

Market Notice

Number: A1656
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Changes to the physically settled soybean contract (SOYA)

Following a discussion at the Agricultural Advisory Committee, there was support for a number of changes to the SOYA contract in order to further improve its trading efficiency. The following was discussed:

1. Changes to price limits
2. Changes to initial margin requirements
3. Introduction of speculative position limits and removal of the spot month limits for all participants
4. Increasing the contract size

1. CHANGES TO PRICE LIMITS

Considering the number of price limit breaches over the past six months it was agreed to increase these limits on a conservative basis to roughly represent 2-2.5% of the 30 day average price, this therefore results in the following changes to SOYA price limits from R70/t to **R100/t** (daily limit) and extended limits from R105/t to **R150/ton**. The updated price limits will be implemented as from **Friday 3 August 2012**, please note the spot month will continue to trade without any price limits. The contract specification will be updated accordingly and posted on the web.

2. CHANGES TO INITIAL MARGIN

The JSE has been monitoring initial margin requirements (IMR) on an ongoing basis and as agreed with the industry would do its best to limit grain IMR updates to a quarterly basis. Based on the value of the product and price volatility over the 7 year data period, IMR for SOYA will increase by R26/ton on the entry level margin requirement. The following changes will be implemented on **Thursday 2 August 2012 for settlement 3 August 2012**:

- R4400/contract up to first position day,
- R5800/contract up to first position day at extended limits,
- R5800/contract from first position day up to expiry day,
- R11600/contract up to last delivery day,
- R1400/contract for calendar spreads,

3. CHANGES TO POSITION LIMITS

Following fundamental growth and changes in this market not only with production increasing significantly since the contract was first introduced but also with crushing capacity in the country being raised, the JSE is consulting with relevant interested parties in an effort to move away from the existing rigid cash month



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position limits as is currently prescribed in section 5.5 (e) of the detailed contract specifications and which are applicable to all position holders. It is intended that the current cash month position limit be removed in favour of more suitable speculative position limits as is currently applicable to white maize contracts. Speculative position limits will recognize the differentiated participation by hedgers versus speculators in the soybean market place. To better understand the speculative position limits rule please refer to the JSE Derivatives Rule 10.40, a copy can be found on the JSE webpage link: <http://www.jse.co.za/Regulation.aspx>

Referencing the same methodology as was applied to white maize, this involves taking a twelve month average open interest across all expiries and then referencing a factor of 15% of this for the all month limit. The individual month and spot month limit is then derived off this value. Using this information the following speculative position limits were calculated and are currently under discussion.

	Speculative position limits by number of contracts – futures equivalent		
Contract	Spot Month	Single Month	All months combined
Soya beans (SOYA)	250	1250	2500

Once these limits are officially introduced by the JSE, existing position holders who hold positions over and above the prescribed limits will be contacted in order to motivate their hedging status as per JSE Rule 10.40. The detailed contract specifications will be updated with these changes.

Section 5.5 of the contract specifications will be updated once these limits are introduced to read as follows: (e) *“Position limits are applicable to all participants unable to motivate their hedging positions as per the derivative rules 10.40 with the limits defined as per Appendix G also repeated in the derivative directives”*

Further details regarding implementation dates for the above speculative position limits will be provided as soon as possible.

4. CONTRACT SIZE

The JSE has discussed increasing the standard contract size from 25 tons to 50 tons on a number of occasions at the Agricultural Advisory Committee. A request was again raised by various market participants who motivated that crop production has increased significantly in recent years with even greater soybean production than sunflower seeds whilst sunflower seed has a standard contract size of 50 tons. The JSE did also request statistics from the Crop Estimates Committee when considering the request. Based on producers participating in their feedback program and even though the number of participants is limited, it did confirm that 82% of the respondents produced more than 50 tons of soya beans per annum. The majority of the Agricultural Advisory Committee with the exception of Grain South Africa did favour increasing the contracts size argued it would bring additional trading activity through improved execution abilities and argued that producers who were only able to supply 25 tons did not use the market directly due to the capital requirements. These producers would typically work through larger market participants to manage their price risk.

The Committee was in favour of increasing the standard contract size to 50 tons commencing as from 1 March 2013, the start of the new marketing season. That said after further investigation and recognizing that there is already open interest on the 2013/14 marketing season the impact of changing the contract where positions are already open is no simple task and will impact not only clearing members but also all other downstream systems. The suggestion is therefore to only move to a 50 ton contract as from the 2014/15

marketing season. The JSE would appreciate comments regarding this proposal, please forward this to commodities@jse.co.za or feel free to call me directly to discuss this further. A further notice will be distributed once all feedback has been considered to confirm the contract size changes and its implementation date.



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