

Market Notice

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Expanding the current basis premium functionality to include basis futures contracts

The JSE introduced the current basis premium functionality in October 2012 and within one year of its availability has provided a platform whereby just over R10 000 000 in premium exchanged hands. The current functionality allows market participants on both the buy and sell side to participate trading premiums on a spot equivalent; this requires the seller to have the stock on a Safex silo receipt before they can participate. The transactions form part of the settlement process in completion of a futures contract and are therefore facilitated with payment and good delivery guaranteed through the clearing structures of the JSE derivative market.

The basis premium functionality roadmap also included the ability to provide market participants with an opportunity to manage basis risk via a standardised basis futures contract. The JSE has received a number of requests over the years from both the buy and sell side of the market to expand its current offering and introduce futures contracts where basis premiums can be traded. This functionality, provided it is supported by the market, will add additional transparency to the basis premium market and since participants will be able to buy and sell positions it will provide a flexible trading opportunity for those who are already active in this market.

In essence we envisage the basis futures contract will function as follows:

- A tightly connected group of delivery points will be registered as a unique basis futures contract, this means 3 or 4 silos/bags/bunker sites in close proximity will allow market participants to either sell or buy the basis premium for a future date.
- The JSE will look to ensure there is a certain minimum storage capacity available for each basis futures contract listed.
- The basis futures contract can therefore be sold without having access to physical stock on a Safex silo receipt however the participant must be aware that should the position be held until expiry, physical delivery will be required in any of the delivery points that form part of the basis futures contract.
- We propose listing a March, July and December basis futures expiry month available for each product series eg soya, wheat and maize.



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- The pricing will work in the same fashion as the current spot basis functionality- the basis future will be a premium over and above the Safex price less location differential.
- The basis future will be margined and mtm in a similar fashion to any futures contract, allowing participants to enter and exit positions based on the liquidity of the contract.
- When we get to the expiry of the basis future and resulting delivery month, the JSE will then look to “link” the basis future position to the underlying futures month eg should you have a basis future linked to the Jul WMAZ expiry, we will then assist with the delivery process to ensure buyer and seller are matched and the physical delivery is processed including the final mtm of the basis future.
- Should participants hold positions in the basis future through until expiry these positions will be processed and become part of the standard delivery process in completion of an underlying grain futures contract.
- The JSE may decide to impose position limits on the basis futures contract depending on the available storage capacity however will publish these in advance as part of the contract specifications.

The current trading and clearing functionality affords us the flexibility to roll out this request very quickly. In order to progress this we kindly request support from interested market participants in the following form:

- The JSE will create a small workgroup to test the final design and grouping of registered delivery points and if you are interested in being part of this please email commodities@jse.co.za your contact details and we will gladly invite you to the session.
- We invite market participants, this includes registered storage operators to **forward us a list of potential delivery points** they would like to see listed as basis futures contracts. Ideally the JSE would like to trial this concept with a series of delivery points that most typically trade at a premium throughout the marketing season however will consider all applications. Only existing registered delivery points will qualify.
- If participants prefer to see other expiry months listed please also communicate this.

The physical grain market is a critical component to the necessary price convergence of the futures market. We trust this functionality will afford market participants additional opportunities and for those participants whom feel the location differentials impede their pricing, a platform will be available to bid or offer product to a wider audience with a future delivery date in mind.

We look forward to your feedback and comments. Once we receive the list of potential delivery points and have had an opportunity to work through the delivery process with the smaller workgroup, we will publish an update to the market regards implementation dates. As always, please feel free to call me or the rest of the team if there is anything we can clarify. We look forward to your support as we continue this journey.



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