NEW ASSET CLASS FOR THE JSE

Commodities trading in South Africa began with the disbanding of the state-controlled agricultural boards in 1995 and the establishment of the Agricultural markets Division (AMD) of the South African Futures Exchange (SAFEX). This was in-line with global trends in agriculture, where costly agricultural subsidies and state-controlled marketing boards had failed. For the first time, the AMD of SAFEX provided South African farmers with a tool for price risk management and price discovery for agricultural products. Then in 2001, SAFEX was acquired by the JSE Limited and became the Agricultural Products Division.

This year, the division underwent another step in its evolution and was renamed the Commodities Division to signify a broadening of exchange traded commodities offered at the JSE. This does not mean that division will disinherit its roots. “Agricultural products will always remain a core focus for us because agricultural commodities, especially grain, are central to the South African economy. We will continue to serve the agricultural market, but have also broadened our commodities range to offer the South African investor increased investment opportunities,” says Rod Gravelet-Blondin, Senior General Manager of Commodities at the JSE.

The expanded range of commodities offered is due to an extension of the existing licensing agreement that the JSE holds with the CME Group, the world’s largest derivatives market. This follows on from the successful launch of the CBOT corn futures contract in February which allows local investors to use the CME Group’s benchmark corn futures settlement prices for a local corn future.

With the extension, investors are now able to trade in futures contracts referencing benchmark gold settlement prices from the CME Group’s COMEX exchange and platinum and crude old prices from its NYMEX exchange. “Expanding the existing relationship with the CME Group is an achievement for the South African derivatives market,” says Gravelet-Blondin “Through our link into this two highly liquid exchanges, South African investors are able to access cash-settled futures in three commodities that they not been able to trade in previously”. Investors do not have to gain Reserve Bank approval, are able to trade in Rands and in much smaller quantities than what is required in bigger markets. “We have taken accessibility into account, for instance a crude oil contract could be obtained for only 100 barrels, while in New York the contract minimum is 1000 barrels.”

“We are particularly excited about the opportunities that a crude oil contract offers. Oil has a knock-on effect on all sectors of the economy. Notably, as diesel is a major cost in farming, this will give our agricultural market a tool to hedge a major input cost. We also expect interest from many other industries, from transport to manufacturing,” adds Gravelet-Blondin.

The two metal commodities are bound to be of interest to local investors as South Africa is the world’s largest platinum producer and the third largest gold producer. “As these two commodity prices tend to work in tandem with the share prices of gold and platinum mining stocks, South African investors are now able to hedge their mining investment risk in these companies.”

“The opportunity to work with CME Group has increased the products we can offer and complements our future growth strategy. We will continue to investigate investment possibilities in this new asset class,” concludes Gravelet-Blondin.