



ASX Grain Options

The Flexibility of a Call Option

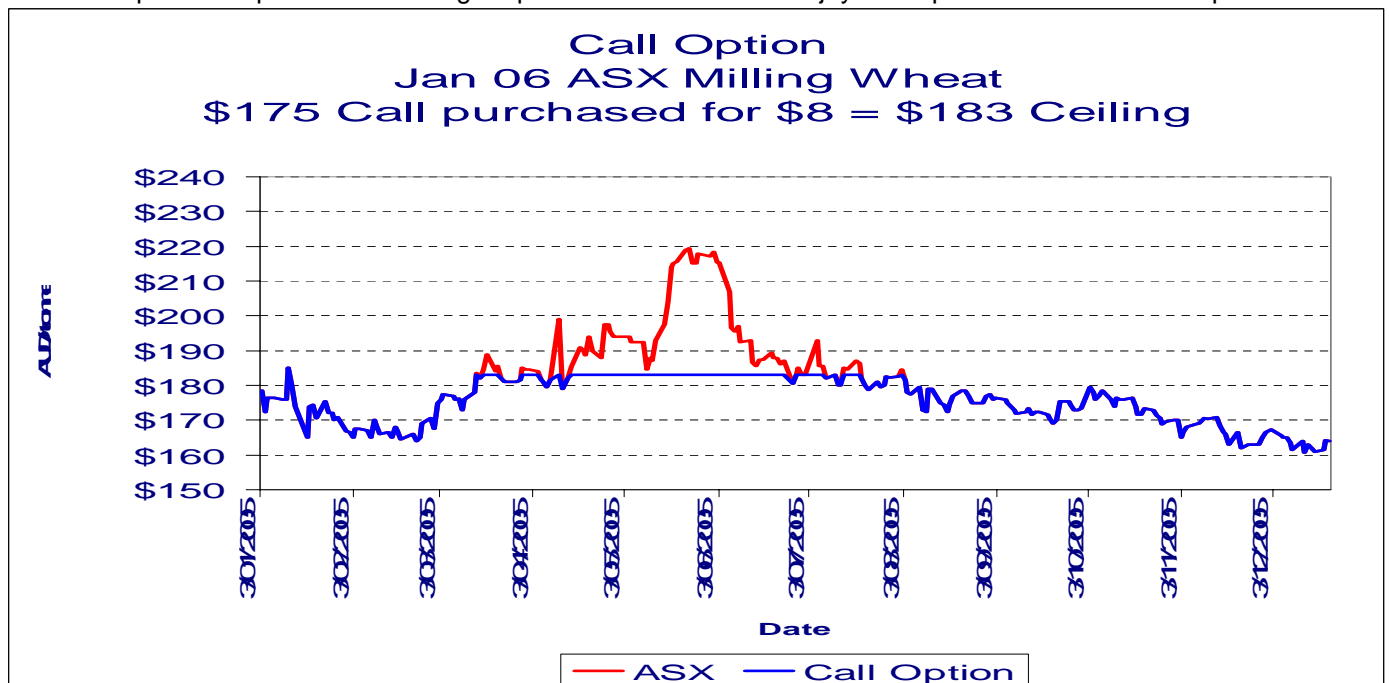
Were you protected from high wheat prices this season?

In 2005, consumers were faced with the daunting prospect of having to import grain at prices estimated above \$240 NSW Track¹. Consumers looking for protection from high grain prices but at the same time have the flexibility to enjoy lower prices should have considered buying ASX Call Options.

A Call Option;

- protects the option buyer from price rises above a certain level,
- does not necessitate consumption obligations as the option buyer has bought a right, not an obligation,
- so if prices fall, the option buyer can also benefit from buying grain at cheaper prices.

The chart below shows the protection provided by a January AWM \$175 Call Option. The buyer of the Call, bought the right to buy Jan 06 AWM futures at \$175. The cost of this right, the premium, was \$8 AUD/tonne. The ceiling price was \$183 = \$175 + \$8 (the premium is added to the exercise price). When the market traded above \$183 as represented by the red line, the owner of the call option had a ceiling price of \$183, the horizontal blue line. The buyer of the call option was protected from higher prices and was able to enjoy lower prices as the season improved.



For more information on ASX Grain Options please contact ASX on 02 9227 0197.

Source: ASX 2005

¹ The term 'Track' describes the underlying cash market; it is a price basing point (or port zone). For example, Moree is situated up country along the rail network that draws into Newcastle Port. Moree is therefore said to be part of the Newcastle Track market.