

**MARKET NOTICE**

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**Number:** 520A/2016  
**Relates to:**  Equity Market  
 Equity Derivatives  
 Commodity Derivatives  
 Interest Rate and Currency Derivatives  
**Date:** 15 September 2016

**SUBJECT:** PROPOSED LOCATION DIFFERENTIALS FOR 2016/17 WHEAT MARKETING SEASON

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**Designation:** Director: Commodities & Key Client Management

Dear Stakeholder,

**a) Location Differentials for the WEAT contract**

The 2016/17 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. Transporters and grain trading houses were requested to submit to the JSE actual road rates for grain haulage. All registered storage operators were also requested to submit rail vs road out-loading information

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:

	2015/16	2016/17	%
Distance	RPK	RPK	CHANGE
0-25 Km	65.37	71.13	8.81%
26-50 Km	30.20	32.26	6.82%
51-75 Km	22.40	23.46	4.73%
76-100 Km	19.23	20.53	6.76%
101-125 Km	18.40	19.81	7.66%
126-150 Km	17.24	18.10	4.99%

151-175 Km	16.94	17.55	3.60%
176-200 Km	16.79	16.98	1.13%
201-225 Km	16.41	16.81	2.44%
226-250 Km	16.25	16.19	-0.37%
251-275 Km	16.05	15.99	-0.37%
276-300 Km	15.95	15.99	0.25%
301-325 Km	16.18	15.57	-3.77%
326-350 Km	16.23	15.55	-4.19%
351-375 Km	16.39	15.97	-2.56%
376-400 Km	16.91	15.97	-5.56%
401-425 Km	16.91	15.97	-5.56%
426-450 Km	16.91	15.97	-5.56%
451-475 Km	16.91	15.97	-5.56%
476-500 Km	16.91	15.97	-5.56%
500-600 Km	16.91	15.97	-5.56%
>600 Km	16.91	15.97	-5.56%

Compared to last year, the RPK rates have dropped by **-0.14%** 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. The RLF sliding scale of the previous year was used unchanged as per the table below:

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
401-425 km	1.5
426-450 km	1.5
451-475 km	1.5
476-500 km	1.4
501-550 km	1.3

551-600 km	1.2
>600 km	1.2

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 177 registered wheat storage locations. The proposed rates show an marginal increase of **0.46%** when compared with the previous season.

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 be left unchanged from last season at **R550/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](mailto:commodities@jse.co.za) **by no later than Thursday 22 September 2016 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 for the marketing season 1 October 2016 – 30 September 2017 will increase based on the June PPI rate as published at the end of July 2016, namely 6.8% and so the standard storage rate applied to outstanding storage in completion of a futures contract will be **85 cents per ton per day**.

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 2016.

## **c) Grade Discounts**

As agreed in February 2013, referencing notice A1769 the new methodology to determine wheat grade discounts is as follows:

- An arithmetic average of the near dated December expiry daily mark-to-market (mtm) for the JSE Wheat (WEAT) 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)
- A six month reference period will be applied commencing from and including 15th March each year (if this is not a business day, the first business day prior)
- The December WEAT expiry is the 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 value to determine the B2 and B3 wheat grade discounts for the next marketing season
- The final grade discount will be rounded off to the closest R5 interval

Below are the new wheat grade discounts for the 2016-17 marketing season:

WHEAT GRADE DISCOUNTS APPLICABLE FROM 1 OCTOBER 2016 TO 30 SEPTEMBER 2017			
GRADE	B1	B2	B3
PROTEIN	12%min	11%min	10%min
SPECIFIC WEIGHT	77kg/hl min	76kg/hl min	74kg/hl min
DISCOUNT	PAR	-R180.00	-R360.00

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](mailto:commodities@jse.co.za) .

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