

Market Notice

Number: A1679A
Date 20 August 2012

Wheat Location Differential Rates for 2012/13

The 2012/13 wheat marketing season is fast approaching and we are pleased to submit to you provisional Location Differential Rates (LDR) for the new season.

This year the determination of LDR has taken a slightly different approach. As you may recall from market notice A1607 on maize LDR, we have adopted a formula-based methodology that we believe is more transparent and will more easily be understood by market participants as we revise the LDR on an annual basis, going forward.

Like we did with maize LDR, transporters were requested to submit to the JSE actual budgets relating to annual kilometers travelled, fixed and variable cost components. The information was used to determine aggregate rand per kilometer (RPK) figures for each silo location.

Further conversion was made from rand-per-kilometer (RPK) figures to rand-per-ton (RPT) using the following formula:

$$RPT = \frac{\text{Distance} * RLF * RPK}{\text{Payload}}$$

Where:

Distance is distance in km to the reference point,

RLF is the return load factor,

RPK is in Rand/km, and

Payload is in tons.

RPT's for all the silo locations were determined using the above formula. An RLF of 2 means that the return leg is empty. For lower distances up to 300 km an RLF of 2 was used. From there on a sliding scale was used up to an RLF of 1.5 for distances 400 km or more. Refer to table below:



JSE Limited Registration Number: 2005/022939/06
One Exchange Square, Gwen Lane, Sandown, South Africa.
Private Bag X991174, Sandton, 2146, South Africa. Telephone:
+27 11 520 7000, Facsimile: +27 11 520 8584, www.jse.co.za

Executive Directors: NF Newton-King (CEO),
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(Chairman), AD Botha, ZL Combi, MR Johnston, DM Lawrence,
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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
>400 km	1.5

Silo owners were also requested to submit rail-road out-loading ratios per each wheat silo under their management, taking into account product moving via conveyor belt to be sure to exclude this information. The country wide average ratio is 19.8% rail and 79.2% road whilst in the Western Cape only 4% wheat on average moves via rail. Actual rail rates were received from industry participants.

The final LDR formula applied:

$$\text{Final LDR} = (\text{Road rate} * \text{Road out loading ratio}) + (\text{Rail rate} * \text{Rail out loading ratio})$$

This year also saw the re-introduction of the CAPE wheat contract that is referenced in Paarl. We are therefore hereby submitting two sets of LRD's, namely for Randfontein- and Paarl-referenced wheat contracts, for your consideration and comment.

1. Randfontein Location Differential Rates (LDR)

Combining the RPT formula above with rail-road ratios, and rail rates, we were in a position to determine an LDR from Randfontein for each registered wheat silo. The Western Cape LDR due to the distance from Randfontein is not driven off the same formula and was derived based on feedback received from the market. Refer to attached spreadsheet for all the rates.

The table below shows the aggregate rand per kilometer (RPK) rates specific to Randfontein that we obtained from the industry and used in our calculations:

Distance	RPT
0-15 Km	116.92
16-25 Km	62.34
26-50 Km	31.77
51-75 Km	24.69
76-100 Km	19.50
101-125 Km	16.44
126-150 Km	16.44
151-175 Km	15.33
176-200 Km	14.76
201-225 Km	14.17
226-250 Km	13.86
251-275 Km	13.58
276-300 Km	13.29
301-325 Km	13.08
326-350 Km	12.85
351-375 Km	12.65
376-400 Km	12.42
401-425 Km	12.35
426-450 Km	12.34

451-475 Km	12.34
476-500 Km	12.34
>500 Km	12.34
CAPE	R 420

2. Paarl Location Differential Rates (LDR)

Similarly with the CAPE wheat contract, we were in a position to determine an LDR from Paarl for each registered wheat silo. Refer to attached spreadsheet

The table below shows the aggregate rand per kilometer (RPK) rates specific to Paarl that we obtained from the industry and used in our calculations:

Distance	RPK
0-15 Km	39.68
16-30 Km	39.68
31-45 Km	19.84
46-60 Km	17.18
61-75 Km	15.42
76-90 Km	15.42
91-105 Km	15.42
106-120 Km	14.87
121-135 Km	14.87
136-150 Km	14.85
151-165 Km	14.85
166-180 Km	14.85
181-195 Km	14.85
196-210 Km	14.85
211-225 Km	14.85
226-240 Km	14.35
>240 Km	

You will notice in some instances that certain locations with shorter distances to Paarl or Randfontein are having a higher LDR. This anomaly is brought about only in the event where the rail out-loading ratio is higher. The reverse situation is also applicable where we see a drop in LRD at a specific location when compared with other locations of similar distance.

In conclusion, members and clients are once again reminded that the published location differentials are indicative of transport costs to move product from a registered silo to either Randfontein or Paarl. It is impossible that this rate will be 100% accurate throughout the year as transport components change.

The JSE would like to thank everyone who made submissions and therefore these calculations possible. We welcome your feedback regards the proposed LDR process. Kindly highlight any gross inaccuracies immediately to commodities@jse.co.za or no later than **Friday 24 August 2012**, as the JSE aims to release the final numbers the following week. Should you wish to discuss the process in more detail feel free to contact myself or Raphael Karuaihe on 011 5207258.



Chris Sturgess

Designation Director
Division Commodity Derivatives
Tel +27 11 520-7299
Fax +27 11 520-7558
E-mail address: chriss@jse.co.za

Distributed by the Company Secretariat +27 11 520 7346