



## JSE AGRICULTURAL PRODUCTS MARKET NOTICE

Number **A712**

Date **29 September 2006**

### Decision regarding location differentials

At the JSE Agricultural Products Advisory Committee held on 20 July 2006 a proposal was tabled to do away with the system of location differentials as applied to the delivery of product in completion of a futures contract for white maize, yellow maize, wheat and sunflower seed Safex futures contracts traded on the JSE Agricultural Products Division. The proposal was discussed in detail at the meeting and it was agreed that the management of the division should conduct a detailed investigation across the market to ascertain a market view of the proposal.

All trading members of the JSE Agricultural Division were contacted and requested to obtain feedback from their client basis as to whether the system of location differentials should be maintained or done away with. Feedback from various agricultural organizations and other stakeholders in the industry was also received by the JSE. The feedback was then collated by the division and presented to the Advisory Committee at their meeting on 28 September 2006.

The feedback received was collated based on the overall number of responses, weighted by volume participation in the market and weighted by participation in the delivery process. The overwhelming response from the market, as provided by the trading members after consultation with participants and clients, was to maintain the status quo and the system of location differentials. Major factors listed in motivating the retention of the system included:

- no fundamental reason to change an efficient and successful system that was operating well that could create more uncertainty as to the real and true value of the underlying commodity
- the system provided a valuable degree of transparency to the market that if done away with would lead to a reduction of liquidity in the market place
- the system assists the process of "basis trading" and facilitates both forward contracting and financing arrangements in the market.

The JSE Agricultural Products Advisory Committee agreed that, in the light of the response obtained from the market survey, the system of location differential would be maintained at this stage.

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