

## Market Notice

**Number:** A1898 A  
**Date** 13 November 2013

### Introduction of Short-Dated New Crop (SDNC) options for white and yellow maize

Further to market notice A1873, many thanks for all the feedback and guidance received regards the proposed option product.

To recap the SDNC options provide a convenient alternative strategy for those trading new season crops in that producers can experience the benefits of hedging with options at reduced premiums and without having to take an outright futures position in the main harvesting month. The SNDC option will track a main hedging month however will expire into a specific future expiry, roughly three months earlier, providing protection over the traditional volatile weather market.

Based on the feedback received the JSE will trial two expiries specific to white and yellow maize:

Short-Dated New Crop Option	Underlying Futures	Short-Dated New Crop Option Contract Months
White Maize	July 2014	25 March 2014 (WMNC)
Yellow Maize	July 2014	25 March 2014 (YMNC)

### Option expiry and mtm process

The March 2014 options based on the July 2014 futures expiry month will expire at **11h30 on 25 March 2014**. The JSE will mtm the options on a daily basis referencing the same Jul14 futures expiry level and will rely on the options trading activity to determine the mtm option volatility for the Mar14 options.

In order to provide option writers the ability to unwind any exposure on the 25<sup>th</sup> March 2014 on option expiry day, a volume weighted average price (vwap) taken between 11h15 and 11h30 of the Jul14 futures will be taken and published shortly after 11h35 as the Jul14 futures price to be considered if the option is in the money or not. This will be an additional snapshot specific to the Mar14 options only with the mtm for Jul14 continuing to be taken in the published manner closer to the market close together with the other expiries.

Please note these SDNC options will be European style options that implies participants will not be able to exercise them early. To summarise again the JSE will on expiry day, namely 25<sup>th</sup> March 2014, based on the



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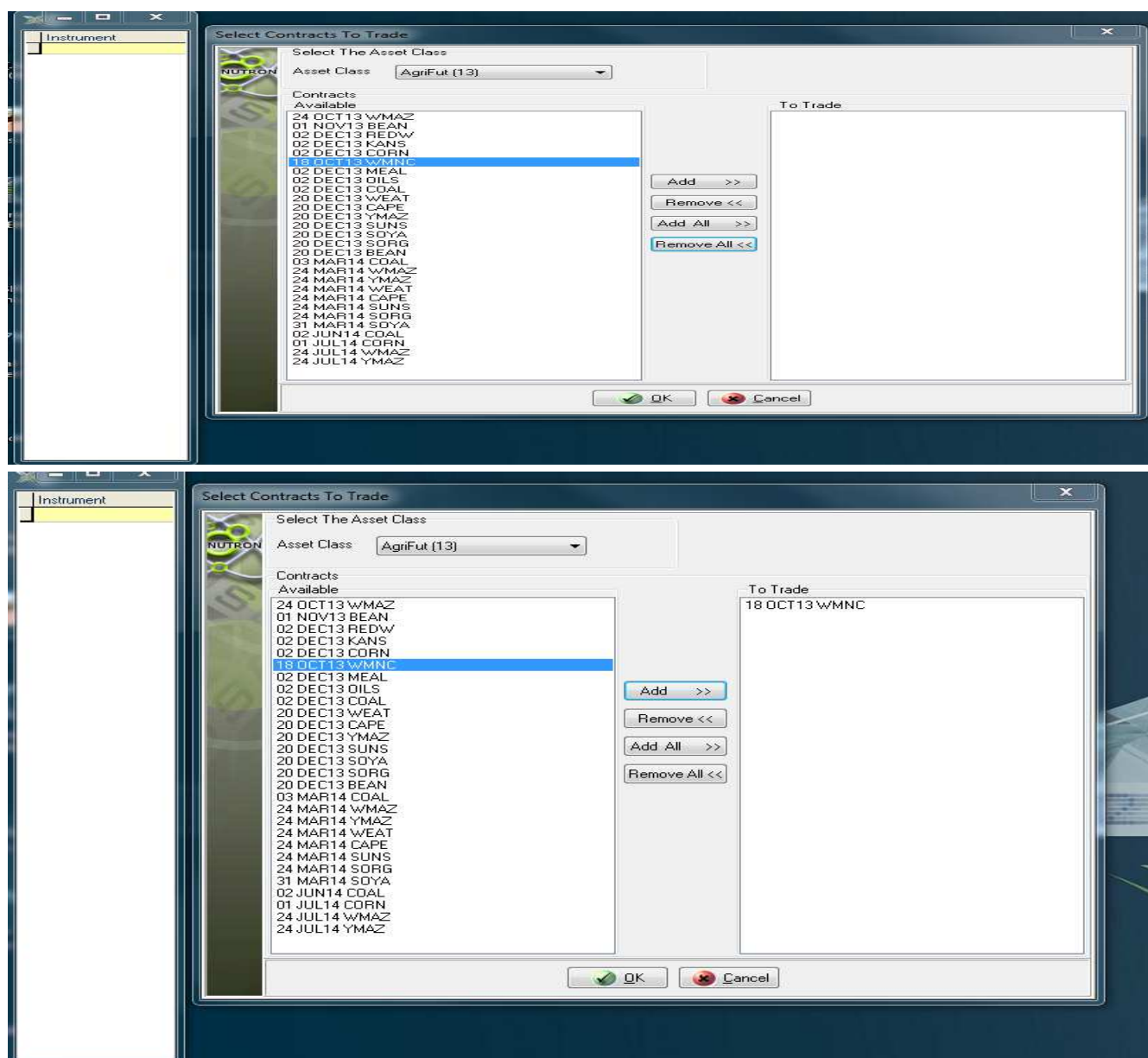
**Company Secretary:** GC Clarke

15 minute vwap determine a Jul14 price level that will establish which options are in the money and will result in Jul14 futures positions.


**Loading the new product on Nutron and a WARNING regards the volatility pricing on the system**

The SDNC options will be made available on the current trading platform however market participants must be aware of the current trading system's anomalies since this new product is loaded within the current system design. The SDNC options will be available in a separate trading window so as to ensure there is no trading activity on any WMNC and YMNC Mar14 futures. To load the new option product on Nutron please refer to the below example that references test data:

1. Select **Central\_Option** under **Agris Trading**
2. Select Asset Class **AgriFut(13)**
3. SELECT the **25 MAR14 WMNC** – the dates below are simply an example
4. SELECT the **Add** tab



- Then go back to **APD Central\_Options** and you will see the strikes available and from where trading can be executed using similar functionality **except** regards pricing the options:



Instrument	QtyB	Bid	Offer	QtyO	Change	Last	Time	High	Low	Volume	MidPrice	OpenInt
18 OCT13 WMNC2080.00 P	1	2587.00	0.00	0	0.00	0.00	00:00	0.00	0.00	0	2089.00	0
18 OCT13 WMNC2080.00 C	0	0.00	0.00	0	0.00	900.00	00:00	0.00	0.00	0	2089.00	0
18 OCT13 WMNC2100.00 C	0	0.00	0.00	0	0.00	0.00	00:00	0.00	0.00	0	2089.00	0
18 OCT13 WMNC2100.00 P	12	3674.00	3796.00	12	0.00	0.00	00:00	0.00	0.00	0	2089.00	0

- In order to be able to introduce the new product within the current functionality, it is critical market participants be **AWARE THAT THE CALCULATED VOLATILITY** in the bid/ask box **WILL BE INACCURATE** since the system will reference a stale futures price during the trading session. There will therefore be **NO MIDPRICE** update during the trading session and users must rely on their own option pricing model to compare option volatilities for the different strikes selected.
- SDNC options will only match on premium with no delta options loaded since the current system capabilities do not have the ability to link the Mar14 options back to a different underlying futures expiry month, namely the Jul14 WMAZ contract.
- The expiries will be configured that no Mar14 options can be exercised early or abandoned. At expiration the JSE will then ensure futures positions in the Jul14 WMAZ or YMAZ contracts are captured into the positions file to reflect the results of the March option close out.

The contract specifications are attached to this market notice. The two expiries will be available to the market as from **Thursday 14 November 2013**. Please will those members interested in participating in this new product contact their Clearing Member to confirm the contract setup as soon as possible.

The JSE will monitor the activity of the Mar14 SDNC options for white and yellow maize to appreciate if there are any further modifications required to the contract specifications before rolling this out to any other products. The JSE continues to engage option writers to confirm their support and willingness to provide pricing to interested clients. The JSE is available to take any questions or if there is demand from members to host joint presentations to clients we would welcome this in order to further promote the new option product.

I remain available to take any questions or suggestions around this new option product. Thank you for your ongoing support of the commodities market.



**Chris Sturgess**

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