JOHANNESBURG STOCK EXCHANGE
SAFEX Commodity Derivatives

Market Notice

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Final Wheat Location Differentials for 2013/14 Marketing Season

Following Market Note A1861A and A1861B, where we invited comments on the published provisional wheat location differentials for the 2013-14 marketing season, we received feedback from a number of market participants particularly raising their concerns around the quantum of the increase in the Western Cape proposed adjustments and then also comments around certain specific delivery points. We provided additional time to a number of participants to contribute additional road rates particularly for the Western Cape to ensure what we publish reflects current logistic costs. Once again we must stress we have maintained the same objective as always when publishing location differentials and that is to reflect as close as possible current market related transport costs.

It is important to mention here that in all our deliberations we have been guided by the actual submissions received from the market.

1. Randfontein-Western Cape Rate

We acknowledge the proposed increase from R420/ton to R575/ton is a significant one however we must again remind all market participants this was based on actual contributions received and is not purely a function of fuel price increases but also actual supply and demand of transport on this specific route. It is fair to say that after affording those market participants who did not agree with the proposed rates time to submit their own contributions, none of the additional rates received were that far from this base.

Before we proceed, it is important to reiterate that we DO NOT use the RPK model to determine the Randfontein-Western Cape rate. Because of the very long distances, the output from the model would have been in excess of a R1000/ton differential. This is why we only conduct a survey of actual costs from grain transporters and other market participants to arrive at an aggregate figure.

In finalizing the location differential for the Western Cape, we then included the additional rates received and averaged these. The final location differential for the 2013/14 marketing season is **R560/ton** which is a 33% increase.

In finalizing this rate, we recognize all the comments and requests received from the Western Cape particularly those on the sell side. We also acknowledge all the concerns from the buy side who, within the requested time frame, responded with their valuable inputs. Our objective, as agreed with the industry role players, is to ensure the location differential reflects current transport conditions at the time of publishing. We also remind all market participants and particularly again the sellers who have access to physical wheat, the JSE introduced a basis premium platform towards the end of last year to improve access to any potential basis premiums. Wheat on a JSE silo receipt may be presented to the market and offered at any premium using this platform. Naturally for this offer to trade the seller does require a willing buyer. All basis premiums

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matched are published to the market via the JSE website. The JSE also introduced a separate CAPE wheat contract with Paarl as reference point. Market participants in the Western Cape should consider both contracts in their pricing decisions. We thank those registered JSE participants who have commenced trading the CAPE contract and assisting with liquidity.

With the proposed wheat location differentials, we received a request from Grain South Africa on behalf of their members for the removal of the differentials. In our discussions, GSA acknowledged that it is not possible to fundamentally amend a futures contract once it has commenced trading and therefore the WEAT and CAPE contracts for the 2013/14 marketing season will continue to trade with Randfontein and Paarl as reference points with today's published location differentials applicable to product delivered in completion of a futures contract.

The JSE committed to ensure a robust discussion at its next Agricultural Advisory Committee meeting in October around the continued use of location differentials for the wheat market. To assist the discussion the JSE will propose radical changes to the wheat contract; we will also aim to identify the risks associated with the proposal. To be very clear any proposal will only be applicable to the wheat market. GSA has committed to provide a detailed discussion document to the Advisory Committee regarding their request. Market participants are assured that NO changes will be made to any of the expiries loaded for the marketing season 1 October 2013 to 30 September 2014. Any changes made will only be possible for the 2014/2015 marketing season and will be communicated as soon as possible following the necessary consultation with all market participants.

We remain committed to providing South Africa with a liquid and effective price risk management platform.

2. Updating the input factors in our model (where applicable)

The model we use to determine the road rates has a number of factors that serve as inputs in the model to determine the rand-per-ton (RPT) road rate. These are distance, rand per kilometer transporter coast (RPK), return load factor (RLF) and the payload. We also receive rail versus road out-loading ratios from the storage operators and use these in a linear combination with road and rail rates to finally determine location differentials. We will discuss each one of them in detail:

2.1. Distances to Randfontein

Location distances to Randfontein are published and unless there is a typo or a query from the affected storage operator, these inputs are considered constant. We have had discrepancies here and there over the past two seasons and since then the published distances are not being disputed. These distances are available on our web page.

2.2. Rand Per Kilometer (RPK)

These are input costs that are received from transporters and are a critical component of the Rand-per-ton calculation. While the RPK submissions of the previous seasons were fairly constant, we have noticed an interesting development in the latest submissions as shown in the table below:

Distance	2012/13 RPK	2013/14 RPK	% Increase
0-25 Km	62.34	63.92	2.53%
26-50 Km	31.77	32.95	3.71%
51-75 Km	24.69	23.20	-6.03%
76-100 Km	19.5	19.91	2.10%
101-125 Km	16.44	19.21	16.85%
126-150 Km	16.44	18.48	12.41%

151-175 Km	15.33	18.03	17.61%
176-200 Km	14.76	17.93	21.48%
201-225 Km	14.17	17.75	25.26%
226-250 Km	13.86	17.56	26.70%
251-275 Km	13.58	17.22	26.80%
276-300 Km	13.29	16.75	26.03%
301-325 Km	13.08	17.42	33.18%
326-350 Km	12.85	17.69	37.67%
351-375 Km	12.65	18.00	42.29%
376-400 Km	12.42	18.00	44.93%
401-425 Km	12.35	18.15	46.96%
426-450 Km	12.34	18.15	47.08%
451-475 Km	12.34	17.95	45.46%
476-500 Km	12.34	17.95	45.46%
500-600 Km	12.34	17.95	45.46%
>600 Km	12.34	17.95	45.46%

Firstly, we can see from the table that the Rand-per-Km rates that the transporters submitted were increased across the board. Secondly, where in the past we saw a gradual decrease in RPK's with increasing distances, here we now see that rates for the longer distances increased exponentially to reach a peak of 47.08% before tapering downwards.

The transporters we went back to confirmed the increases, saying that they have been experiencing greater costs on longer-haul distances.

2.3. Return Load Factor

The following sliding scale has been used over the past two seasons:

Distance	RLF
<301 km	2
301-325 km	1.9
326-350 km	1.8
351-375 km	1.7
>375 km	1.6

A RLF of 2, which implies that the return leg of the trip is empty, was applied to all delivery points up to and including 300 km's from Randfontein. From there on, the scale starts to taper towards 1.6 to account for limited return load activity over longer distances. As it is now, the scale assumes that only 40% of trucks on average secure a return load for distances in excess of 375 km. Appreciating we have an increasing number of delivery points outside the 375km, we decided to expand our RLF sliding scale as follows:

Distance	RLF
<301 km	2
301-325 km	1.9
326-350 km	1.8
351-375 km	1.7
376-400 km	1.6
401-425 km	1.5
426-450 km	1.4
451-475 km	1.3
476-500 km	1.2
501-525 km	1.1
>525 km	1.0

Not only is the above RLF scale accounting for a 100 percent return load for distance in excess of 525 km, but it also reduces the location differentials for storage locations that are 400 km or more from Randfontein.

This revised RLF scale will apply from the 2013/14 marketing season going forward.

2.4. Payload

Payload for both maize and wheat is 34 tons. This figure was arrived at a workshop hosted by the JSE in February 2012. While some transporters are using different payloads, it was agreed that the payload of 34 ton will serve as an acceptable benchmark for the industry. Therefore for the purpose of this submission, the payload of 34 tons is maintained.

2.5. Rail-Road Out-loading Ratios

The out-loading ratios are received on an annual basis from the storage operators and are averaged out over a two-year period. This year the average Rail vs Road ratio for wheat was 22% Rail and 78% Road compared with last year’s 20% Rail and 80% Road.

2.6. Final percentage increase for WEAT contract

Updating the proposed location differentials with the above mentioned changes resulted in an average differential for the WEAT contract of R309/ton and 24.31% average increase.

3. Paarl Location Differential Rates

Increases in the Paarl referenced rates were at 18.45% and since no specific complaints were submitted to us during last week’s open window for any related issues these will be accepted.

The table below shows the aggregate rand per kilometer (RPK) rates specific to Paarl that we obtained from the industry and used in our calculation with a RLF of 2 applied throughout:

Distance	RPK
0-30 Km	R 58.21
31-45 Km	R 23.01
46-60 Km	R 21.28
61-75 Km	R 19.51
76-90 Km	R 18.34
91-105 Km	R 19.13
106-120 Km	R 17.49
121-135 Km	R 17.48
136-150 Km	R 17.35
151-165 Km	R 17.27
166-180 Km	R 17.27
181-195 Km	R 17.27
196-210 Km	R 17.27
211-225 Km	R 17.27
226-240 Km	R 17.27
>240 Km	R 17.27

We trust this contract will be considered as an alternative to the WEAT product. The CAPE contract also allows for basis premiums to be traded referencing these differentials.

4. Standard Storage Rate for Wheat

The standard storage rate for the marketing season 1 October 2013 – 30 September 2014 has been calculated based on the methodology agreed by the Advisory Committee. The June 2013 PPI for manufacturing output was up **5.9%**. This rate, applied to the current storage rate, results in the wheat standard storage rate increasing to **71 cents per ton per day** applied to all JSE 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 2013**. Market participants are also reminded of possible penalties as indicated in section 3.1.d (v) of the detailed contract specifications:
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.*

5. Grade Discounts

Following a suggestion from a producer in the Southern Cape which resulted in extensive research and discussion with the Agricultural Advisory Committee, in February this year the Committee unanimously supported the proposed refinements to the methodology to include additional trading days into the benchmark calculation in order to consider a more comprehensive average price for the season. Recognizing that the period referenced should be liquid enough, the final changes to the methodology to determine the base value for the wheat discounts for the marketing season 01 October 2013 to 30 September 2014 will be as follows:

a. An arithmetic average of the near-dated December expiry daily mark-to-market (mtm) for the JSE wheat (WEAT) futures contract will be referenced

b. The rate will be finalized including mtm data on the 15th September each year (if this not a business day, the first business day prior)

c. A six-month reference period will be applied commencing from and including 15 March (or first business day preceding) to 15 September will be used

d. The December WEAT expiry is the only expiry month considered in the methodology

e. 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 discounts for the next marketing season

f. The final grade discount will be rounded off to the closest R5 interval

The final grade discounts will be published shortly after the 15th September 2013 as per the methodology above.

6. Origin Discounts

The origin discounts for the new marketing season will remain unchanged as indicated below:

Origin Discount:

- Wheat from the following origins acceptable for delivery at a **ZERO** origin discount:
  - *USA Hard Red Spring (Dark Northern Spring and Northern Spring wheat), No 3 or better Canadian Red Western Spring wheat, Australian Hard, Australian Prime Hard, Australian Prime White and Australian Standard White wheat*

- Wheat from the following origins acceptable for delivery at a **R100 per ton** discount:
    - *Argentina, USA Hard Red Winter wheat and German Type A or B wheat*

We acknowledge all the feedback and comments received. We trust this market notice is detailed to address all your questions however should there be any remaining please reach out to me or Raphael Karuaihe.

Sincerely,

Chris Sturgess

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