

MARKET NOTICE

Johannesburg
Stock Exchange

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SUBJECT: PROPOSED LOCATION DIFFERENTIALS FOR 2018/19 WHEAT MARKETING SEASON

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Dear Stakeholder,

a) Location Differentials for the WEAT contract

The 2018/19 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 five (5) transporters contributed to the LDR calculation with a combined wheat total of 855 747 tons having been moved during the period under review. This represents about 52% of wheat production in the country.

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:

Distance	2017/18	2018/19	%
	RPK	RPK	Change
0-15 Km	254.92	253.89	16.33%
16-25 Km	70.97	74.57	4.83%
26-50 Km	33.77	38.91	13.23%
51-75 Km	24.18	27.74	12.84%
76-100 Km	21.59	23.99	9.98%

101-125 Km	20.80	22.39	7.08%
126-150 Km	18.71	20.21	7.43%
151-175 Km	17.38	18.57	6.41%
176-200 Km	17.17	18.90	9.13%
201-225 Km	16.80	18.30	8.17%
226-250 Km	16.55	17.92	7.65%
251-275 Km	16.20	17.35	6.66%
276-300 Km	15.81	17.05	7.26%
301-325 Km	15.01	16.27	7.73%
326-350 Km	15.01	16.27	7.73%
351-375 Km	15.01	16.27	7.73%
376-400 Km	15.01	16.27	7.73%
401-425 Km	15.01	16.27	7.73%
426-450 Km	15.01	16.27	7.73%
451-475 Km	15.01	16.27	7.73%
476-500 Km	15.01	16.27	7.73%
500-600 Km	15.01	15.96	5.95%
>600 Km	15.01	15.96	5.95%

Compared to last year, the RPK rates have increased by **8.29%** 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
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 193 registered wheat storage locations. The proposed rates show an average increase of **6.15%** 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 **3.57%** from the current rate of **R560/ton to R580/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 **Tuesday 25 September 2018 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 2018 - 30 September 2019 will increase based on the June PPI rate as published at the end of July 2018, namely 5.9% and so the standard storage rate applied to outstanding storage in completion of a futures contract will be **93 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 2018.

c) Grade Discounts

As has been communicated through Market Notice 131/2017 and subsequent notices, the JSE will adopt a new methodology for determining wheat grade discounts as follows:

The JSE for the marketing season 1 October 2018 - 30 September 2019 will apply a grade discount per 1% protein change of \$7.3488 per ton multiplied by the local exchange rate as determine and finalized by the latest 14 September 2018. The final discount will be rounded to the closest R1/ton value.

The JSE will consider the average exchange rate for the past 7 weeks leading up to 15 September each year (as published by SAGIS for the wheat import tariff calculations - [http://www.sagis.org.za/koringtarief\(20180913\).pdf](http://www.sagis.org.za/koringtarief(20180913).pdf)) in order to determine the average Dollar Rand exchange rate.

Below are the new wheat grade discounts for the 2018-19 marketing season:

Date	Exchange Rate R/\$
2018/07/31	R 13.1591
2018/08/07	R 13.3375
2018/08/14	R 14.2920
2018/08/21	R 14.3838
2018/08/28	R 14.1545
2018/09/04	R 15.0512
2018/09/11	R 15.0510
Average Exchange Rate	R 14.2042
Final Grade Discount	
Grade discount per 1% protein change	7.3488
B1	PAR
B2	R 104.00
B3	R 208.00

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.

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