



SOUTH AFRICAN RESERVE BANK



A purposeful journey

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Financial Markets Department

Record of Proceedings of the Financial Markets Liaison Group (FMLG) meeting held via MS Teams on 28 October 2020

1. Overview

1.1 The Financial Markets Liaison Group (FMLG) meeting discussed the following key issues:

- Presentation by FirstRand on recent market developments
- Bond Market Development Committee (BMDC)
- Collateral and Clearing Task Team
- Proposed amendments to the Jibar Code of Conduct and its Operating Rules.
- Progress reports from the FMLG subcommittees and the South African Foreign Exchange Committee (SAFXC).

2. Summary of discussions

2.1. **Presentation by FirstRand on recent market developments (steepness of the SAGB yield curve, FX forward market, cross currency basis swap & the spot USDZAR).**

2.1.1. The South African Government Bond (SAGB) yield curve steepened significantly in 2020, owing to the Covid-19 crisis and the increased issuance of government debt, as well as a decline in short-term rates following a reduction in the policy rate of 300 basis points. However, low real yields in developed economies and the significant expansion in G-3 central bank balance sheets helped mitigate further steepening of the curve.

- 2.1.2. USDZAR cross currency basis increased sharply this year. The elevated cross currency basis were a reflection of increased USD liquidity globally, poor prospects for global growth, National Treasury's foreign loans from International Finance Institutions (IFIs) and increased risk aversion.
- 2.1.3. Members also reflected on the frictions that existed between the domestic money market and FX forward market. The money market had surplus ZAR liquidity following the implementation of SARB's liquidity operations to address Covid-19 related market stress. However, the FX forward market was short ZAR liquidity following the SARB's decision to neutralise the money market impact of converting IFI flows to ZAR, through FX swaps. Accordingly, the FMLG resolved that the Money Market Subcommittee do some work that will help ease the structural challenges in the FX forward market.
- 2.1.4. Over a longer term horizon, the USDZAR exchange rate was largely influenced by South Africa's inflation which increased relative to US inflation as well as South Africa's weaker growth relative to US growth.

2.2. **Bond Market Development Committee**

- 2.2.1. The Bond Market Development Committee (BMDC) was dissolved as a task team of the FMLG. The BMDC had accomplished the purpose for which it was established - that being the development of the electronic trading platform for the bond market.

2.3. **Collateral and Clearing Task Team**

- 2.3.1. The FMLG established a task team to enhance South Africa's collateral and clearing system following the Covid-19 market stress and in order to comply with the forthcoming prudential regulations. Mr Andries Du Toit was appointed as the Chairperson of this task team.

2.4. **Proposed amendments to the Jibar Code of Conduct.**

- 2.4.1. The Market Practitioners Group of South Africa's Interest Rate Benchmark Reform formed a task team to amend the Jibar Code of Conduct and its Operating Rules in

order to align it with the outcome of the Jibar reform project. The proposed amendments were presented to and noted by the FMLG before approval by the Reference Rate Oversight Committee.

2.5. Feedback from the Money Market Subcommittee

2.5.1. The TB liquidity project was well underway. The SARB and NT were discussing action plans and a workshop with various work streams was scheduled for 23 November 2020.

2.5.2. Contracting on Project Khokha had begun and a few banks confirmed their participation.

2.5.3. The SARB made progress in reviewing the collateral management business process and value chain. The updated flight plan was shared with the nominated MMS members.

2.6. Feedback from the Fixed Income and Derivative Subcommittee

2.6.1. Heath Beckley from Nedbank was nominated and appointed as the new Chairperson of the Fixed Income and Derivative subcommittee (FI&DS), as the term for Denvin Naidoo came to an end.

2.6.2. Amongst its responsibilities stated in the FMLG's terms of reference, the FI&DS will also focus on the further development of South Africa's corporate bond market.

2.7. Feedback from South Africa's Foreign Exchange Committee

2.7.1. The South African Foreign Exchange Committee's outreach programme aimed at creating public awareness and promoting the FX Global Code in the domestic FX market was adversely affected by Covid-19 related restrictions.

2.7.2. The Global Foreign Exchange Committee established working groups which have been tasked with writing papers on execution principles, disclosure, buy-side agreements, and algorithm trading/anonymous trading.

Enquiries:

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Secretariat of the FMLG

Attendance of the FMLG meeting 28 October 2020

Members in attendance	
Fundi Tshazibana, (FMLG Chairperson), SARB	<u>By Invitation</u>
Edwin Makgopa, (Secretariat), SARB	Andries Tshishonga, SARB
Taalya Phekun, (Secretariat), SARB	Ajay Bhowan, FirstRand
Zafar Parker, SARB	Randall Habana, IBA
Samantha Springfield, SARB	Isabelle Mangazi, NT
Bafundi Maronoti, SARB	Jimmy Matsemela, NT
Mukelani Nkuna, SARB	Wanga Cibi, NT
Tim Masela, SARB	Shivum Patel, RMB
Garth Klintworth, ABSA Capital	Chadd Hunzinger, RMB
Deon Raju, ABSA Capital	Ganesh Varadarajan, STRATE
Andries Du Toit, FirstRand	
Denvin Naidoo, FI&DS	<u>Apologies from members</u>
Clive Sindelman, Investec	Tshepiso Moahloli, NT
Lourens van Rensburg, Investec	Douglas Hendry, Standard Bank
George Kerby, Nedbank	Andrew Hall, Standard Bank
James Glover, Nedbank	
Errol Makhubela, BMDC	
Theo Thomas, RMB	
Richard de Roos, SAFXC	
Vikas Khandelwal, IBA	
Paul Burgoyne, Standard Bank	