

MARKET NOTICE

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NOTICE NO. **152/2015**

RELATES TO

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<input type="checkbox"/>	Equity Derivatives Market
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<input type="checkbox"/>	Interest Rate & Currency Derivatives Market

DATE: 6 March 2015

SUBJECT: **PROPOSAL TO INTRODUCE A CASH SETTLED BEEF FUTURES CONTRACT**



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Market: **Capital Markets**
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Dear JSE Stakeholder,

Please feel free to distribute to any interested parties.

1. BACKGROUND

When the Agricultural Markets Division of the then South African Futures Exchange (SAFEX) was launched in 1995, one of the initial products listed was a beef futures contract. Unfortunately this contract did not receive the necessary support through trading activity and had to be delisted after a while.

After close to 20 years since our initial effort to provide a beef contract for price risk management purposes, we are again exploring the opportunity to provide this. This follows from renewed interest received from various market participants. More information on the production dynamics of the South African beef industry is attached as a separate document – this information is supplied by the Department of Agriculture, Forestry and Fisheries.



This note is aimed at reaching out to as many interested groups as possible to gauge the appetite from both the supply and demand sides.

2. PROPOSED CONTRACT SPECIFICATIONS

We have modeled much of the proposed contract specifications based on what we previously had in place in 1995, as we feel this is still applicable. In addition we also researched a number of other international exchanges where their beef derivative contracts are actively traded to ensure they aligned.

The most critical component of the contract specification is to ensure our cash settled reference price is a good reflection of spot market activity, thereby ensuring the necessary price convergence between futures market and spot. We therefore propose that upon expiry, settlement shall take place in cash based on average beef prices as calculated by JSE Clear. The JSE is currently considering various data sources for determining the final settlement price. One of them is to consider the average weekly prices as published by abattoirs over a two-week period. The other is to consider a linear combination of average purchase prices from abattoirs with average selling prices from feedlots. The other would be to include live cattle auction sales into the matrix. Any industry participants who are keen to provide us with price information are welcome to contact the JSE in this regard. The JSE would like to assure participants that all information submitted to it will be treated with utmost confidentiality and only aggregated information will be made public.

For more information regarding the proposed contract please refer to attached contract specifications. In order to ensure that we deliver the desired product, please feel free to submit any comments relating to the proposed specifications.

Consultations are ongoing with various stakeholders to ensure that we obtain the required price information but also correct contract design and so this is an open invitation should you also want to be included in these consultation sessions.

3. COMMITMENT FROM REGISTERED MEMBERS

Suffice to say the obvious that this product will not progress without the active support of our member firms. We are therefore keen to understand from our membership base whom will be interested in further developing and promoting this new product to the beef industry. Please do send us an email to ensure we include your firm in our marketing drive.

Thank you again for your time and consideration of this notice; we look forward to your constructive feedback. Please could interested members confirm their interest as soon as possible and if you do have any contacts to potential price contributors feel free to put us in touch.

Please can all comments regarding the proposed contract specifications reach us by Friday 20 March 2015 as we prepare our final product design.

APPENDIX: BEEF Contract Specifications

FUTURES CONTRACT	BEEF CARCASS
Trading system code	BEEF
Trading Hours	09:00 to 12:00 Central African Time
Underlying Commodity	Chilled beef carcasses consisting of two sides per carcass, graded as A2/A3 and having conformation of 2, 3, 4 or 5, a damage class of not more than 1 on either the buttock, loin or forequarter, and no measles, in terms of the national beef grading standards. Carcasses must comply with minimum dressing standards and must be fit for human consumption.
Contract Size	1 contract = 2000kg
Expiry Dates & Times (Last Trading Day)	Last Thursday of the expiry month at 12h00.
Contract Months	Expiry months shall be the nearest four calendar months as published by JSE from time to time.
Settlement Method	Upon expiry, settlement shall take place in cash. The settlement price shall be determined by the JSE by incorporating weighted average purchase prices of A2 and A3 carcass with weighted average selling prices of finished cattle at feedlots. Final calculation and split between beef and feeder cattle price will be determined by the JSE in due course. JSE reserves the right to revise its settlement methodology from time to time.
Quotations	Rand/Kg
Min Price Movement	Five cents per kg
Daily Limits	TBC
Initial Margin	As determined by the JSE Risk Committee from time to time.
Maximum position limits	None. JSE reserves the right to impose limits at later stage
JSE Booking Fees	TBC

Please forward all your input to commodities@jse.co.za or contact Raphael Karuaihe on 011 5207258.

This Market Notice will be available on the website at <https://www.jse.co.za/redirects/market-notices-and-circulars>