

SOUTH AFRICA AND NAMIBIA



SOUTH AFRICA

\$881.61 Bn

Equity Market
Capitalization

\$200.29 Bn

Debt Market
Capitalization

372

Number of
listed
companies

125

Number of
issuers
(bonds)

136%

Domestic
Equity Market
Cap/GDP

260%

Total Equity
Market Cap/
GDP

59%

Debt Market
Cap/GDP

91,716,796,484

Equity Market Share Volume Traded

\$2,127.21 Bn

Debt Market Total Nominal Traded

NAMIBIA

\$138.37 Bn*

Equity Market
Capitalization

\$2.72 Bn

Debt Market
Capitalization

44*

Number of
listed
companies

10

Number of
issuers
(bonds)

17%

Domestic
Equity Market
Cap/GDP

953%*

Total Equity
Market Cap/
GDP

19%

Domestic
Debt Market
Cap/GDP

193,100,874

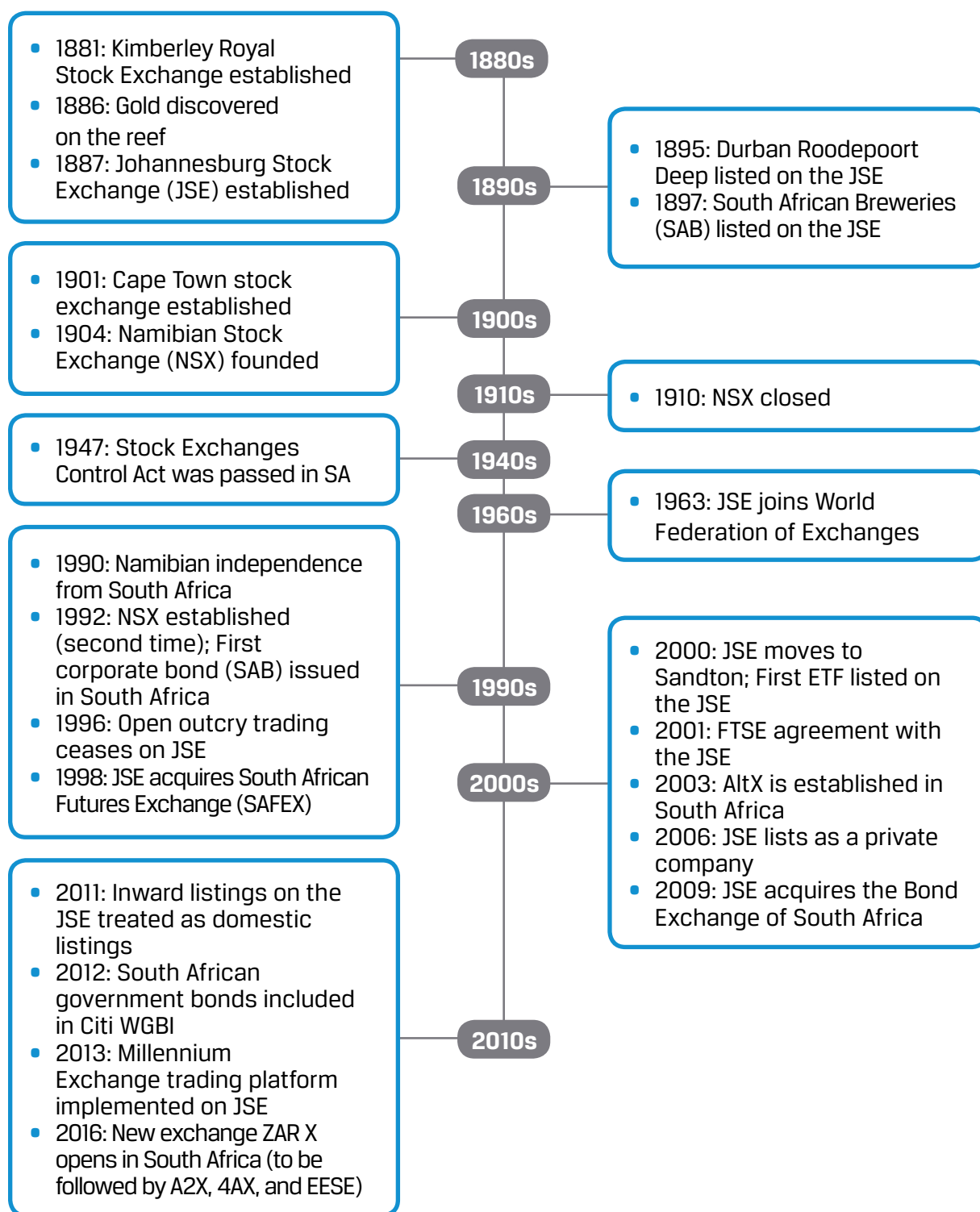
Equity Market Share Volume Traded

41,296,398

Debt Market Instrument Volume Traded

*Includes dual-listings and ETFs.

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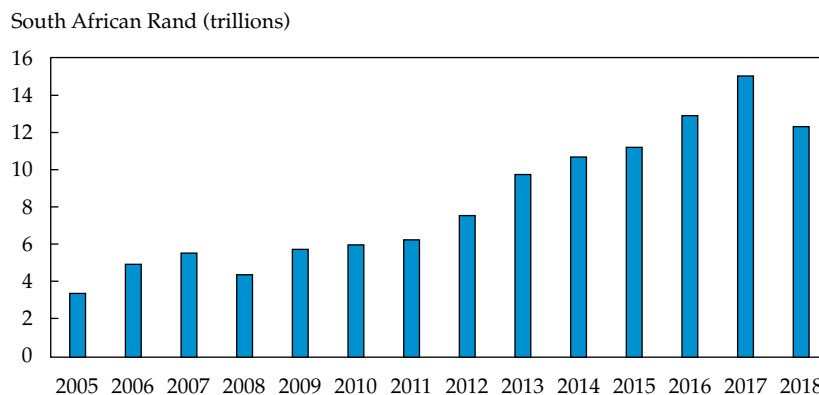
The Johannesburg Stock Exchange (JSE) will be 132 years old in November 2019. The JSE currently is the 19th largest stock exchange in the world, with a market capitalisation of more than USD1 trillion, as **Figure 1** shows, and the largest stock market in Africa, helping companies raise capital on the primary and secondary markets and enabling investors to share in company growth. From modest beginnings, the JSE has evolved into a sophisticated, modern securities exchange, providing full electronic trading, clearing, and settlement in equities, bonds, and interest rate products, as well as financial, commodity, and currency derivatives.

South Africa's first stock exchange was the Kimberley Royal Stock Exchange, which opened in 1881—six years before the JSE—to

help diamond prospectors raise capital. During the mining rush of the 1880s, exchanges were opening in several towns, among them Pietermaritzburg, Potchefstroom, Klerksdorp, and Barberton (a small mining town that opened two stock exchanges).

On 3 May 1901, a stock exchange was also established in Cape Town to circumvent the trading disruptions caused by the Anglo–Boer War. As the war ended, Johannesburg once again became the primary trading location, thanks to the area's gold rush and booming industrial activity, and the Cape Town exchange was eventually closed. Indeed, the origins of the JSE are wrapped up in the gold industry. The increased demand to take advantage of the gold boom from companies and investors alike saw the establishment of the JSE

FIGURE 1. TOTAL JSE EQUITY MARKET CAPITALISATION, 2005–2018



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on 8 November 1887, just one year after the discovery of gold on the reef.

It is estimated that more than £200 million was invested in South Africa's gold industry between 1887 and 1934, more than half of which came from foreign investors.

Chambers and Company was the first company to list on the JSE, in 1887. In 1895, gold mining company Durban Roodepoort Deep (DRD) listed on the JSE, and it remains the oldest listed company in South Africa. The country's largest brewer, South African Breweries (SAB), now owned by Anheuser-Busch InBev SA/NV, listed in 1897. The exchange has since seen thousands of listings, mergers, acquisitions, and delistings. Among these epochs are several listing booms, including the Merensky platinum boom of the late 1920s, the 1968 listings boom, and the 1986–87 small-companies boom, which saw 293 companies list in the space of two years, including 102 listings on the JSE's junior boards—namely, the Venture Capital Market (VCM) and Development Capital Market (DCM) boards.

As the market continued to grow, the Stock Exchanges Control Act was passed in 1947 to regulate the operation of stock exchanges by

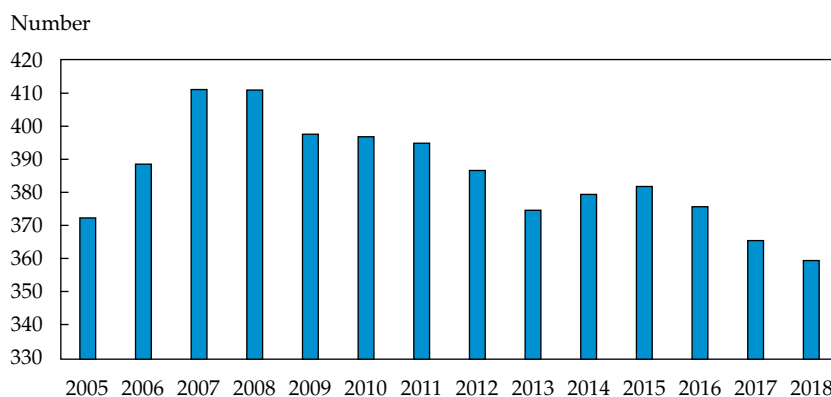
stating capital requirements for members and to define the parameters of broker conduct. In 1963, the JSE joined the World Federation of Exchanges, the global industry association for exchanges and clearinghouses.

On 7 June 1996, open outcry trading ceased, with the 108-year practice replaced by an order-driven, centralised, automated system known as the Johannesburg Equities Trading (JET) system.

There are about 350 companies listed on the JSE main board today, as shown in **Figure 2**, but the number has been in steady decline in recent years. It was as high as 485 listings in the early 2000s and even higher in earlier years (more than 800 in the late 1990s), but the number of listings fell to 357 companies in mid-2019. In part, this decline is explained by pull factors, where global markets have competed to host listings; for example, Toronto is a favoured destination for junior mining companies. Push factors have also been at play, with a decade of weak economic growth dampening the domestic capital market appetite.

In 2003, the AltX (also known as the growth board) was launched as a platform for small and

FIGURE 2. LISTINGS ON THE JSE, 2005–2018



mid-sized listings, and over the next five years, 76 firms listed on the AltX, with a handful ultimately migrating to the main board of the JSE. In 2005, the JSE launched YieldX to facilitate trade in a broad spectrum of interest rate products, with a focus on derivatives to encourage liquidity and promote market diversification. As such, YieldX became the JSE's fourth electronic clearing and settlement platform, alongside equities, financial futures, and agricultural products.

As a company itself, the JSE has also undergone significant changes. Having demutualised on 1 July 2005, the JSE was incorporated in South Africa as the JSE Limited, ultimately listing on its own exchange one year later.

In terms of the physical exchange, before the JSE's conception, trading took place in a miner's tent, later moving to horse stables in central Johannesburg. After many years of evolution from these early locales, it was in 2000 that the JSE finally established itself in its current premises at 1 Exchange Square, in the heart of Sandton, Africa's "most valuable square mile."

After facing no competition for decades, the JSE met a flurry of smaller competitors in recent years. South Africa's financial market regulator, the Financial Services Board (now the Financial Sector Conduct Authority, or FSCA), granted approval to ZAR X in 2016 to open an exchange aimed at servicing lower-income individuals through its low-cost model. Since then, other competitors have joined, including A2X, 4AX, and the black economic empowerment-focused Equity Express Securities Exchange (ESEE).

Although dominated by a single large player, South Africa's capital markets are deep and liquid and boast high trade volumes, predominantly in the equity, bond, and derivatives space.

EQUITIES

South Africa's equity market nevertheless constitutes less than 1% of the world's total equity market. The JSE entered into a joint venture with London's FTSE in 2001 to bring index reporting in line with international investment standards and aid market liquidity under the FTSE/JSE Africa Index Series.² At the time, a lack of market liquidity prevented local traders from obtaining company stock and led to skewed price increases when buying company shares and outsized losses when selling. The collaboration with the FTSE did much to improve equity trading and led to the formation of the FTSE/JSE indices, which remain in place today and report across an extensive set of categories, such as market cap, tradability, industry, sector, and style.

In terms of structure, the JSE's main board lists well-established companies that want to grow their business through share sales and rights issues. Almost a fifth of companies listed on the JSE's main board are dual-listed; primary listing companies are regulated by the JSE, while secondary listings are regulated in the companies' primary domicile—for example, the New York, London, Frankfurt, Australian, and Swiss exchanges.

The JSE segments its listed companies by the super sectors in which they operate, including resources (market capitalisation of ZAR3.2 trillion), financials (ZAR2.6 trillion), industrials (ZAR7.8 trillion), and real estate (ZAR0.4 trillion). In turn, these supersectors are made up of subsectors, such as diversified miners and

²This venture included the implementation of the so-called free-float weighting methodology. When the joint venture was initiated in 2001, the FTSE was jointly owned by the London Stock Exchange and the *Financial Times*. Today, it trades as FTSE Russell, operating 250,000 indices calculated across 80 markets.

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oil and gas (in the case of resources) and banking and insurance (in the case of financials). Numerous FTSE/JSE industry groupings are derived from these subsectors. Examples of the broader groupings include the FTSE/INDI25 (25 largest industrial stocks), the FTSE/FINI (15 largest financial stocks), and the FTSE/RESI10 (10 largest resource stocks). The headline indices also support numerous subindices recorded by market cap, including the FTSE/JSE Large Cap, FTSE/JSE Mid Cap, FTSE/JSE Small Cap, and FTSE/JSE Fledgling Indices.

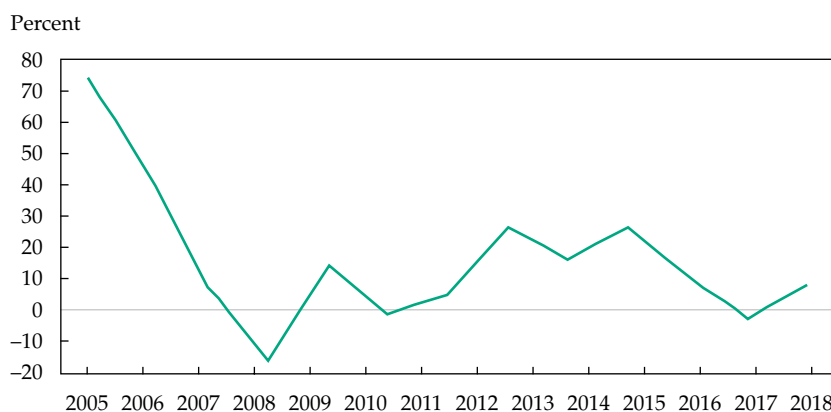
Perhaps the best-known index is the FTSE/JSE Top 40 Index, made up of the 40 largest companies listed on the main board, which are all typically “blue-chip” stocks. Such companies come from a diverse spectrum of industries and include Naspers (internet and media), Mondi (paper), Tiger Brands (fast-moving consumer goods), Vodacom (communications), Shoprite (retail), Anglo American (resources), FirstRand (banking), Impala Platinum (platinum mining), Bidvest (diversified industries), Woolworths (retail), Sasol (oil and gas), and Old Mutual (insurance).

The robust index measurement and reporting architecture has birthed a rapidly growing passive investment industry, underpinned by exchange-traded funds (ETFs) listed on the JSE. Overwhelmingly, these funds are designed to match the performance of a quoted index—or to match the behaviour of a rules-based investment approach. The number of ETFs has grown to 76 funds (as of September 2019), and passive or rules-based mutual funds have also experienced rapid growth, numbering 36 in 2009 and reaching 168 funds at the end of 2018.

Equity trade volumes and the value of shares changing hands have fallen since the global financial crisis of 2008–09, as **Figure 3** shows. Trade values fell 2.1% in 2017 and increased just 8.4% in 2018. The prognosis for 2019 points to another contraction as foreign investors shy away from South African assets in the wake of poor results from a sluggish domestic economy. The value of equity trades fell 39.5% in the first half of 2019, with trade volumes halving in the previous year.

As a globally connected exchange in a small open economy, the JSE and its participants are

FIGURE 3. TOTAL JSE EQUITY VALUE TRADED, 2006–2018



subject to the cut and thrust of global financial markets and domestic constraints, such as the country's sovereign credit rating.

BONDS

The Bond Exchange of South Africa (BESA) resolved in August 2007 to demutualise in order to grow its business and expand into other markets. The bond exchange was acquired by the JSE in 2009, and the JSE now oversees the largest listed debt market on the continent, both by market capitalisation and by liquidity.

The BESA's decision to demutualise and the JSE's subsequent acquisition of South Africa's bond market has afforded it further reach, improved efficiency, and increased competitiveness. In addition, in October 2012, South African government bonds were included in the Citi World Government Bond Index (WGBI) for the first time.

South Africa embraced the WGBI inclusion, listing 12 government bonds with a market value of USD93.8 billion, gaining greater exposure to global bond markets and the attention

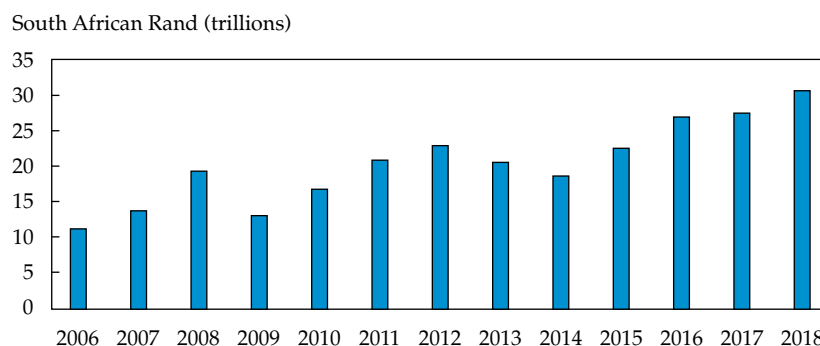
of international institutional investors and asset managers.

At the end of 2013, the JSE had roughly 1,600 listed debt instruments, totalling more than ZAR1.8 trillion. More than half (ZAR1.0 trillion) of the debt listed on the JSE has been issued by the South African government, accounting for 90% of all liquidity on the exchange.

Other issuers include South African state-owned companies, corporates, banks, and other African countries. The first corporate bond (South African Breweries) was issued in 1992, and more than 1,500 corporate bonds have been listed since. Roughly ZAR25.0 billion worth of bonds trade hands daily, as **Figure 4** shows, and while the market remains liquid, it is not nearly as fluid as some of the other more developed markets.

Just as equities face headwinds, however, so too does the South African bond market. Recent years have seen foreign buyers shift bond holdings to lower-yielding but higher-quality debt on concerns of slowing global growth and domestic policy uncertainty. Foreign activity is also heavily influenced by ratings agencies and their grading of South African debt.

FIGURE 4. SOUTH AFRICAN BOND MARKET VALUE TRADED, 2006–2018



DERIVATIVES

The local bond derivatives market offers trade in bond futures, forward rate agreements, vanilla swaps, and other standard bond contracts. The JSE hopes to attract new bond issuers to the bourse, seeking to partner with other African exchanges with a dual-issuance model.

These derivative instruments include equity, bond, commodity, interest rate, and currency derivatives. There are 62 equity members, 120 equity derivatives members, 92 commodity derivatives members, and 102 interest rate and currency derivatives members licensed in South Africa, representing a mix of local and international operations.

The Equity Derivatives Market originated from JSE's acquisition of the South African Futures Exchange (SAFEX) in 1998 and provides a platform for trade in futures, exchange-traded contracts for difference (CFDs), options, and a variety of other bespoke instruments. The exchange's Bond Derivatives Market enables trade in bond derivatives that the JSE lists in the form of futures and options.

The Commodity Derivatives Market is a platform for efficient pricing and market-risk management for the grain market in South Africa. Through a licensing agreement with the Chicago Mercantile Exchange (CME Group), the market also offers a range of foreign-referenced derivatives on soft and hard commodities.

South Africa's interest rate derivatives market is the largest on the continent, allowing participants to trade interest rate derivatives futures and options in government- and state-owned enterprise debt through short-term

interest rate futures and long-term interest rates or swap futures.

THE WAY FORWARD

The JSE has undertaken significant technology upgrades over the past few years in a drive to upgrade trading, clearing, and settlement. In July 2013, the exchange implemented a new trading platform called the Millennium Exchange in the equity market while also moving the trading system from London to Johannesburg. As a result of this successful transition, trades are now executed up to 400 times faster than under the previous TradElect system. These technological changes allow for increased liquidity and more algorithmic trades.

The regulatory landscape is set to change significantly in the future as South Africa looks to implement a "twin peaks" model of oversight.³ Under the new system, prudential supervision will be conducted by the South African Reserve Bank (SARB), and market conduct regulation will be led by the FSCA.

Another regulatory change that could have widespread implications is the 2011 decision to alter South Africa's inward listing rules, allowing foreign domiciled companies to be treated as domestic listings. While foreign firms had been allowed to list on the JSE since 2004, they were previously subject to foreign exchange rules, which limited the amount of these equities that local investors could hold. The lifting of these restrictions has been an important regulatory shift for the exchange and makes the JSE a more attractive listings destination.

³See www.fin24.com/Opinion/twin-peaks-the-big-bang-of-sas-financial-industry-20180408 for an explanation of the twin peaks model.

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South Africa was ranked first in the world in terms of regulation of securities exchanges in the World Economic Forum's Global Competitiveness Report 2013–2014⁴ and continues to be a well-regulated and -managed, efficient exchange.

⁴http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2013-14.pdf.