

Market Notice

Number: A1479A
Date 29 August 2011

Proposed wheat location differentials including final standard storage rate

Following guidance from the Agricultural Advisory Committee, it was decided to publish the wheat location differentials applicable from 1 October 2011 through until 30 September 2012 in draft format and provide the market four business days to highlight any gross inaccuracies.

Relying on the same methodology used to calculate the sunflower seed and maize location differentials, the JSE extended an open invitation to all market participants to contribute road and rail information in writing through notice A1463. To summarize the process applied:

- rail vs road out loading information was collected from silo owners on an individual silo/depot basis
- actual rail rates to Randfontein was collected
- actual road rates from each silo to Randfontein was collected from various participants and averaged
- the rail and road rates were then applied based on the out loading ratios as supplied down to each silo level
- the location differentials were then finally rechecked to ensure they fitted into the grid matrix to Randfontein
- note that since the Western Cape wheat differential is the same for all registered points, this principle was maintained and the information supplied was largely averaged to get to a out loading ratio of road vs rail.

Using the information supplied by the market and applying this to the 156 registered wheat delivery points the result is as follows, on average across all points the differentials increased by R27 per ton or 12.8% compared with the previous seasons wheat differentials. Should the adjustment be broken down to Western Cape and the northern silos, the Western Cape with its 36 delivery points increased by 6,4% whilst the adjustment for the 120 northern silos increased by 17.4% compared to the previous seasons wheat differentials.

PLEASE REVIEW THE ATTACHED SPREADSHEET WITH THE DRAFT LOCATION DIFFERENTIALS AND REPORT ANY GROSS INACCURACIES IN WRITING NO LATER THAN CLOSE OF BUSINESS ON THURSDAY 1 SEPTEMBER 2011 TO commodities@jse.co.za.

The final location differentials for wheat 2011/12 marketing season with Randfontein as the reference point will then be published on Friday 2 September 2011 dependant on the feedback received.



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Members and clients are again reminded that the published location differentials are **indicative of transport** costs for product from the registered silo to Randfontein, which is the basis for the standardized futures contract. It is impossible that this rate will be 100% accurate throughout the year as transport components change. Throughout each marketing season the basis value at each silo, created through supply and demand, must be considered before making physical delivery onto the exchange. Through further refinements of the Safex silo receipt auction functionality the exchange aims to improve transparency to the basis trade for each silo based on product delivered in completion of a futures contract.

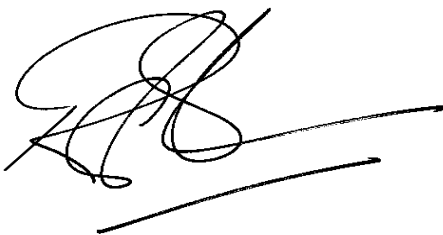
The standard storage rate for the marketing season 1 October 2011 – 30 September 2012 has been calculated based on the methodology as agreed by the Agricultural Advisory Committee some years ago. There is a process underway that will include a wider market audience to re-confirm that the base daily storage rate remains market relevant, any changes would only be made to a new marketing season and where sufficient market notice can be given regards the change in the process. The June 2011 PPI for domestic output published at the end of July was up 7.4%. This rate, applied to the current storage rate, results in the wheat standard storage rate increasing to **63 cents per ton per day** applied to the outstanding storage on all Safex silo receipts delivered in completion of a futures contract.

Please ensure that when making delivery of silo receipts issued in the previous marketing season, all storage is paid up to and including 30 September 2011. Market participants are also reminded of the changes made to the contract specifications in terms of outstanding storage and possible penalties as indicated in section 3.1.d(v): *All outstanding storage costs on a product deposited in a previous marketing season must be paid up to and including the last calendar day of the marketing season. If the outstanding storage is not paid up within one calendar month after the last calendar day of the marketing season, the silo owner reserves the right to apply a 10% penalty to the total outstanding storage amount.*

The wheat grade discounts will only be published on the 15th September 2011 referencing the following methodology:

- A arithmetic average of the near dated December expiry daily mark-to-market (mtm) for the JSE wheat futures contract will be referenced
- The rate will be finalized including mtm data on the 15th September each year (if this is not a business day, the first business day prior),
- 65 trading days data will be used, equivalent to 3 months
- The December expiry is only expiry month considered in the methodology
- Once the average futures price is calculated for the period, then 4% and 8% is applied to this value to determine the B2 and B3 wheat grade discount for the next marketing season.
- The final grade discount will be rounded off

The wheat origin discount for the 2011/12 marketing season was published previously via notice A1423.

A handwritten signature in black ink, consisting of several loops and a long horizontal stroke at the bottom.

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