
MARKET NOTICEJohannesburg
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Relates to:

- Equity Market
- Equity Derivatives Market
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- Interest Rate Derivatives Market
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Date: 24 January 2023**SUBJECT:** SOYA DIFFERENTIALS WITH MULTIPLE REFERENCE POINTS**Name and Surname:** Anelisa Matutu**Designation:** Head - Commodities

Dear Client,

This notice serves to inform market participants that, following careful consideration, the JSE will begin a two-year trial from 1 March 2024 in which the JSE will amend the SOYA contract specifications and move away from a single reference point model in favour of a multiple reference point model. The contract size, quality specification, and underlying deliverable product specification remain unchanged however Randfontein is no longer the single reference point. To reiterate there will be no single reference point with the JSE identifying a series of processing points when determining the JSE location differential should soya beans be delivered in conclusion of a futures contract.

The purpose of this new model is to evaluate whether the concept of recognising multiple points of demand allows for a vibrant and effective derivatives contract. The concept of location differentials remains, but it now considers the supply available to each point of consumption and models it on a linear basis.

This concept, which was originally presented to the JSE by Johann Strauss while completing his PHD, has been discussed extensively in various forums, and the JSE has decided to trial the model only for the SOYA contract and for a two-year period after considering all feedback. The JSE will evaluate the performance of the derivatives contract at the end of each marketing season, evaluating its price convergence and effective hedging capabilities. The JSE will decide regarding the continued implementation of the model at the end of the two-year period, implying that the model will be used for a period of three years.

If you are unfamiliar with the multiple reference point model, please review the following material prepared during the discussion period:

- a) A brief video prepared for the initial consultation process
<https://www.youtube.com/watch?v=YsOaGDdhPio>
- b) A background document describing the concept as prepared by Dr Strauss.

The March 2024 SOYA expiry will be available for trading next month, and the JSE will host a series of information sessions beginning in March of this year to allow participants to become acquainted with the model. The JSE will also publish indicative location differentials for the 2024 marketing season relying on 2023 data as an example of the impact the various reference points will have on location differentials under the new model. In addition, each year, the JSE will publish a list of the reference points that will be included in the model as well as the soya bean stock levels per registered JSE silo that was used as a source of supply data in the model. If you would like to register for these information sessions, please email commodities@jse.co.za

Finally, to assess the model's success, the JSE collaborated closely with the Technical Advisory Committee to develop the following criteria, which will be considered at the end of the two-year trial period.

1. The pilot will run for a minimum of 2 years, overlapping for a further year as the success of the pilot will only be considered after the full 2-year period. Pilot runs for SOYA from 1 Mar24 to 28 Feb26, remaining 2026 expiries up until 28 Feb27 will continue the same model, should the pilot not be considered a success the SOYA contract will revert to a single reference point as from 1 Mar27 marketing season.
2. The pilot is only applicable to the deliverable SOYA contract, NO OTHER commodities will be considered during this period
3. Evidence will be gathered through volumes traded and open interest records, to indicate whether market participants continue to support the SOYA contract as a means of managing price risk comparatively to the crop size.
4. The number of market participants active in the current contract will be recorded and this will again be accessed at the end of the pilot period to understand how market participation was impacted.
5. There is no excess buildup of physical stock in delivery points inside the zero-differential areas. The multiple reference point model strives to be more inclusive considering processing points and so we would hope to see movement of such stock before the outer points become active supply points.
6. Redelivery of JSE silo receipts will be carefully monitored to establish if there is a major area of concern. This could either be due to the calculation of the location differential or simply clients receiving stock in sites that do not meet their requirements.
7. A formal survey will be undertaken with market participants in the soya sector to gauge their views of the new model towards November each year as a further means of formulating feedback.

The JSE looks forward to working with all market participants to assess the model's success. Our primary objective remains to provide a premier platform for price discovery and price risk management. Please contact the Commodities Team if you have any comments or questions.

The JSE would like to remind market participants that this model is only being considered for SOYA, and that all other deliverable commodity contracts remain unchanged in their design.

Should you have any queries regarding this Market Notice, please e-mail commodities@jse.co.za

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