JOHANNESBURG STOCK EXCHANGE
SAFEX Commodity Derivatives

Market Notice

Number:	A1684A
Date	28 August 2012

Final Wheat Location Differential Rates, Standard Storage Rates for 2012/13, Grade and Origin Discounts

1. Location Differential Rates (LDR)

Subsequent to market notice A1679 of 20 August 2012, this notice serves to release the final version of wheat LDRs for the 2012/13 marketing season for both Randfontein and Paarl reference points. Based on submissions received from the market, changes have been made to the following:

a. Brits LDR

Initial LDR for this location was substantially higher due to a higher rail rate. An alternative rail rate was submitted via Transnet and included in the consideration resulting in Brits LDR moving closer to the road transportation assumptions.

b. Warden and Marble Hall

For the above two locations, typographic errors were reported that led to incorrect entries of LDRs. This has been corrected.

c. Return Load Factor (RLF)

We have adopted the same RLF that we used in the calculation of maize LDRs as follows:

Distance	RLF
<300 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

A RLF of 2 means that for distances lower than 300km the return leg is empty for most trucks. While the above sliding scale worked well for maize, it was distorting values for distances longer than 400km for wheat. We therefore adjusted the sliding scale for wheat as follows:

Distance	RLF
<300 km	2
301-325 km	1.9
326-350 km	1.8
351-375 km	1.7

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>376 km 1.6

The implication of this adjustment is that all silo locations that are 400km or more from Randfontein will have LDRs that are slightly higher than previously recorded. Please note that these changes do not affect the CAPE contract. Refer to revised excel spreadsheet for updated list of the 2012/13 wheat LDRs.

We further take note of concerns raised by some respondents about the use of rail-road out-loading ratios in determining LDRs. It was suggested that the lower of rail- and road rates be used to determine LDRs instead of the weighted average of rail and road currently in place. Such a move requires a fundamental shift in the way we do our calculations and this would require consent by the Agricultural Advisory Committee (AAC). We would table a proposal in this regard at the next AAC meeting in October and any approved changes will only be implemented in the next maize marketing season.

Thank you to everyone who provided their input and comments on the proposed differentials which in the end saw an average 4.39% increase for the Randfontein reference point.

2. Standard storage rate for wheat

The standard storage rate for the marketing season 1 October 2012 – 30 September 2013 has been calculated based on the methodology as agreed by the Agricultural Advisory Committee. The June 2012 PPI for domestic output was up 6.6%. This rate, applied to the current storage rate, results in the wheat standard storage rate increasing to **67 cents per ton per day** applied to 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 2012. 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.

3. Grade Discounts

The wheat grade discount rates for the 2012/13 marketing season will be published on the 14 September 2012 according to the following methodology:

- An arithmetic average of the near dated December expiry daily mark-to-market (mtm) for the JSE wheat futures contract will be reference
- 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)
- 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 valued to determine the B2 and B3 wheat grade discounts for the next marketing season

- The final grade discount will be rounded off

There have been suggestions to change the methodology to consider the newly-listed CAPE contract into the equation. Again, this request will be table at the forthcoming October meeting of the AAC and any changes agreed upon will only be effected in the 2013/14 marketing season.

4. Origin Discounts

Further to market notice A1548, the origin discounts remain unchanged from the previous year for the next marketing season, namely, 1 October 2012 – 30 September 2013. No additional origins have been added and the origin discounts will apply as follows:

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*

If there are any questions regarding this please contact the Commodities Team.

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