

ASX Grain Futures

Exchange for Physical (EFP) Trade



The Exchange for Physical (EFP) trade gives a participant the flexibility to unwind hedged positions in conjunction with a physical trade. Instead of having to worry about buying back or selling a large number of contracts before a delivery period commences, an EFP trade combines the physical transaction with a futures transaction.

To explain, assume you are a feed buyer for Feedlot Company XYZ. In February you decided to take advantage of the low Milling Wheat (AWM) prices on offer for January next year and purchased 5,000 contracts to hedge 100,000 tonnes. In December you decided to purchase the physical grain delivered to your feedlot and also wanted to unwind your hedge on ASX.

You discussed your needs with your broker. Your broker then found Grain Merchant QRX who was happy to sell the physical wheat and combine this sale with an equal and opposite trade in ASX January Milling Wheat (AWM) futures.

Feedlot XYZ	Grain Merchant QRX
Buy 100,000 tonnes physical wheat	Sell 100,000 tonnes physical wheat
Sell 5,000 contracts ASX January AWM	Buy 5,000 contracts ASX January AWM

In the below table you can see that Feedlot XYZ has no position as the physical position and the futures positions are both offset. Grain Merchant XYZ has a hedge in place on ASX which offsets the sold physical position.

	Feedlot XYZ		Grain Merchant QRX	
	Futures Hedge	Physical Position	Futures Hedge	Physical Position
February	Bought 5,000 AWM	Short 100,000 tonnes		
December	Sold 5,000 AWM	Bought 100,000 tonnes	Bought 5,000 AWM	Sold 100,000 tonnes
Net position	No position	No position	Long 5,000 AWM	Short 100,000 tonnes

The price of the physical trade and the futures trade is negotiated with your broker and takes place outside the market. The EFP is then reported by your broker to ASX Market Control and the price of the futures transaction is recorded. In accordance with ASX Market Rules there are no restrictions regarding the price for the futures contract component of an EFP. However, the Exchange does reserve the right to disallow an EFP on the basis of price when prices are substantially different from the current market price and no reasonable explanation can be given.

For more information on EFP trades, please contact ASX on 02 9227 0197

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