ASX Limited
ABN 98 008 624 691
20 Bridge Street
Sydney NSW 2000
PO Box H224
Australia Square
NSW 1215

Telephone 61 2 9227 0197
Facsimile 61 2 9227 0667
www.asx.com.au

23 February 2007

Secretariat
Wheat Export Marketing Consultation Committee
GPO Box 858
Canberra ACT 2601

By email: submissions@wemcc.gov.au

Dear Secretariat,

Re: Wheat Export Marketing Consultation Committee

Thank you for the opportunity to provide the attached submission for the consideration of the Wheat Export Marketing Consultation Committee.

The ASX submission documents how its wheat futures market would benefit the marketing and risk management needs of growers under various wheat export marketing approaches.

In summary, the submission highlights the benefits of the existing ASX wheat futures contracts in the context of a single desk marketing arrangement, and the elevated significance of a wheat futures market were the government to opt for a multiple licensing system or deregulation of the wheat export market.

The ASX would welcome the opportunity to discuss the content of this submission in more detail.

Yours sincerely,

Anthony Collins
General Manager
Emerging Markets
ASX Limited

ASX Submission

to the

Wheat Export Marketing Consultation Committee

23 February 2007

Executive Summary

The wheat and other grain futures markets operated by the ASX Limited group of companies (ASX) provide all participants (growers, merchants, consumers and financial market participants) in the Eastern States of Australia with the tools to manage their price and counterparty credit risk.

The wheat futures markets at ASX are of limited relevance to wheat growers in Western Australia (WA) and South Australia (SA) due to their export orientation and the existence of a single desk which precludes the diverse range of buyers needed to sustain a viable futures market.

The ASX has experienced significant growth in its wheat and other grain futures markets over the last year as industry participants have used futures to manage their exposure to the drought, counterparty credit risks in the over-the-counter 'track' market and uncertainty regarding future marketing alternatives.

Wheat growers do not need to trade wheat futures contracts at ASX to reap their benefits. Wheat growers are beneficiaries of price transparency and competition and innovation amongst consumers, agribusiness companies and financial institutions who use futures or related forward contracts to manage their risks and in turn compete to provide marketing alternatives, risk management products and finance to growers.

The objective of a single desk marketing system for wheat is to provide growers with surety of price and payment. These same benefits are provided by a wheat futures market with the additional benefits of competitive price discovery, price transparency and counterparty risk mitigation that fosters innovation and competition amongst providers of marketing and risk management alternatives.

While the growth of the ASX wheat futures market has been impressive to date, the associated benefits for growers will continue to be constrained under any single desk exporting arrangement for Australian wheat. For example, under a single desk arrangement the ASX would not be able to develop new wheat futures contracts for the benefit of wheat growers in Western Australia and South Australia.

Depending on the extent to which multiple and competing export licenses were issued, the ASX might be able to develop new wheat futures contracts for the benefit of growers in WA and SA. However, in the absence of deregulation the full potential of these futures markets would not be realised.

If the Government opts for deregulation of wheat exports, then the existence of a wheat futures market at ASX should alleviate any concern that Australian wheat growers do not know the price of their wheat when considering their marketing and risk management alternatives.

Australia's grain industry has evolved substantially over the past 10 years and proved capable of handling the deregulation of domestic (and several export) marketing structures. Since the deregulation of these marketing structures, participants in the Australian grain industry have managed price risk, counterparty credit risk, production risk, foreign exchange risk and basis risk. The grain futures markets at ASX are an important tool to manage all of these risks.

The wheat futures contracts at ASX are based on the existing receival standards set by AWB Ltd. Any change to these receival standards should be managed in an orderly fashion so that market participants can meet their existing contractual obligations in the futures and over-the-counter markets.

TABLE OF CONTENTS

1. Introduction (the Role of Forward Markets)

Forward markets provide users with the ability to secure the price received (or paid) for a commodity at a future point in time at a price agreed upon today.

Forward and secondary markets exist to facilitate risk transfer and price discovery, and take only two types of institutional form: (1) Over-the-counter markets (OTC), which typically are bilateral and confidential, and (2) Exchange-traded markets, which are multilateral and transparent.

Forward markets are essential to 'informed' decision making in the Australian wheat industry, be it in the form of production decisions or the consideration of marketing and risk management alternatives. In the absence of accurate forward prices, either form of decision making can be inefficient. For the Eastern States of Australia the existence of forward market price discovery (provided by the 'track' market and the ASX grain futures offering) is available to underpin informed decision making regarding production and marketing alternatives.

The ASX facilitates informed investment decision making in the Australian wheat industry by providing growers, merchants, consumers, exporters and financial institutions with:

- Transparent forward prices that assist the valuing of future available supply and demand. This price signal stimulates a response from the market to increase future supply to meet the expected shortfall, or to reduce consumption to meet the lack of future supply;
- A forward price curve that enables parties making long-term investments to hedge the financial risks associated with such investments;
- Liquidity enabling parties to transfer or share risk at the lowest possible cost; and
- Credit risk novation where security of contracts entered into is guaranteed by a central counterparty clearing corporation.

2. ASX Grain Futures & Options

2.1. History of Grain Futures in Australia

Futures markets (exchange-based forward markets) have existed for centuries for the purpose of providing agricultural producers, merchants and consumers with tools to manage their future delivery and price risks[1]. The presence of risk leads to the natural development of markets in which to hedge such risk.

The development of price support mechanisms for many Australian commodity markets continues to have a negative impact on the development and potential benefits of futures markets. For example, the wool futures contract at the Sydney Futures Exchange (inaugurated as the Greasy Wool Futures Exchange in 1960) provided a liquid and transparent risk management tool for wool growers, exporters and consumers for over 20 years before languishing and eventually becoming dormant due to the involvement of Australian Wool Corporation (AWC) in various price support schemes. Such price support schemes have, almost without exception, been disastrous for industries which they were originally intended to support.

[1] The development of financial futures contracts in the 1970s and 1980s is only a relatively recent phenomenon.

Following the deregulation of centralised marketing structures for several domestic grain markets the Sydney Futures Exchange (SFE) listed a suite of grain futures contracts (including milling wheat) between 1996 and 2002. The SFE grain futures market included a wheat futures contract that was listed in anticipation that the wheat export market would be deregulated. The SFE products were ultimately de-listed and superseded in May 2003 when the ASX (pre-merger with SFE) introduced a new franchise of grain futures contracts (including two wheat futures contracts) that mirrored the specifications of the OTC 'track' market.

2.2. Contract Specifications

The ASX contract offering covers four grain commodities: wheat (milling and feed), feed barley, sorghum and canola, and are derived from the physical 'track' market (see table below) for which trading standards are developed and maintained by the National Agricultural Commodities Marketing Association (NACMA). ASX contracts are deliverable, ensuring the futures price correlates with the physical price. For detailed contract specifications please refer to www.asx.com.au/grainfutures.

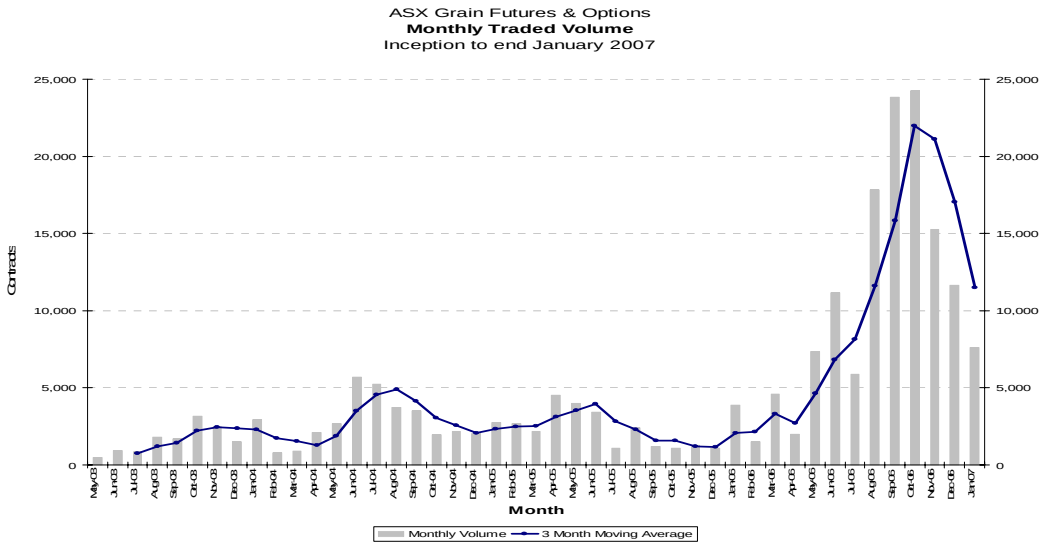
ASX Contract	Physical Grade	Physical Track Market
Milling Wheat	APW2	NSW
Feed Wheat	FED1	NSW
Feed Barley	F1	NSW, Geelong and Portland
Canola	CAN	NSW, Geelong, Portland and Port Adelaide
Sorghum	SOR	Brisbane and Newcastle

The ASX has not developed wheat futures contracts with delivery locations in export orientated States such as WA due to the existence of a single desk which precludes the diverse range of buyers needed to sustain a viable futures market.

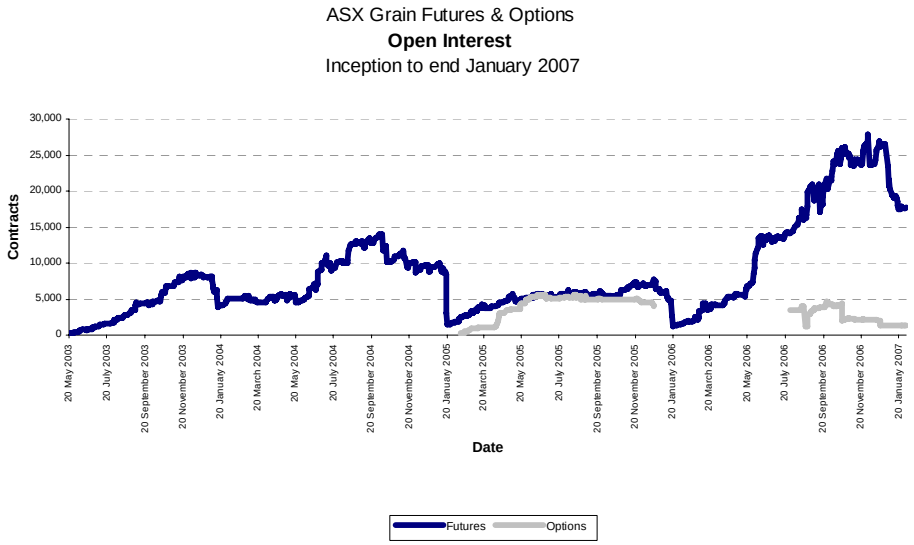
2.3. ASX Volumes and Open Interest

In only its fourth year of operation, the Grain Futures Market at ASX has traded in excess of 4 million tonnes. The growth in the ASX grain futures and options contracts over the past 12 months can be attributed to the:

- Drought changing the basis relationship with overseas grain futures markets;
- Greater awareness of counterparty credit exposures and settlement risks in the OTC 'track market';
- Entry of new participants; and,
- Uncertainty surrounding future marketing alternatives.



Open interest, representing the number of outstanding or “open” futures positions, is another measure of market maturity. Open interest in the ASX grain futures contracts has mirrored the significant growth in traded volumes over the past 12 months.



3. Benefits of ASX Grain Futures and Options

This section highlights the benefits of futures markets, with a particular focus on the marketing and risk management requirements of wheat growers.

3.1. Price Transparency

One of the stated original reasons for establishing a single desk marketing system was to protect growers from unscrupulous traders that took advantage of a lack of market transparency.

Today, all grain industry participants can benefit from the price transparency provided by ASX grain futures. Market prices can be accessed on the ASX website, via market vendors, by email and in the print media. This price transparency is available to all market participants irrespective of the marketing or risk management strategy they adopt.

An important advantage a futures market has over an averaging mechanism such as the National Pool is that the relevant market signals are delivered in real time, providing growers with information to make decisions regarding their marketing and risk management alternatives.

3.2. Price Risk Management

A wheat futures market provides growers and other participants in the grains industry with a variety of tools that can help manage price risk.

Wheat growers can access the benefits of futures markets directly through the use of futures contracts or, as more often is the case, indirectly through the use of transparent futures prices to consider other marketing and risk management alternatives (many of which are themselves derived from use of the ASX wheat futures market).

In the context of the recent drought, many domestic consumers of wheat such as the intensive livestock feeding industries (lot feeders, dairies, piggeries and poultry operations) and flour millers have been able to hedge their exposure to higher grain prices through ASX.

3.3. Counterparty Credit Protection

Counterparty credit risk is a significant issue in the Australian grain industry and there have been several recent high profile examples of corporate failure.

All grain futures and options transactions at ASX are cleared and settled by the Australian Clearing House (ACH). ACH becomes the central counterparty to all futures transactions and calls variation margins each day in order to effectively guarantee contract performance.

ACH also ensures that title to grain is not transferred until payment is received thereby minimising the risk of settlement default. Settlement terms for deliveries at ASX are one day, which compares favourably with the risk of default inherent with payment terms of 30 days in the physical market.

3.4. A Level Playing Field

Under the supervision of an exchange licensed under the Corporations Act, all buyers and sellers in futures markets compete on a level playing field with respect to price and time priority for their orders. This is important as it reduces the risk that large market participants will exercise price distorting market power.

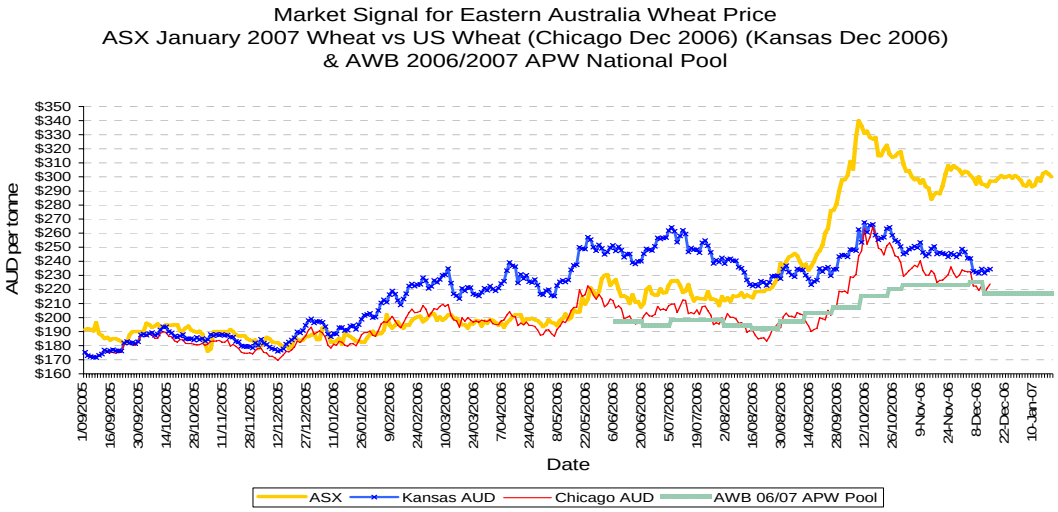
3.5. New Participants

In addition to providing participants in the Australian grain industry with tools to hedge price risk the grain futures market at ASX is accessible to financial market participants and speculators that improve market liquidity. Greater liquidity enhances the process of price discovery and enables parties to transfer or share risk at the lowest possible cost.

The South African grain industry provides a useful example. Following deregulation in 1995, the South African Futures Exchange (SAFEX) listed white maize and yellow maize contracts. Eleven years on, annual volume traded in SAFEX white maize equates to a multiple of approximately 14 times the underlying crop size (see Attachment 1).

3.6. Reduced Basis Risks

The grain futures market at ASX reflects the fundamentals of domestic supply and demand. Having an Australian dollar-denominated and locally-delivered grain futures market means that growers and domestic consumers can protect their businesses without being exposed to currency movements or grain prices specific to overseas futures markets (as is the case with several risk management products currently offered by Australian banks).



Notes - ASX Australian Milling Wheat January 2007 (based on APW2 10% protein), December 2006 Kansas Wheat and Chicago Wheat (in Australian dollars), and the AWB 2006/2007 APW National Pool expressed in track equivalent terms (ie excluding storage & adjusting for increments).

In the above chart the increase in the price for the January 2007 milling wheat futures contract as the drought took hold in 2006 illustrates: the existence of domestic marketing alternatives other than the National Pool; and, the basis risks evident when overseas grain futures markets are used to hedge Australian wheat.

3.7. Product Innovation

The grain futures market at ASX can be used by banks and agribusiness companies to develop their own marketing alternatives and offer simplified risk management products for growers that are not well placed to manage futures-related trading strategies and any associated margin calls.

Since the droughts in 2002 and 2006 many wheat growers are increasingly hesitant to forward sell physical tonnages that obligate delivery. Growers can manage price risk as well as production risk associated with forward marketing by utilising ASX put options or similar products developed by banks and agribusiness companies. Put options provide protection from price falls and do not necessitate physical delivery. If a grower does not have the grain there is no obligation to buy back a put contract at a 'wash out' value. Put options are similar in concept to price insurance and are 'pre-purchased' for a known premium.

3.8. Buyer of Last Resort

Given the wheat futures contracts at ASX are deliverable, the wheat futures market itself can also be considered a marketing alternative or even a 'buyer of last resort'. For example, when considering their marketing alternatives a grower may calculate that the most profitable strategy is to sell and deliver against a wheat futures contract. This marketing strategy has the additional benefit of a 'price hedge' and the flexibility to exit the futures contract if a better marketing alternative arises. At all times the grower would benefit from real-time price transparency, counterparty risk protection and payment security.

4. The Experience of Overseas Futures Markets

The success of grain futures markets in all the grain-producing continents of the world (North America, South America, Asia, Europe and Africa) demonstrate the benefits of having regional products denominated in the local currency that reflect local supply and demand fundamentals.

Attachment 1 provides some insight to the liquidity (represented by the number of times the notional volume of futures contracts traded exceeds underlying production) of several grain futures contracts in fully deregulated markets. This liquidity equates to price transparency, the ability to manage price and counterparty risks, and a reduction in transaction costs.

The experience in South Africa has been that futures exchanges are capable of supporting the deregulation of price support mechanisms. In contrast, futures volumes and the associated benefits for growers are suppressed in markets such as Canada where wheat and barley export markets are regulated (see Attachment 1).

5. The Role of Wheat Futures in Various Export Marketing Approaches

Irrespective of the Government's decision on its preferred export marketing approach, wheat futures contracts at ASX will continue to provide wheat growers in the eastern states of Australia with a mechanism to manage their marketing and risk management alternatives.

5.1. Single Desk

The objective of a single desk marketing system is to provide growers with surety of price and payment for their wheat. These same benefits are provided by a wheat futures market with the additional benefits of competitive price discovery, price transparency and counterparty risk mitigation that fosters innovation and competition amongst providers of marketing and risk management alternatives.

While the growth of the ASX wheat futures market has been impressive to date, the associated benefits for growers would continue to be constrained under a single desk exporting arrangement. For example, under a single desk arrangement the ASX would not be in a position to develop new wheat futures contracts for the benefit of wheat growers in the WA and SA markets.

5.2. Multiple Licensing Systems

A Multiple Licensing System (MLS) is another form of a regulated export market for wheat. Depending on the extent to which multiple and competing export licenses were issued, the ASX might be able to develop new wheat futures contracts for the benefit of wheat growers in Western Australia and South Australia. In the absence of deregulation, the full potential of these futures markets for wheat growers would not be realised.

5.3. Deregulation

Australia's grain industry has evolved substantially over the past 10 years and proved capable of handling the deregulation of domestic (and several export) marketing structures.

In a deregulated export market wheat growers would benefit both directly and indirectly from greater price transparency, product innovation and lower transaction costs afforded by the existence of an Australian wheat futures market. More generally, the forward market for wheat would benefit from lower systemic risk afforded by the central counterparty protection of a central counterparty clearing organisation.

In a deregulated market it is reasonable to expect that, just like at present, there would be a number of competing marketing pools offered by numerous grain marketing organisations. The wheat futures contracts at ASX would be utilised by all pool managers. Growers would use the transparency of prices in the wheat futures market at ASX to evaluate their marketing and risk management alternatives.

ASX has demonstrated the ability to adapt its contract offering to incorporate regulatory change. For example, when the New South Wales Grains Board vesting

rights for barley, canola and sorghum disbanded on October 1 2005, ASX extended the contract offering into New South Wales.

ASX notes that if deregulation of the export market for wheat were to occur, the Western Australia Grain Marketing Act 2002 stipulates that the Grain Licensing Authority would also be disbanded. Therefore, ASX would consider new product offerings not just for wheat but also for feed barley, canola and potentially lupins in SA and WA.

ASX wheat futures are currently based on receival standards set by AWB Ltd. Any change to receival standards for wheat would need to be managed in an orderly fashion so that market participants can meet their existing contractual obligations in the futures and OTC markets.

5.4. Conclusion

Active grain futures markets exist in almost every major grain producing region. In this regard, Australia is somewhat of an exception. As outlined in this submission, impediments to the establishment of an active grain futures market have meant the suppression of a market-based price signal and development of risk management tools and expertise. It should be noted that even in countries such as China, which has experienced remarkable growth in grain futures markets (see Attachment 1), domestic producers and consumers have enthusiastically taken to managing price risk using futures contracts.

ASX sees no reason why the successful experiences of deregulated export markets for wheat in conjunction with regional grain futures markets in North and South America, South Africa, Asia and Europe cannot be replicated in Australia.

Attachment 1 – The Experience of Overseas Grain Exchanges

Country & Exchange	Est.	Contract	Contract Size (t)	2006 Contract Volume*	2006 Tonnage Traded	2006 Underlying Physical (t)**	Multiple
United States of America							
Chicago Board of Trade	1848	Soft Red Winter Wheat	136	18,822,846	2,559,907,056	10,618,555	241
		Corn	127	58,557,281	7,436,774,687	298,600,000	25
Kansas City Board of Trade	1856	Hard Red Winter Wheat	136	5,278,647	717,895,992	18,563,155	39
Minneapolis Grain Exchange	1881	Hard Red Spring Wheat	136	1,653,702	224,903,472	11,767,976	19
Canada							
Winnipeg Commodity Exchange	1887	Canola	20	2,619,530	52,390,600	9,105,000	6
		Western Barley	20	195,024	3,900,480	10,000,000	0.39
		Feed Wheat	20	66,555	1,331,100	3,000,000	0.44
Argentina							
Mercado A Termino De Buenos Aires	1907	Soybean	100	5,232,726	523,272,600	42,500,000	12
		Wheat	100	3,615,402	361,540,200	14,200,000	25
		Corn	100	1,524,477	152,447,700	20,500,000	7
China							
DaLion Commodity Exchange	1993	Corn	10	135,290,072	1,352,900,720	139,360,000	10
		Soybeans #1 (+#2)	10	21,644,574	216,445,740	16,350,000	13
Zhengzhou Commodity Exchange	1990	Combined Wheat Contracts	10	29,408,580	294,085,800	97,450,000	3
Japan							
Tokyo Grain Exchange	1952	Corn	100	4,666,158	466,615,800	16,620,000	28
		Non GMO Soybean	10	9,885,557	98,855,570	3,960,000	25
Europe							
EURONEXT	1988	EU - Rapeseed	50	265,437	13,271,850	3,600,000	4
		French Milling Wheat	50	449,241	22,462,050	36,500,000	0.62
		French Corn	50	73,862	3,693,100	13,200,000	0.28
	1996	UK Feed Wheat	100	72,581	7,258,100	6,800,000	1
South Africa							
South African Futures Exchange	1996	White Maize	100	1,270,382	127,038,200	9,376,000	14
		Yellow Maize	100	186,385	18,638,500	2,344,000	8
		Wheat	50	334,584	16,729,200	2,000,000	8
		Sunflower	50	79,121	3,956,050	520,000	8
		Soybeans	25	42,928	1,073,200	424,000	3
Australia							
ASX Ltd	2003	Milling Wheat	20	46,721	934,420	2,100,000	0.44
		Feed Barley	20	27,254	545,080	1,060,000	0.51
		Sorghum	20	17,834	356,680	996,000	0.36

* Contract volume traded incorporates total volume traded in the particular contract for futures and options.
** Underlying Physical, except where noted, refers to the underlying crop size for the commodity. Underlying Physical for feed wheat and Japan refer to consumption requirements for the commodity.
Futures and Options data: (TRADEdata Global Services). Physical production/ consumption data: USDA World Agricultural Supply and Demand Estimates Report (Jan 12, 2007), ABARE Australian Crop Report (Feb 20, 2007) and Exchange web-sites. Note underlying physical for Australia represents the production underlying the ASX contract specifications.

Attachment 2 – Background Information on ASX Limited

The ASX Limited group of companies, known as the Australian Securities Exchange (ASX), operates Australia's major financial markets for equities and derivatives, providing listing, trading, risk management, clearing, settlement, depository and market data services for domestic and global customers. The group includes the combined operations of the Australian Stock Exchange and SFE Corporation (Sydney Futures Exchange) which merged to create one of the world's top-10 listed exchanges, with a capitalisation around A$6.4 billion, in July 2006.

In 2005/06 ASX's fully electronic markets traded an average 120,000 equities transactions and 400,000 futures and options contracts daily, while its central counterparties novated A$4 billion in traded equities value and A$100 billion in nominal futures and options value each day. Over 2,000 entities, with a total market capitalisation of A$1.4 trillion, were listed on ASX in 2006 and the group's depository, Austraclear, held almost A$700 billion of securities in safe custody.

Confidence in the integrity of ASX markets is promoted by the supervisory activities of its wholly-owned subsidiary, ASX Markets Supervision, and by the regulatory oversight by the Australian Securities and Investments Commission (ASIC) of the group's two market licences and four clearing and settlement facilities licences. ASIC also supervises ASX's compliance as a listed company with its own listing rules.

More information about the grain futures contracts listed at ASX can be found on our website – www.asx.com.au/grainfutures