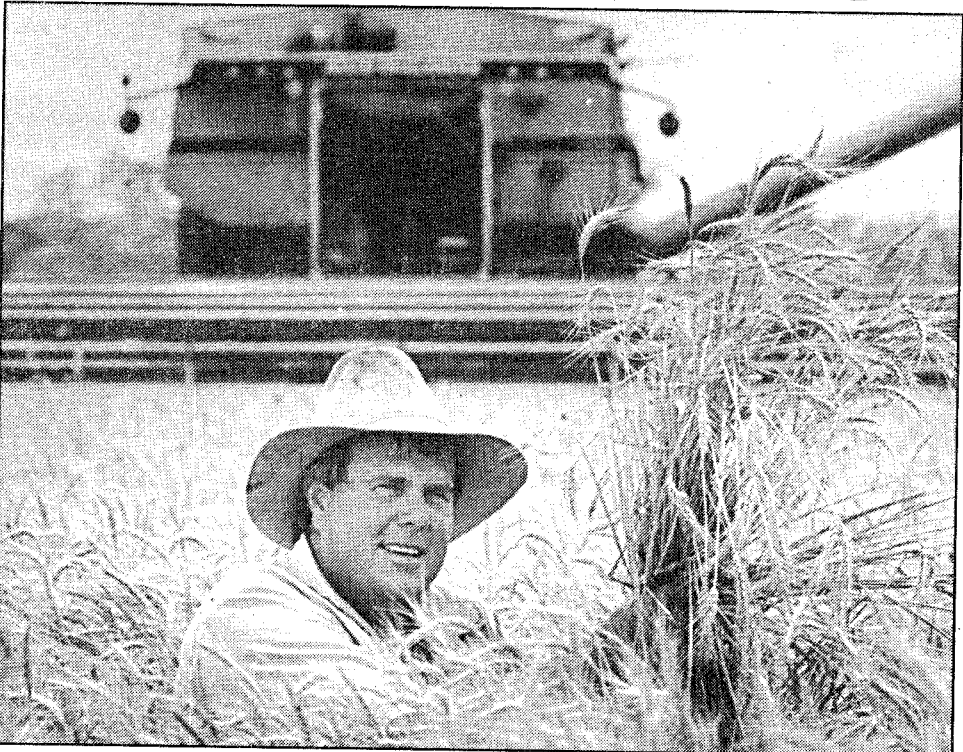


23/11/96

The great wheat fallout debate

Currency hedging, growers lose



WHEAT BOARD CRITICISED

Forward wheat selling sloppy

MUNGINDI district wheatgrower Neil Greentree (pictured) has good reason to smile after harvesting more than 8000 tonnes of wheat from 3250ha and getting most of it graded prime hard which currently sells for around

By MALCOLM McCOSKER

forward sold a lot more wheat when the high prices were being quoted. It is in a lot better position than we are as farmers." (QCL last week reported the comments of AWB national senior pulse merchant. Peter

Mungindi wheat-grower Neil Greentree has good reason to smile after harvesting more than 8000 tonnes of wheat.

AUSTRALIAN graingrowers could be earning \$225 a tonne for their ASW wheat this season, if the Australian Wheat Board or growers themselves had done no more than take advantage of long-term currency hedging opportunities.

And the return could have been much higher than that with judicious use of Chicago wheat futures contracts.

That's the assessment of Commodity Hedging Co managing director, David Burton, who acts as a licensed futures adviser to primary producers, principally Queensland cotton growers.

The Caloundra-based consultant believes the reluctance of Australian marketing boards to deal properly with the currency and futures markets is costing producers dearly, citing as evidence the AWB's \$175/t current ASW pool return estimate.

As the Australian dollar soared to a six-year high last week, crashing through the US 81 cents barrier, Mr Burton said he was tired of companies and individuals complaining of a rising dollar and how it affected their income.

"What they are really saying is that they lack knowledge and should not be in this position of responsibility if they do not intend to hedge currency forward," he said.

By adopting a five-year hedging program and locking in 25 percent of expected annual income every quarter (using the forward currency rates available from any bank), Australian producers could have enjoyed the following prices for ASW wheat annually since 1991: \$293/t, \$229/t, \$215/t, \$242, \$288/t, \$225/t.

In fact, Mr Burton advocated exactly that

strategy in an article which appeared in *Queensland Country Life* in February 1991.

The prices obtained from using such a strategy would have been record highs and would easily have out-performed the AWB's pools, according to Mr Burton.

"Obviously if you study markets, you would have been able to predict the 737-year high (in international wheat prices) before it happened, as I did," he said. "Therefore, the return would have been substantially higher."

In November last year, when other analysts believed that Chicago Board of Trade March wheat futures had "topped out" the previous month at US\$5.17 a bushel, Mr Burton adopted a contrarian line.

In an interview with Knight-Ridder news service, he described a price of US\$7.70/bu as "a realistic level to think about".

Chicago Board of Trade wheat futures in fact peaked at an all-time high of US\$7.50 on March 21 this year, before closing that day at US\$6.40/bu. Last week they closed at US\$3.89/bu.

The A\$225/t which Mr Burton believes growers could have received for their wheat this season is based on a December Chicago wheat futures price of US\$4/bu, plus a basis (simply the futures price of a commodity subtracted from the cash price) of 30¢, multiplied by 36.7437 (ie US cents/bushel to US\$/t conversion factor), divided by the forward exchange rate for 1996 of A\$.7016.

"Even if growers just used currency hedging, they would do better than the Wheat Board," Mr Burton said.

"But the Wheat Board's supposed to have the expertise?"

"The question a lot of people are now asking is what's the point of having the Wheat Board if it does no marketing?"

"Why don't we fully deregulate so everyone can do their own thing."

