



ASX

AUSTRALIAN SECURITIES EXCHANGE

Grain Futures & Options

Helping feed grain users hedge their price risk

The Australian Securities Exchange (ASX) provides a futures and options market that grain end users can use to manage their grain price risk. Hedging grain price risk through ASX is becoming a realistic alternative for Australian feed grain users. ASX offers futures and options contracts for wheat, feed barley, sorghum and canola.

What this drought has again demonstrated is that all sectors of the grain supply chain (end users, growers and trade) need to pursue further education in grain marketing and risk management. Improved understanding and awareness will help facilitate timely action to protect industry returns and achieve sustainability. ASX is currently working with a number of industry associations to improve market understanding and risk management practices.

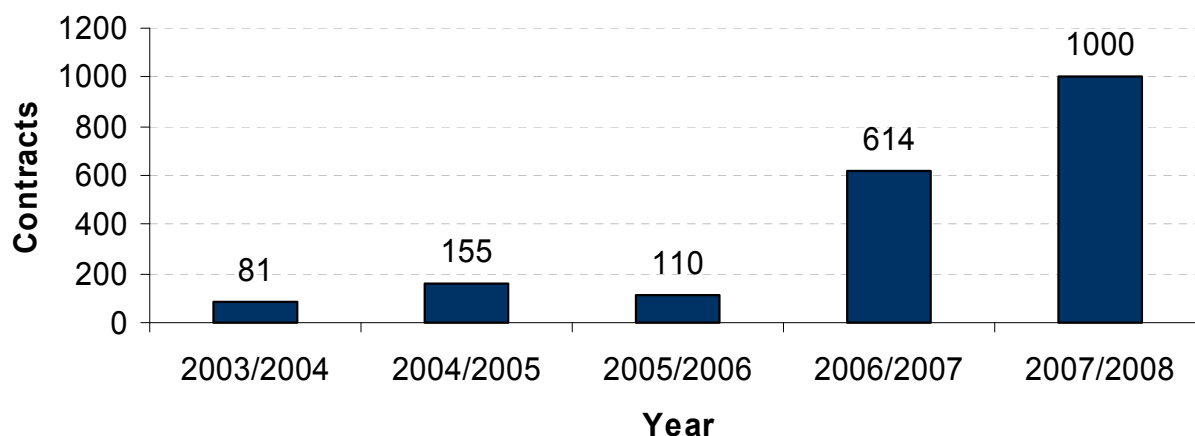
Australia's agricultural sector has for too long been exposed to the boom/bust cycle driven by Mother Nature. The opportunity now exists to actively manage the grain price variability that results from unpredictable weather events. As Australia's wheat industry heads towards a new marketing framework, the importance of managing feed grain costs cannot be overestimated.

Market Activity

The ASX grain futures and options market is growing and current volumes are significant. The market was established following the 2002 drought and has since traded in excess of seven million tonnes.

For the past six months, daily market activity has averaged 20,000 tonnes. This is significant as it represents opportunity for every individual participant in the supply chain. The price action and volume growth has already attracted business from international interests. This new business will further develop the level of market activity and liquidity, making the market more accessible for all users.

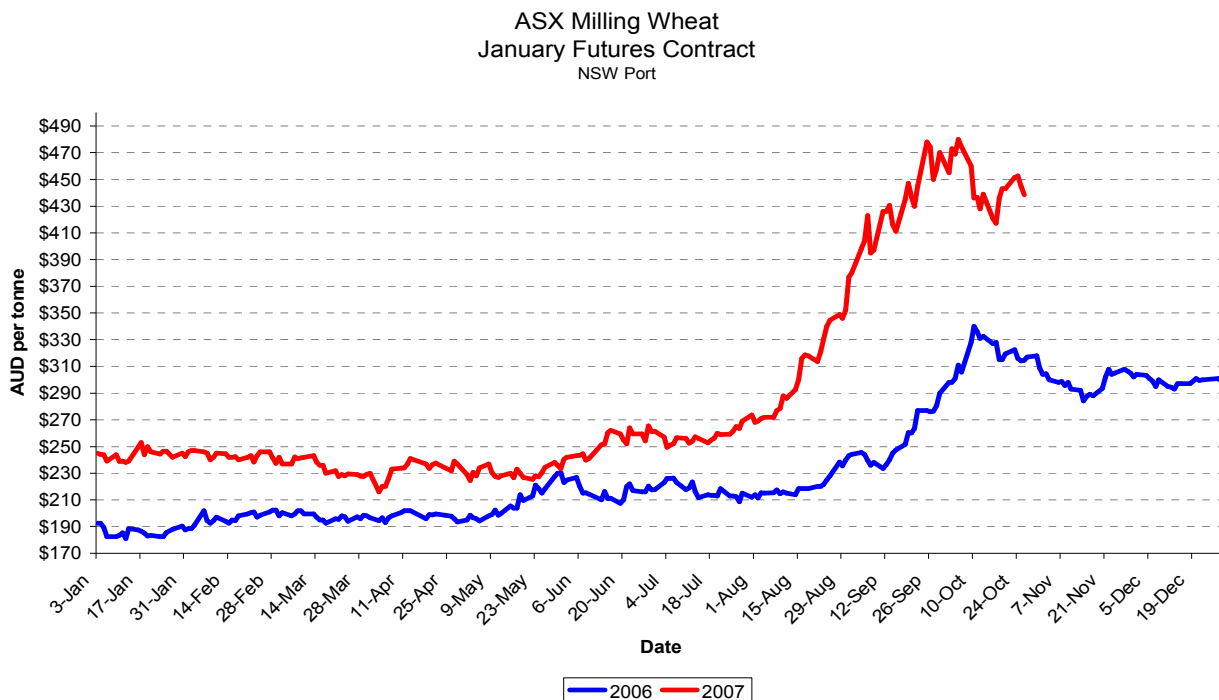
ASX Grain Futures and Options
Average Daily Volume
as at 23 October 2007



A number of leading Australian agribusinesses are managing their grain costs by utilising ASX grain futures and options as well as swaps priced around ASX. The aim is to further develop both the futures market and the options market so that greater liquidity will enable more comprehensive and effective cover in to the future.

Price Action

As you can see in the below chart, the price for wheat this year (red line) is much higher than what was experienced in the drought market last year (blue line). Global grain stocks, particularly for wheat, are currently very tight. As we know, the Australian season has finished poorly and the market reaction has been severe.



Multiple Benefits

The following table lists a number of key benefits that are relevant to all sectors of the supply chain.

Benefit	Explanation
Manage Price Risk	ASX grain futures reflect Australian grain supply and demand. This is particularly important during drought. If Australian grain markets trade to 'import parity' it will be reflected on ASX.
Secure Grain Supply	ASX grain futures contracts are settled through physical delivery in accordance with the contract specifications. Hedgers have the flexibility to unwind positions before delivery but can hold on to their position through to maturity and make or take delivery of physical grain.
Payment Security	The grain industry has an unhappy track record of counterparty credit default. The most likely time for corporate failure to occur is during periods of high price volatility such as drought. All ASX trades are marked to market on a daily basis so that the financial integrity of the market is managed at all times.
No Production Risk	ASX put options offer growers a way to manage their price risk (lower prices) with no associated production risk. Developing the ASX grain option market is a key objective.
Price Transparency	All market activity that occurs on ASX has the price reported in the public domain. ASX grain futures contracts provide a benchmark for domestic grain values and trends.

Next Step

ASX is keen to work with all sectors of the supply chain to develop market liquidity and ensure improved risk management activities. To find out more contact Dougal Hunter, Business Development, Agricultural Derivatives.

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