ASX

AUSTRALIAN STOCK EXCHANGE

ASX Grain Options

The Power of a Put Option

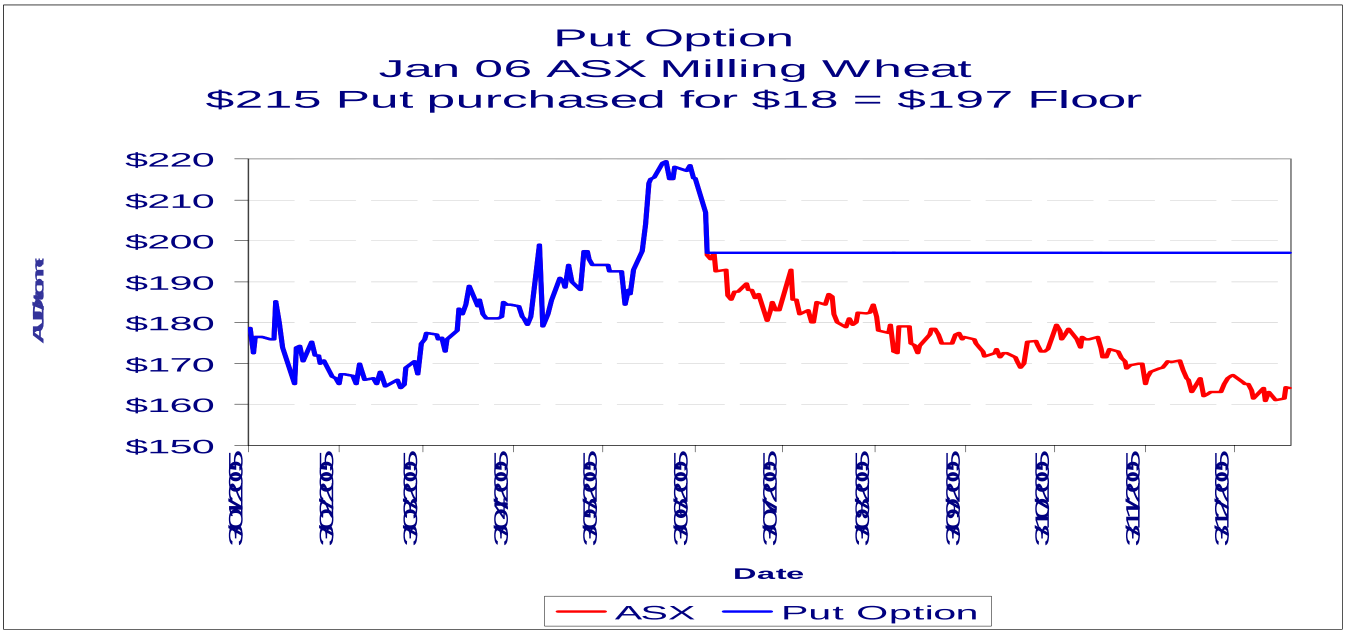
Would you have liked a $197 Floor Price for Wheat this season?

A hedge using Put Options on ASX Milling Wheat could have achieved this result. In 2005, growers had the opportunity to hedge ASX Milling Wheat (AWM) at prices in excess of $200 NSW Track[1]. Growers wanting to protect their grain price risk and avoid production risk should have considered buying ASX Put Options.

A Put Option;

- protects the option buyer from price falls below a certain level,
- does not necessitate production obligations as the option buyer has bought a right, not an obligation,
- so if prices rally, the option buyer can also capture the better prices on offer.

The below chart shows the protection provided by a January AWM $215 Put Option. The buyer of the Put, bought the right to sell Jan 06 AWM futures at $215. The cost of this right, the premium, was $18 AUD/tonne. The floor price was $197 = $215 - $18 (the premium is subtracted from the exercise price). When the market traded below $197 as represented by the red line, the owner of the put option had a floor price of $197, the horizontal blue line. A grower not hedged is exposed to the lower market. At option expiry, Jan AWM settled at $164, $33 below the $197 floor price.



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.