

More Frequent Price Discovery

Public Consultation Paper, March 2022



INTRODUCTION

1. GDT is actively pursuing an opportunity to provide more frequent price discovery to the dairy industry. The purpose of this is to enhance liquidity in GDT and globally traded physical and financial dairy markets associated with it for the benefit of both buyers and sellers, by providing more data points for participants to trade on.
2. This paper outlines the concept of more frequent price discovery, including a summary explanation of the proposed changes to the GDT Trading Event Rules.
3. More detail is available in the marked-up GDT Trading Event Rules.
4. The GDT Events Oversight Board has reviewed the proposal and has agreed for the rule changes proposed in paragraphs 15 – 28 to be published for public consultation.

OVERVIEW OF GDT PULSE

5. GDT will trial a new service line, GDT Pulse, to deliver more frequent price discovery to the dairy industry.
6. During the trial:
 - a. GDT Pulse auctions will be conducted weekly on those weeks that a GDT Events auction is not conducted;
 - b. The auctions are expected to conclude within 15-30 minutes as round durations are reduced to two minutes, and the end of round duration is reduced to 30 seconds;
 - c. Fonterra will be invited to participate in the trial while the new auctions are being validated and they have indicated they will offer 500MT per auction of WMP Regular C2;
 - d. GDT Pulse auctions will be accessible to all registered GDT Events bidders. As with GDT Events, bidders will be able to participate only if sellers provide them with eligibility;
 - e. Manual processes will be utilised, which will limit data to the published prices on GDT's website.
7. GDT Pulse auctions will be complementary to the price discovery provided by GDT Events. GDT Events will continue to be the large liquidity event that the dairy industry watches. GDT Pulse intends to provide interim price discovery for core commodity products between GDT Events auctions.
8. The concept has been discussed with a range of stakeholders who have provided confidence to launch the trial.
9. GDT Pulse is expected to be attractive to buyers and sellers due to its increased frequency and shorter duration.
10. The increased frequency of published prices is intended to support trading volumes on SGX-NZX dairy derivatives, which would benefit GDT participants who utilise these derivatives.
11. The project team considered execution and operational risks and concluded that they were acceptable given that GDT is modifying a currently successful process. Our assessment is we do not view any material risk to the credibility of GDT Events published prices.
12. The trial allows GDT to validate that:
 - a. There is a credible level of participation;
 - b. Credible prices are published;
 - c. Trading has increased on the dairy futures market;
 - d. Stakeholders continue to support the initiative.
13. If the trial is deemed successful, it is envisaged that:
 - a. GDT will invest in platform upgrades to automate GDT Pulse processes and enable daily auctions;

- b. Other sellers will be invited to offer product.

PROPOSED CHANGES TO THE TRADING EVENT RULES

- 15. We propose to incorporate GDT Pulse in the GDT Trading Event Rules by adding a new Section E, leaving the current Sections A – D largely unchanged (with some exceptions).
- 16. All rules in Sections A – C will apply to GDT Pulse participants unless specified otherwise in Section E.
- 17. The new rules are designed to be generic where possible to allow for some operational flexibility during the early phases of the GDT Pulse trial. We expect some rules may need updating once the trial has been deemed successful.
- 18. The following provides a summary of the proposed rule changes:

Introduction of GDT Pulse

- 19. Page 1 in Annex 2 refers to the rules being applicable for the GDT Events Trading Platform. This has been made more generic, now referring to the “GDT Trading Platform”.
- 20. The rules now include reference to GDT Pulse auctions and the operation of those auctions will be subject to the same rules as GDT Events except for those mentioned in Part E (Rules A1.3, E1.1 and E1.4).

Registration and Participation rules

- 21. GDT must give written permission to a seller to allow them to offer product at GDT Pulse auctions (Rule E1.2).
- 22. All registered GDT Events bidders are accepted for GDT Pulse auctions. As with GDT Events, bidders can bid on a seller’s products only if that seller has provided them with eligibility (Rule E1.3).

Operational rules

- 23. GDT Pulse auctions may differ from GDT Events on certain aspects including, dates, times, frequency, products offered, and data available (Rules E2.1, E2.5 and E3.1).
- 24. To enable the trial (and future automation) to operate efficiently, pre-event data may be copied from the most recent GDT Events auction (Rule E2.2).
- 25. The fee structure will be published on the GDT information website and may be different from GDT Events (Rule E2.3).
- 26. If a seller has provided consent for a financial market operator to use their GDT Events winning prices as reference prices, that consent is also applicable to GDT Pulse (Rule E2.4).
- 27. As the round times are so short, the Trading Manager’s Help Desk will not be available during a GDT Pulse auction (Rule E2.6).
- 28. GDT may suspend or discontinue the operation of GDT Pulse (Rule E3.2).

SUBMITTING FEEDBACK

- 29. GDT invites feedback from any interested party on these proposed changes.
- 30. Submissions must be emailed in writing to gdtpulse@globaldairytrade.info with the subject line: Feedback on GDT Pulse.
- 31. Submissions close on Sunday 10 April 2022.
- 32. Feedback received will be collated and represented to the GDT Events Oversight Board for their review prior on the proposal.
- 33. If adopted, the new rules will become effective approximately 7 days prior to the first GDT Pulse auction.