Box 3: Recent developments in the commodity derivatives market

The formal commodities market has created an environment in which farmers, traders and other participants are able to react to market-related, transparent prices. Commodity futures and options are effectively a way of spreading risk and obtaining greater certainty regarding prices.

The Safex Agricultural Derivatives Division (the division) opened in January 1995 to facilitate trade in grain futures contracts. After soya bean contracts had been listed in April 2002, nearly seven years elapsed before several products were introduced to the commodity derivatives market.

The first such new product was launched in January 2009 when the JSE Limited (JSE) signed an agreement with the CME Group, that owns and operates large derivatives exchanges in the United States (US), to include the group's Chicago Board of Trade (CBOT) corn[1] futures. Subsequently, more foreign-referenced commodity futures followed as precious metal and energy products were added, namely gold, platinum and West Texas Intermediate (WTI) crude oil.

In September 2009 the division's name changed to the 'Commodity Derivatives Division' (CDD). In May 2010 the CDD reintroduced grade 2 white and yellow maize futures contracts for trade, and introduced soybean, soybean meal and soybean oil contracts based on CBOT settlement prices. The sweet sorghum futures contracts, with physical settlement as a feature, opened for trade in May 2010. The foreign-referenced commodities are cash-settled as opposed to the domestic physically settled commodities. In June 2010 new trading software enabled both commodity and equity derivative memberships to access a common set of products in a specialised global trading window. The latest product enhancements were in August 2010 when the JSE extended its licensing agreement with the CME Group to include rand-denominated copper and silver futures contracts to provide local investors with enhanced exposure to the international metals market.

The current list of commodities at the JSE is shown in the accompanying table.

Commodities listed on the JSE

Commodity	Date when trade commenced	Settlement	Commodity type	Volume traded in the first two months of 2011 (actual number of contracts)
White maize	March 1996	P	Agricultural	200 244
Yellow maize	March 1996	P	Agricultural	57 796
Wheat	November 1997	P	Agricultural	88 805
Sunflower seeds	February 1999	P	Agricultural	19 243
Soya beans	April 2002	P	Agricultural	29 171
Sweet sorghum	May 2010	P	Agricultural	28
Corn	January 2009	C	Agricultural	17 823
Gold	October 2009	C	Metal*	440
Platinum	October 2009	C	Metal*	98
WTI crude oil	October 2009	C	Energy*	3 322
Soybean	May 2010	C	Agricultural	109
Soybean meal	May 2010	C	Agricultural	18
Soybean oil	May 2010	C	Agricultural	2
Copper	August 2010	C	Metal*	203
Silver	August 2010	C	Metal*	414

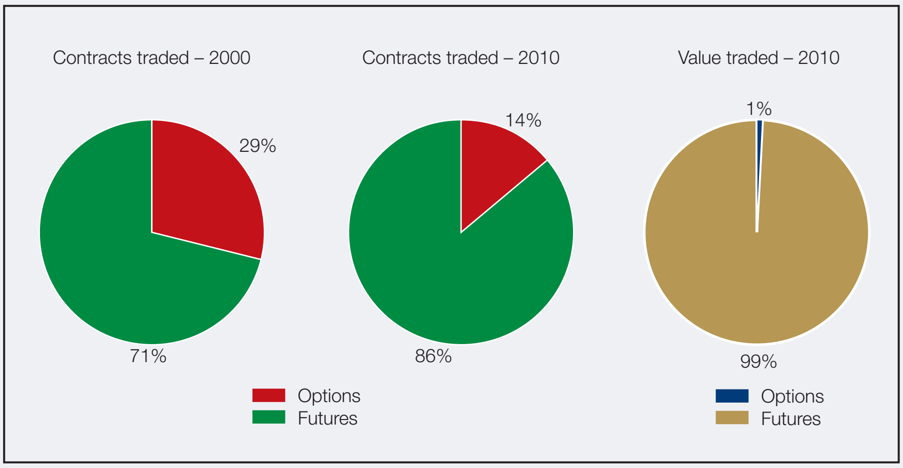
P – Physical C – Cash
* Global market

An *option* contract gives the holder the right, but not the obligation, to buy or sell an underlying instrument at an agreed price. Options are described as either puts or calls and are said to be European style when the contract can only be exercised at the end of the life, while American-style options can be exercised at any time before expiry, as is the case on the JSE. Options on agricultural futures contracts were introduced on the JSE in March 1998. Over the past decade, the contribution of trade in option contracts to the total number of contracts traded declined from 29 to 14 per cent, while the value of option contracts traded continued to contribute only 1 per cent to total turnover over this period. At

1 "Corn" in the US is the same product as "maize" in South Africa.

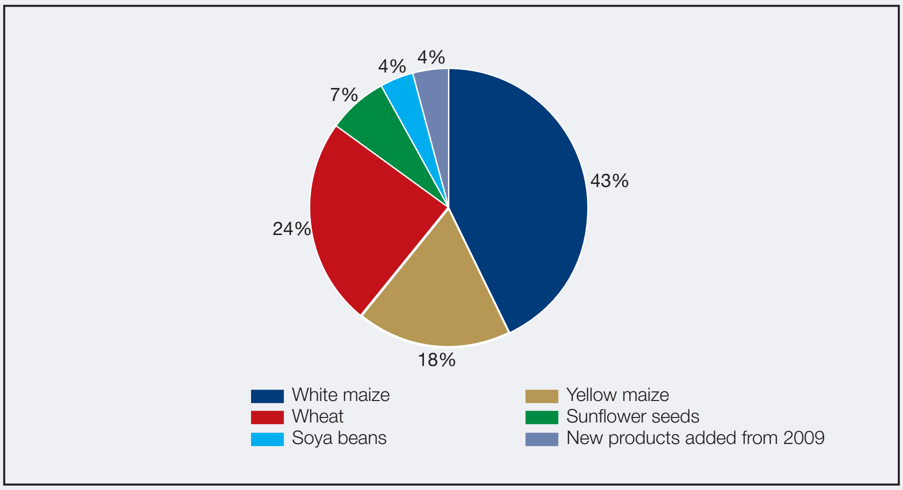
present, options are only traded in respect of white maize, yellow maize, wheat, sunflower seeds, soya beans, sweet sorghum and the foreign-referenced corn.

Contribution to number of contracts and value traded



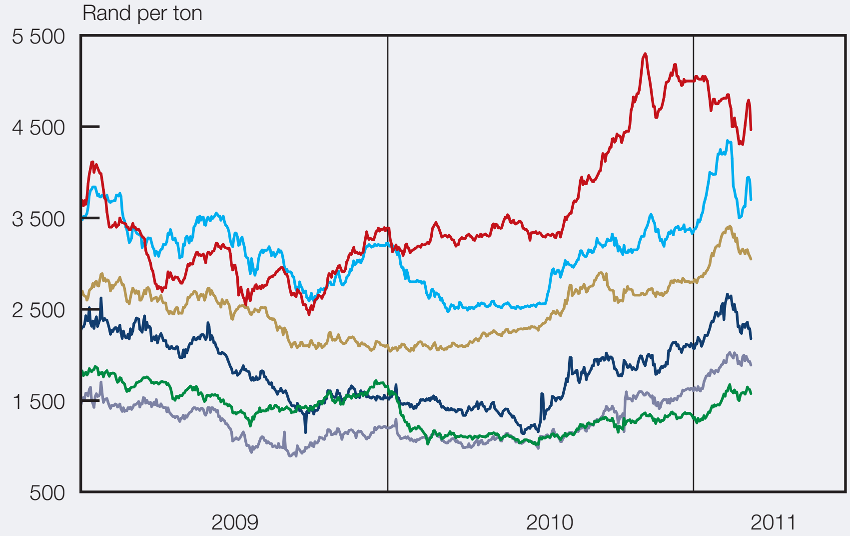
The value traded of the various commodities differs considerably. In 2010 trade in white maize contracts contributed the largest share of 43 per cent to total turnover, followed by wheat contracts at 24 per cent.

Contribution to value traded, 2010



Although the number of commodity derivative contracts traded increased by 12 per cent from 2009 to 2010, the value traded declined by 2 per cent, as most commodity prices were, on average, lower. Domestic commodity prices, however, started to move higher during the second half of 2010 alongside higher international commodity prices. This upward trend in the prices of most domestic commodities intensified in early 2011, as the depreciation in the exchange value of the rand and higher international oil prices, together with the already rising international commodity prices, added upward pressure. This increase in prices may affect inflation, particularly food inflation, negatively in the future.

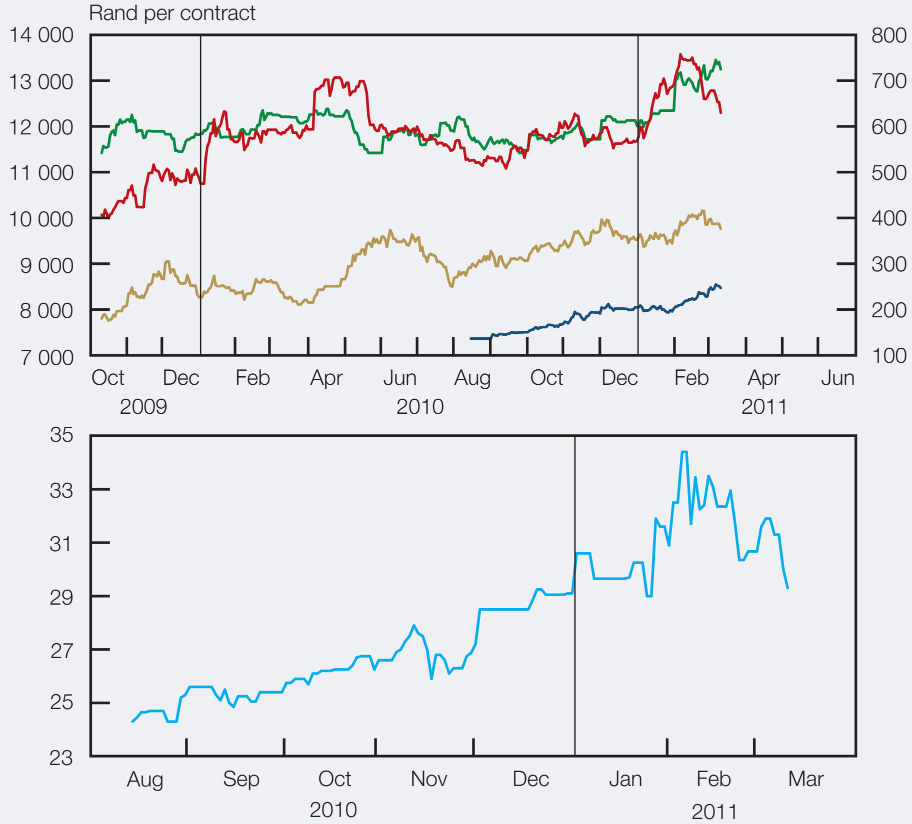
Agricultural commodity prices



White maize
Sunflower seeds
International wheat price (US HRW)
Wheat
Soya beans
International maize price (CBOT)

Prices of near-term contracts

Metal and energy commodity prices



Gold (R/troy ounce)
WTI crude oil (R/barrel) (right-hand scale)
Copper price (R/British pound)
Platinum (R/troy ounce)
Silver (R/troy ounce) (right-hand scale)

Prices of near-term contracts