in South African Rand (ZAR) with the contract price referencing the USD price move of the JSE white maize contract of the expiry linked delivery period.												
Minimum price movement	0.0100 ZAR per contract unit												
Listing programme	Based on market demand, ensuring that as a minimum we always have the nearest two expiries available for trade.												
Expiry dates & times  ( see the product trading calendar on the web page <a href="http://www.jse.co.za/commodities">www.jse.co.za/commodities</a> for the detailed trading calendar)	<p>Expiry date will be the second business day preceding the first business day of the traded expiry month at 12h00. Eg 29 November 2016 for the December 2016 expiry (first positions day as per trading calendar), should the day fall on a national holiday in South Africa, or a weekend, the first business day prior to this will be referenced.</p> <table border="1"> <tr> <td>Listed Expiry</td> <td>Reference Months</td> </tr> <tr> <td>Feb</td> <td>Mar</td> </tr> <tr> <td>Apr</td> <td>May</td> </tr> <tr> <td>Jun</td> <td>Jul</td> </tr> <tr> <td>Aug</td> <td>Sep</td> </tr> <tr> <td>Nov</td> <td>Dec</td> </tr> </table>	Listed Expiry	Reference Months	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Nov	Dec
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FUTURES CONTRACT	QUANTO WHITE MAIZE
Determination of final cash settlement value	<p>The final settlement price for cash settlement of the contract will require two components, a white maize settlement value and a Rand Dollar exchange rate. The white maize value will refer to the underlying reference white maize (JSE contract code WMAZ) MTM as published on last trading date. The Dollar Rand exchange rate required to determine the final settlement price will refer to the spot USD/ZAR exchange rate as determined by the JSE at 12h00</p> <p>For details of the trading calendar please see the following link  <a href="http://www.jse.co.za/Libraries/Commodity_Derivatives_Products - Quanto_Futures_Options/Trading_Dates_Quanto_Futures.sflb.ashx">http://www.jse.co.za/Libraries/Commodity_Derivatives_Products - Quanto_Futures_Options/Trading_Dates_Quanto_Futures.sflb.ashx</a></p> <p>The final ZAR settlement value will be rounded off to 2 decimals.</p>
Settlement Method	Denominated and cash settled in South African Rands (ZAR).
Initial Margin requirements	As per the JSE margining methodology, for the latest initial margin requirements per contract please visit the products page on the web: <a href="https://www.jse.co.za/downloadable-files?RequestNode=/Safex/APD%20Margin%20Requirements">https://www.jse.co.za/downloadable-files?RequestNode=/Safex/APD%20Margin%20Requirements</a>
Daily mark-to-market	This will rely on existing daily MTM processes of considering last trade, better bid, lower offer on the initial introduction of the contract HOWEVER the JSE will strive to automate the MTM process by considering two components, a white maize (WMAZ contract) value and a Rand Dollar exchange rate. The white maize value will reference the underlying white maize MTM published price. The Dollar Rand exchange rate required to determine MTM will refer to the spot USD/ZAR exchange rate as determined by the JSE at 12h00
Exchange fees (incl.VAT)	R5.00 per contract
Daily price limits	No price limits will be applicable
Position limits	No position limits in South Africa however the JSE reserves the right to implement such.
Volatility scanning range	3.5
Qualifying audience Allowed to participate	Considered a domestic instrument as the underlying product refers to white maize delivered in South Africa
Trade types	Reported transactions will be accommodated with no minimum volume reporting criteria. The

FUTURES CONTRACT	QUANTO WHITE MAIZE
<b>accommodated</b>	onus remains on the client to assess onscreen quotes to ensure the levels secured are the most competitive.