

# ASX Grain Futures & Options

Australian Pork Delegate Forum

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ASX

AUSTRALIAN SECURITIES EXCHANGE

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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 operates Australia's major financial markets for equities and derivatives, and provides listing, trading, risk management, clearing, settlement, depository and market data services for domestic and global customers.

# ASX and APL

Natural fit with APL Strategic Plan 2005 - 2010

## **Strategy # 3 – Reducing Supply Chain Costs**

“Improved reliability of supply and more cost effective feed inputs.”

“Improving producer awareness and capabilities around risk management in line with market availability and development opportunities.”

## **Strategy # 5 – Ensuring Industry Capability**

## **Strategy # 6 – Managing Risks for Sustainability**

# History of association

- Livestock Feed Grain Users' Group Meeting – March 2005
- Pan Pacific Pork Expo – May 2006
- APL Drought Meeting – Nov 2006
- ASX Risk Management Session for end users – Toowoomba April 2007
- Australian Pork Newspaper Column - 2007

[www.asx.com.au/grainfutures](http://www.asx.com.au/grainfutures)

# Factors in Australian Grain Market

- Drought 2002, late break 2005, drought again 2006, 2007?
  - Eastern States traded towards Import Parity in these years
  - Global Warming?
- Potential Ethanol Industry
- Counterparty Credit Risk
- Single Desk Debates
  - Australian Wheat Exports – currently operated by AWB Ltd – change being discussed within Commonwealth Government.
  - [www.daff.gov.au/wheat](http://www.daff.gov.au/wheat)
  - Western Australia – currently licensed (GLA) for Canola and Barley but will be deregulated if wheat is.
  - South Australian Barley – to be deregulated in 2010.

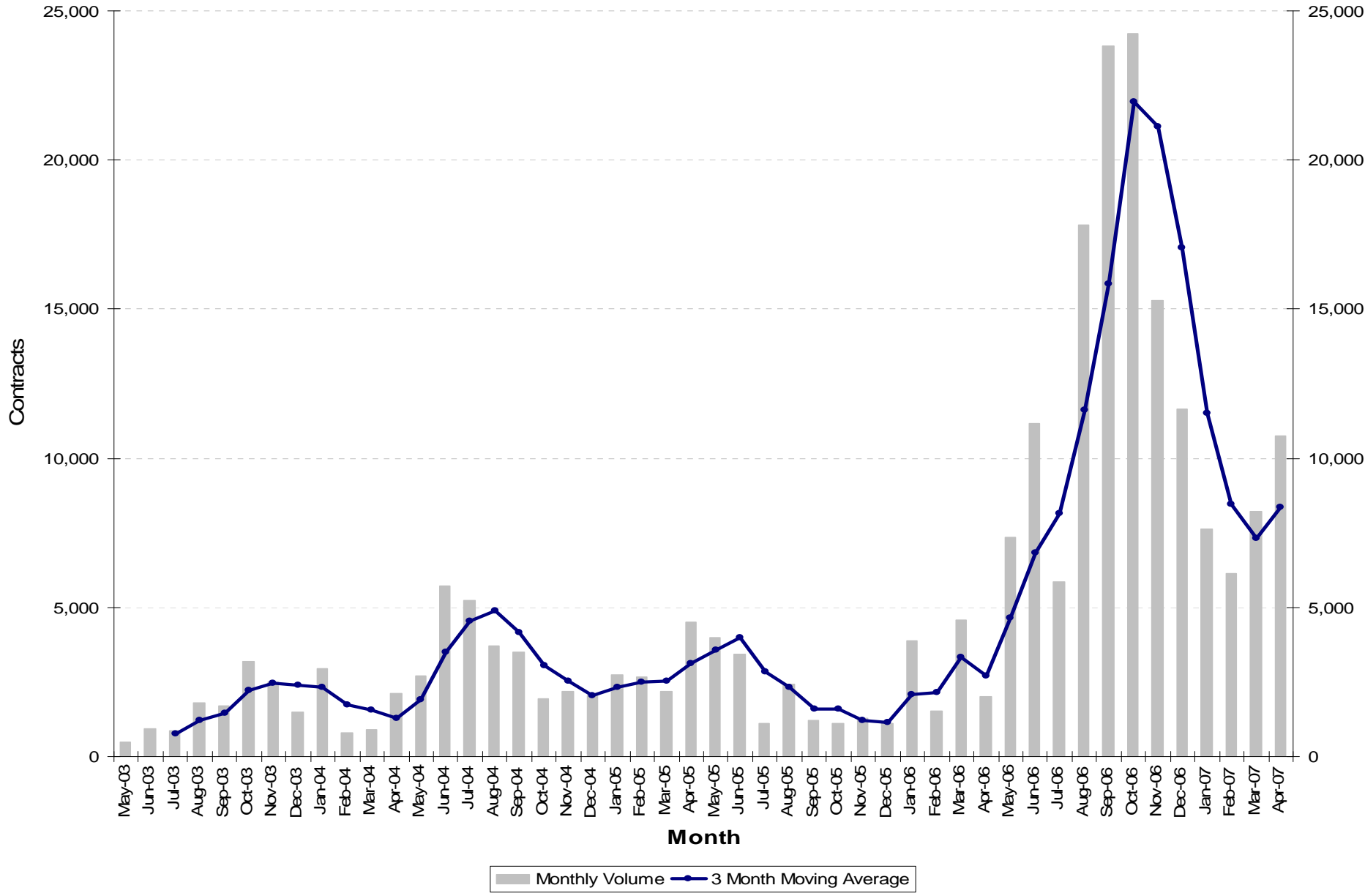


## Concerned about high feed grain prices?

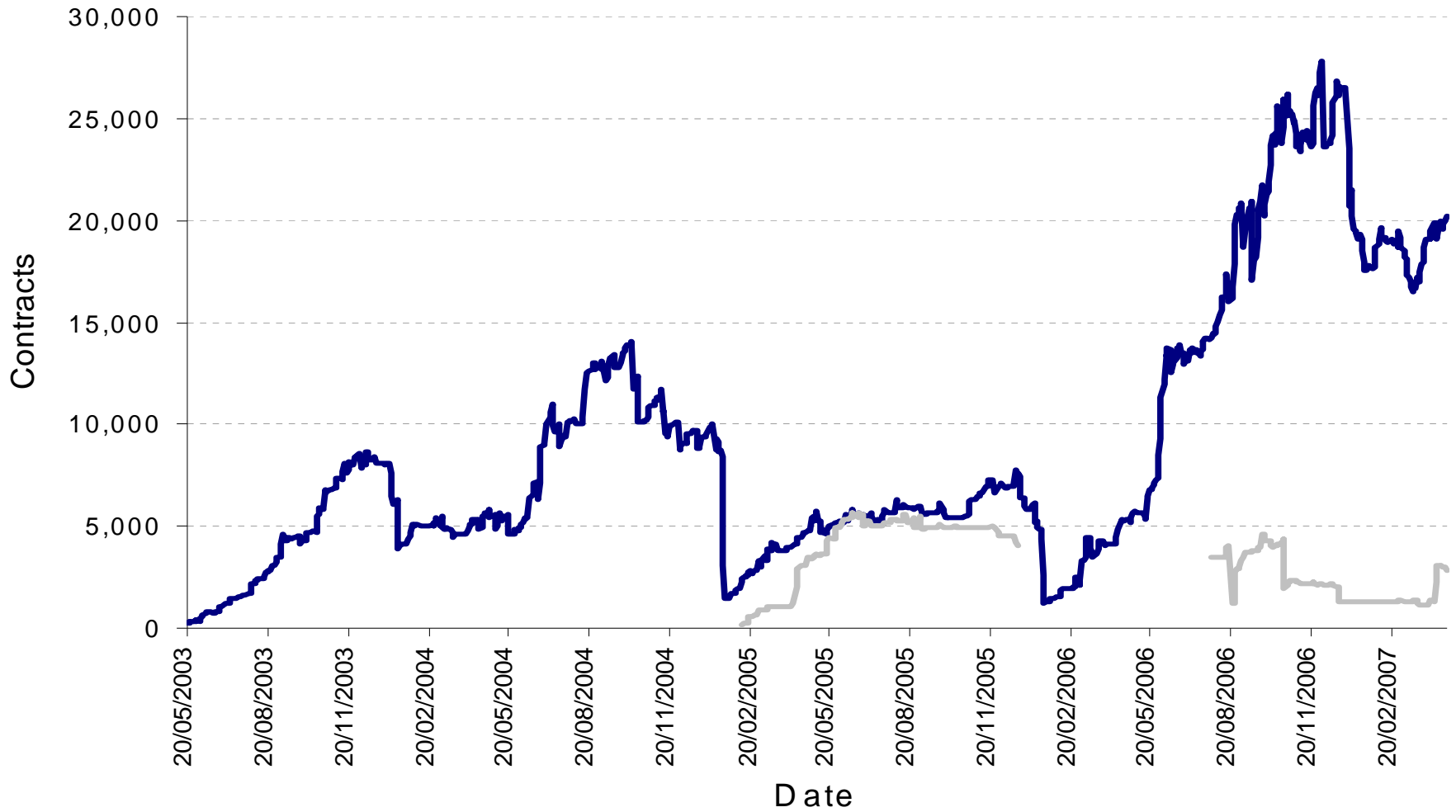
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ASX Grain Futures & Options  
**Monthly Traded Volume**  
Inception to 24th April 2007



# ASX Grain Futures & Options Open Interest Inception to 23rd April 2007



— Futures — Options

Country & Exchange	Est.	Contract	Contract Size (t)	2006			Multiple
				Contract Volume*	Tonnage Traded	Underlying Physical (t)**	
<b>United States of America</b>							
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
<b>Canada</b>							
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
<b>China</b>							
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
<b>South Africa</b>							
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
<b>Australia</b>							
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

# Your risk management market

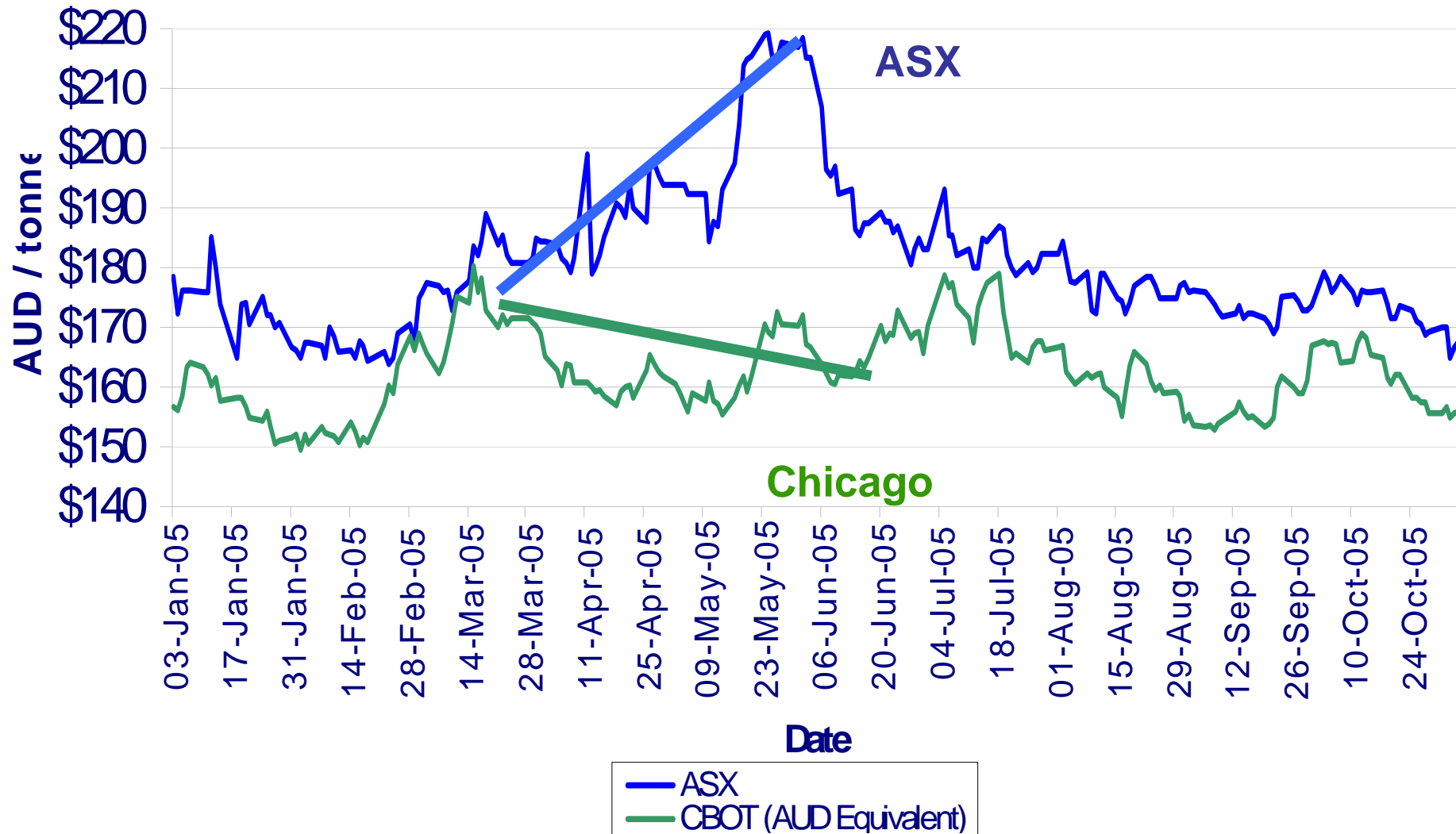
<b>Feature</b>	<b>Benefit</b>
Priced in AUD/tonne	No foreign exchange risk
ACH	Reduced counter party credit risk
Tradable Instruments	Physical delivery/consumption not necessary
Local Supply & Demand	Greater hedge correlation (reduced basis risk)
Structured Hedging	Greater time to decide

# ASX Grain Futures Contracts

Contract	Physical Grade	Track Market
Australian Milling Wheat	APW2 (10% protein)	Newcastle & Port Kembla
Australian Feed Wheat	FED1	Newcastle & Port Kembla
Australian Feed Barley	F1	NSW, Geelong & Portland
Australian Sorghum	SOR	Brisbane / Newcastle
Australian Canola	CAN	NSW, Geelong, Portland & Port Adelaide

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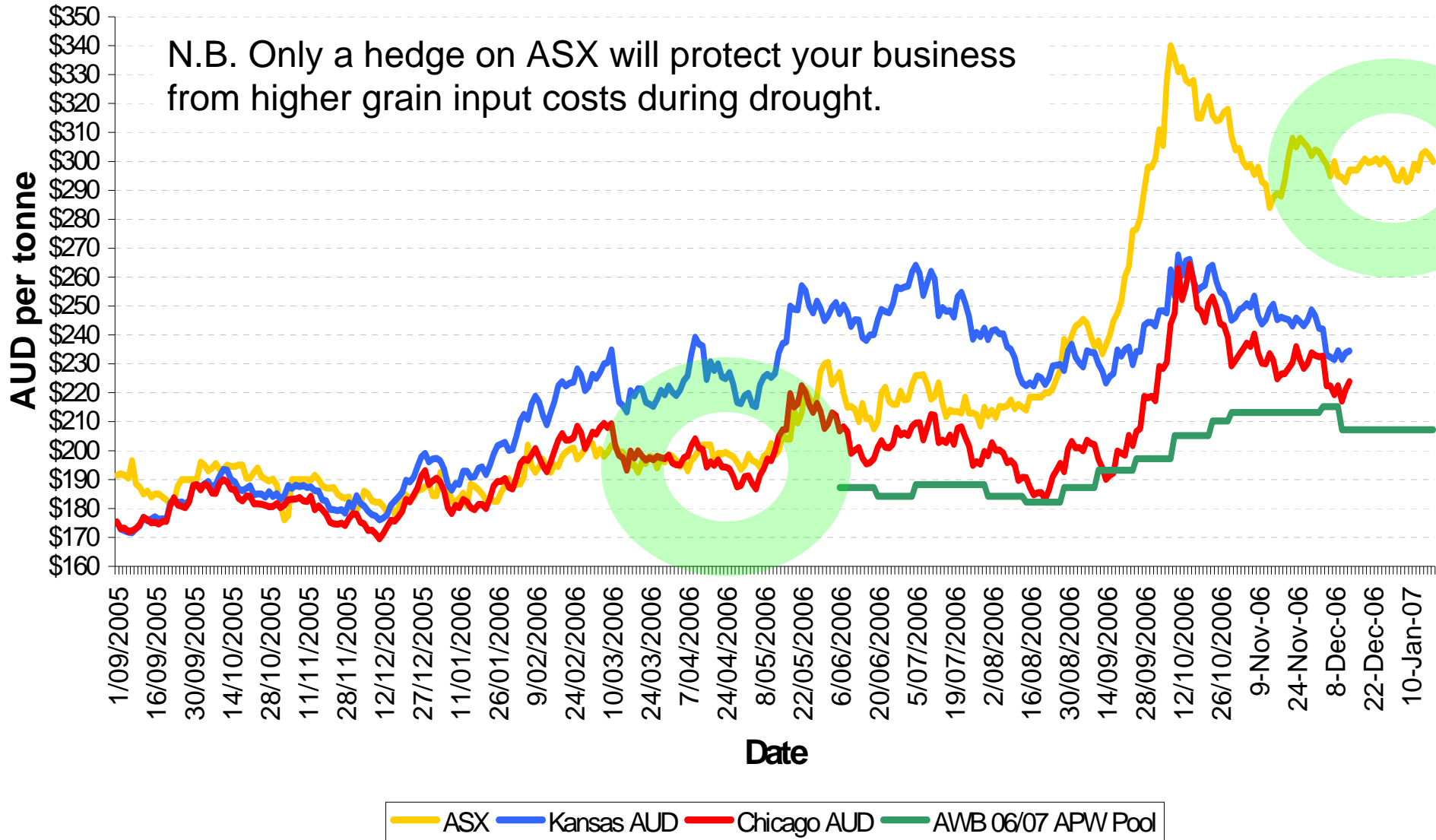
The weather impact on the domestic wheat price.  
ASX January 06 Milling Wheat versus CBOT December 05 Wheat  
(in Australian Dollars)



# Market Signal for Eastern Australia Wheat Price

## ASX January 2007 Wheat vs US Wheat (Chicago Dec 06) (Kansas Dec 06) & AWB 2006/2007 APW National Pool

N.B. Only a hedge on ASX will protect your business from higher grain input costs during drought.



# ASX Feed Barley January 07 Contract



Call Option - Drought Price Protection  
ASX Feed Barley November 2006  
\$235 Call purchased for \$4 on 8th September = \$239 Ceiling

The buyer of the \$235 Call Option bought the right to buy Feed Barley for November delivery for \$235. This right cost \$4 in premium. The total price paid was \$239.

November Feed Barley settled at \$295.90 and traded a high of \$323.



# Take home message

- The Pork Industry is exposed to the following risks;
  - Grain Price risk
  - Counterparty credit risk,
  - Foreign exchange risk
  - and Basis risk.
- ASX Grain Futures & Options are the tools to minimise these risks. The market is growing, local hedging is a reality.
- Awareness & education will enable market access which will help achieve APL Strategies 3, 5 and 6.

# Next Step

Contact ASX or an

- ASX Broker
- or Licensed Risk Management Adviser

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