



Market Notice

Number: A1229
Date: 17 May 2010

Procedure for auctioning off of Safex silo receipts tendered for physical delivery

Following much discussion around the continued use of location differentials, the JSE decided to further enhance its delivery process and to a certain extent allow for more transparent basis discovery by enabling existing long positions holders to bid for Safex silo receipts tendered for delivery in completion of a futures contract.

The envisaged process is described in detail below and is expected to be activated for the July 2010 delivery month provided the remainder of the testing process continues well.

The JSE Commodity Derivatives Division will provide market participants with an opportunity to bid for specific locations tendered in completion of a short futures position. Physical deliveries will therefore be processed in one of the following ways:

- Exchange for Physical (EFP): both the buyer and seller notify the exchange prior to allocation that they have reached agreement and that the underlying Safex silo receipts will be exchanged between the two parties. The EFP is processed at the current mtm value with the premium exchanged outside of the JSE's settlement process.
- Bidding opportunity: clients who have a long position for the specific delivery month will have an opportunity to bid on preferred locations, all locations that are not bid on will continue as before to be randomly allocated. The premium bid must be a Rand amount per ton and can be defined as the value over and above the Safex price less published location differential.
- Random allocation according to a defined methodology: the remaining deliveries will be processed using the current algorithm. The detailed algorithm in use is available on the web page.

The auctioning is largely an enhancement to the current delivery process which was made possible with the new trading software, particularly the delivery mechanism that has been automated.

The auction times are configurable however from the launch date, the following will be setup within the current trading times, note the auction will open whilst the market is trading to allow any participants who do not have a long position and wish to achieve this in order to qualify for the bidding process:



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Executive Directors: RM Loubser (CEO), NF Newton-King, F Evans (CFO), JH Burke, LV Parsons
Non-Executive Directors: HJ Borkum (Chairman), AD Botha, ZL Combi, MR Johnston, DM Lawrence, W Luhabe, A Mazwai, NS Nematswerani, N Nyembezi-Heita, N Payne, G Serobe
Alternate Director: J Berman

Products	Open Order	Continuous trading	Admin period	Physical delivery processing by the JSE
White & yellow maize, soya, wheat, sorghum, sunflower seeds & CBOT corn, beans, meal & oil	8h50 - 8h59	09h00 - 12h00	12h00 - 12h45	13h00-14h30 (aim to be complete by this time however depends on volumes tendered)
Physical delivery auction period		WILL COMMENCE FROM	BIDDING PERIOD CLOSSES AT	ALLOCATIONS COMMENCE
		11h30	13h00	13h01
Crude oil, Gold & Platinum	8h50 - 8h59	09h00 - 15h45	15h45 - 16h00	n/a

To participate in the silo receipt auction, the following process will be available on NUTRON and the API:

- Silo certificates that are delivered on Nutron by short position holders using the existing physical delivery functionality and which are currently sent to the JSE clearing database, will be sent back to the front end and made available to existing long position holders to bid on specific locations in order to indicate their preference in receiving the specific silo location or part thereof.
- The message below will be published at 11h30 to announce to market participants that the silo auction period has commenced:



- To activate the auction screens, right click on any contract month specific to the commodity you are interested in and select “**silo certificate auction**” The following window will open which will remain dynamic throughout the auction period and will reflect the silo location and grade of product, number of contracts available (to be consistent with the futures window we have converted the tons tendered for delivery into the standardised contract size), the premium bid, the quantity and then once the auction and the allocations are processed, the high, low and volumes of the orders matched will be published. Please note this window is dynamic and will update as new delivery notices are tendered for the day, hence the auction period remains open until 13h00 to give all participants a further 15 minutes once the admin period closes to bid on interested locations.

Depth
Options
Deltas
Spreads
Silo Certificate Auction

- Days History
- Contract Data
- Set DDE-Copy On
- Freshen data
- Configure
- Sort
- Stay on Top
- Add/Delete Contracts

Silo Certificate Auction for - WEAT							
Silo Location	# Of Cont	Premium Bid	QtyB	High	Low	Volume	
De Brug B3	5	2	5	0	0	0	
Geneva B1	2	0	0	0	0	0	
Geneva B2	3	0	0	0	0	0	
Magogong B1	1	0	0	0	0	0	
Raathsvlei B1	1	0	0	0	0	0	
Welgelee B2	2	0	0	0	0	0	
Welgelee B3	3	0	0	0	0	0	

- A separate window exists for each commodity group that can be physically settled to avoid any confusion regards the product bid on:

Silo Certificate Auction for - SOYA							
Silo Location	# Of Cont	Premium Bid	QtyB	High	Low	Volume	
Mirage	8	0	0	0	0	0	
Raathsvlei	9	0	0	0	0	0	

Silo Certificate Auction for - WMAZ							
Silo Location	# Of Cont	Premium Bid	QtyB	High	Low	Volume	
Allanridge	5	0.00	0	0	0	0	
Attie	2	0.00	0	0	0	0	
Bothaville	1	0.00	0	0	0	0	
Koppies	1	0.00	0	0	0	0	
Petrusburg	2	0.00	0	0	0	0	
Wolwehoek	2	0.00	0	0	0	0	

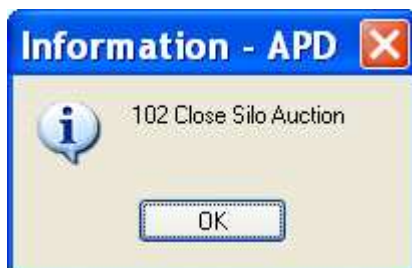
- By selecting the premium bid field, the below bid template will be available. The quantity available at that instance (remember as additional delivery notices are received so this will update) and premium can be entered whilst the drop down list of clients will be limited to those clients with long positions for the specific month. The bid tick size (increments in which the premium value can change) will be configured to R1.00 per ton. Clients who are long will be able to **offer multiple bids across all tendered silos without any restrictions** with the allocation algorithm ensuring the highest bids are matched first. Clients who enter multiple bids that exceed their total long position will not be successful in all of the bids hence the allocation algorithm first matching the highest bids. The specific location and product will be highlighted in the main header of the bid box, as indicated below "Geneva" silo is currently being bid on for wheat:



- The bid may also be captured directly via the depth window, all bidding will be anonymous thereby preventing market participants from viewing which members represent long position holders. The depth window will indicate to a member firm their own position in the queue via the "X" symbol:

Memb	QtyB	Bid
X	1	3.0000
X	5	2.0000
	0	0
	0	0
	0	0
	0	0
	0	0

- Once the silo auction closes the below message will be published to announce this:



- All exchange for physicals (EFP's) tendered on the day will not be included in the silo auction process and therefore not available for bidding.
- Once the auction period closes, the EFP's will be processed thereafter all bids from the auction period will be considered. The allocation algorithm is programmed to start matching positions from the location with the highest bid and continues until all possible matches could be found. To explain using a step by step process consider the following:
 1. Sort all bids per product from largest Rand value to smallest Rand value bid,
 2. Start allocating from the highest Rand value bid checking that the position is available, then update the positions file and quantity remaining at the silo location,
 3. Allocate the next bid again checking that the position is available and available quantity at the silo is possible, then update the positions file and quantity remaining at silo location,
 4. Continue allocating disregarding any bids where positions are no longer valid or remaining quantity at the silo is not available,
 5. Once all possible combinations are completed and the matching process is done, then forward the information to the front end and to the invoicing database

The below table illustrates how the bid matching process is executed:

Assuming the following long positions exist:

ABC199 50 long
 XYZ999 15 long
 CDC899 10 long

EXAMPLE:					
Product	Location	Client code	Bid price: <i>sorted in descending order</i>	Bid Qty (contracts)	Total available contracts auctioned (contracts converted from tons)
WMAZ	Middelburg	ABC199	R 55.00	10	20
WMAZ	Middelburg	ABC199	R 40.00	6	20
WMAZ	Pan	ABC199	R 39.00	30	30
WMAZ	Middelburg	XYZ999	R 10.00	20	20
WMAZ	Pan	CDC899	R 5.00	4	30
WMAZ	Bultfontein	ABC199	R 3.00	25	30
WMAZ	Leeudoringstad	CDC899	R 2.00	5	6

THIS IS THEN MATCHED LINE BY LINE AS FOLLOWS (match the row colours of the two tables):

Qty Matched	Price	Client	Reason
10	R 55.00	ABC199	full match as long position is available (50-10)
6	R 40.00	ABC199	full match as long position is available (40-6) and Middelburg silo still has 10 contracts left
30	R 39.00	ABC199	full match as long position is available (34-30)
4	R 10.00	XYZ999	partial match, since 4 contracts only available at Middelburg silo and long position available (15-4)
0	R 0.00	CDC899	no match as qty at Pan already filled
4	R 3.00	ABC199	partial match, since 4 contracts only available on long position (4-4)
10	R 2.00	CDC899	partial match, since available long position is only 10

- All remaining silo locations tendered and which were not bid or matched from the auction period will be randomly allocated as per the algorithm currently in place. Therefore the remaining stock will be allocated and invoiced based on the current random allocation methodology.
- On the NUTRON front end, the “silo auction orders” view will be updated confirming which bids were successful, please see the screen below and refer to the far right column:

View SAFMJOE APD Silo Auction Active Orders										
Order No.	Member	Prin	Contract	Silo Location	Grade	Origin	Premium	Qty	Sub Account	QTY Allocation
97	SAFM	TKU442	WMAZ	Arnot	WM1	South Africa	30.00	1		1
96	SAFM	UNC872	WMAZ	Glenroy	WM1	South Africa	20.00	1		1
94	SAFM	DFG122	WMAZ	Amersfoort	WM1	South Africa	10.00	2		2
95	SAFM	TKU442	WMAZ	Arnot	WM1	South Africa	5.00	3		0

Close Delete-SEL Download

- The delivery and assignment notices have been updated to include a column which will reflect the results from the auction called "Premium (Avg per ton)" which follows after the location differential per ton column. The bidding process in the auction is consolidated per location ie the total number of contracts per location can be bid on in its entirety and not per delivery notice tendered. A scenario is also possible that only a portion of the quantity tendered is bid on and so the delivery and assignment notice will reflect an AVERAGE premium based on the matched quantity. In the example below, 50 tons of SOYA was delivered, assume that R20.00/t was bid for 25 tons (1 contract), we then average the premium displayed across the 50 ton certificate to make invoicing to the short position easier whilst the long position holder will receive an assignment notice with the specific premium bid. The average premium was calculated as follows: $R20.00 \times 25t = R500 / 50t = R10 \text{ per ton}$. By allowing long position holders to bid for product, this will result in additional silo receipts been split to match the bid quantities however by presenting an average premium to short position holders we are able to maintain the same silo receipt number as the original tender making it easier to reference back. Long position holders will be invoiced and will only be aware of the new receipt number with the silo receipt splitting process taking place seamlessly in the background by the exchange. The premium is then included in the calculation which determines the discount per ton. In the example below the follow occurs:

 - o $R1.44 - R10.00 = -R8.56$ per ton (this is then interpreted as a positive value that will be added to the final invoice amount to be received)
 - o Total discount per ton: **-R428.00** (a negative value indicates this will be ADDED to the final invoice amount)
 - o Value to be received based on the closing price is $R2529 \times 50t = R126\,450.00$
 - o Net invoice amount due to short position holder: $R126\,450.00 + R428.00 = R126\,878.00$
 - o The premium therefore has a net effect on the final invoice amount of reducing the discounts applicable and so passing on more value to the short position holder
 - o The assignment notice value (amount buyer will be responsible for settlement) will equal the delivery notice value in the same way as before we introduced the auction functionality.
 - o There is no change to the current physical delivery settlement process regards the money flow from the long position holder to the short position holder except the amounts will now include any premiums bid per location
 - o The premium field on the invoice was specifically positioned to follow from the location differential so that clients could easily view the average premium received (short position) or paid (long position) over and above the standardised location differential. In the below example since SOYA does not have any differentials this is an outright premium movement, in the case of the other products traded the premium will have the effect of reducing the location differential discount.



JOHANNESBURG STOCK EXCHANGE
Commodity Derivatives

SAFEX DELIVERY NOTICE
SOYBEAN FUTURE

JSE LIMITED VAT REGISTRATION NUMBER : 4080119391

TAX INVOICE NUMBER : SOYA559

The undersigned short position holder hereby give notice to the Clearing House of intention to deliver as follows:

Delivery Notice Ref SOYA559

SHORT POSITION HOLDER

Client Code **SAFM**
Member Code **SAFM**
Clearing Member Code **SFXCC**

Notice Date **30-Apr-2010**

Delivery Date **3-May-2010**

Futures Contract **May 10 SOYA**

Number of Contracts **2**

Quantity Tons **50**

Receipt Number	P/E	Quantity	Silo Owner	Silo Location	Storage Paid To	Days Storage	Storage Due Per Ton	Loc Diff Per Ton	Premium (Avg Per Ton)	Discount Per Ton	Total Discount
113238	P	50	OTK	Afrikaskop	30/04/2010	3	R 1.44	0	R 10.00	R -8.56	R -428.00

TOTAL DISCOUNT

R -428.00

For Clearing House use only:

CLOSING FUTURE'S PRICE ON DAY PRIOR TO DELIVERY DAY

R 2,528.00

GROSS INVOICE AMOUNT

R 128,450.00

NET INVOICE AMOUNT DUE TO SHORT POSITION HOLDER

R 126,878.00

COMMODITY DERIVATIVES DIVISION
A DIVISION OF JSE LIMITED Reg. No. 2006/022839/06
One Exchange Square
Gwen Lane
Sandown

Delivery Notice SOYA559

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- Members will continue to be able to download their physical deliveries via NUTRON with the premium included in the delivery fields.
- Once the physical delivery process is complete, the high, low and volume fields will be updated in the "silo certificate auction view" so that the market has transparency around what was matched. It is important to note that the statistics displayed are a result of the FINAL matching process and even though there may have been a higher bid at the auction close, it is not guaranteed to be matched if the client did not have any remaining positions at the time of allocating. The volume will reflect the total contracts matched.

Silo Certificate Auction for - WMAZ							
Silo Location	# Of Cont	Premium Bid	QtyB	High	Low	Volume	
Amersfoort	4	10.00	2	10	10	2	
Arnot	4	30.00	1	30	30	1	
Glenroy	2	20.00	1	20	20	1	

- The JSE will enhance the current “daily physicals” report published on the website to include the final result of the silo auction as illustrated below:

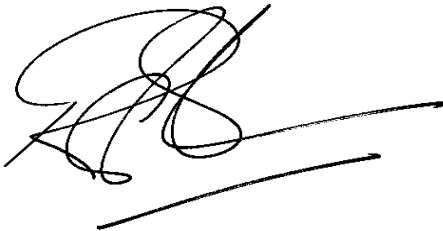
Silo Location	Grade	Silo Owner	Origin	Quantity Delivered	Electronic Quantity	Paper Quantity	Quantity Re-Delivered
Allanridge	WM1	SWK	ZA	500	0	500	0
Attie	WM1	SWK	ZA	200	0	200	0
Bothaville	WM1	SWK	ZA	100	0	100	0
Hartswater	WM1	SWK	ZA	200	0	200	0
Koppies	WM1	SWK	ZA	100	0	100	0
Petrusburg	WM1	SWK	ZA	200	0	200	0
Wolwehoek	WM1	SWK	ZA	200	0	200	0
				1500	0	1500	0
YMAZ	YELLOW MAIZE FUTURE						
Hartswater	YM1	SWK	ZA	300	0	300	0
Heilbron	YM1	SWK	ZA	500	0	500	0
Mooigelee	YM1	SWK	ZA	200	0	200	0
Odendaalsrus	YM1	SWK	ZA	200	0	200	0
				1200	0	1200	0

Final Basis Premiums resulting from the Silo Receipt Auction

Silo Location	Grade	Silo Owner	Origin	Quantity Auctioned	Premium
SOYA	SOYBEAN FUTURE				
Mirage	SB	SWK	ZA	200	R 5.00
SUNS	SUNFLOWER SEEDS FUTURE				
Werda	FH	SWK	ZA	150	R 10.00
Attie	FH	SWK	ZA	50	R 2.00
WEAT	WHEAT				
Geneva	B1	SWK	ZA	100	R 5.00
Geneva	B2	SWK	ZA	100	R 5.00
Geneva	B2	SWK	ZA	50	R 6.00
De Brug	B3	SWK	ZA	250	R 4.00
WMAZ	WHITE MAIZE FUTURE				
Hartswater	WM1	SWK	ZA	200	R 5.00
YMAZ	YELLOW MAIZE FUTURE				
Heilbron	YM1	SWK	ZA	500	R 10.00

- The intention of the auction remains that existing long position holders have the opportunity to bid on specific silo locations to afford them the opportunity of receiving the preferred locations whilst short position holder tendering their locations in completion of a futures contract receive the benefit of this. The JSE **will not charge** any additional fee for this service other than the standard physical delivery fee currently in place.

The above process is currently undergoing testing in the various test environments and is available to API developers who wish to program their software to the specific functionality. The dress rehearsal scheduled for the end of June will provide participants with another opportunity to familiarise themselves with the new process. If there are any further questions or comments regards the new allocation process please contact the Division on +27 11 520 7535 or email commodities@jse.co.za . Should there be sufficient demand for a demonstration of the new software this will be arranged.



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