JOHANNESBURG STOCK EXCHANGE
SAFEX Commodity Derivatives

Market Notice

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Proposed 2012/13 maize location differentials including the final standard storage rate for the new marketing season.

1. Location differentials

As per previous years, the JSE extended an open invitation to all market participants via market notice A1541 to contribute both road and rail tariffs directly to the exchange. In addition to this registered silo owners were approached to contribute rail vs road out loading information.

In order to further improve the process to determine annual location differential rates (LDR) the JSE undertook a slightly different approach when calculating the proposed maize differentials for the 2012/13 marketing season. The JSE conducted a series of workshops where industry participants representing road transporters, Transnet, GSA, NAMC and various traders involved in moving grain were invited to contribute to establishing a more robust calculation process for the maize LDR. The outcome of these workshops resulted in a more formula-based LDR that was driven off actual distance of the silo to Randfontein. This approach, we believe, will result in more consistent adjustments from one year to the next across all registered delivery points and also a better understanding and more transparent approach in terms of actual road rates applied. The intention going forward is to work closely with NAMC and the transport industry over the next few months to ultimately provide an indicative model that will allow industry participants the ability to replicate LDR adjustments more closely.

New Approach

Firstly road transporters were requested to submit to the JSE their actual budgets relating to annual kilometres travelled, fixed and variable cost components. The information was used to determine aggregate rand per kilometre (RPK) figures for each silo location to Randfontein. Although collecting this level of detail from road transport companies is new, in principle collecting accurate road rates has always remained the objective when determining LDR.

Following further discussions it was agreed to move from a rand-per-kilometre (RPK) figure to **a rand-per-ton** (RPT) using the below formula as this best replicated how transporters currently priced and quoted in the industry:

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

Where: Distance is the distance in km to Randfontein,
RLF is the return load factor,
RPK is in Rand per km and
Payload is in tons.

Rand-per-ton (RPT) rates for all silo locations were then calculated using the new formula:

- Distances to Randfontein from each silo were aggregated from submissions by an independent logistics entity and the transport industry.
- A RLF of 2 which implies that one leg of the trip is empty was applied to all delivery points up to and including 400 km's from Randfontein. This issue of return loads was discussed at length at the workshop since a number of the long distance routes see limited return load activity. The JSE reached agreement that this principle will be ironed out for future updates via the Agricultural Advisory Committee and at this point is comfortable with the information provided to continue on the proposed sliding scale. The following sliding scale was introduced for the RLF for the maize calculations as illustrated below:

Distance	RLF
<401 km	2
401-425 km	1.9
426-450 km	1.8
451-475 km	1.7
476-500 km	1.6
>500 km	1.5

- The RPK rate was calculated by the JSE after aggregating all the information provided by the road transporters, this therefore is an indication of actual road costs. Based on this information the cost per km varied depending on the distance travelled, as can be seen the rates for the very short distances are high and then gradually ease off and flat line after a certain distance. The rates are as follows:

Distance	RPK(R/Km)
0-15 km	80.31
16-25 km	53.54
26-50 km	26.77
51-75 km	18.07
76-100 km	16.35
101-125 km	15.76
126-150 km	15.49
151-175 km	15.00
176-200 km	14.94
201-225 km	14.78
226-250 km	14.74
251-275 km	14.03
276-300 km	13.71
301-325 km	13.71
326-350 km	13.61
351-375 km	12.70
>375 km	12.53

- Although the JSE aimed to ensure the LDR calculation is all formula based, there was an anomaly in terms of the Western Cape delivery points. If this was calculated purely on road rates, as a number of delivery points suggested, and even if guaranteed return loads were factored in, this would not reflect current transport supply and demand factors and so for the Western Cape delivery points the JSE completed an independent survey to understand actual road tariffs applicable at this point in time. Based on this information it was decided to move this rate to R400/ton from the current R410/ton.
- The payload agreed at the workshop, although this could vary per type of road truck used, was 34 tons

An example of the RPT calculation is as follows:

Location= Brits;
Distance=97km;
RLF=2; RPK=R16.35/km
Payload=34

$$RPT(Brits) = \frac{97 * 2 * 16.35}{34} = R93.29/ton$$

In addition to the calculated RPT rates, actual rail rates for the previous season were received and adjusted by 9, 5% as published by Transnet to reflect the cost for the new marketing season. Therefore the most recent rail increase was factored into the calculations.

Based on the calculated RPT road rates and actual rail rates available, finally the rail-road out loading ratios as supplied by the registered silo owners were then referenced per individual silo using the same formula as in the past:

Final LDR = (Road rate*Road out loading ratio) + (Rail rate*Rail out loading ratio)

Below an example of a specific silo where this was applied re-confirming where road only transport was available this was reflected in the calculations:

Silo Name	*Silo Owner*	*Rail Rate*	*Road Rate*	*Rail Ratio*	*Road Ratio*	*Proposed LDR*
Brits	*MGK*	*145.05*	*93.29*	*0%*	*100%*	*93.29*

*Final LDR(Brits) = (93.29*1) + (145.05*0) = R93.29/ton*

By refining the process and determining a RPT road rate the industry is able to on a more transparent basis understand the road portion of the LDR final number. This process will also ensure going forward there is a consistent adjustment across all registered silos where in the past the JSE did not always receive comprehensive road rates across all delivery points which impacted the resulting averages calculated. Going forward this new approach, although dependent on contributions by road transporters, allows for a more accurate distribution across all registered points since it will be driven off the distance to Randfontein.

In summary, across the 198 maize delivery points the **PROPOSED 2012/13 LDR are attached in excel** format. Included in the excel spreadsheet is the distance in km's to Randfontein used in the RPT calculations, the previous differential as well as the proposed 2012/13 differentials. The average location differential **increase is R15/t or 8.47%.** Please note that there are individual increases whilst others have decreased from last year's rates. The JSE has spent a significant amount of time reviewing and reconfirming all the

adjustments based on the improved methodology and is confident following this year's alignments we should not see such large variations across delivery points going forward since the road distance together with a RPT will drive actual road costs. The remaining factor that could potentially result in greater variations is the rail vs road out loading ratio. This year already the JSE made use of a two year average for the out loading ratio to provide a smoother effect. Although the rail:road ratio is applied per each individual silo, the average across all delivery points for the two years is 20% rail and 80% road. The JSE will continue to consult silo owners with the objective in the future to also provide the individual out loading ratios per silo so that replicating the JSE LDR calculations would be easily possible.

Please could market participants review the proposed LDR and highlight any gross inaccuracies immediately to commodities@jse.co.za or no later than Thursday 12 April 2012 as the JSE aims to release the final numbers the following week.

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

In proposing the adjusted maize LDR, although the JSE has spent a significant amount of effort to move to a more calculated methodology, this has only been possible thanks to the invaluable commitment of a number of road transporters who supported the bigger picture and contributed individual information directly to the JSE who could then aggregate this to determine the RPK rates table. In addition to these respected companies, the NAMC, GSA and selected traders all actively contributed during the workshops in order to be able to propose the improved methodology. The JSE also values the accurate contributions made by the silo owners in terms of the rail vs road out loading ratio's as well as the actual rail rates provided by market participants. Finally, recognition also goes to the Agricultural Advisory Committee who have provided guidance in the past and where the above exception principles will be finalized going forward.

Both myself and Raphael Karuaihe who worked on the calculations welcome your feedback regards the proposed LDR process and if there is any further insight regards the calculations we happy to consider this for future improvements.

2. Standard storage rate for maize

The standard storage rate for the marketing season 1 May 2012 – 30 April 2013 has been calculated based on the methodology as agreed by the Agricultural Advisory Committee. The January 2012 PPI for domestic output was up 8.9%. This rate, applied to the current storage rate, results in the maize standard storage rate increasing to **54 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 April 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):

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.

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