

Using international and domestic futures for local grain marketing

By ProFarmer Australia

The Chicago Board of Trade (CBOT) is the major international exchange for wheat futures contracts. The contract specifications for the CBOT wheat contract are:

- **Contract size:** 5000 bushels (136t).
- **Deliverable grades:** US grades of wheat.
- **Tick size:** ¼¢/bu (\$12.50/contract).
- **Price quote:** ¢/bushel.
- **Contract months:** July, September, December, March and May.
- **Daily price limit:** \$0.60/bu (\$1500/contract) above or below the previous day's settlement price. No limit in the spot month (limits are lifted beginning on First Position Day).

To ensure buyers and sellers in a futures market can meet their contractual obligations, they are required to deposit funds in a margin account prior to trading.

On CBOT, initial margins are currently US\$3000 per contract (these are set by the Futures Exchange and can vary depending on perceived market risk), although your broker will probably ask you for more as a buffer against adverse movements.

If the market moves against your position, you will be required to deposit additional funds – a variation margin. The request for more funds is referred to as a margin call.

Many local growers have used US futures to offset the impact of adverse movements in the international wheat price, while keeping the local basis open. Local basis has generally improved throughout the season. Use of international futures allows the grower to cover international price risk and capture basis upside.

Wheat futures contracts are also traded in Australia through the Australian Stock Exchange (ASX). The advent of ASX Futures – in terms familiar to Australian producers – helps to overcome some of the problems associated with hedging using international futures. For example, prices can move out of line with local prices if production problems occur locally or in the US.

The ASX offers wheat, barley, canola and sorghum futures. The ASX Milling Wheat Contract is priced off APW2 wheat

quality, is flat on moisture and screenings and pays A\$0.60 per 0.1 per cent protein within a range of 10–11.4 per cent, which is based on stack averages and not the ticketed receipt. Initial margins on ASX milling wheat contracts are A\$500 per contract.

To participate in futures markets, growers will need to find a futures broker and open an account with a firm that is licensed to execute trades on your behalf.

To open a licence, you will be required

to sign a stack of paperwork (Client Agreement and Risk Disclosure Statement) – make sure you allow at least two weeks for this process.

When using futures, growers will also need to take into account costs of brokerage costs, interest cost on margin calls and interest foregone on initial deposits.

For more details and a list of futures brokers go to <http://www.asx.com.au/products/futures/grain/>



International futures can lessen international grain price risk while capturing basis upside.

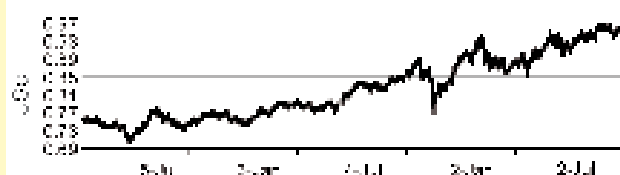
ARE AUSSIE CONSUMERS WEATHERING THE STORM?

The \$A rose to near a 25-year high after May retail sales climbed at the fastest pace in six months. Combined with recent tax cuts that may boost spending in coming months, this has rekindled talk of another rate increase. The Australian Bureau of Statistics (ABS) said that Australian sales rose 0.7% in May after they fell a revised 0.1% in April. As global economics jitters ease, investors are eyeing Australian interest rates of 7.25%, compared with 2% in the US and 0.5% in Japan.

But weakness in residential construction offsets an improvement in retail sales. Latest ABS data showed the number of permits granted to build or renovate houses and apartments dropped 6.5% in May from April, when they rose a revised 5.4%.

The median estimate in a Bloomberg survey indicated a 3.4% decline. We would suggest that the RBA will wait for at least two months of data before making a move on local rates but in the meantime, traders will probably kick the \$A higher in the absence of any moves in the \$US.

AUSTRALIAN / US DOLLAR



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