

ASX Grain Futures & Options

Risk Management = Smarter Marketing

An opportunity for Australian Agriculture

ABARE Regional Outlook Conference

Moree

Wednesday 7th June 2006



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Agenda

- Grain Marketing – a changing environment
- What are the Challenges?
- What are the Opportunities?

Grain Marketing – a changing environment



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A changing environment

- Drought in 2002 (2006?) – severe supply reduction, price behaviour highlighted to major consumers the risk involved in not getting forward cover
- Growers – hesitant to forward sell physical tonnages have adopted non deliverable products such as swaps or are not hedging at all
- Trade – counterparty credit risk reducing the limits for smaller traders with larger grain companies
- Result – partly dysfunctional market, volatility outbreaks, greater need to plan ahead and incorporate risk management

ASX Vision

- The Australian East Coast is becoming a domestic market especially for feed grain. Ethanol will hasten this tightening.
- The drought in 2002 highlighted why a domestic price risk management facility is needed.
- All industry participants can utilise the ASX to ensure beneficial price protection and contribute to a functional market dynamic.
- Through consistent hedging activity, ASX is better placed to attract speculative interest and enhance market liquidity. e.g. South African Grain Industry and the development of SAFEX

What are the challenges?



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Challenges

- Change the negative mindset
 - “A domestic futures market will never work”
 - “Let me know when the liquidity improves”
 - “It’s not relevant so we won’t report the price.”
- Adapt the focus
 - Are producers making the transition to business managers looking for market opportunities?

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Challenges

- Adopt a forward thinking approach
 - Socialists when times are tough
 - Feed Grain “average price for all”
 - LFGUG looking for a non market solution to a market problem
 - Capitalists when prices are good
 - ASX declined opportunity to present on managing feed grain price risk at ALFA’s biannual conference

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Challenges

- Education / Knowledge
 - Growers, consumers, traders, management, accounting staff, agribusinesses, consultants
 - ASX workshops – explain concepts
- Time
 - “I don’t have the time”
 - Hedging can give you time to decide

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What are the opportunities?



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Opportunities

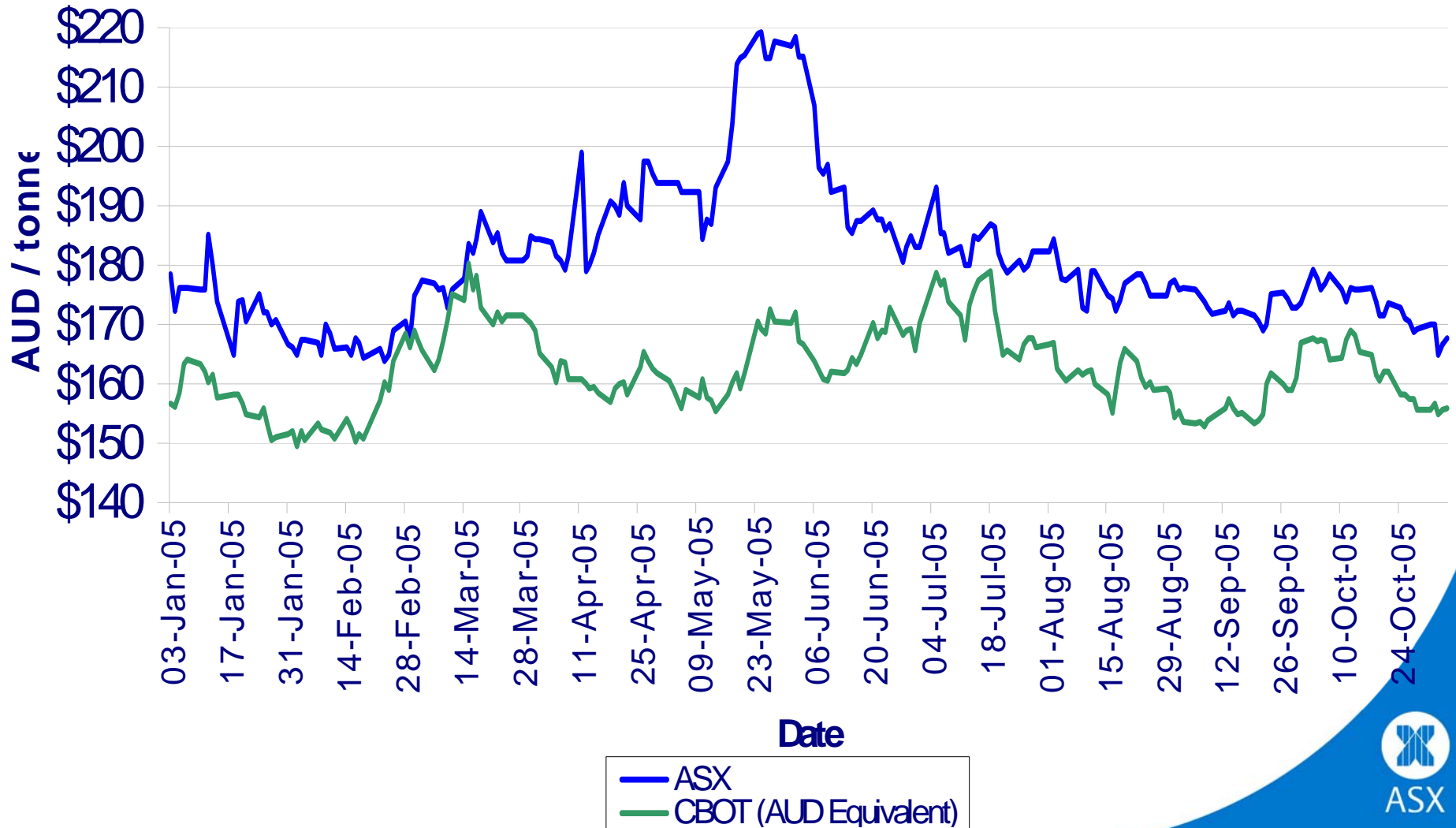
- Work with the market
 - (not against it / not without it)
 - Markets value commodities
 - Appreciate and recognise market signals
 - Regulation cannot remove market volatility
 - A domestic futures and options market manages more than just price risk

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Multiple risk management facility

Feature	Benefit
AUD/tonne	No foreign exchange risk
Australian Clearing House clears / settles all trades	Reduced counter party credit risk
Local Supply & Demand	Greater hedge correlation (reduced basis risk)
Options	Greater flexibility / even less risk

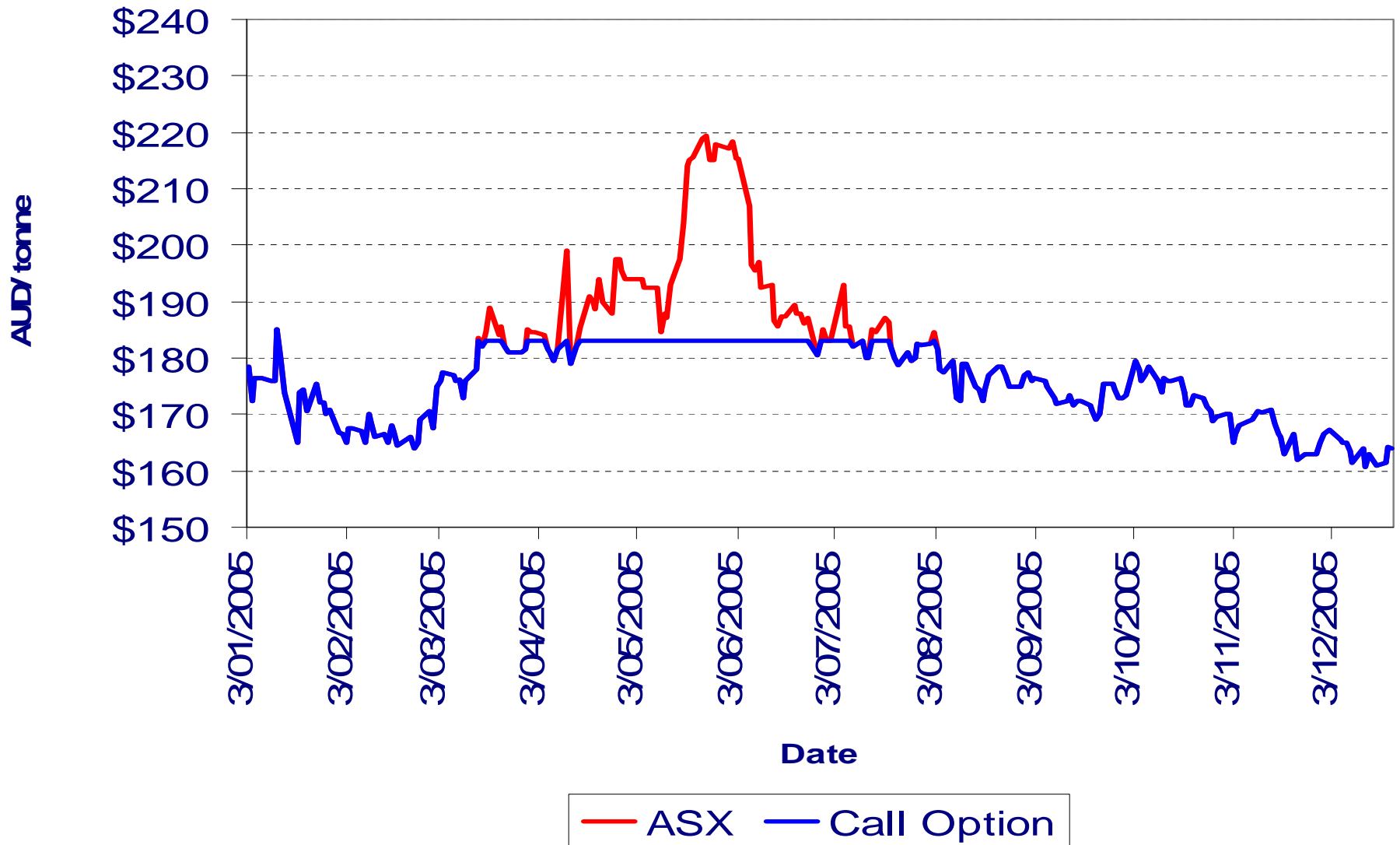
The weather impact on the domestic wheat price.
ASX January 06 Milling Wheat versus CBOT December 05 Wheat
(in Australian Dollars)



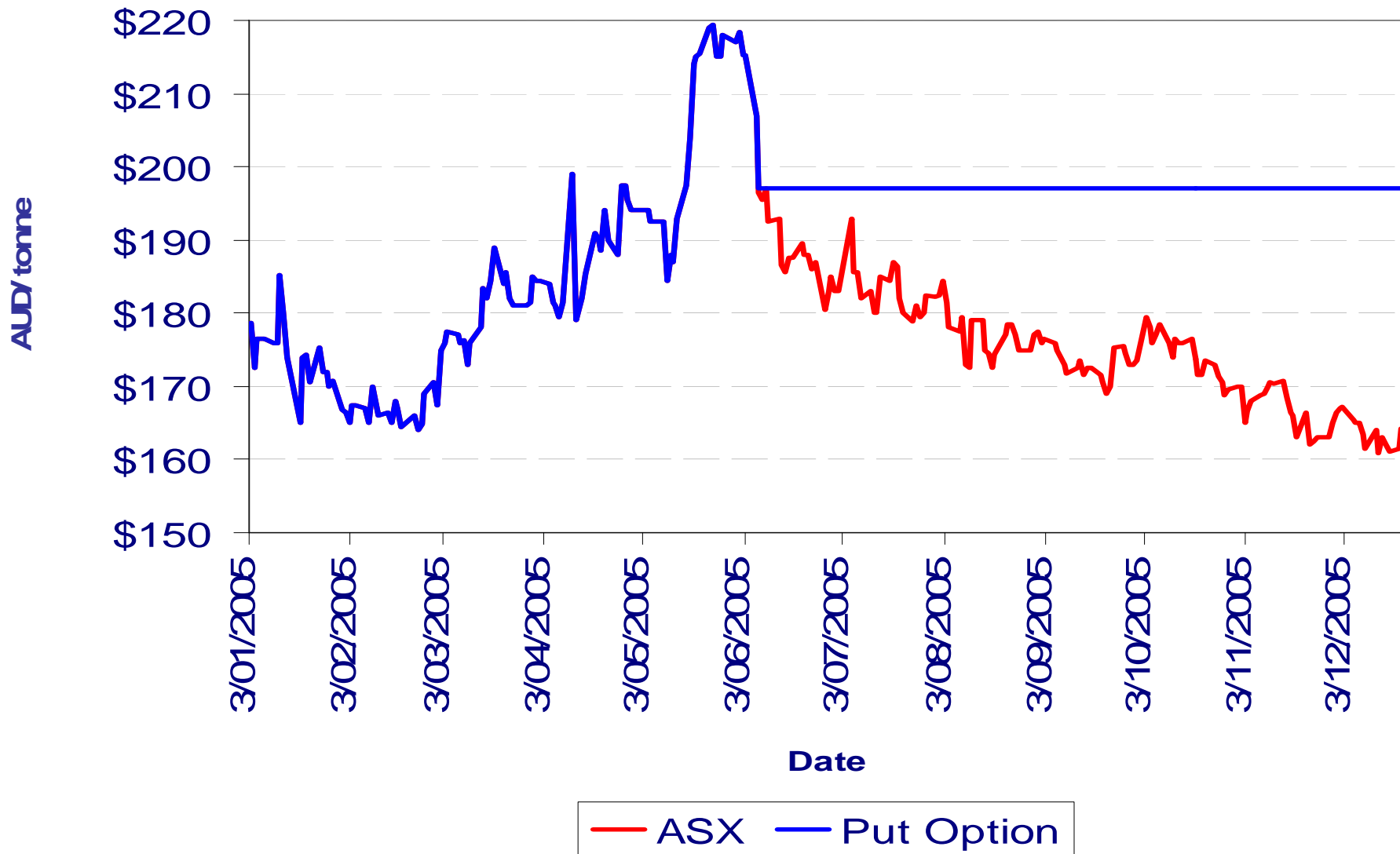
Call Option

Jan 06 ASX Milling Wheat

\$175 Call purchased for \$8 = \$183 Ceiling



Put Option
Jan 06 ASX Milling Wheat
\$215 Put purchased for \$18 = \$197 Floor



Providing a Win Win Win Scenario

- Consumers can
 - remove their exposure to price peaks (if it doesn't rain)
 - and retain the ability to benefit from lower prices should they occur (if it does rain)
- Growers can
 - remove their exposure to price troughs,
 - retain the ability to benefit from higher prices should they occur
 - and have no production obligation (if it doesn't rain)

Take home message

- The Australian grain market is changing, grain marketing is also changing.
- The lessons of price risk, counterparty credit risk, production risk, foreign exchange risk and basis risk have been experienced.
- ASX Grain Futures & Options are the tools to minimise these risks.
- Forward planning is imperative to achieve successful risk management. The challenges need to be addressed for Australian agriculture to fully appreciate the many potential opportunities on offer.

Further information

www.asx.com.au/grainfutures

ASX Education Workshops

Email Updates (monthly)

Daily Activity Report