



# ASX Grain Futures and Options

Managing the price risk of Australian wheat  
- an introduction for international traders and end-users

29 Sept 2010

# Disclaimer

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# About ASX

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The ASX Group of companies, includes the combined operations of ASX (formerly the Australian Stock Exchange) and ASX 24 (formerly SFE Corporation).

ASX Group activities span primary and secondary market services and include the:

- **Australian Securities Exchange**, which facilitates capital formation, hedging, trading and price discovery
- **ASX Clearing Corporation**, which manages central counterparty risk transfer
- **ASX Settlement Corporation**, which provides securities settlement for both the equities and fixed income markets, and
- **ASX Compliance**, which is a wholly owned subsidiary of ASX and performs the market oversight obligations necessary for a market, clearing and settlement facility operator.

Effective 1 August 2010, the supervision of trading on ASX and the supervision of trading participants has been transferred from ASX to ASIC.

**ASX Grain Futures and Options trade on the ASX platform (ASX Trade) in accordance with the ASX Operating Rules and ASX Clear Operating Rules.**



# Two exchanges



Australian Securities Exchange	ASX formerly the Australian Stock Exchange	ASX 24 formerly the Sydney Futures Exchange
Market	ASX Grain Futures & Options	
Rules	ASX Operating Rules ASX Clear Operating Rules	ASX 24 Operating Rules ASX Clear (Futures) Operating Rules
Trading Platform	ASX Trade ITS - modified CLICK (NOMX Technology)	SYCOM IV
Clearing House	ASX Clear (wholly owned subsidiary of ASX)	ASX Clear (Futures) Pty Ltd (wholly owned subsidiary of ASX 24)
Margin System	Derivatives Margining System	SPAN*
Regulator	Australian Securities and Investments Commission (ASIC)	

\* 'SPAN' and 'Standard Portfolio Analysis of Risk' are trademarks of CME Group.



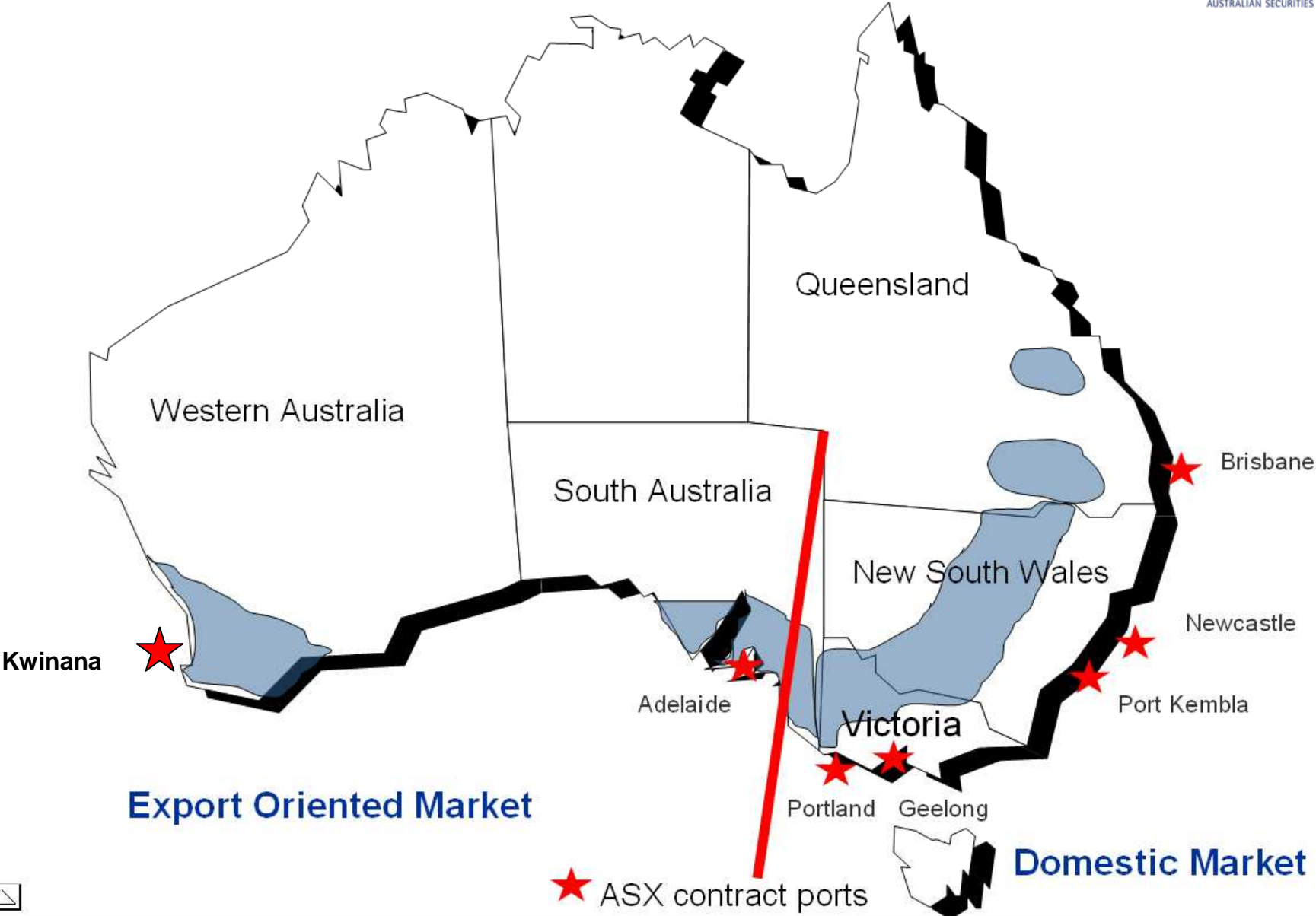
# Contracts



Contract	Physical Grade	Track Market
Western Australia Wheat	APW2 (10% protein)	Kwinana (WA)
Australian Milling Wheat	APW2 (10% protein)	Newcastle & Port Kembla (NSW)
Australian Feed Barley	F1	NSW, Geelong & Portland
Australian Sorghum	SOR	Brisbane / Newcastle
Australian Canola	CS01	NSW, Geelong, Portland & Port Adelaide



# Australian Grain Belt



# Record activity

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A number of records were established on ASX in August 2010. This coincided with increased global market activity due to grain production concerns, particularly in Russia.

## Volume Records

**Monthly Volume** = 58,631 contracts (~1.17 million tonnes)

**Daily Volume** = 11,404 contracts (228,080 tonnes) (6 Aug)

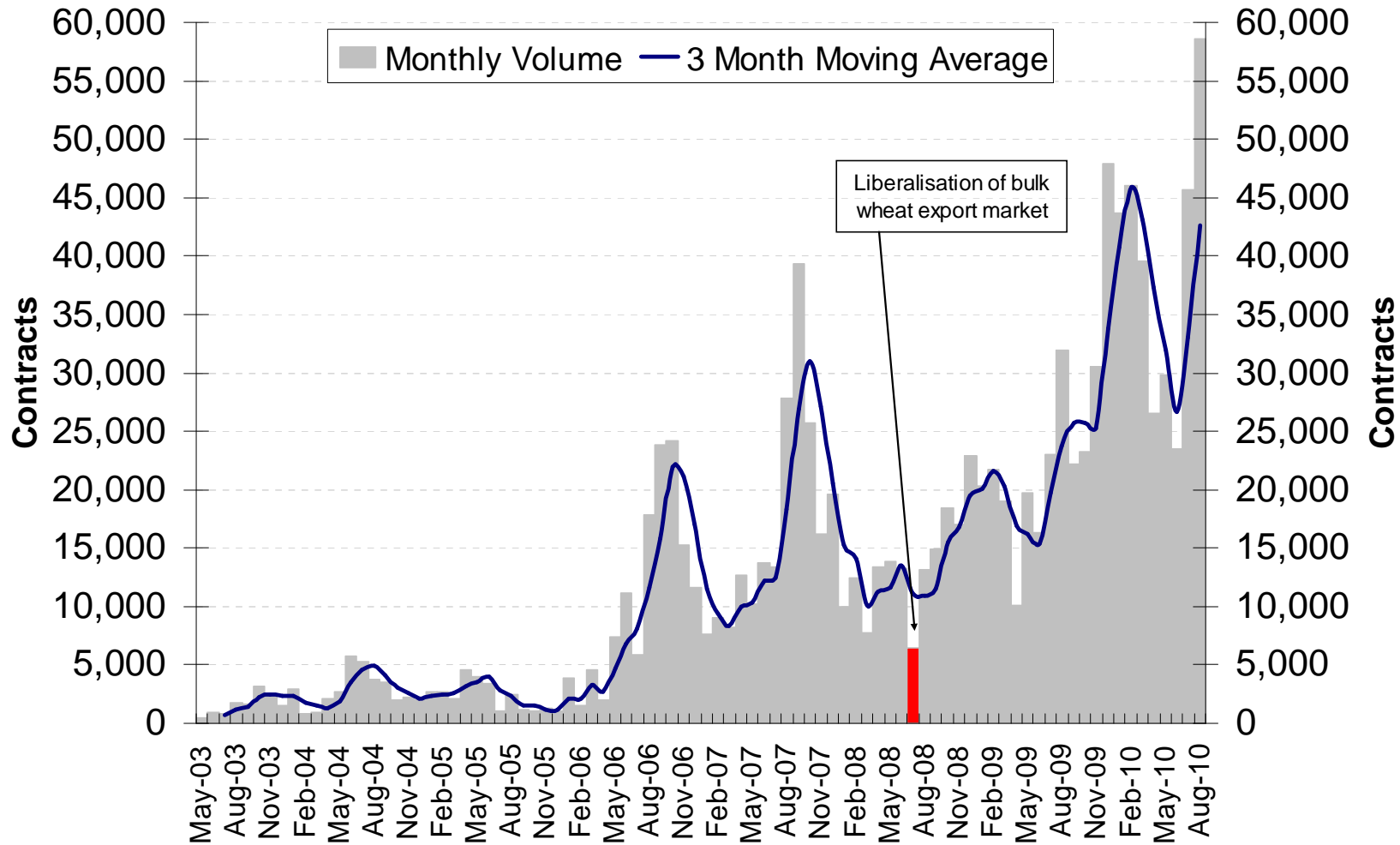
## Open Interest Records

**Futures** = 118,065 contracts (~2.36 million tonnes)

**Options** = 7,020 contracts (140,400 t) (Aug record)

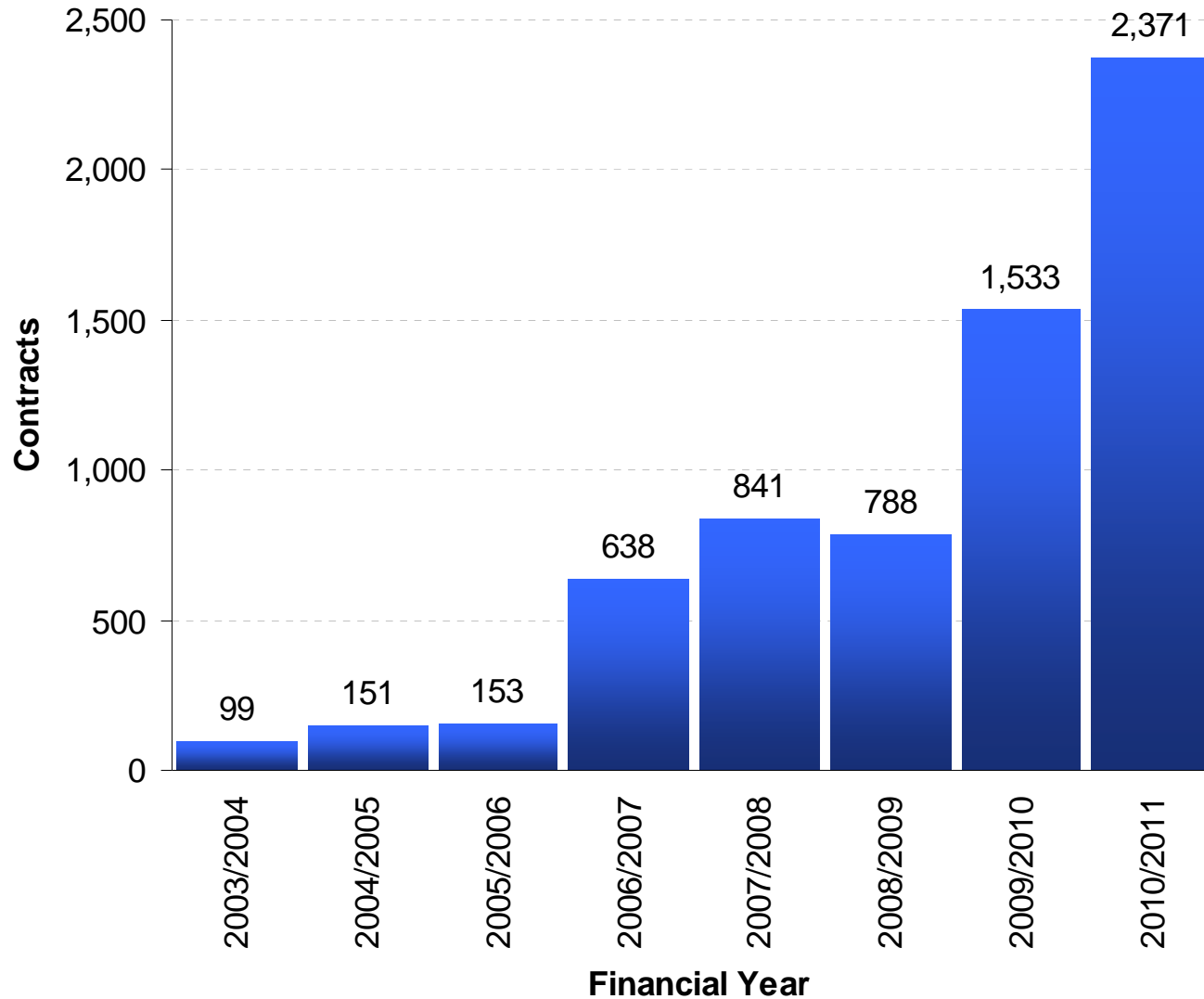


# ASX Grain Futures & Options Monthly Traded Volume Inception to end of August 2010



# ASX Grain Futures & Options Average Daily Volume

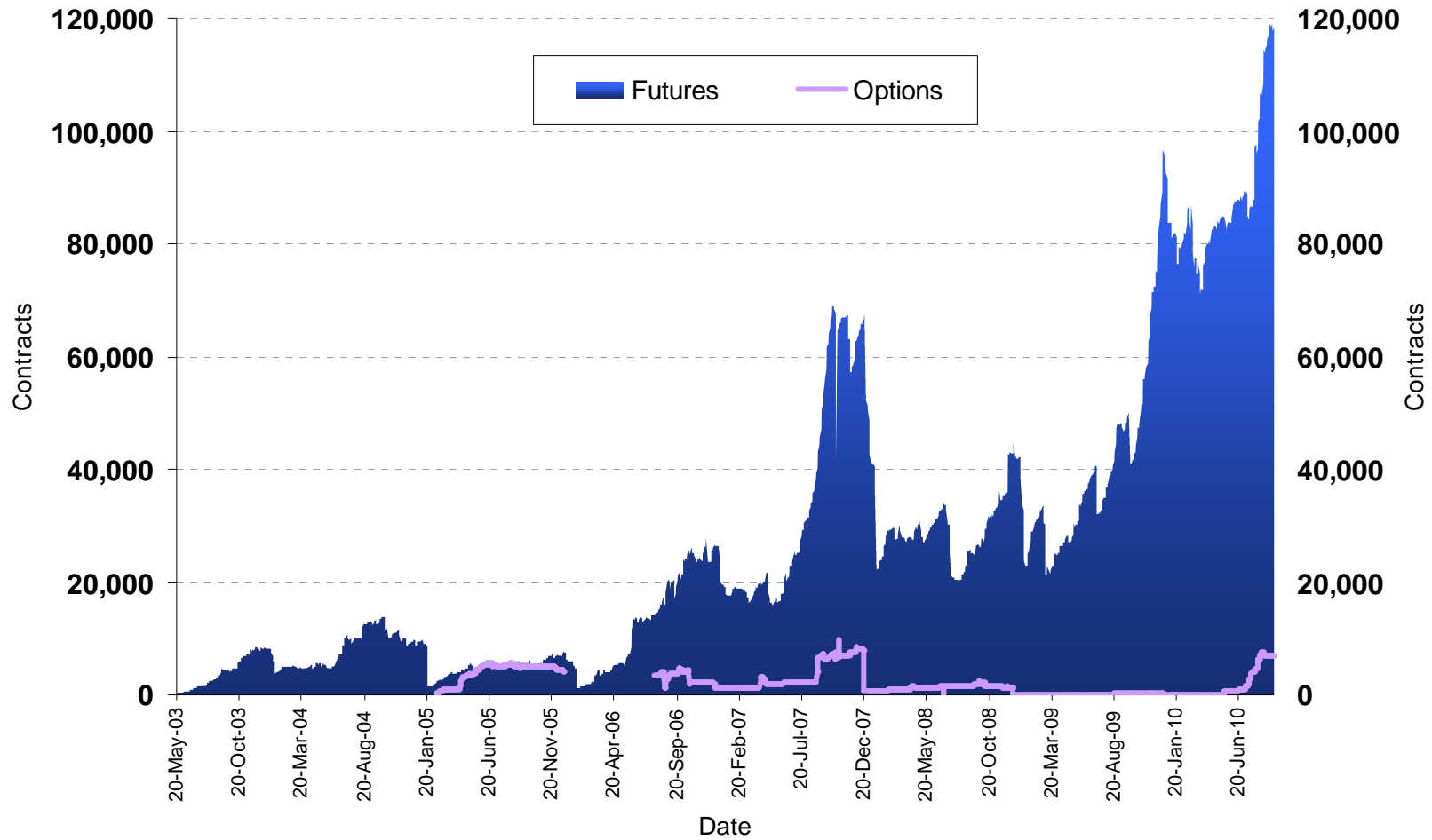
As at end of August 2010



# ASX Grain Futures & Options

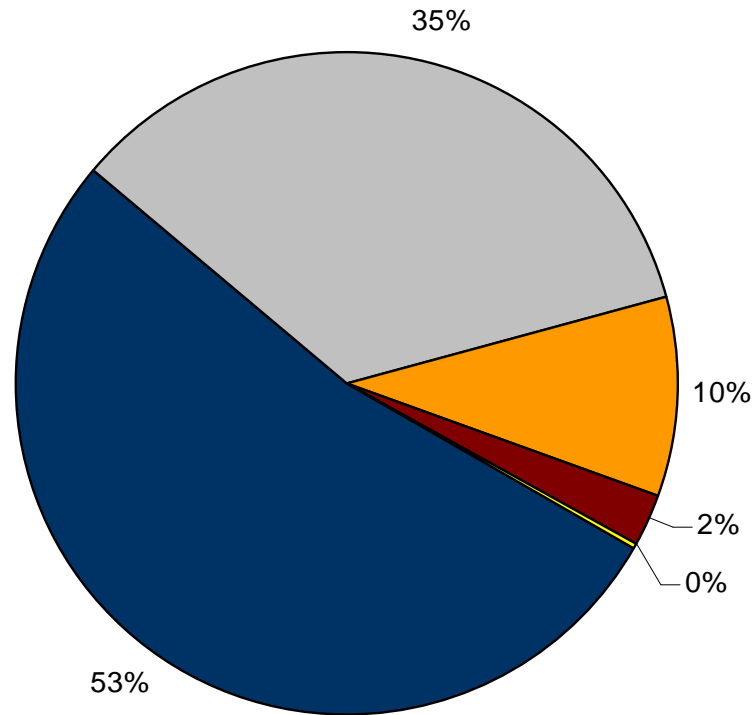
## Open Interest

Inception to 14 September 2010



# ASX Grain Futures & Options Commodity Breakdown

Since WAW listed in Sept 09 to end Aug 10



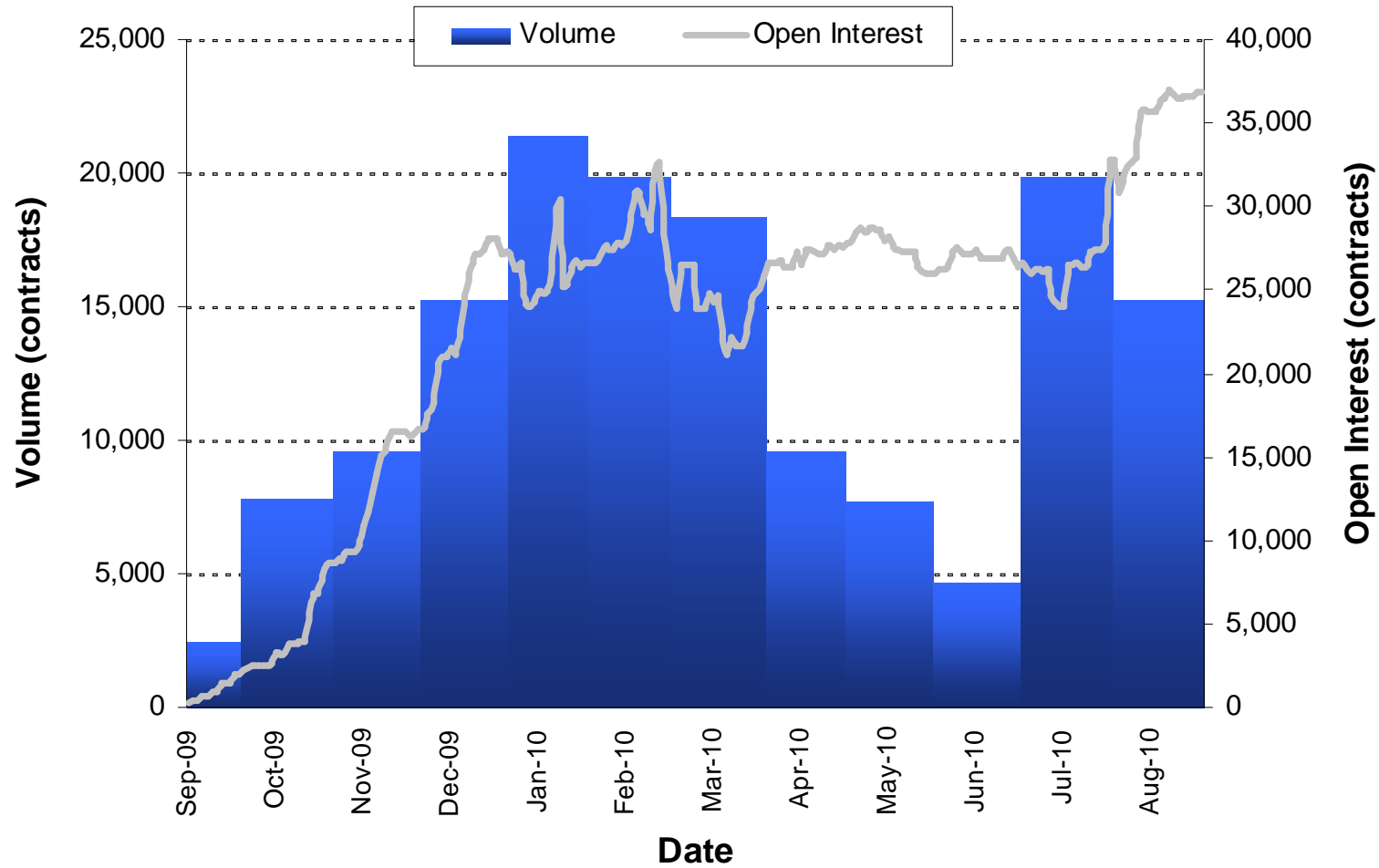
■ Milling Wheat (NSW) ■ Western Australia Wheat ■ Feed Barley ■ Sorghum ■ Canola



# ASX Western Australia Wheat (WAW) Futures

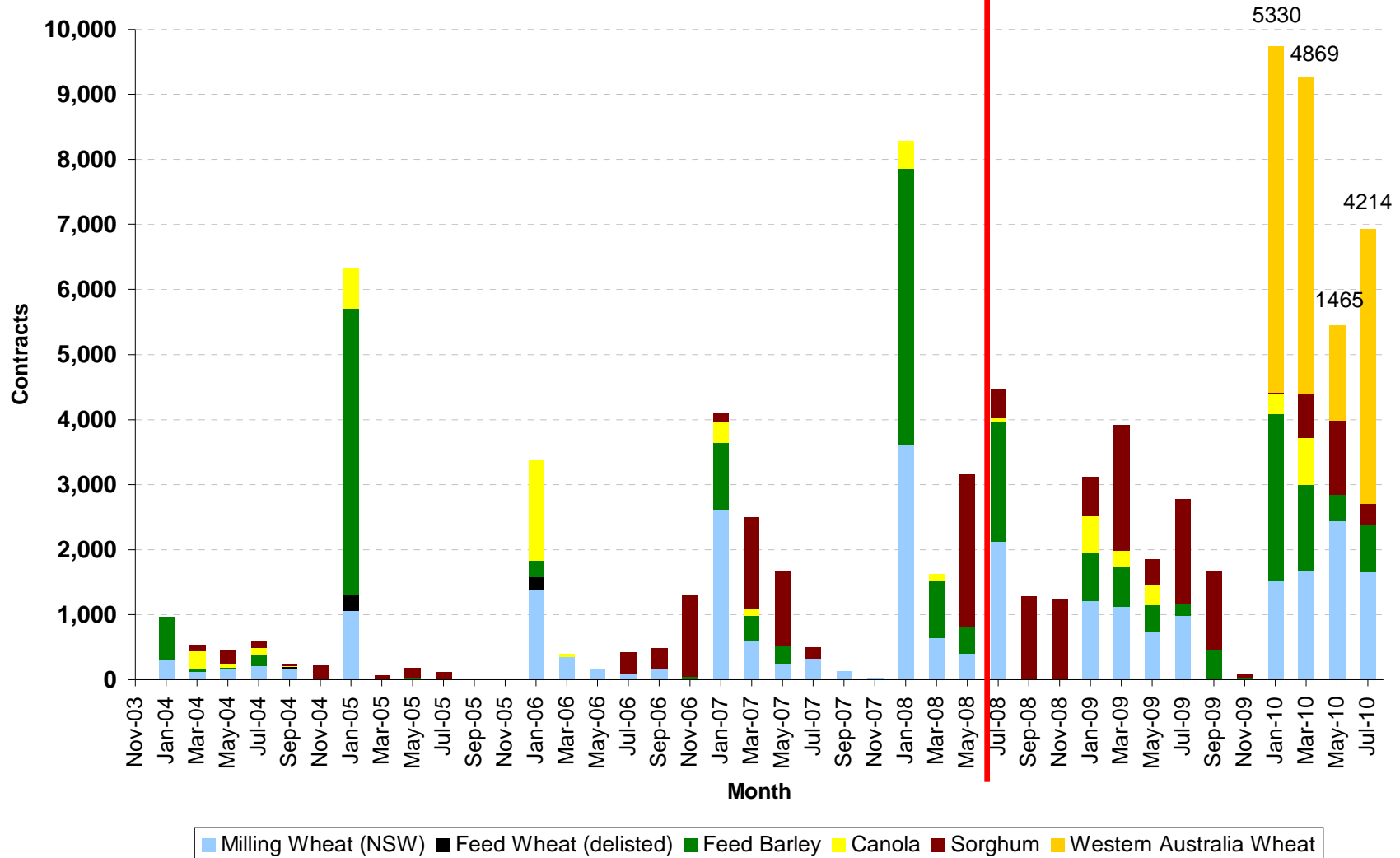
## Monthly Volume & Open Interest

Inception to end of August 2010

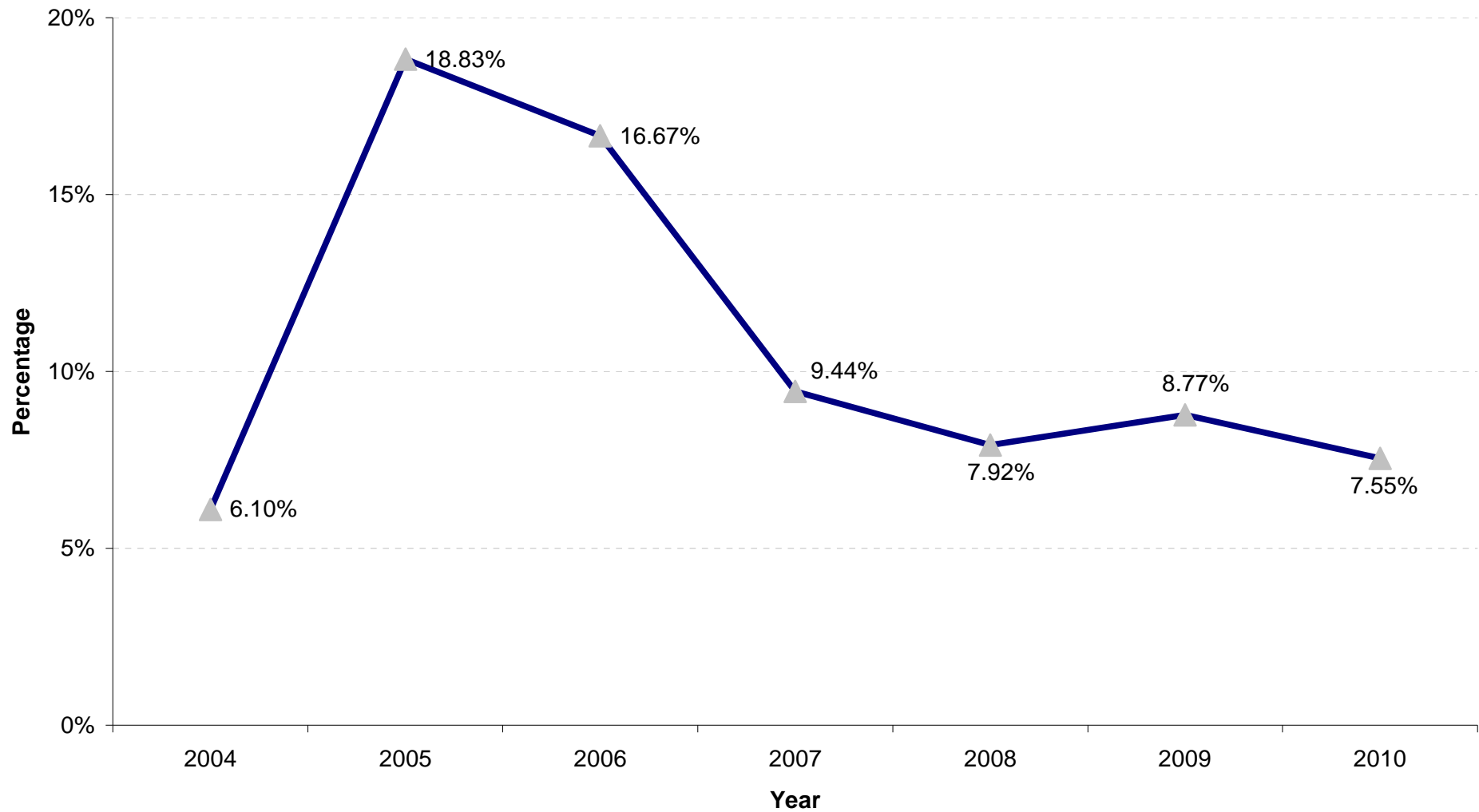


# ASX Grain Futures Deliveries

As at end of August 2010



# ASX Grain Futures Deliveries Percentage of traded Market Volume As at end of January 2010



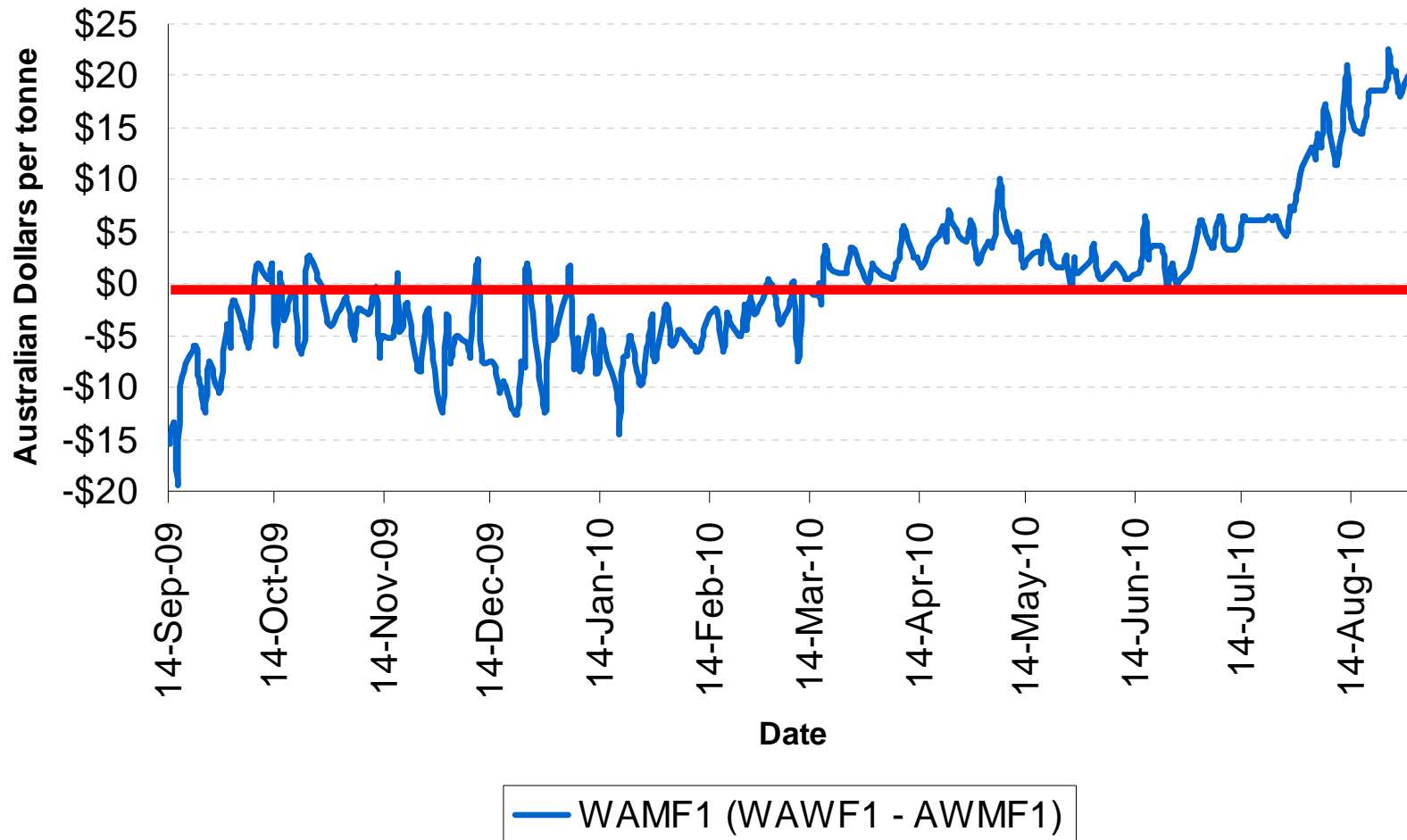
# ASX Wheat Futures

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- ASX has two wheat futures contracts.
- **Australian Milling Wheat (AWM)** is based in New South Wales on Australia's east coast and is influenced by domestic market activity, particularly during droughts. This influence was observed in 2005, 2006 and 2007 (see attached charts).
- **Western Australia Wheat (WAW)** is based in the Western Australia port zone of Kwinana. WA consistently produces an exportable surplus of wheat and has a small domestic market relative to the east coast. It is expected that WAW will be highly correlated to global trade values for 10% protein wheat.
- While there is no doubt that in seasons of good production, there is a correlation between Australian wheat prices and North American prices. There have been, and will be, instances when the markets may perform quite differently. As a result, there is significant interest in trading the spread between WAW and AWM.



# ASX Grain Futures West Coast (WAW) versus East Coast (AWM) Wheat Spread Jan 2011 Contract





ASX  
AUSTRALIAN SECURITIES EXCHANGE

## East Coast - West Coast Fundamentals

Wheat	NSW	WA	Australia
5 Year Average to 2009/2010	5,021,000	7,313,000	18,523,000
Drought Year 2007/2008	1,750,000	5,800,000	12,660,000
<b>2010/2011 ABARE forecast (Sept 14)</b>	<b>9,875,000</b>	<b>6,063,000</b>	<b>25,099,000</b>
Domestic Demand	2 million tonnes*	< 500,000 tonnes	
Shipping to Jakarta	12 – 14 days	7 – 8 days	
ASX Contract	<b>AWM</b>	<b>WAW</b>	

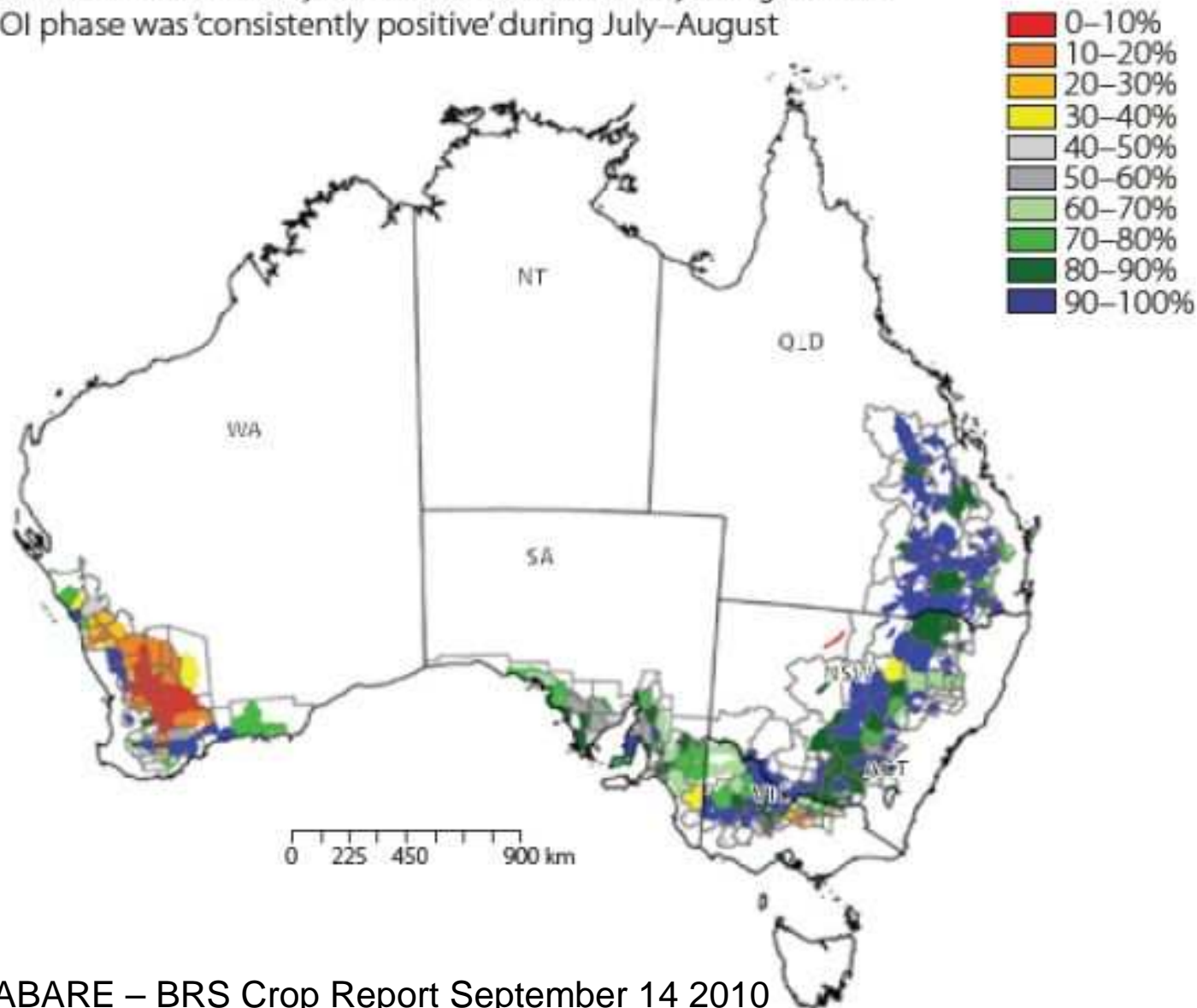
Source: ASX, ABARE and Harvest Gain (presentation Australian Grain Industry Conference 2009)

\* Milling use only, not factoring in stockfeed use.

Unit: Metric Tonnes



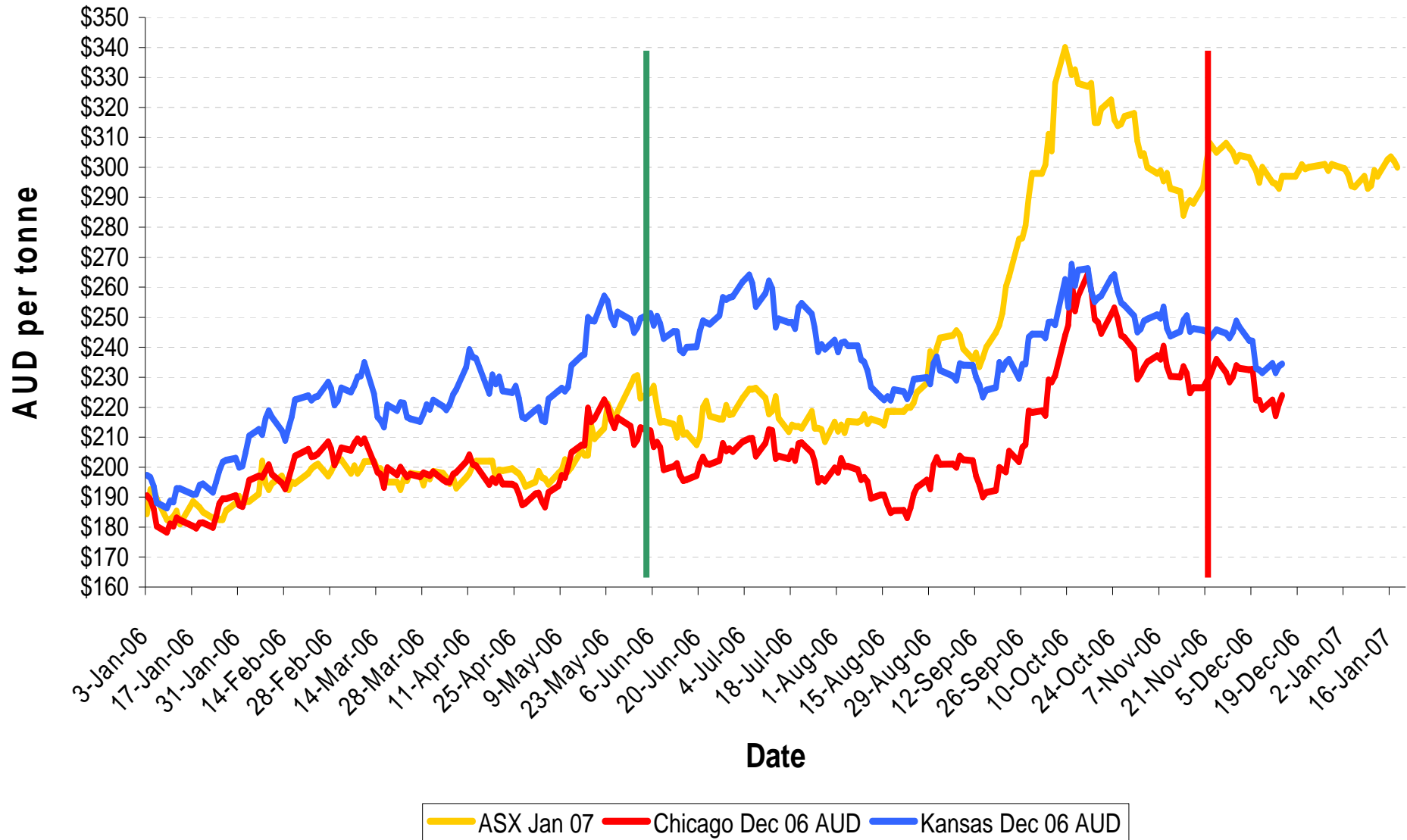
map 5 Forecast median shire yield ranked relative to all years given the SOI phase was 'consistently positive' during July–August



# Wheat Prices 2006

## ASX (AWM) compared with North American Markets

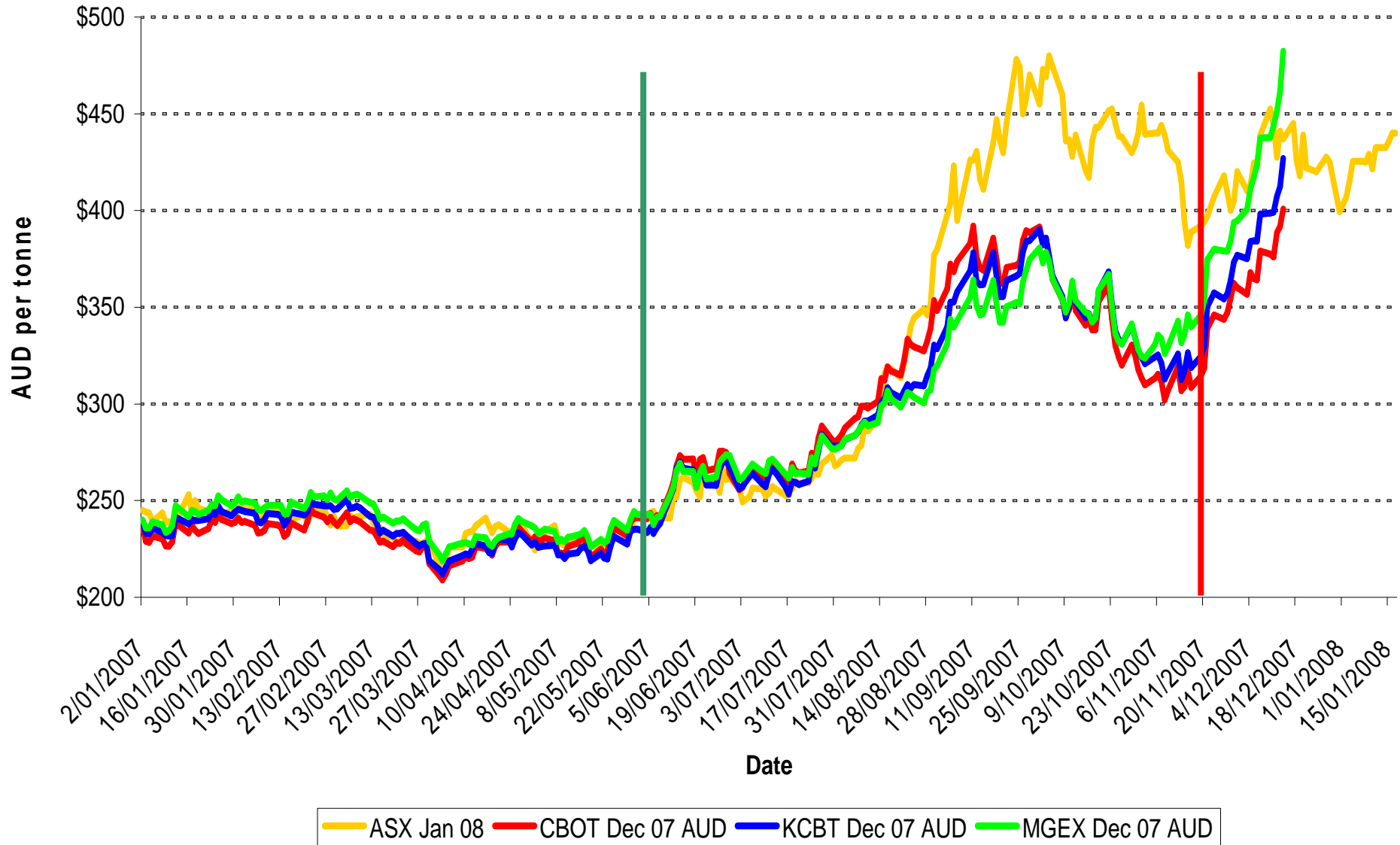
(Australian Dollars per tonne)



# Wheat Prices 2007

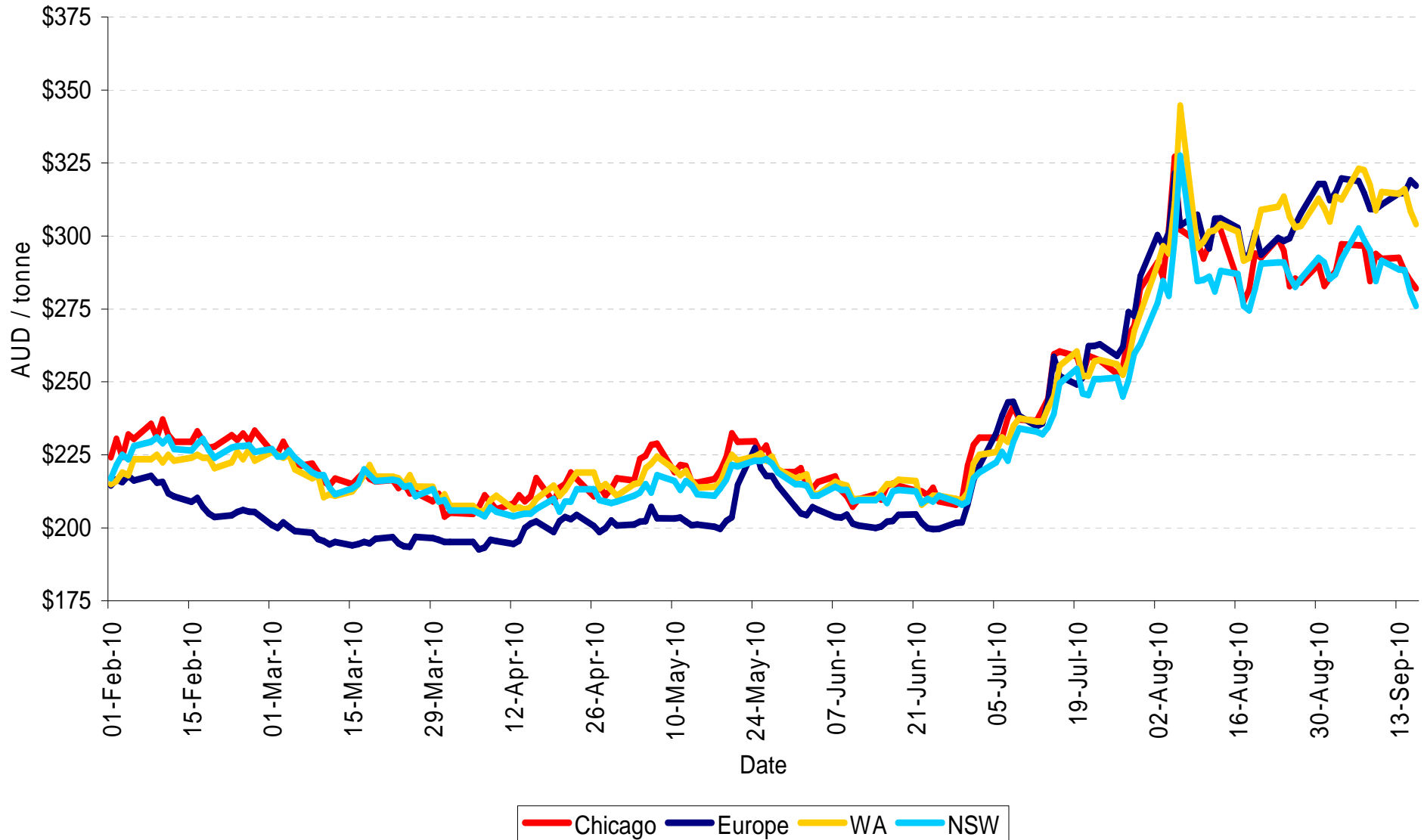
## ASX (AWM) compared with North American Markets

(Australian Dollars per tonne)



# Wheat Prices 2010

## ASX (WAW & AWM) compared with Chicago and European Markets (Australian Dollars per tonne)



# Website

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



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### What are Grain Futures & Options?

ASX Grain Futures and Options facilitate price discovery in track markets for Australian wheat, feed barley, sorghum and canola. Futures contracts are exchange-traded forward contracts that are standardised, centrally cleared and deliverable.

### Why trade Grain Futures & Options?

ASX Grain Futures and Options can provide investors with a way to manage price risk, payment security, improved hedge correlation, reduced foreign exchange risk and reduced production risk.

[More about Grain Futures & Options >>](#)

### Events

Sep 2010 Webinar: Grain Deliveries  
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01 Sep Market Update (PDF 125KB)  
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**Delivery Information**



# WAW: Deliverable Contract

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- Wheat must be **current season** (new crop only).
- **Minimum grade specification of 10% protein** (APW).  
Hard wheat (H1 & H2) can be delivered but protein is capped.
- Protein premium of 60 cents per point above 10%, capped at 11.4%.  
Based on average quality data per Destination Site under CBH Grain Express model (not ticketed receipt).  
For example, average protein at Kwinana Terminal may be 10.50% (premium paid would be \$3).
- ASX Clear has an account with CBH, title is transferred through CBH LoadNet system in accordance with CBH Grain Express process.



# Approved Bulk Handlers

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# The Delivery Period

## ASX Grain Futures and Options Maturity and Delivery Dates 2010



Managing risk, improving correlation

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-  Commences: second business day of the contract month
-  Concludes: third Thursday of the contract month



# Price adjustment when delivered



Details	Value	Explanation
Futures Track Price	<b>\$304</b>	As traded and quoted on ASX (is the settlement price on the day of delivery)
+ Protein Adjustment	\$3	\$0.60 premium or discount for every 0.1 above 10% (based on average quality data per Destination Site) e.g. assume 10.5% = \$3
+ CBH Receival Fee	\$10	As per the CBH receival fee (based on Tier 1 sites)
Free In Store Price	<b>\$317</b>	= ASX + protein premium + receival fee
Shrunk Price	\$318.59	= FIS / 0.995 (As per CBH shrinkage)



# Find a broker

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