JOHANNESBURG STOCK EXCHANGE
SAFEX Commodity Derivatives

Market Notice

Number:	A1791B
Date	04 April 2013

Proposed 2013/14 maize location differentials including the final standard storage rate for the new marketing season.

Location differentials (LD)

As per previous years, the JSE extended an open invitation to all registered silo owners and market participants to contribute rail vs road out-loading information as well as road and rail tariffs directly to Randfontein.

Last year was the first time we applied a new methodology for determining location differential rates that was driven off actual distance of the silo to Randfontein. The same methodology continued for the 2013/14 marketing season.

Firstly road transporters were requested to submit to the JSE their 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 to Randfontein.

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 and can be seen below:

Distance	RPK
0-15 Km	R 80.31
16-25 Km	R 55.60
26-50 Km	R 28.70
51-75 Km	R 19.41
76-100 Km	R 17.65
101-125 Km	R 17.07
126-150 Km	R 16.77
151-175 Km	R 16.25
176-200 Km	R 16.16
201-225 Km	R 15.95
226-250 Km	R 15.89
251-275 Km	R 15.17
276-300 Km	R 14.85
301-325 Km	R 14.99
326-350 Km	R 14.76
351-375 Km	R 13.78
376-400 Km	R 13.60
>401 Km	R 13.60

The above RPK values were used in the formula below to finally determine the rand-per-ton (RPT) road rates for all silo locations that are now commonly accepted among the transporters and market participants in the grain 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.

Distances to Randfontein that were agreed upon with market participants during the previous consultation sessions were applied in this exercise.

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. Again here, we adopted the same approach as during the last season where a sliding scale was implemented to account for longer distance routes with limited return load activity. The sliding scale is as follows:

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

Although the JSE strives to ensure the LDR calculation is all formula based, the Western Cape delivery points remain a special case. 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 **R470/ton from the current R400/ton**.

The payload referenced was the same as last year, namely **34 tons** per road truck.

In addition to the calculated RPT rates, actual rail rates for the previous season were received and adjusted by 7.3% 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 LD = (Road rate*Road out loading ratio) + (Rail rate*Rail out loading ratio)

In summary, across the 203 maize delivery points the PROPOSED 2013/14 LD's 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 2013/14 differentials. The average location differential increase is 8.04%, mainly due to fuel price hikes over the past twelve months. While increases across the locations were fairly consistent, we have also observed some deviations from the norm.

A closer look revealed that most of the increases above 15% were mainly due to a shift in rail-road ratios in favour of road. Because rail rates are cheaper for longer distances, a drop in the percentage of rail out-loading component will lead to an increase in location differential for that particular silo location, all other things being equal. While the 2-year average rail-road ratio for the past season was 20% rail and 80% road, this year the same average is 18% rail and 82% road and this confirms our earlier argument of higher than normal rate increases.

Please can market participant's review the proposed LD's and highlight any gross inaccuracies immediately to commodities@jse.co.za <u>no later than Thursday 11 April 2013</u> 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. The basis premium functionality remains available for market participants to discover any premiums through a secure and transparent fashion.

Standard storage rate for maize

The standard storage rate for the marketing season 1 May 2013 – 30 April 2014 has been calculated based on the agreed methodology. The January 2013 PPI for manufacturing output was up **5.8%**. We acknowledge the fact that the domestic PPI basket has changed somewhat since our last storage rate calculation, we have opted to use the PPI for manufacturing output to determine storage rates as there is no longer a domestic output number. This rate, applied to the current storage rate, results in the maize standard storage rate increasing to **57 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 2013**. 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.

If there are any further questions regarding the above, please feel free to contact me directly or Raphael Karuaihe on 011 520 7258.

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