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**MARKET NOTICE**

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| **Number:** | **A2080 A** |
| **Date:** | **04 September 2014** |

**SUBJECT:** **PROPOSED WHEAT LOCATION DIFFERENTIALS FOR 2014-15 MARKETING SEASON**

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**Dear JSE Stakeholder,**

**Wheat Location Differential Rates and Standard Storage rates for 2014/15**

**a) Location Differentials for WEAT and CAPE contracts**

The 2014/15 wheat marketing season is fast 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. The information was used to determine aggregate rand per kilometer (RPK) figures for each silo location.

Further conversion was made from rand-per-kilometer (RPK) figures to rand-per-ton (RPT) using the following formula:

$$RPT = \frac{Distance * RLF * RPK}{Payload}$$

Where:
Distance is distance in km to the reference point,
RLF is the return load factor,
RPK is in Rand/km, and

Payload is in tons.

RPT's for all the silo locations were determined using the above formula. An RLF of 2 implies that the return leg is empty. A sliding scale was then further applied 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 | 1.1 |

Storage operators were also requested to submit rail-road out-loading ratios per each wheat silo under their management, taking into account product moving via conveyor belt is not included in this information. The country wide average ratio is 19.3% rail and 80.7% road whilst in the Western Cape only 7% wheat on average moved via rail. Actual rail rates were received from industry participants.

The final LDR formula applied:

**Final LDR = (Road rate*Road out loading ratio) + (Rail rate*Rail out loading ratio)**

Where we observed that some locations for the Randfontein contract did not store any wheat the past seasons, we applied a rail-road ratio of 50%-50% for the purpose of determining the LDR, except in instances where those locations do not have rail connectivity or where grain was historically transported by road only. In that case we applied a 100% road rate.

For the Paarl contract, due to the shorter distances to the reference point we only considered road rates and excluded rail from the calculations.

We hereby submit two sets of LRD's, namely for Randfontein- and Paarl-referenced wheat contracts, for your consideration and comment.

1. **Randfontein Location Differential Rates (LDR)**

   Combining the RPT formula above with rail-road ratios, and rail rates, we were in a position to determine an LDR from Randfontein for each of the 171 JSE-registered wheat storage facilities. 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.

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

| Distance | 2013/14 RPK | 2014/15 RPK |
|---|---|---|
| 0-25 Km | 63.92 | 70.01 |
| 26-50 Km | 32.95 | 32.29 |
| 51-75 Km | 23.20 | 23.49 |
| 76-100 Km | 19.91 | 20.99 |
| 101-125 Km | 19.21 | 19.81 |
| 126-150 Km | 18.48 | 18.67 |
| 151-175 Km | 18.03 | 18.27 |
| 176-200 Km | 17.93 | 18.25 |
| 201-225 Km | 17.75 | 18.03 |
| 226-250 Km | 17.56 | 17.91 |
| 251-275 Km | 17.22 | 17.63 |
| 276-300 Km | 16.75 | 17.49 |
| 301-325 Km | 17.42 | 17.29 |
| 326-350 Km | 17.69 | 17.29 |
| 351-375 Km | 18.00 | 17.11 |
| 376-400 Km | 18.00 | 17.05 |
| 401-425 Km | 18.15 | 17.05 |
| 426-450 Km | 18.15 | 17.05 |
| 451-475 Km | 17.95 | 17.05 |
| 476-500 Km | 17.95 | 17.05 |
| 500-600 Km | 17.95 | 17.05 |
| >600 Km | 16.00 | 17.05 |
| WESTERN CAPE-REEF(R/Ton) | 560 | 580 |

The attached table of proposed LDRs resulted in an average increase of **2.30%** from last season. The WESTERN CAPE – REEF rate has also increased **from R560/ton to R580/ton** this season, an increase of **3.57%.** The percentage change varied across delivery points, with Leeudoringstad reducing by 9.22% and Vryheid increasing by 10.89%. The extremes can be attributed to the following:

- on the percentage decrease, some delivery points saw a substantial increase in rail out loading on a two year average basis which was to their benefit, others benefitted from the RLF that was aligned to the same methodology as maize
- on the percentage increase, some far delivery points saw a sharp decline in rail out loading thereby seeing the impact of higher road rates

We have applied the same Return Load Factor (RLF) as we used for the maize differentials earlier this year in order to reach more of a common standard across all products and particularly those that are more than 300km's away from the reference point. This has added to the minimal average percentage increase however we would then expect, keeping the RLF sliding scale constant for next year, the variability in rates would then be a function of the change in rail vs road out loading ratios.

**2. Paarl Location Differential Rates (LDR)**

Similarly with the CAPE wheat contract, we were in a position to determine an LDR from Paarl for each registered wheat silo considering only road rates. 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 calculations:

| Distance | 2013/14 RPK | 2014/15 RPK |
|---|---|---|
| 0-45 Km | 24.76 | 24.53 |
| 46-60 Km | 21.28 | 23.16 |
| 61-75 Km | 19.51 | 20.14 |
| 76-90 Km | 18.34 | 18.99 |
| 91-105 Km | 19.13 | 19.10 |
| 106-120 Km | 17.49 | 18.59 |
| 121-135 Km | 17.48 | 18.40 |
| 136-150 Km | 17.35 | 18.39 |
| 151-165 Km | 17.27 | 18.04 |
| 166-180 Km | 17.27 | 18.01 |
| 181-195 Km | 17.27 | 17.69 |
| 196-210 Km | 17.27 | 17.69 |
| 211-225 Km | 17.27 | 17.52 |
| 226-240 Km | 17.27 | 17.37 |
| >240 Km | 17.27 | 17.37 |

As can be seen above, the RPK increase from last season has been but marginal. Total weighted average increase in LDRs for the CAPE contract is **4.02%** from last season.

*In conclusion, members and clients are once again reminded that the published location differentials are indicative of transport costs to move product from a registered silo to either Randfontein or Paarl. It is impossible that this rate will be 100% accurate throughout the year as transport components change.*

The JSE would like to thank everyone who made submissions and therefore these calculations possible. We welcome your feedback regards the proposed LDR process. Kindly highlight any gross inaccuracies immediately to commodities@jse.co.za by no later than **Monday 08 September 2014**. Should you wish to discuss the process in more detail, feel free to contact myself or Raphael Karuaihe on 011 5207231.

**b) Standard Storage Rates**

The standard storage rate for the marketing season 1 October 2014 – 30 September 2015 will increase based on the June 2014 PPI for manufacturing output as published at the end of July 2014, namely 8.1%. Therefore the standard storage rate applied to outstanding storage in completion of a futures contract will be 77 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 2014.

The grade discounts will only be finalised after the 15th September as per the agreed methodology.