

ASX Wool Futures

Exchange for Physical (EFP) Trade



ASX

AUSTRALIAN SECURITIES EXCHANGE

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 wool buyer for Exporter XYZ. In February you decided to take advantage of the low wool prices on offer for December and purchased 50 ASX Wool futures contracts to hedge 125,000 kilograms. In December you decided to purchase the physical wool delivered to your preferred location and at the same time you wanted to unwind your hedge on ASX.

You discussed your needs with your futures broker. Your broker found Wool Merchant QRX who was happy to sell the physical wool and combine this sale with an equal and opposite trade in ASX December Wool futures.

Exporter XYZ	Wool Merchant QRX
Buy 125,000 kilograms physical wool	Sell 125,000 kilograms physical wool
Sell 50 contracts ASX December wool	Buy 50 contracts ASX December wool

In the below table you can see that Exporter XYZ finishes with a physical position long 125,000 kilograms of wool but no longer has a futures position. Wool Merchant QRX has a hedge in place on ASX which offsets the sold physical position.

	Exporter XYZ		Wool Merchant QRX	
	Futures Hedge	Physical Position	Futures Hedge	Physical Position
February	Bought 50 ASX wool			
December	Sold 50 ASX wool	Bought 125,000 kilograms	Bought 50 ASX wool	Sold 125,000 kilograms
Net position	No position	Long 125,000 kilograms	Long 50 ASX wool	Short 125,000 kilograms

The price of the physical trade and the futures trade is negotiated with your futures 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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