

MARKET NOTICE

Johannesburg
Stock Exchange

Tel: +27 11 520 7000
www.jse.co.za

Number: 468A/2020
Relates to: Equity Market
 Equity Derivatives
 Commodity Derivatives
 Interest Rate and Currency Derivatives
Date: 18 September 2020

SUBJECT: PROPOSED LOCATION DIFFERENTIALS FOR 2020/21 WHEAT MARKETING SEASON

Name and Surname: Raphael Karuaihe
Designation: Head - Commodities

Dear Stakeholder,

a) Location Differentials for the WEAT Contract

The 2020/21 wheat marketing season is approaching and we are pleased to submit to you provisional Location Differential Rates (LDR) for the new season.

We have continued to apply our formula-based methodology to arrive at the proposed LDR. All registered storage operators were requested to submit rail vs road out-loading information. Transporters and grain trading houses were also requested to submit to the JSE actual road rates for grain haulage. A total of four (4) transporters contributed to the LDR calculation with a combined wheat total of 654 000 tons having been moved during the period under review.

The Rand-per-Kilometer (RPK) rate was calculated by the JSE after aggregating all the information provided by road transporters, thus making this the closest indication of actual road costs. Based on this information the rate per kilometer varied depending on the range of distance travelled as can be seen below:

	2020/21	2019/20	
Distance	RPK	RPK	%Change
0-15 Km	351,32	291,73	20,43%
16-25 Km	82,14	81,04	1,36%
26-50 Km	47,17	45,55	3,56%
51-75 Km	30,27	29,54	2,47%

76-100 Km	26,35	25,89	1,78%
101-125 Km	24,19	23,94	1,04%
126-150 Km	21,63	21,49	0,65%
151-175 Km	19,69	19,61	0,41%
176-200 Km	19,56	19,53	0,15%
201-225 Km	19,45	19,44	0,05%
226-250 Km	19,08	19,39	-1,60%
251-275 Km	18,42	18,37	0,27%
276-300 Km	17,95	18,01	-0,33%
301-325 Km	17,44	17,42	0,11%
326-350 Km	17,07	16,94	0,77%
351-375 Km	16,94	16,92	0,12%
376-400 Km	16,79	16,84	-0,30%
401-425 Km	16,88	16,79	0,54%
426-450 Km	16,98	16,73	1,49%
451-475 Km	16,78	16,51	1,64%
476-500 Km	16,62	16,04	3,62%
500-600 Km	16,56	16,01	3,44%
>600 Km	16,51	15,86	4,10%

Compared to last year, the RPK rates have increased by **0.94%** on average. 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 with 34 tons applied.

Distances to Randfontein that were agreed upon by market participants were used in this exercise.

You will recall from previous seasons that a return load factor (RLF) of 2 implies that the return load is empty while a RLF of 1 accounts for a full return load. More and more transporters are now indicating that they are only submitting shuttle rates, implying an RLF of 2. Thus we have capped the RLF sliding scale used in our calculation as per the table below:

Distance	RLF
<300 km	2,0
301-325 km	1,9
326-350 km	1,8

351-375 km	1,7
376-400 km	1,6
401-425 km	1,5
426-450 km	1,5
451-475 km	1,5
476-500 km	1,4
501-550 km	1,4
551-600 km	1,4
>600 km	1,4

Combining the RPT formula above with rail-road ratios and rail rates, we were in a position to determine location differentials from Randfontein for each of the 190 registered wheat storage locations. The proposed rates show an average decrease of **0.0%** when compared with the previous season.

Please note that, in some cases, we have seen substantial moves in LDR and this is primarily due to Transnet rail rates that have been revised downwards for some of the locations. We are happy to provide more details on a case by case basis should there be a request for us to do so.

The **Western Cape-Reef** LDR due to the distance from Randfontein is not driven off the same formula and was derived based on feedback received from the market. Based on this independent survey, the official LDR from the Reef to the Western Cape will remain unchanged at **R600/ton**.

Please could market participants review the proposed location differentials as per the attached spreadsheet and highlight any gross inaccuracies immediately to commodities@jse.co.za by no later than **Wednesday, 23 September 2020 at close of business**, as the JSE aims to release the final numbers soon thereafter.

Members and clients are again reminded that the published location differentials are indicative of transport costs for product from the registered storage location 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 basis premium functionality the exchange aims to improve transparency to the basis value at each silo per product delivered in completion of a futures contract

In proposing the wheat LDR, this has only been possible thanks to the 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. The JSE also values the accurate contributions made by the storage operators in terms of the rail vs road out loading ratio's as well as the rates provided by market participants.

b) Standard Storage Rates

The standard storage rate applied to outstanding storage in completion of a futures contract for marketing season 1 October 2020 – 30 September 2021 will be **R1.00 per ton per day** based on the June PPI rate of 0.5% published at the end of July 2020.

Please ensure that when making delivery of JSE silo receipts issued in the previous marketing season, all storage is paid up to and including 30 September 2020.

c) Wheat Grade Discounts

Grade	Minimum Protein	Grade Adjustment	2019-20 Grade Adjustments	2020-21 Grade Adjustments
Super	12.5%	2%	R 89	R 97
B1	11.5%	Base	PAR	PAR
B2	10.5%	-1%	-R 44	-R 48
B3	9.5%	-4%	-R 178	-R 194

d) Wheat Origin Discounts

As agreed upon with the rest of the industry, wheat for delivery from the following origins will attract a zero origin discount.

- USA (Hard Red Spring, Dark Northern Spring, Northern Spring Wheat).
- USA (Hard Red Winter Wheat).
- Canada (Number 3 or better Red Western Spring Wheat).
- Australia (Hard, Prime Hard, Prime White and Standard White Wheat).

Wheat for delivery from the below origins will attract the following origin discounts.

- Argentina
- Germany (type A or B Wheat)
- Ukraine
- Russia

Grade	Origin Discount Adjustment	2019-20 Origin Discount	2020-21 Origin Discount
B1	-2%	-R 89	-R 97
B2	-3%	-R 133	-R 145
B3	-6%	-R 267	-R 290

Should you have any questions regarding the above, please do not hesitate to contact the Commodities Team at 011 520 7039 or email commodities@jse.co.za

This Market Notice will be available on the website at <https://www.jse.co.za/redirects/market-notice-and-circulars>