

\* \* MEDIA RELEASE \* \*

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## Layman's Guide to Grain Marketing Products

ProFarmer has recently started a series to review the full suite of grain marketing products currently available to local growers. This information is made available to ProFarmer subscribers in our weekly newsletter.

“With wheat market deregulation and big changes in global grain markets, the product environment will likely remain dynamic through much of this year”, says ProFarmer Managing Director Richard Koch.

### How is grain priced?

“Australian grain prices are driven by movements in three independent pricing components”, explains Mr Koch. Any local grain price can be broken into futures, currency and basis.

Each of the major grain marketing product groups has been designed to manage some form of price risk. The table below identifies the risks associated with each of these products and the pricing components they allow you to manage.

PRODUCT RISK PROFILE						
	PRODUCT EXPOSURE RISKS			RISKS COVERED		
	Production	Delivery	Quality	Futures	\$A	Basis
Fixed grade	Yes	Yes*	Yes	Yes	Yes	Yes
Multi-grade	Yes	Yes*	No	Yes	Yes	Yes
Futures	Yes	No	No	Yes	Only if using ASX futures or used in conjunction with forward exchange contract	No with international futures, mostly covered with ASX futures
Commodity Swaps	Yes	No	No	Yes	Yes if \$A swaps, otherwise no	No
Basis Contracts	Yes	Yes*	No	At growers discretion	At growers discretion	Must be fixed, but timing at your discretion
Commitment Pools	Yes	Yes*	No	Partly, depends on pool risk profile		
Harvest Pools	No	No	No	Unhedged up to harvest and then depends on pool risk profile		

\*Subject to washout costs

### Forward contracts

The first product group that includes fixed grade and multi-grade contracts are forward cash contracts priced in \$A/t. “They are the simplest of the marketing products but are the least flexible, expose you to production and delivery risk, and force you to fix all three pricing components (CBOT, \$A and basis) at the same time”, explains Mr Koch. Only multi-grade contracts reduce the quality risk by allowing delivery of a number of grades.

### Futures markets

Futures markets were designed to overcome the inflexibility of forward contracts. “A futures contract is a standardised forward contract; futures markets provide a marketplace for a large number of buyers and sellers to trade contracts that are relevant to their businesses”, says Mr Koch, adding that “futures markets are transparent and regulated, which enhances liquidity by providing market integrity and confidence.” The real

importance of these markets is that they provide a fulcrum around which many of the other grain pricing products offered to Australian growers are derived.

### **Commodity swaps**

Commodity 'swaps' are products derived from futures markets and offered by local intermediaries (major local banks) in a 'farmer-friendly' way. These products can be offered in \$A/t and do not involve the margin requirements associated with futures markets. "Swaps based on both international and local futures markets are offered to Australian growers by major local banks", says Mr Koch.

"The difference between the converted futures price and swap is the bank margin", explains Mr Koch. The margin compensates the bank for administration and position funding costs, and provides some return on equity.

### **Coming soon!**

In coming weeks, we will look at each of the major product groups in more detail, and explain the difference between production and delivery risk,

If you are interested in receiving this type of information and more, please contact the office on 1300 302 143 to arrange a subscription.

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### **Background Information:**

ProFarmer is Australia's leading independent supplier of Agricultural commodity market information and strategic advice. ProFarmer offers national coverage of all broadacre commodities through its network of analysts with over 50 years of combined experienced. The flagship ProFarmer Newsletter and Market Update is read by over 2,000 of Australia's top farmers weekly. ProFarmer also offers advisory, consulting and training services.