

MARKET NOTICE

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Relates to: ☐ Equity Market
☐ Equity Derivatives
☒ Commodity Derivatives
☐ Interest Rate and Currency Derivatives

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SUBJECT: PROPOSED LOCATION DIFFERENTIALS, STORAGE RATES AND GRADE AND ORIGIN
DISCOUNTS FOR 2019/20 WHEAT MARKETING SEASON

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Dear Stakeholder,

a) Location Differentials for the WEAT contract

The 2019/20 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 **651 786 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:

Compared to last year, the RPK rates have increased by **5.55%** on average.

	2019/20	2018/19	
Distance	RPK	RPK	
0-15 Km	291,73	253.89	14,90%
16-25 Km	81,04	74.57	8,68%
26-50 Km	45,55	38.91	17,07%
51-75 Km	29,54	27.74	6,49%
76-100 Km	25,89	23.99	7,92%
101-125 Km	23,94	22.39	6,92%
126-150 Km	21,49	20.21	6,33%
151-175 Km	19,61	18.57	5,60%
176-200 Km	19,53	18.90	3,33%
201-225 Km	19,44	18.30	6,23%
226-250 Km	19,39	17.92	8,20%
251-275 Km	18,37	17.35	5,88%
276-300 Km	18,01	17.05	5,63%
301-325 Km	17,42	16.27	7,07%
326-350 Km	16,94	16.27	4,12%
351-375 Km	16,92	16.27	4,00%
376-400 Km	16,84	16.27	3,50%
401-425 Km	16,79	16.27	3,20%
426-450 Km	16,73	16.27	2,83%
451-475 Km	16,51	16.27	1,48%
476-500 Km	16,04	16.27	-1,41%
500-600 Km	16,01	15.96	0,31%
>600 Km	15,86	15.96	-0,63%
		Average	5,55%

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
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

You will notice some locations with some discounts to last year's rates. This could be due to an adjustment in the rail-road weighting that favoured a drop in rates. Other locations such as Brits are reflecting a correction to the anomaly with the rail component. Even with a drop in rates, Brits's rates are still higher than comparable locations in the same distance range. Another site is Allanridge where we corrected the distance used in the last season.

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 192 registered wheat storage locations. The proposed rates show an average increase of **4.6%** when compared with the previous season. The shorter distances, less than 100 km, have once again experienced a marked increase in rates. For the rest of the locations, any outlier rates are mainly due to readjustment of the rail-road split or an adjustment of distances to Randfontein.

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 increased by **3.45%** from the current rate of **R580/ton to 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, 25 September 2019 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 2019 - 30 September 2020 will increase to 98 cents per ton based on the June PPI rate of 5.8% published at the end of July 2019.

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 2019.

c) WHEAT GRADE DISCOUNTS

As communicated in Market Notice 282/2019, the JSE has reverted to the original methodology for determining wheat grade discounts. Details of the methodology outlined below:

- *An arithmetic average of the near dated December expiry daily mark-to-market (mtm) for the JSE wheat (WEAT) futures contract will be referenced*
- *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 for the par base grade, then grade adjustments as per table 2 above will be applied to this value to determine prices for the Super, B2 and B3 wheat grades for the next marketing season; and*
- *The final grade adjustment will be rounded off to the closest R1 interval*

Below are the new wheat grade discounts for the 2019-20 marketing season:

Grade	Minimum Protein	Grade Adjustment	Grade Discount
Super	12.5%	+2%	R 89.00
B1	11.5%	Base	PAR
B2	10.5%	-1%	R 44.00
B3	9.5%	-4%	R 178.00

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, effective 1 October 2019 -

- 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, effective from 1 October 2019 -

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

Grade	Origin Discount Adjustment	Origin Discount
B1	-2%	-R 89
B2	-3%	-R 133
B3	-6%	-R 267

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>