JOHANNESBURG STOCK EXCHANGE
Commodity Derivatives

Market Notice

Number: **Note A1228**
Date: **17 May 2010**

Introduction of a physically settled sweet sorghum contract

Further to notice A1132 and A1159, the JSE has carefully considered the responses received regarding the request to introduce of a sweet sorghum contract. The consultation period has been extensive to ensure, in the view of the JSE that the way forward ultimately serves to add value to the market. The fundamental purpose of a derivatives market is to provide a facility that will assist with price discovery and facilitate price risk management. The JSE has the support of four silo operators who have offered their full co-operation to store the product and issue Safex silo receipts thereby undertaking to guarantee delivery of the physical product. In a market where no transparent cash market exists, it is crucial for the exchange to ensure it has a delivery mechanism in place that will ensure that the final settlement value is relevant and not open to any abuse. The delivery process has certainly been refined over the years for the grain products currently traded to ensure it is efficient and reflects current market practice. This same process will be applied to the sweet sorghum contract.

The JSE after careful deliberations has decided to introduce a sorghum contract from Wednesday 19th May 2010 with the following expiries: Jul10, Sep10, Dec10 and July11. The success will depend on the trading activity in the months to come. The JSE will continuously monitor the progress of the contract with the market participants advised to carefully consider the trading activity before benchmarking against the traded price. The following contract specifications will apply whilst the delivery process will mirror the existing grain products:

FUTURES CONTRACT	SORGHUM FUTURES	OPTIONS CONTRACT	SORGHUM OPTIONS
NUTRON code	SORG	NUTRON Code	SORG
Trading Hours	09:00 to 12:00	Trading Hours	09:00 to 12:00
Underlying Commodity	Sorghum of South African origin which complies with the physical criteria for grade GM1, as detailed in the South African grading regulations of the Agricultural Product Standards Act of 1990	Underlying Instrument	1 Sorghum futures contract
Contract Size	100 metric tons	Option Type	American type, puts and calls

Expiry Dates & Times	12h00 on **eighth** last business day of March, May, July, September and December. Physical deliveries from first business day to last business day of expiry month.	**Expiration date and time**	12h00 on the **fifth** last trading day of the month preceding the expiration month of the underlying future contract
Constant Month Contract	Not available to start with, however JSE reserves the right to introduce constant month contracts should there be sufficient demand.	**Contract months**	March, May, July, September and December
Settlement Method	Physical delivery of Safex silo receipts giving title to sorghum in bulk storage at approved silos at an agreed storage rate. No single reference point will be traded.	**Exercise of positions**	Long position holders may exercise/abandon their options during market hours at any time up to 15 minutes prior to the expiration date; provided that all in-the-money options shall be automatically exercised by the exchange at expiration
Quotations	Rand/ton	**Quotation**	Rand per contract
Minimum Price Movement	Twenty cents per ton	**Strike price intervals**	R20.00 per ton
Daily Price Limits	R50.00 per ton (R75.00 per ton at extended limits)	**Calculation of Mark-to-market**	Mark-to-market prices will be calculated from volatility quotes for at-the-money using the Black options pricing model
Initial Margin	R11 000/contract up to first notice day. R15 000/ contract up to first notice day at extended limits. R15 000/contract up to expiry day. R30 000/ contract up to last delivery day. R3300/ contract for calendar spreads.	**Volatility scanning range (for margining)**	3.5%
Maximum position limits	No participant (defined as a member or client) or associated group of participants may hold in excess of 180 contracts of a particular delivery month contract within 10 days of the first delivery day of the month in question, except during the harvest period from May up to and including July, the position limit will allow for a maximum of 300 contracts.		
Expiry valuation method	Closing futures price as determined by the JSE	**Expiration Price (for automatic exercise)**	Mark-to-market price of the underlying future on expiration date
JSE Fees (incl VAT)	R12.00 per traded futures contract R200.00 per delivered contract	**JSE Fees (incl VAT)**	R6.00 per traded option contract

Please note the grains product page on the following link provides all the specific details on the new product: http://www.jse.co.za/Products/Commodity-Derivatives-Market/Commodity-Derivatives-Market-Product-Detail/Grain_Futures_Options.aspx

The limited production and therefore supply of sweet sorghum compared to the other grain types produced in South Africa is a point of concern to ensure the success of the contract. Currently limited supply in the SOYA and SUNS contract is managed through strict position limits for all participants prior to going into delivery month. The purpose of the position limits is to avoid a dominant party from abusing their position in the market and so the JSE will ensure it implements the sorghum position limits to operate in the same fashion.

The contract will be implemented with price limits to restrict the maximum price movement on any one day and the limits will guide the initial margin requirements. These price limits may be amended as may be required depending on the trading ranges.

The following delivery points will be registered with the contract trading similar to SOYA as no location differentials will be applicable:
VKB – Villiers, Ascent and Vrede :
Afgri –Leslie, Platrand, Standerton, Stoffberg, Bloekomspruit, Val, Greylingstad, Harvard, Holmdene:
Senwes – Vredefort, Weiveld, Gottenburg, Potchefstroom, Wolwehoek, Heilbron and Koppies
NTK – Lehau, Roedtan and Settlers

The marketing season will run from 1 May to 30 April the following year, the standardised storage rate to be applied to this marketing season will be as follows:
1 May 2010 – 30 April 2011: 47c/t/day
Please note that the registered delivery points and standardized storage rate for contracts traded outside of the above marketing season will only be finalized closer to the next season.

All feedback, both in favour and against, regarding the introduction of a sweet sorghum futures and options contract for the South African market was appreciated and considered. We believe that the introduction of the sorghum contract and the operation thereof is in the long term interests of agriculture in South Africa.

Rod Gravelet-Blondin

Designation	Senior General Manager
Division	Commodity Derivatives Division
Tel	+27 11 520 7258
Fax	+27 11 520 7558
E-mail address:	rodgb@jse.co.za

Distributed by the Company Secretariat +27 11 520 7478