



ASX

AUSTRALIAN SECURITIES EXCHANGE

ASX Agricultural Derivatives

Putting futures trading into practise
in today's environment.

Disclaimer



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About ASX



The ASX Limited group of companies, known as the Australian Securities Exchange (ASX), includes the combined operations of the Australian Stock Exchange and SFE Corporation (Sydney Futures Exchange) which merged in July 2006.

- **ASX Grain Futures & Options**
- **MLA/SFE Cattle Futures**

Agenda



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1. Why derivatives?
2. How can you participate?
3. The right tool for the job
4. Market performance & potential
5. ASX Grain Futures – why?
6. Custom Feeders
7. Call Options
8. Hypothetical
9. Next steps

Why derivatives?



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Cattle and grain represent the major input costs for any feed lot.

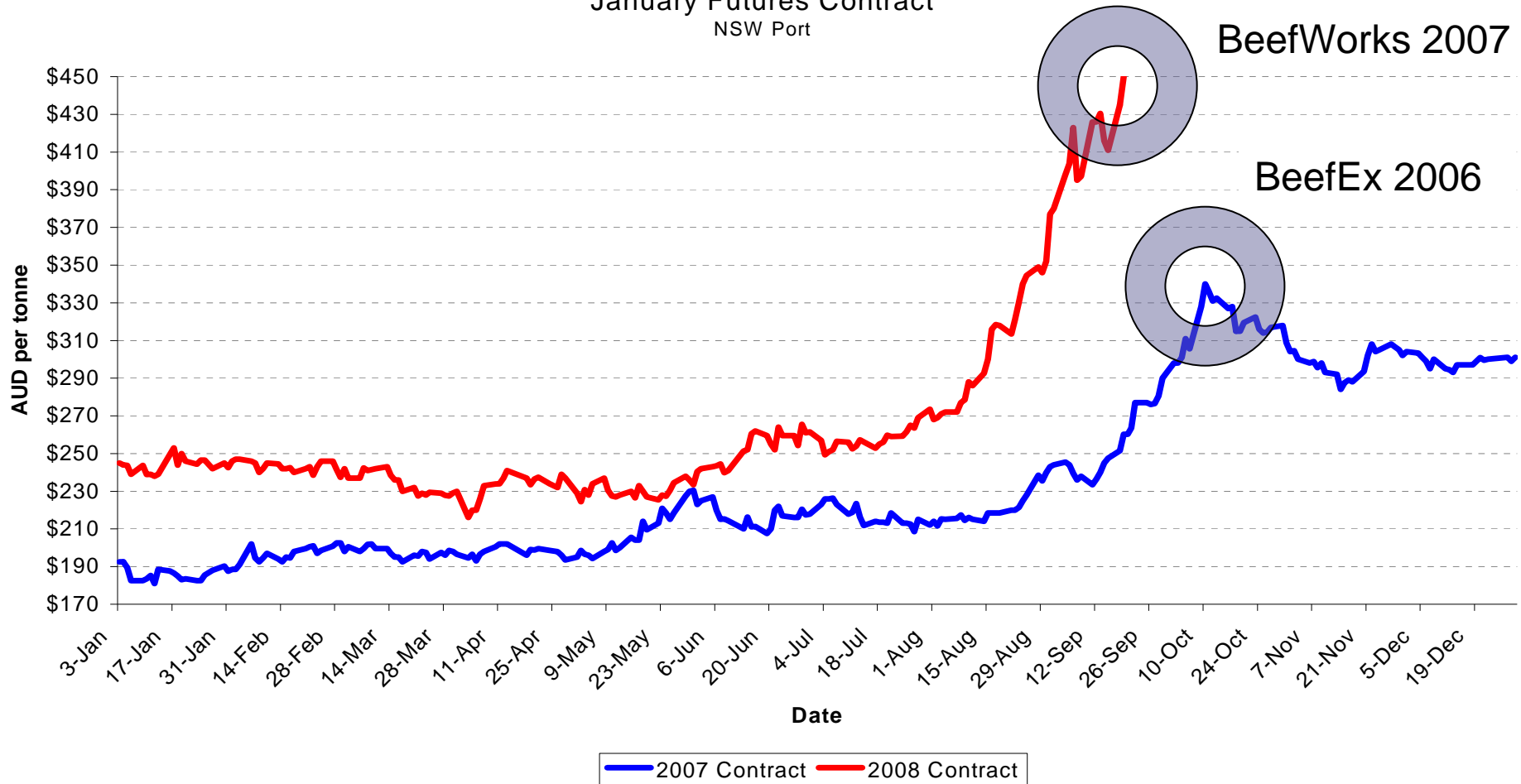
Managing your price risk exposure for your inputs may help your business weather the storm.

Matt George's presentation noted that grain supply and input costs were the greatest threats and weaknesses for Australia's lot feeding industry.

The risk can be managed a variety of ways, including ASX. ASX provides tools not previously accessible to domestic end users of grain and has many benefits that may not be understood at first glance.

Why are grain prices so high?

ASX Milling Wheat
January Futures Contract
NSW Port



How can you participate?



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1. Awareness: know where to get the information
2. Education: understand what the information is telling you (if you don't – ask for an explanation)
3. Access: have accounts set up for the opportunity (Risk Management Advisers &/or Brokers)
4. Embrace: grain price/supply risk may be the #1 weakness (international), investing in the time to learn how to manage the risk is rarely the #1 priority

www.asx.com.au/grainfutures

www.asx.com.au/cattlefutures

How to manage risk?



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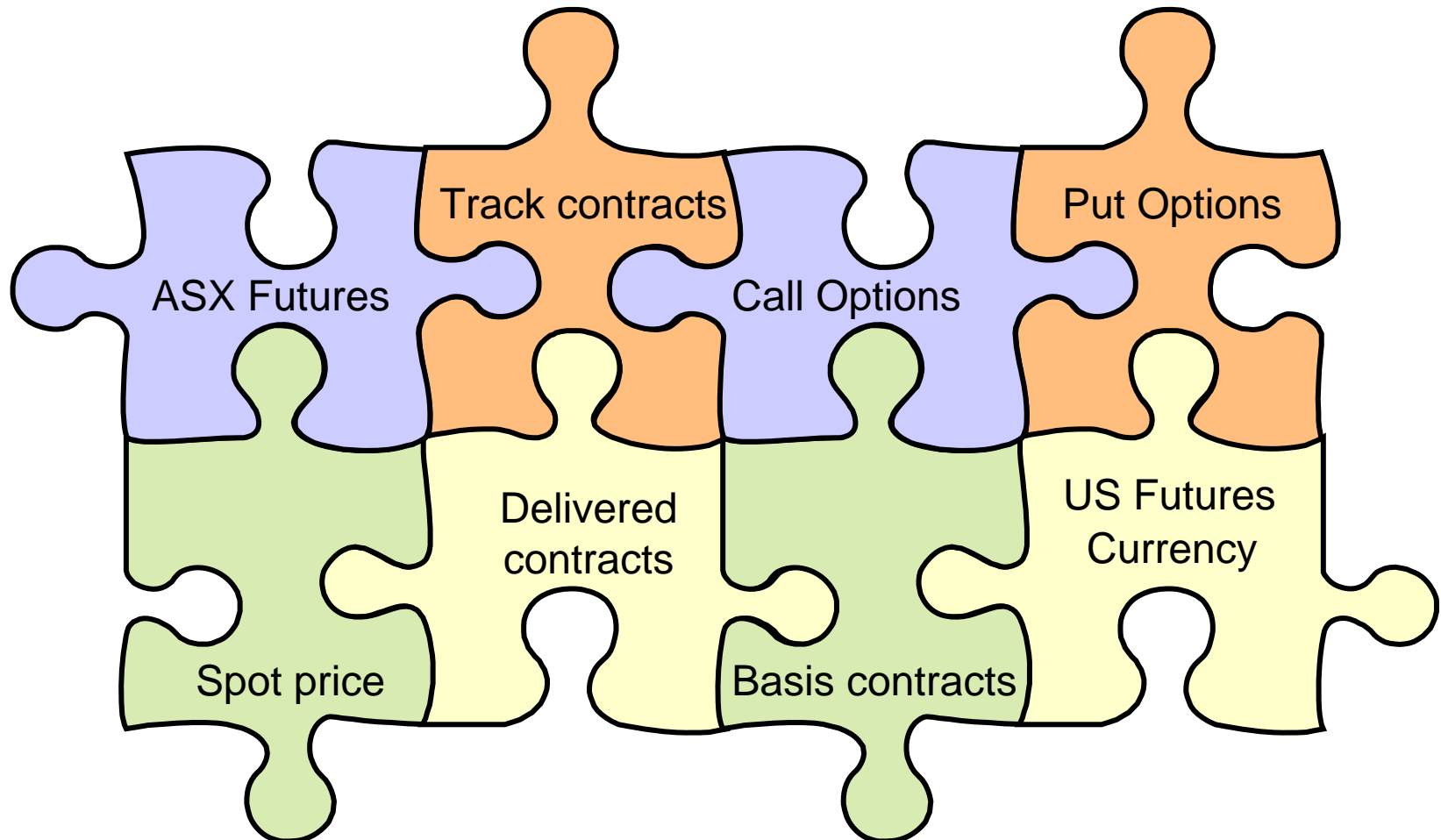


Risk management tools



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I buy forward - why futures?



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Examine the price relationship (basis) – just like comparing benefit available when deciding between track contracts and delivered contracts.

Counterparty credit management strategy - works both ways.

Futures may provide greater liquidity as the market grows.

Futures protects market anonymity – the market does not know the identity of the buyer or the seller, all that is seen is the price and volume.

Futures can be used to secure supply, if not they can be unwound with physical business using the Exchange For Physical (EFP) trade facility.

Exchange for Physical

Date	ASX Feed Barley January	Basis Expected	Physical Market	Actual Basis (Physical – Futures)
June 1	\$200	\$40 over	\$260	\$60 over
Action Hedge	Buy \$200 10,000 tonne			
Nov 1	\$240		\$290	\$50 over
Action EFP	Sell \$240 10,000 tonne		Buy \$290 10,000 tonne	
Hedge Result	Hedge Return \$40		\$250 (\$290 - \$40)	\$10 basis improvement

Market potential



Significant.

The potential exists for futures exchanges to trade multiples of the underlying asset class.

For example, annual volume traded on the South African Futures Exchange equates to 14 times the underlying tonnage of White Maize.

To achieve such an outcome;

- Industry stakeholders must be engaged
- International connectivity and awareness must occur

Country & Exchange	Est.	Contract	Contract Size (t)	2006			Multiple
				Contract Volume*	Tonnage Traded	Underlying Physical (t)**	
United States of America							
Chicago Board of Trade	1848	Soft Red Winter Wheat	136	18,822,846	2,559,907,056	10,618,555	241
		Corn	127	58,557,281	7,436,774,687	298,600,000	25
Kansas City Board of Trade	1856	Hard Red Winter Wheat	136	5,278,647	717,895,992	18,563,155	39
Minneapolis Grain Exchange	1881	Hard Red Spring Wheat	136	1,653,702	224,903,472	11,767,976	19
Canada							
Winnipeg Commodity Exchange	1887	Canola	20	2,619,530	52,390,600	9,105,000	6
		Western Barley	20	195,024	3,900,480	10,000,000	0.39
		Feed Wheat	20	66,555	1,331,100	3,000,000	0.44
China							
DaLion Commodity Exchange	1993	Corn	10	135,290,072	1,352,900,720	139,360,000	10
		Soybeans #1 (+#2)	10	21,644,574	216,445,740	16,350,000	13
Zhengzhou Commodity Exchange	1990	Combined Wheat Contracts	10	29,408,580	294,085,800	97,450,000	3
South Africa							
South African Futures Exchange	1996	White Maize	100	1,270,382	127,038,200	9,376,000	14
		Yellow Maize	100	186,385	18,638,500	2,344,000	8
		Wheat	50	334,584	16,729,200	2,000,000	8
		Sunflower	50	79,121	3,956,050	520,000	8
		Soybeans	25	42,928	1,073,200	424,000	3
Australia							
ASX Ltd	2003	Milling Wheat (Jan 07)	20	46,721	934,420	2,100,000	0.44
		Feed Barley (Jan 07)	20	27,254	545,080	1,060,000	0.51
		Sorghum (March & May 07)	20	17,834	356,680	996,000	0.36

ASX Grain Futures

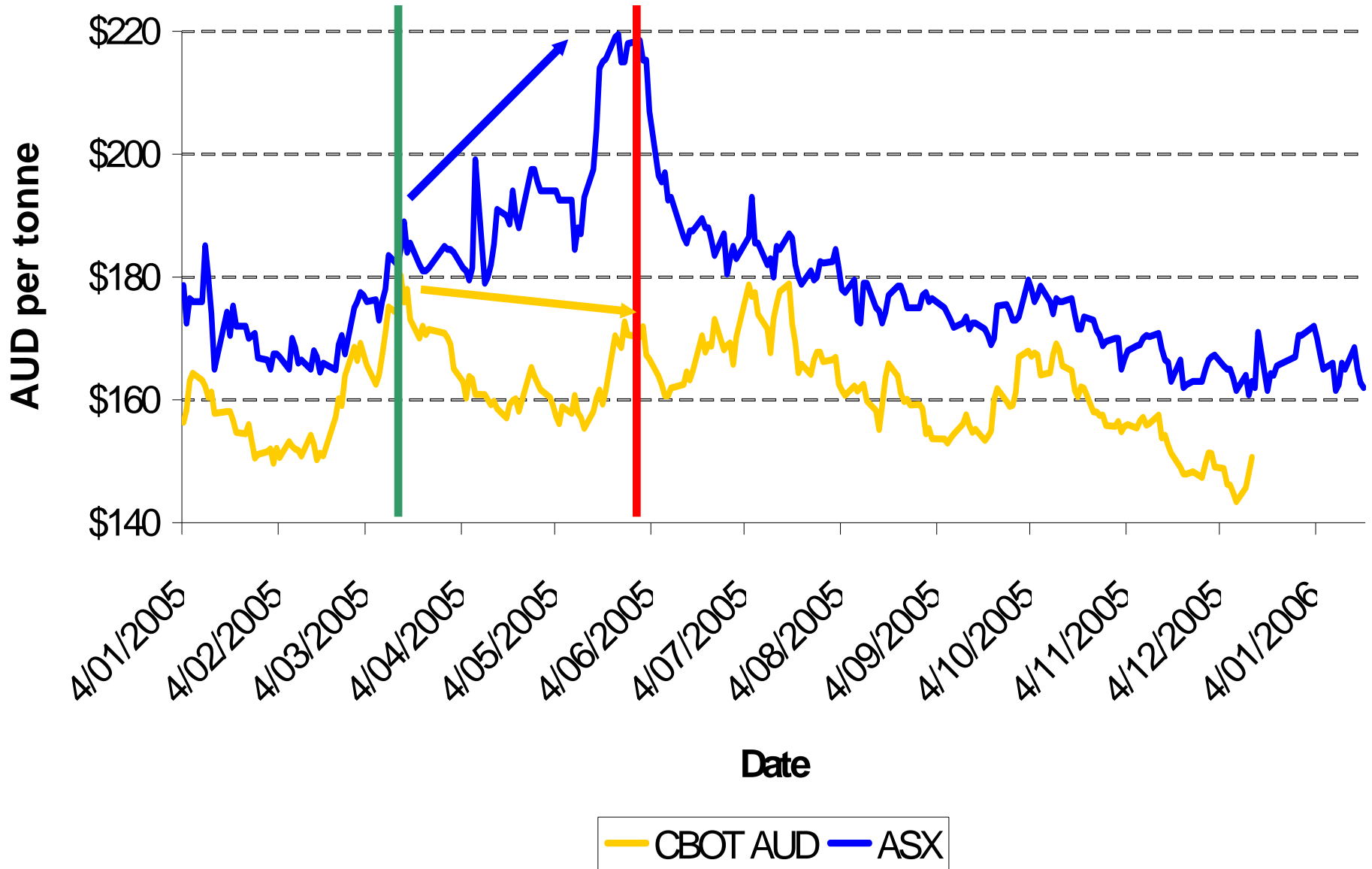


ASX Grain Futures reflect local supply and demand
– especially important during times such as drought.

Contract	Physical Grade	Track Market
Australian Milling Wheat	APW2 (10% protein)	Newcastle & Port Kembla
Australian Feed Barley	F1	NSW, Geelong & Portland
Australian Sorghum	SOR	Brisbane / Newcastle
Australian Canola	CAN	NSW, Geelong, Portland & Port Adelaide

Wheat Prices for Season 2005

ASX January 2006 Wheat vs US Wheat (Chicago Dec 05) in AUD/tonne

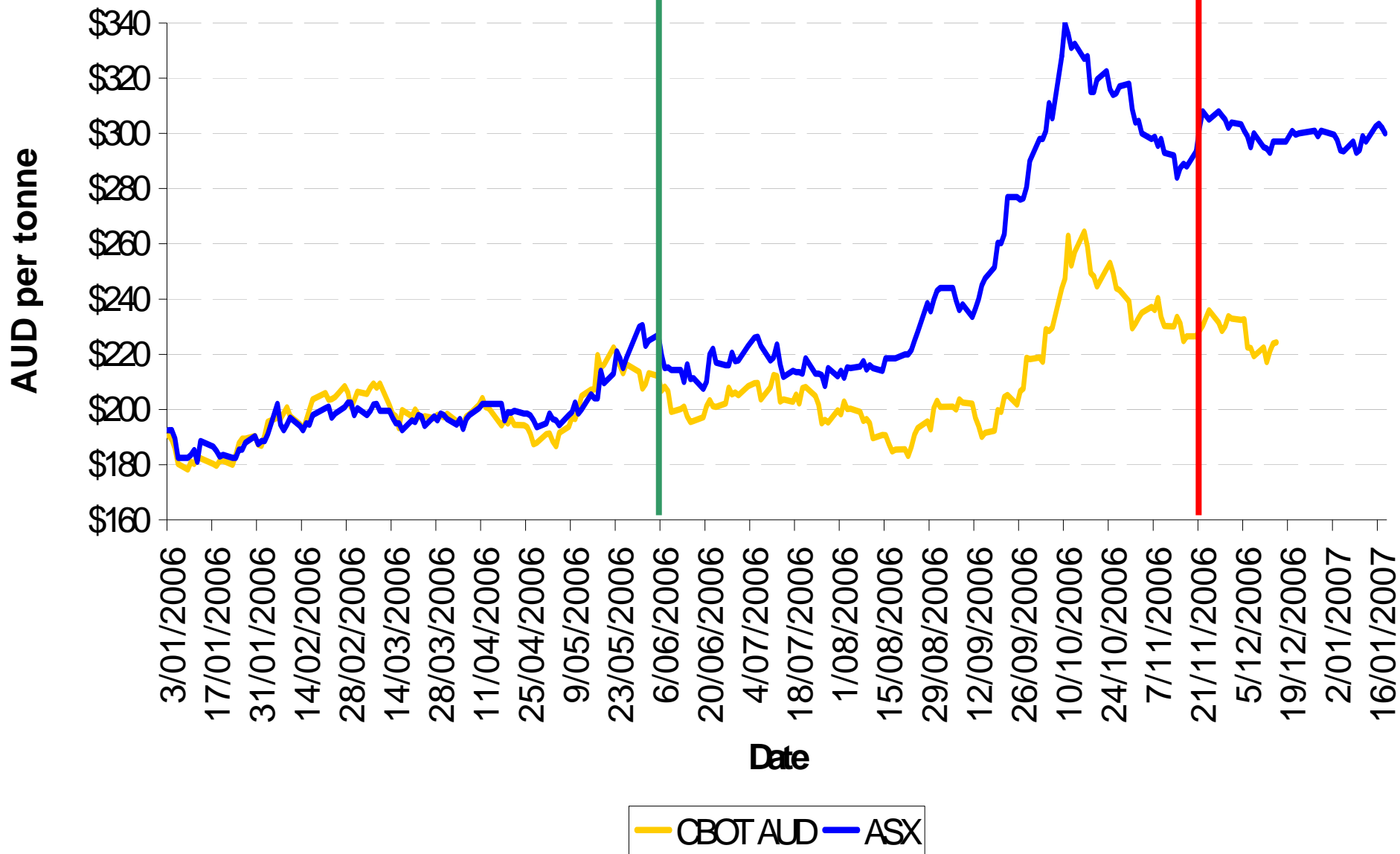


Hedge Performance 2005

Exchange	15 th Mar 2005	31 st May 2005	Hedge Return	Physical Market
	Bought Futures	Sold Futures		\$220 (assumed price)
ASX AWM7F	\$184.50	\$218.50	\$34 (\$218.50 - \$184.50)	\$186 (\$220 - \$34)
CBOT WZ6	\$180	\$170	Loss \$10 (\$170 - \$180)	\$230 (\$220 - -\$10)

Wheat Prices for Season 2006

ASX January 2007 Wheat vs US Wheat (Chicago Dec 06) in AUD/tonne

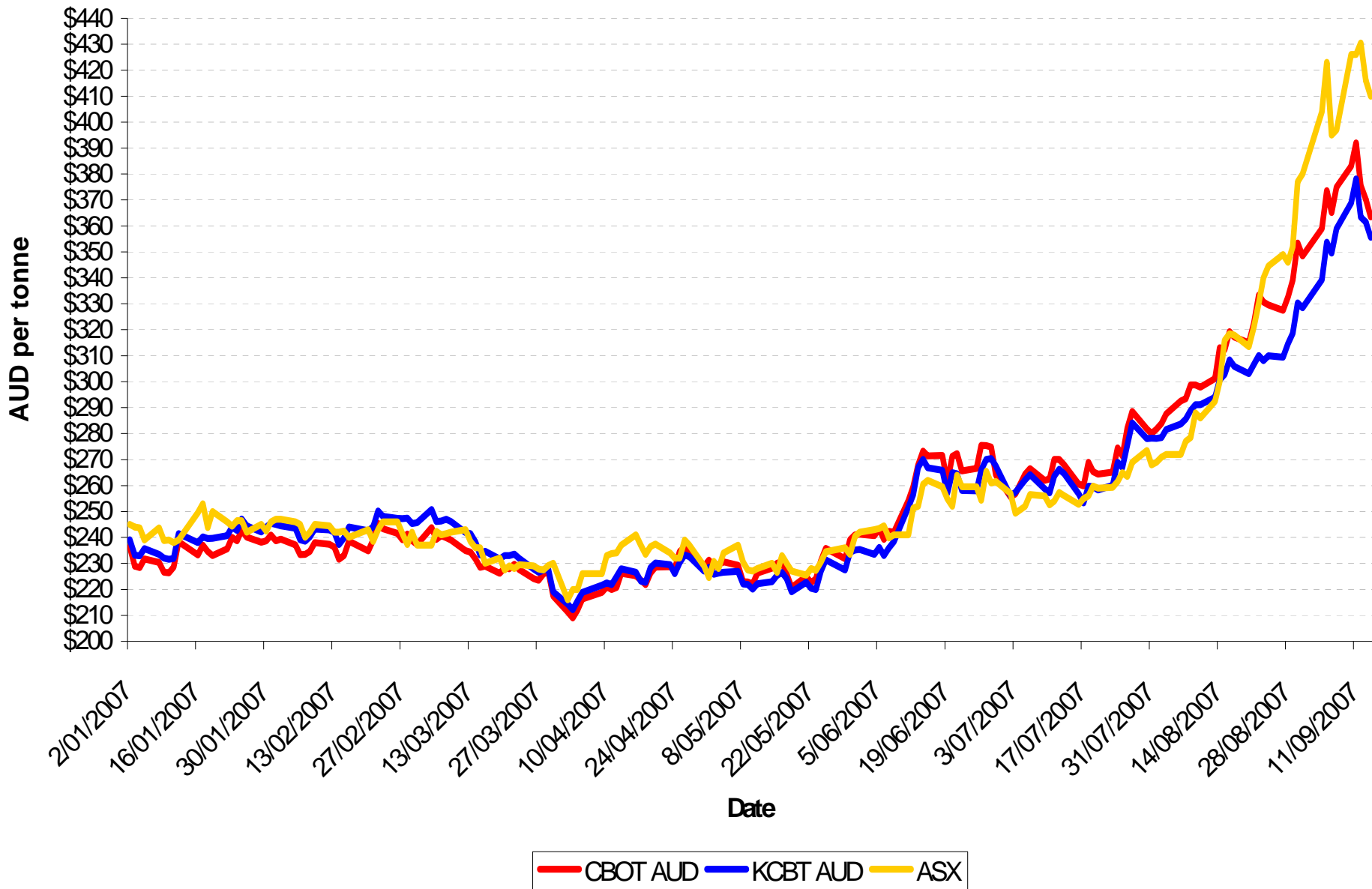


Hedge Performance 2006

Exchange	6 th June 2006	22 nd Nov 2006	Hedge Return	Physical Market
	Bought Futures	Sold Futures		\$310 (assumed price)
ASX AWM7F	\$220	\$302	\$82 (\$302 - \$220)	\$228 (\$310 - \$82)
CBOT WZ6	\$207	\$229	\$22 (\$229 - \$207)	\$288 (\$310 - \$22)

Wheat Prices for Season 2007

ASX January 2008 vs US Wheat (Chicago Dec 2007 & Kansas Dec 2007) in AUD/tonne



Custom Feeder Breakdown

Feedlot Size	Custom Feeders
XXL above 25,000	4%
XL up to 25,000	24%
L up to 10,000	35%
M (500-999)	80%

Custom Feeders



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A business that rents space in a feedlot and negotiates a return based on the cost of the ration plus a margin to cover running costs and provide a profit.

Hedging Fear: being out of the market due to a hedge and therefore uncompetitive because of a more expensive ration cost.

Possible solution:

- lock in custom business forward (this may be more possible when the Cattle Forward Contract is utilised by the supply chain & also with better understanding of basis relationship with futures)
- take out insurance that protects against the grain price rising

Call Options



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- Protection from higher prices – maximum price insurance
- Ability to enjoy downside in price should it occur
- Limited risk = premium invested for option
- Gives your business time to decide on other marketing alternatives.
- May guarantee physical grain supply.

SURVEY

Assuming prices for cattle and AUD/USD remain the same where would the grain price need to be to resume operations?

RESPONSE = low \$300s

Hypothetical



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Feed lot – requires 36,000 tonne p.a. (3,000t/month)

Type – 50% custom fed

Corporate Governance dictates you can only go long at any one time 18,000 tonnes (includes next two month's requirement).

What can you do?

Hedge Performance 2007

ASX Contract	28 th June 2007	18 th Sept 2007	Hedge Return	Result incorporating physical market
AWM8F	\$265.50	\$435	\$169.50 (\$435 - \$265.50)	\$280.50 (\$450 - \$169.50)
AFB8F	\$235	\$435	\$200 (\$435 - \$235)	\$250 (\$450 - \$200)
	Bought Option	Option Worth		
AWM8F 300 Call	\$15	\$135	\$120 (\$135 - \$15)	\$330 (\$450 - \$120)
AFB8F 300 Call	\$5	\$135	\$130 (\$135 - \$5)	\$320 (\$450 - \$130)

What is ASX doing?



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Help ALFA members understand the market, the tools, the jargon, the benefits and the risks so that opportunities in the future can be captured and risks managed. Developing the market on all levels.

- Website
- Email
- Workshops
- ALFA Margin Management Course



MPM ~ Margin & People Management



Are you an up-and-coming Feedlot Manager?

Apply now to participate in the inaugural ALFA MPM Program!

This outstanding pilot program is a unique opportunity for up and coming lotfeeders to focus on the business end of the feedlot industry.

The program is designed to provide you with a deeper understanding of how to manage a modern feedlot business. Lotfeeding is all about margins – this program will focus on the financial side to upgrade your skills set. You will cover the finer points of commodity contracting, hedging and pricing. You will learn about time management and setting priorities; about human behaviour and how to work more effectively with other people.

There will be opportunities to hear from high profile guest speakers at the group dinners in Sydney and you will be forming new friendships and networks.

Apply now to be one of the exclusive group of 10-12 pilot participants.

The training will be spread over eight months, commencing in January 2008. The group will gather four times in Sydney for a 2-day training session each time. A Sydney field trip will be included within the 8 day program. The group will meet in late January, early April, late June and mid-August.

There are 4 training modules - each with different partners providing the training and materials:

People Management Module

Behaviour Styles / People Management / Client Relations / Personality Styles / Negotiation Skills

Training provided by Pfizer Australia

Financial Management Module

Understanding Financial Statements / Balance Sheet Analysis / Profit & Loss Statement / Cash Flow / Breakeven Analysis / Key Financial Ratios

Training provided by Westpac Business Unit

General Management Module

Manage Personal Work Priorities / Project Management Skills

Training provided by the Australian Institute of Management

Commodity Risk Management Module – Grain & Cattle

Hedging to set margins and physical commodity contracting

Training provided by the Australian Securities Exchange and The National Agricultural Commodities Marketing Association

ALFA MEMBER COST: \$4,400 NON-MEMBER COST: \$6,600

GST-inclusive. Cost includes all training and manuals as well as accommodation, meals and Sydney course transport. Cost does not include travel to and from Sydney.



The best business skills training, offered by the best:



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Westpac
Business



Australian
Institute of
Management



More information will be on the ALFA website from Wed 26 September 2007: www.feedlots.com.au

If you would like to be considered for the training program, please complete the 'Expressions of Interest' box below and fax this form to ALFA: (02) 9290 2808

NAME: AGE:

FEEDLOT:

POSTAL ADDRESS:

PHONE: FAX: MOBILE:

EMAIL:

CURRENT POSITION AT FEEDLOT:

PARTICIPANT'S SIGNATURE:

MANAGER'S SIGNATURE:



MEAT & LIVESTOCK AUSTRALIA

For further information, please contact ALFA: Phone (02) 9290 3700
or email alfabeef@feedlots.com.au

Further information



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