

## Market Notice

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### Proposed Wheat Location Differentials for 2013/14 marketing season.

The 2013/14 wheat marketing season is approaching and we are pleased to submit to you provisional location differentials for the new season.

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

Last year was the first time we introduced a new pricing methodology for determining location differentials that were driven off actual distance of the silo to Randfontein respectively. This year we continued deriving the location differentials for the 2013/14 marketing season based on this established methodology.

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.

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.



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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
<301 km	2
301-325 km	1.9
326-350 km	1.8
351-375 km	1.7
>375 km	1.6

Although the JSE aimed to ensure that location differential calculations are all formula based, the Western Cape delivery points remained a special case. Based on an independent survey of market participants, the Randfontein-Western Cape location differential has been increased substantially to account for actual market fundamentals driven by grain transportation costs. As highlighted by a number of market participants, this year the Western Cape location differentials were misalign significantly over the course of the year to such an extent participants alleged it had a direct impact on liquidity. This is an area of obvious concern for the JSE and at an Advisory Committee level we will continue to discuss various suggestions in terms of the best way forward to resolve this. One suggestion that will be further debated is perhaps considering a midyear review of location differentials for wheat to ensure the rates reflect reality. To be very clear, any proposals discussed in the coming months will **NOT** be implemented for the 2013/2014 wheat marketing season and so the proposed rates will apply from 1 October 2013 through until 30 September 2014.

Based on this information it was decided to move this rate to **R575/ton from the current R420/ton**. This is an increase of **36.9%** which was carefully considered to ensure it reflects current transport rates and encourage the efficient use of the wheat contracts listed. The rate could have been higher than this however at this point in time there are return loads in place.

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.

## 1. Randfontein Location Differential Rates

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 158 registered wheat storage locations. The only exception is the Randfontein-Western Cape route that is NOT driven off the same formula due to distance distortion. The proposed rates show an average increase of **25.85%** when compared with the previous season. However, if we were to remove the Randfontein-Western Cape rates from the equation, the average increase is only **22.59%**, which we believe is reflective of current economic fundamentals. Refer to attached spreadsheet for all the location differentials per storage location.

The table below shows the aggregate rand per kilometer (RPK) rates specific to Randfontein that we obtained from the industry and used in our calculation:

Distance	RPK
0-25 Km	63.92
26-50 Km	32.95
51-75 Km	23.20
76-100 Km	19.91
101-125 Km	19.21
126-150 Km	18.48
151-175 Km	18.03

176-200 Km	17.93
201-225 Km	17.75
226-250 Km	17.56
251-275 Km	17.22
276-300 Km	16.75
301-325 Km	17.42
326-350 Km	17.69
351-375 Km	18.00
376-400 Km	18.00
401-425 Km	18.15
426-450 Km	18.15
451-475 Km	17.95
476-500 Km	17.95
>500 Km	17.95
WESTERN CAPE	R 575

Included in the excel spreadsheet is the distance in km's to Randfontein used in the RPT calculations.

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 30% 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.

## 2. Paarl Location Differential Rates

Similarly with the CAPE wheat contract, we were in a position to determine location differentials from Paarl for each of the 32 registered wheat storage locations. Here, the average increase in rates when compared to last year is **18.45%**. Refer to attached spreadsheet.

The table below shows the aggregate rand per kilometer (RPK) rates specific to Paarl that we obtained from the industry and used in our calculation with a RLF of 2 applied throughout:

Distance	RPK
0-30 Km	R 58.21
31-45 Km	R 23.01
46-60 Km	R 21.28
61-75 Km	R 19.51
76-90 Km	R 18.34
91-105 Km	R 19.13
106-120 Km	R 17.49
121-135 Km	R 17.48
136-150 Km	R 17.35
151-165 Km	R 17.27
166-180 Km	R 17.27
181-195 Km	R 17.27
196-210 Km	R 17.27
211-225 Km	R 17.27
226-240 Km	R 17.27
>240 Km	R 17.27

Please could market participants review the proposed location differentials and highlight any gross inaccuracies immediately to commodities@jse.co.za **no later than Thursday 29 August 2013** 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 the respective reference point, 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 Safex silo receipt basis premium functionality the exchange aims to improve transparency to the basis trade for each silo per product delivered in completion of a futures contract

In proposing the wheat LD, this has only been possible thanks to the invaluable 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.

Sincerely,



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