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SOUTH AFRICAN RESERVE BANK

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Financial Markets Department

## Record of proceedings of the Financial Markets Liaison Group meeting held via MS Teams on 05 June 2024

<b>Members in attendance</b>	
<p>Rashad Cassim (FMLG Chairperson), SARB            Edwin Makgopa (Secretariat), SARB            Daron Hendricks (Secretariat), SARB            Zafar Parker, SARB            Bafundi Maronoti, SARB            Christopher Axelson, NT            Andries du Toit, FirstRand            Reza Cassim, RMB            Garth Klintworth, ABSA            Richard Klotnick, ABSA            Therence Mokake, IBA            Douglas Hendry, Standard Bank            Heath Beckley, Standard Bank            Lourens van Rensburg, Investec            Trevor Starke, ACTSA            Gill Raine, ASISA            Richard Treagus, ASISA            Victor Mphaphuli, ASISA            Nishan Maharaj, ASISA            George Kerby, Nedbank            Richard de Roos, SAFXC            Clive Sindelman, Investec            James Glover, Nedbank            Mark Brits, BASA            Bashier Omar, ASISA</p>	<p><u>By Invitation</u>            David Fowkes, SARB            Pamela Mjandana, SARB            Henk Janse van Vuuren, SARB            Aadila Hoosain, SARB            Linah Masoha, SARB            Michael Keenan, ABSA            Nico Duvenage, HSBC            Bhulesh Singh, FirstRand            Paul Burgoyne, Standard Bank            Gary Haylett, BASA            Wessel Moolman, NT            Laurence Adams, Investec            Wanga Cibi, NT            Artemis Galatyis, ACTSA            Varushka Singh, SARB</p> <p><u>Apologies from members</u>            Nicola Brink, SARB            Anton Gildenhuys, ASISA            Guido Haller, Standard Bank            Kweku Bedu-Addo, IBA            Mmakgoshi Lekhethe, NT</p>

## **1. Overview**

- 1.1 The Financial Markets Liaison Group (FMLG) meeting discussed the following key issues:
- 1.1.1 the current conjuncture in financial markets;
  - 1.1.2 the Gold and Foreign Exchange Contingency Reserve Account (GFECRA) and liquidity management;
  - 1.1.3 the impact of surplus cash on short-term money market rates and funding;
  - 1.1.4 the impact of financial loss absorbing capacity (FLAC) issuance on bank funding and liquidity in the South African bond market; and
  - 1.1.5 progress reports from the FMLG subcommittees and the South African Foreign Exchange Committee (SAFXC).

## **2. Summary of discussions**

### **2.1 Current conjuncture in financial markets**

- 2.1.1 It was noted that non-resident investors remained on the sidelines in 2024Q1 ahead of South Africa's (SA) national elections and on high interest rates in the United States (US). For the country to compete for international capital, it was necessary for SA's economic and political fundamentals to improve. Participation in global indices was also identified as one of the key drivers of foreign portfolio flows.

### **2.2 The Gold and Foreign Exchange Contingency Reserve Account and liquidity management**

- 2.2.1 An update on the liquidity management plans around the GFECRA drawdown, including the results of a survey conducted on 15 March 2024 among various banks, was discussed. The responses suggested that additional excess reserves associated with GFECRA were likely to have a minimal impact on banks or financial conditions.
- 2.2.2 The GFECRA drawdown would increase the money market liquidity surplus from an average of R80 billion to an average of R160 billion, excluding fluctuations in notes and coins. Bank quotas would be adjusted to accommodate the increase in the liquidity position.

## **2.3 The impact of surplus cash on short-term money market rates and funding**

- 2.3.1 It was noted that short-term funding rates improved significantly and converged around the policy rate since the implementation of the SARB's new Monetary Policy Implementation Framework (MPIF).
- 2.3.2 The challenge associated with the increased surplus position was that commercial banks would have to face increased sovereign exposure as central banks were classified as part of the sovereign sector. Foreign banks, in particular, faced constraints which included country risk premium, Regulation 22 which limited the group connected counterparty exposure and the 60/40 rule which restricts a share of deposits that could be kept offshore to 40%.

## **2.4 The impact of FLAC issuance on bank funding and liquidity in the SA bond market**

- 2.4.1 It was estimated that R270 billion of FLAC instruments would need to be issued by the end of 2030. The market expected FLAC issuance to negatively impact the availability of senior bank paper and liquidity in the bond market, resulting in wider funding spreads.

## **2.5 Feedback from the Money Market Subcommittee**

- 2.5.1 The FMLG noted amendments to the Johannesburg Interbank Average Rate (Jibar) Code of Conduct, which included among other things, the threshold for republication, the length of time in which the JSE could republish Jibar and the time that the calculation agent is required to inform market participants of revisions to Jibar rates.
- 2.5.2 The FMLG noted discussions about the establishment of a script lending and/repurchase (repo) facility for Treasury bills by National Treasury. The facility was intended to provide support for banks regarding Treasury bill liquidity requirements. Market makers had the requirement to support the secondary market activity.

2.5.3 The South African Reserve Bank (SARB) formally announced the end of the South African Rand Overnight Index Average (ZARONIA) observation period on 3 November 2023. The announcement was communicated through SARB media releases and the rate was endorsed for formal use in financial contracts. The Market Practitioner Group (MPG) also completed its Jibar transition plan.

## Abbreviations

ACTSA	Association of Corporate Treasurers of Southern Africa
ASISA	Association for Savings and Investment South Africa
BASA	Banking Association South Africa
FLAC	first loss after capital
FMLG	Financial Markets Liaison Group
GFECRA	Gold and Foreign Exchange Contingency Reserve Account
GFXC	Global Foreign Exchange Committee
IBA	Institute of Bankers
Jibar	Johannesburg Interbank Average Rate
MPG	Market Practitioners Group
MPIF	Monetary Policy Implementation Framework
NT	National Treasury
SA	South Africa
SAFXC	South African Foreign Exchange Committee
SARB	South African Reserve Bank
US	United States
ZARONIA	South African Rand Overnight Index Average

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