

MARKET NOTICE

Johannesburg
Stock Exchange

Tel: +27 11 520 7000

Fax: +27 11 520 8584

www.jse.co.za

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SUBJECT: REQUEST FOR FEEDBACK IN TERMS OF EXTENDING THE LIST OF FOREIGN ORIGINS OF
WHEAT, DELIVERABLE ON THE BREAD MILLING WHEAT CONTRACTS (WEAT AND CAPE)



Chris Sturgess

Designation Director
Division Commodity Derivatives
Tel +27 11 520-7299
Fax +27 11 520-7558
E-mail address: chriss@jse.co.za

Dear JSE Stakeholder

Request to include wheat from Russia and Ukraine as deliverable in terms of the WEAT and CAPE contracts.

Some time back the JSE was approached by importers to include wheat from Russia and Ukraine as deliverable in terms of a WEAT and CAPE futures contract. The agreement JSE reached with particularly the end users/milling community was that we would first consult with them to appreciate if there were any concerns around including the additional origins and to ensure there was a clear positive trend in terms of consumption of wheat from these origins.

As published by SAGIS, the imports of Russian and Ukraine wheat to South Africa have steadily increased since the 2011/2012 season from 193 145 tons imported, to 587 204 tons in 2012/2013 to a total of 1 167 040 tons in 2013/2014 (this represents 70% of total wheat imports for the marketing season).

The request was discussed at an Agricultural Advisory Committee meeting and the JSE received formal feedback from the National Chamber of Milling that they would support the inclusion of these origins on the basis that the two origins would be included in the classification where a R100 origin discount would apply. Concern from other market participants was around the wheat from the two origins ensuring it was fit for human consumption and so it was proposed to amend the definition of the underlying commodity for both the WEAT and CAPE contracts as follows:

Bread milling wheat originating in the following countries:

*South Africa, Argentina, USA Hard Red Spring (DNS & NSW), USA Hard Red Winter, no 3 or better Canadian Red Western Spring wheat, Australian Hard wheat, Australian Prime Hard, Australian Prime White, Australian Standard White wheat, German Type A or B, **Russia and Ukraine** where the wheat is of a sound, fair and merchantable quality which is fit for human consumption and which complies with the listed criteria and the requirements and methodology as contained in the SOUTH AFRICAN RULES FOR THE CLASSIFICATION AND GRADING OF WHEAT referencing B1 grade as par. Discounts will apply to grades B2 and B3 with a varying origin discount as defined via an official notice for wheat from certain origins.*

Prior to approaching the broader market participants for comment, the JSE has since received feedback from certain members of the Advisory Committee around their concern for including these additional origins within the same marketing season. The motivation was around their concern that inclusion of these two origins which see a significant amount of volatility in their basis values ranging from +30\$ to -80\$, this could materially impact the calendar spread relationship for the remainder of the year. The suggestion was therefore not to amend the contract terms until the new marketing season commences on 1 October 2015. The JSE has until today not received a request to introduce the Jul15 and Sep15 expiries and so these expiry months have no open interest however would be included in future calendar spread trading for the 2014/2015 marketing season.

Further to the above, a suggestion was made that since the basis relationship between Russian and Ukraine wheat was more volatile, by applying a fixed R100 origin discount this would hamper the market in order to discover the true basis value and so the suggestion was to introduce a separate wheat contract that only allowed for Russian and Ukraine delivery. This additional wheat contract would allow both hedgers and speculators to participate in order to discover the basis value of wheat from these origins as compared to the existing WEAT contract. The contract would be physically settled and required that the Russian and Ukraine wheat be stored separately in a JSE registered delivery point.

In considering the above and appreciating the potential impact on calendar spreads on the existing WEAT contract, the JSE proposes that we continue to introduce the remainder of the 2014/2015 marketing season expiry months WITHOUT making any changes to the deliverable origins. Thereby the expiry months from May15 through until Sep15 would continue to only accept wheat delivery from the defined origins and would exclude Russian and Ukraine wheat. Should market participants disagree with this proposal, please submit a detailed motivation around your reason for this and not limited to, explain why in your view the calendar spreads for the remainder of the marketing season will not be impacted by the inclusion of these two origins.

Further to this, we would sincerely appreciate from wheat market participants views specifically around:

1. Inclusion of Russian and Ukraine wheat which represented 70% of the total imports into the existing WEAT and CAPE contracts, provided you support the inclusion, what in your view should be the origin discount if any?

2. Comments around the proposal to list a separate deliverable wheat contract that only allows Russian and Ukraine wheat in order to discover the true basis value of these origins as compared to the existing WEAT contract?
3. Comments on the proposed definition for the “underlying commodity” for the WEAT and CAPE contracts.
4. A view around the R100 origin discount that is currently applied to German wheat, wheat from Argentina and USA Hard Red Winter wheat should this be delivered in completion of a WEAT futures contract. Are there any proposals around the determination of this value or should it be discontinued?
5. Whilst we soliciting feedback with reference to the wheat contract, comments around the continuation of the CAPE wheat contract with Paarl as reference point would also be appreciated. The Agricultural Advisory Committee at a recent meeting did discuss changing the reference point to Malmesbury however the general consensus was to leave the reference point as is.
6. Finally, as we look to other international markets, we currently offer a cash settled CBOT as well as Kansas City Board of Trade wheat contract, is there any interest in other international wheat markets that would be of value to local market participants?

The next Agricultural Advisory meeting will take place on 23 October 2014 and so the JSE would like to discuss this feedback with committee participants at this meeting. Please could we kindly request all feedback be emailed to commodities@jse.co.za by close of business of **Friday 17 October** in order for this to be included in the discussions.

The JSE also acknowledges the recent distribution by DAFF regarding Draft Regulations Relating to the Grading, Packing and Marking of Bread Wheat intended for sale in the Republic. Should participants be interested in a copy of the draft regulations please feel free to contact us.

We look forward to your feedback on the above items in order to include this in the debate at the next Advisory Committee meeting.