



Rabobank

Wheat Price Swap

From the world's leading food and agribusiness bank

Rabobank Australia Limited

ABN 50 001 621 129 AFSL 234 700

To contact your nearest branch
please call 1300 30 30 33

For Rabobank Rural Treasury Sales
call 1300 30 04 79

www.rabobank.com.au

Flexible commodity price risk management for wheat producers

Australian producers have always been well aware of the impact of overseas markets and external influences on local agricultural prices and input costs. Many are beyond their control but some risks can be minimised. Rabobank offers access to a range of products and services to help clients manage the risks associated with volatility in agricultural commodity prices.

How do Wheat Price Swaps work?

A Wheat Price Swap allows a producer to fix the Australian Dollar (AUD) price of a portion of future production. Australian wheat prices are determined by reference to US wheat futures markets, the Australian Dollar / United States Dollar (AUD/USD) exchange rate and "basis". The exchange rate and wheat futures generally account for approximately 80-90% of a local wheat price.

Fixing the AUD price in this manner can help producers to protect themselves against deterioration in these two major influences on local wheat prices. However, wheat producers are still subject to basis risk. In addition, Wheat Price Swaps do not include fixed costs such as freight, handling charges and levies etc. Wheat Price Swaps are cash settled using Chicago Board of Trade (CBOT) or Kansas City Board of Trade (KCBT) wheat futures prices, and the AUD/USD exchange rate.

Rabobank provides Wheat Price Swaps for contract amounts as low as 100 metric tonnes, with expiry dates ranging up to two years. USD Wheat Price Swaps are available; however foreign exchange risk would need to be managed independently.

Advantages

- Producers can fix a price on a proportion of their production for the new crop and the following season.
- Wheat Price Swaps are cash settled, so no delivery of physical produce is required. This allows you to maintain independence in your marketing programme.
- Wheat Price Swaps may be exited in the event of a change in the producer's marketing strategy, or a crop failure.
- The expiry of a Wheat Price Swap can be constructed to match the timing of cash receipts for wheat sales.
- There are no initial transaction costs such as brokerage and GST. Bank margins are included in the quoted price.
- There are no initial deposits and variation margins required.

Disadvantages

- The producer cannot take advantage of any favourable price movements on the fixed portion.
- Wheat Price Swaps are fixed price obligations and are cash settled, resulting in a gain or a loss. In the event of production failure, losses occurring under Wheat Price Swap settlements could significantly affect the producer's financial position.
- The total price risk is not covered. Producers still carry "basis risk".

About the Rabobank Group

The Rabobank Group is the world's leading specialist in food and agribusiness banking, with over 100 years' experience providing customised banking and finance solutions to businesses involved in all aspects of food and agribusiness. With a genuine understanding and knowledge of local farming enterprises and a strong appreciation of the global marketplace, we are one of Australia's leading and most respected rural financiers.

Example

A wheat producer wishes to fix the price of 1,000 metric tonnes (mt) of expected production for the new crop.

1 March this year	Market information													
	<ul style="list-style-type: none"> The current swap price for settlement 26 November this year is AUD225/tonne (mt). This is a combination of CBOT wheat futures and the forward exchange rate The settlement reference price is based on the CBOT December Wheat Futures settlement price on 25 November (Chicago time), and the Hedge Settlement Rate for the AUD/USD as published by Reuters at 9.45am on 26 November (Sydney time) <p>Decision: the producer enters into a Wheat Price Swap contract with Rabobank for 1,000 tonnes, with settlement 26 November this year at a fixed price of AUD225/mt.</p>													
26 November same year	Scenario 1	Scenario 2												
	<p>Market Information</p> <ul style="list-style-type: none"> CBOT December wheat futures settlement price is 340 US cents per bushel on 25 November (Chicago time) AUD/USD exchange rate is 0.7000 as referenced to the "Hedge Settlement Rate" published by Reuters (HSRA) at 9.45am on 26 November (Sydney time) The reference benchmark of AUD178.47/mt is a combination of these i.e. USD3.40 x 36.74371 bushels/mt divided by 0.7000 <p>Settlement</p> <p>The producer receives from Rabobank the difference between the Wheat Swap price and the settlement reference price. i.e.</p> <table border="0"> <tr> <td>Swap price proceeds</td> <td>1,000mt x AUD225/mt = AUD225,000</td> </tr> <tr> <td>Settlement reference price</td> <td>1,000mt x AUD178.47/mt = AUD178,470</td> </tr> <tr> <td>Payment to client</td> <td>= AUD46,530 or AUD46.53/mt</td> </tr> </table> <p>The producer receives the difference between the swap price and the settlement reference price. The gain compensates for the lower price received when the producer sells the physical wheat at the same time for a cash price of AUD178.47/mt plus or minus "basis" and less freight, storage charges etc.</p>	Swap price proceeds	1,000mt x AUD225/mt = AUD225,000	Settlement reference price	1,000mt x AUD178.47/mt = AUD178,470	Payment to client	= AUD46,530 or AUD46.53/mt	<p>Market Information</p> <ul style="list-style-type: none"> CBOT December wheat futures settlement price is 450 US cents per bushel on 25 November (Chicago time) AUD/USD exchange rate is 0.6700 as referenced to the HSRA published by Reuters at 9.45am on 26 November (Sydney time) The reference benchmark of AUD246.79/mt is a combination of these i.e. USD4.50 x 36.74371 bushels/mt divided by 0.6700 <p>Settlement</p> <p>The producer pays Rabobank the difference between the Wheat Swap price and the settlement reference price. i.e.</p> <table border="0"> <tr> <td>Swap price proceeds</td> <td>1,000mt x AUD225/mt = AUD225,000</td> </tr> <tr> <td>Settlement reference price</td> <td>1,000mt x AUD246.79/mt = AUD246,790</td> </tr> <tr> <td>Payment from client</td> <td>= AUD21,790 or AUD21.79/mt</td> </tr> </table> <p>The producer pays the difference between the swap price and the settlement reference price. The loss offsets the higher price received when the producer sells the physical wheat at the same time for a cash price of AUD246.79/mt plus or minus "basis" and less freight, storage charges etc.</p>	Swap price proceeds	1,000mt x AUD225/mt = AUD225,000	Settlement reference price	1,000mt x AUD246.79/mt = AUD246,790	Payment from client	= AUD21,790 or AUD21.79/mt
Swap price proceeds	1,000mt x AUD225/mt = AUD225,000													
Settlement reference price	1,000mt x AUD178.47/mt = AUD178,470													
Payment to client	= AUD46,530 or AUD46.53/mt													
Swap price proceeds	1,000mt x AUD225/mt = AUD225,000													
Settlement reference price	1,000mt x AUD246.79/mt = AUD246,790													
Payment from client	= AUD21,790 or AUD21.79/mt													

The prices and exchange rates used in this example are for illustrative purposes only and may not reflect actual rates.

For more information about Rabobank's Wheat Price Swaps and other products and services, call our specialist Rural Treasury Sales team on 1300 30 04 79. A credit application is required to establish a Price Risk Management Facility for Agricultural Commodities.



Rabobank

www.rabobank.com.au

46 branches throughout Australia