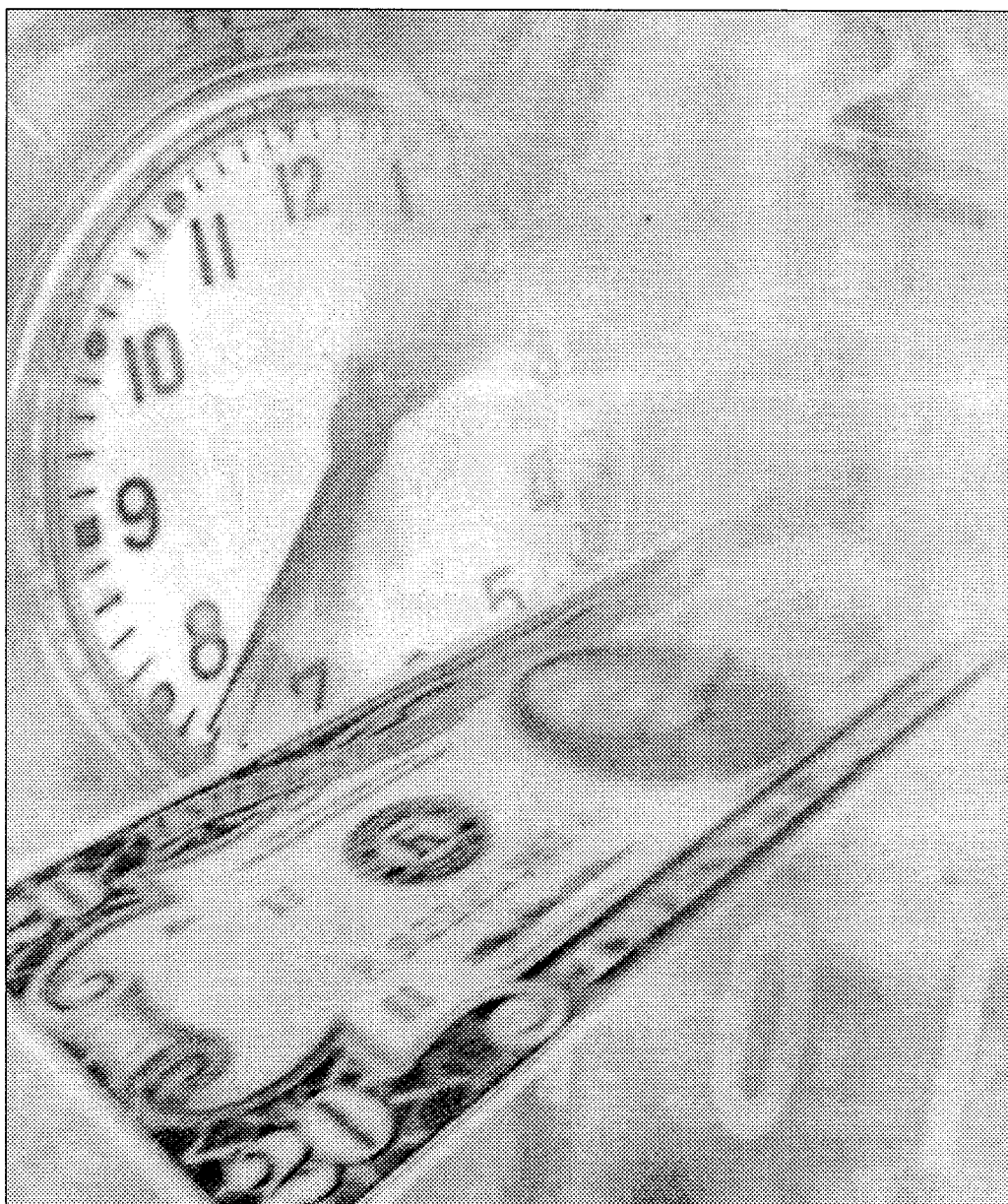


When time is up price will reverse

W.D. GANN



COMMODITY
HEDGING COMPANY PTY LTD

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ABOUT THE COMPANY

The Managing Director, David Burton has been involved in the futures industry since 1984 and holds a Futures Advisors Licence . Commodity Hedging Company has been operating since March 1990 and independently advises risk management strategies for consumers and producers.

WHAT IS HEDGING?

Hedging is a risk management tool which gives producers and consumer the opportunity to transfer risk. You hedge by taking an equal and opposite position in the cash or futures market by forward pricing your anticipated sales or purchases. Hedging protects you against sharp changes in price that would cause you to lose income.

WHY HEDGE?

1. To increase your profit while minimising your risk;
2. To remain competitive in your industry; and
3. To stay in business longer and avoid economic slumps.

WHAT IS REQUIRED TO BE A GOOD HEDGER?

1. Knowledge of futures, options, cash (basis) markets;
2. Enough patience to wait for the right opportunities for pricing your commodities;
3. Money to fund futures and options positions;
4. Historical price data on futures and basis to determine previous selling and buying points;
5. Historical data on your yield so you can develop your risk management strategy; and
6. Risk management strategy (if this happens, I will).

KNOWLEDGE

Understanding the mechanics of futures, currency, options and basis will help you become a better hedger. It is possible to hedge currency up to five years into the future with the forward exchange rate calculated from the spot rate (current rate) and the interest rates of the two currencies in this case the A\$ and the US\$. The forward rates differ from the spot rate to reflect the differing interest rates prevailing in the two countries. For example:-

A wheat farmer wishes to sell 2,000 tonnes of wheat to a merchant for delivery on 15th December 1998 and he enters a contract on 15th June to sell US\$250,000 at a spot rate of 60 cents. Using (for this example) interest rates in Australia of 12% and interest rates in the U.S. of 6%, the forward exchange rate for 15th December 1998 would be calculated as follows:-

Spot Rate A\$ 1.00 = US\$.6000
183 days (number of days between 15th June and 15th December)
A\$ interest rate = 12% p.a. (365 days)
US\$ interest rate = 6% p.a. (360 days)

US\$ forward value = principle plus interest:-

$$\begin{aligned} & \text{US\$250,000} + (250,000 \times .0600 \times 183 \div 360 \text{ d.p.y.}) \\ &= \text{US\$250,000} + 7624.99 \\ &= \text{US\$257,624.99.} \end{aligned}$$

So the principle sum of US\$250,000 invested for 183 days with an interest rate of 6% p.a. accumulates to a forward value of US\$257,624.99.

In A\$ the principle sum is A\$416,666.66 (US\$250,000 ÷ 0.6000 which is the exchange rate on 15th June 1998) and if invested at 12% p.a. it would accumulate to a forward value of A\$441,735.15.



A\$ forward value = principle plus interest:-

$$\begin{aligned} & \text{A\$416,666.66} + (\text{A\$416,666.66} \times 0.12 \times 183 + 365 \text{ d.p.y.}) \\ &= \text{A\$416,666.66} + 25,068.49 \\ &= \text{A\$441,735.15} \end{aligned}$$

Now that we have calculated both US\$ forward value and A\$ forward value, we can calculate the forward exchange rate for 15th December 1998:-

$$\begin{aligned} \text{US\$257,624.99} &= \text{A\$441,735.15} \\ \text{Forward Rate} &= \text{US\$257,624.99} \div \text{A\$441,735.15} \\ \text{Forward Rate} &= \text{US\$0.5832 (=A\$1)} \end{aligned}$$

ROLLING CURRENCY

Rolling currency forward from today to a future date is very costly and should be avoided wherever possible. You are much better off hedging currency as far out as possible and pre-delivering the currency as you need it being careful not to over-hedge. Following are the cashflow calculations for extending currency:-

1. Ascertain the nature of the cashflow - in the base currency.
2. Calculate the forward margin by adding:-
 - (a) the amount of AUD on contract,
 - (b) interest paid/charged, and
 - (c) cash value of the forward margin.

You then divide the countercurrency by this total to come to the new exchange rate i.e., the new rate for the extended contract.

Example - Negative Cashflow

Contract due 26th July 1998 (today) whereby Bank sells US\$10,000,000.00 @ .7100 against A\$ which is to be extended out to 14th September 1998.

Current spot is 0.7443 / 0.7448 BBSW Rate 5%

Number of days to be extended - 50

Margins - O/N .2 / Par
FN .2 / Par
1M 4.3 / 3.3
2M 9 / 7

Forward margin - $4.7 \div 30 \times 16 + 4.3 + .2 + .2 = 7.2$

US\$10,000,000.00 @ 0.7100 A\$14,084,507.04 (a)

US\$10,000,000.00 @ 0.7443 = A\$13,435,442.70
therefore cashflow is A\$649,064.34 (current contract rate against current spot rate)

Interest charged (at BBSW plus a margin)
A\$649,064.34 @ 6.125% for 50 days A\$5,445.92 (b)

US\$10,000,000.00 @ .7443 minus US\$10,000,000.00 @ .74358 A\$13,009.38 (c)

TOTAL A\$14,102,962.34 (=)

So the new rate for the contract will be 0.70907
i.e., US\$10,000,000.00 divided by A\$14,102,962.34.

Note: Effective forward margin, taking into account the negative cashflow is 9.3-

EXAMPLE - Positive Cashflow (pre-delivery)

Contract due 19th July 1999 whereby Bank sells US\$10,000,000.00 @ .6328 pre-delivered back to value today (say 28th July 1998).

Note: Negative cashflow to far date becomes a positive cashflow when pre-delivered.

Number of days to contract maturity - 356 BBSW Rate: 5%

Current Spot: 0.7366 / 0.7371

Forward Margin: 70.6-

US\$10,000,000.00 @ .6328	A\$15,802,781.29 (a)
---------------------------	----------------------

US\$10,000,000.00 @ .73004 = A\$13,697,879.57	
---	--

so cashflow is A\$2,104,901.72 (current contract rate against market forward rate)

A\$2,104,901.72 @ 5% for 356 days	A\$102,650.00 (b)
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US\$10,000,000.00 @ .7371 minus US\$10,000,000.00 @ .73004	A\$131,199.34 (c)
--	-------------------

(Note: RHS / Premium Market / Points in favour of customer)

TOTAL	A\$15,568,931.95 (=)
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So new rate for the contract will be 0.6423

i.e., US\$10,000,000.00 divided by A\$15,568,931.95.

Note: Effective Forward Margin, taking into account the positive cashflow and the RHS Premium Market is 95- (to + for pre-delivery).

DON'T BANK ON IT!

My experience shows that banks try to make as much profit from you as they can when doing spot and forward currency contracts. For example, the spot rate might be 61.50 and yet when you call they will tell you it is at 62 cents. If you are hedging US\$1 million that means a A\$13,103 rip-off! This is not counting the points they take off you on the forward contracts (all part of their A\$1 billion profit per year). They also get you with interest rates because you borrow money at say 10% and they pay you only about 4% on your term deposits making over 100% profit.

It is important for you to not have to rely on banks and the only way to have economic freedom is to substantially reduce your debt. Remember, the grower with the larger debt needs more money for his crop than the grower that has little or no debt. When your borrowings are due, you should get quotes from three or four different banks to be sure of getting the best deal. You can hedge interest rates up to seven years out (fixed) or caps (options) for the short term.

THE FUTURES MARKET

The Futures Markets have been operating since 1848. The Exchange is a centralised arena in which hedgers shift their risk to the willing speculators. Futures therefore are a safer, not riskier place for the hedger to operate.

The farmer who grows 1,000 tonnes of wheat can establish a price for the product while it is still in the ground. He can hedge either through Sydney Futures Exchange or the Chicago Board of Trade.

The Sydney contract is based on ASW minimum 19% protein and 11% moisture, delivered in store at Grain Corp, Newcastle Terminal - each contract is 50 metric tonnes. If you chose to hedge in Chicago, each contract is 5,000 bushels (136 tonnes). Therefore if you need to hedge 1,000 tonnes in Sydney, you will need 20 contracts and to hedge 1,000 tonnes in Chicago you will need approximately 7 contracts.

If you sell 20 contracts at \$180 per tonne based on December and the market falls to \$150 per tonne at harvest time, you would buy back your contract and make \$30 per tonne. At the same time, you sell your physical

wheat for \$150 per tonne, therefore you end up with \$180 per tonne in total (profit of \$30 per tonne added to physical sale of \$150 per tonne).

The only disadvantage to futures is that you cannot participate if the price moves higher than \$180 per tonne unless you employ other strategies. If the market goes above your futures position of \$180 per tonne, you will receive margin calls on a daily basis and if the margin calls are not met within 24 hours, the broker has the right to close out your position and send you the bill for any monies owing. If you are going to hedge this way, it is very important that you consult your bank so that they understand that additional funding may be required.

BASIS

The basis is the physical sale of the commodity and so it fluctuates from time to time. Transport, advertising, storage, supply & demand are cost factors to be considered. All costs incurred by the merchant (or board) are absorbed in the basis.

The basis is strong when the crop is small and demand is high, whereas the basis is weak when the crop is large and demand low. You can have the basis getting stronger and the futures markets collapsing due to local conditions or visa versa.

The basis is what the 'single desk' means and it also means you have no control. This is the only part of the industry that is not de-regulated. As mentioned earlier, futures have been operating since 1848 and currency has been de-regulated since 1983 so two thirds of your marketing has been de-regulated for some time. Why not de-regulate the other third to see if the basis you are being offered in the pools is really competitive?

Under normal conditions, the basis is usually the smallest moving of the three components (the other two being currency and futures). For example, Chicago December wheat futures have fallen from a high of US\$4.17 per bushel down to a low of US\$2.62 per bushel - a fall of US\$1.55 or A\$95 per tonne. At the same time, the A\$ has fallen from a high of .8212 US cents to a low of .5802 US cents which equates to A\$ 120 per tonne - the basis has moved nowhere near these amounts. If the A\$ had not collapsed this year, you would have been looking at A\$107 per tonne delivered Brisbane. So you see - you are already operating in a world market as far as futures and currency are concerned.

As I understand it, the Wheat Board can only hedge 10 - 15% of the total Australian wheat crop using Chicago Futures. They can also only hedge currency one year out (possibly not 100% either) whereas you can hedge 100% of your crop on Chicago or Sydney exchanges and you can hedge currency up to five years out through your bank. Here you have a marketing organisation that can't hedge for you.....so of your 1,000 tonnes, they can only hedge 150 tonnes. Is it any wonder why the pool prices are never spectacular!

Isn't it time to take control and increase your profit?

OPTIONS

We have two types of options - puts and calls and there are two sides to each option, the buying and the writing (selling).

There are options on practically every futures market that is traded:- currencies, commodities, interest rates, precious metals etc. The buyer of an option pays a premium to the seller who in return guarantees to uphold his end of the contract - this is agreed at what is known as the strike price.

A call option permits the buyer to purchase the underlying futures contract at the strike price and a put option allows the buyer to sell the underlying futures contract at the strike price.

The option buyer may or may not exercise his option, the option seller has no such luxury - he must perform once he writes an option. Options are said to be 'wasting' instruments. This is because they are partly priced because of their time value which must be wasted away as they approach expiration. The following example shows how options are costed on December Wheat Futures (Chicago).

STRIKE PRICE	COST	CALL OPTIONS	COST	PUT OPTION
420	6	out	60	
410	9	of	55	in
400	15	the	45	the
390	25	money	40	money
380	30	at the money	30	at the money
370	40		25	out
360	45	in	15	of
350	55	the	9	the
340	60	money	6	money

COMMODITY POOLS

It doesn't matter which industry you are in sooner or later you will hear a pool price disaster story - with wheat, it is almost every year!

Why are pool prices always low?

1. They never fully hedge the pool because they do not know the yield and do not want to spend money on wheat options or currency options to protect the price if the crop is not there.
2. Prices are usually low at harvest time as this is a seasonal tendency for all commodities except when they are in a different time cycle. Pool prices only increase if the market is high at harvest time and the yield is higher.
3. Management is usually carried out by committee and everyone knows that a horse designed by committee ends up a camel! They usually do not like to make decisions because they are afraid of being wrong.

WHY IS THE CASH PRICE LOWER THAN THE POOL PRICE?

The cash price is lower because they want you to put your wheat into a pool where there is less risk for them on the basis - and if you do sell cash, then they will make huge profits out of the basis - this is not likely to change until you get competition from other international grain merchants.

The pool price stated is an estimate therefore they can drop the price - as they have done in the past without recrimination. They will then justify lower pool prices by making up stories such as "it was the U.S. selling wheat" or "it is because of the subsidies in Europe" etc., etc. The following information shows the subsidies have nothing to do with our currency or the futures markets because these markets fluctuate independently.

STRATEGIES

As every grower has different circumstances and crop conditions, different strategies are necessary to enhance their farming operations. Following is an example of a hedging program for currency going out five years and using 25% of the currency at the end of each quarter i.e., March, June, September and December each year.

Although the exchange rates look favourable, you must remember that the producer has not hedged at the low in any quarter in the last 10 years. As you may be aware, the 1986 low in the Australian Dollar was at .5730 and our average spot rate was hedged at .6703. This exchange rate was 10 cents above the low and we still managed an exchange rate for 1991 at .5449.

Table 1

YEAR	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Spot Rate	.6703	.7168	.7928	.7859	.7857	.7756	.7298	.6751	.7365	.7341	.7834
YEAR	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Average Forward Exchange Rate	.5449	.6147	.6981	.6551	.6704	.7016	.6729	.6363	.6802	.6724	.7177

However, if you pick the low every year the following rates would apply:-

Table 2

YEAR	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Low	.5730	.6411	.7014	.7332	.7390	.7480	.6775	.6412	.6752	.7075	.7120
YEAR	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Average Forward Exchange Rate	.4476	.5390	.6067	.6024	.6237	.6740	.6206	.6044	.6189	.6458	.6463

WHEAT HEDGING

Below is a table for the high, low and close for December Wheat Futures:-

Table 3

YEAR	HIGH	LOW	CLOSE
1986	309	244	261
1987	325	247	310
1988	438	289	434
1989	440	378	422
1990	379	238	247
1991	407	272	406
1992	440	312	372
1993	373	294	369
1994	418	308	384
1995	535	338	510
1996	632	363	403

Next is a table taking the monthly close in December each year from the December wheat contract in Chicago and, using the exchange rate in Table 1, hedged into your 5 year program. Using an average basis of 30 cents over Chicago, wheat producers would have received record prices over the last 5 years.

Table 4

DEC. WHEAT FUTURES	U.S. CENTS PER BUSHEL	PLUS ESTIMATED BASIS - 30 U.S. CENTS/BUSHEL	CONVERSION FACTOR TIMES 36.7437 TO TONNES	EXCHANGE RATE	FINAL WHEAT PRICE A\$ PER TONNE
Dec '91	406	436.00	160.20 U.S.	.5449	294.00
Dec '92	372	402.00	147.70 U.S.	.6147	240.29
Dec '93	369	399.00	146.60 U.S.	.6981	210.00
Dec '94	384	414.00	152.11 U.S.	.6551	232.20
Dec '95	510	540.00	198.41 U.S.	.6704	295.96
Dec '96	403	433.00	159.10 U.S.	.7016	226.76

Using the exchange rate from Table 2, you would end up with even higher prices for your wheat as shown below in Table 5.

Table 5

DEC. WHEAT FUTURES	U.S. CENTS PER BUSHEL	PLUS ESTIMATED BASIS - 30 U.S. CENTS/BUSHEL	CONVERSION FACTOR TIMES 36.7437 TO TONNES	EXCHANGE RATE	FINAL WHEAT PRICE A\$ PER TONNE
Dec '91	406	436.00	160.20 U.S.	.4476	357.90
Dec '92	372	402.00	147.70 U.S.	.5390	274.02
Dec '93	369	399.00	146.60 U.S.	.6067	241.63
Dec '94	384	414.00	152.11 U.S.	.6024	252.50
Dec '95	510	540.00	198.41 U.S.	.6237	318.11
Dec '96	403	433.00	159.10 U.S.	.6740	236.05

Using the exchange rate from Table 2, and the high in the wheat futures in Table 6, you end up with much higher prices again as shown below:-

Table 6

DEC. WHEAT FUTURES	U.S. CENTS PER BUSHEL	PLUS ESTIMATED BASIS - 30 U.S. CENTS/BUSHEL	CONVERSION FACTOR TIMES 36.7437 TO TONNES	EXCHANGE RATE	FINAL WHEAT PRICE A\$ PER TONNE
Dec '91	407	437.00	160.56 U.S.	.4476	358.73
Dec '92	440	470.00	172.69 U.S.	.5390	320.39
Dec '93	373	403.00	157.99 U.S.	.6067	262.15
Dec '94	418	448.00	164.61 U.S.	.6024	273.25
Dec '95	525	555.00	203.92 U.S.	.6237	326.96
Dec '96	632	662.00	243.24 U.S.	.6740	360.89

A STRATEGY FOR HEDGING THE 1996 WHEAT CROP USING DECEMBER 1996 WHEAT OPTIONS

Below is a strategy that you could use without using any forecasting skills. The strategy would be to buy out of the money put option 30 cents below the futures price on every 50 cent rise. This would cost approximately 15 U.S. cents/bushel.

Starting on the 2nd January, 1996 - the December 1996 wheat futures closed at \$4.52. The market rose to a high of \$6.32 per bushel on 25th April, 1996 and fell to a low of \$3.68 per bushel on 5th November, 1996.

On the 2nd January, 1996 you would buy a put option with a strike price of 420 for 15 cents.
When the futures rose to \$5.00 you would buy put option with a strike price of 470 for 15 cents.
When the futures rose to \$5.50 you would buy put option with a strike price of 520 for 15 cents.
When the futures rose to \$6.00, you would buy put option with a strike price of 570 for 15 cents.
You could not buy a 620 put, because the market didn't reach a high of \$6.50 per bushel.

If you sold your physical wheat at \$6.01 per bushel (this would be the worst price for this example), you would deduct the cost of the above 4 options therefore you would end up with a price of \$5.41 per bushel. \$5.41 plus 30 cents for basis $\times 36.7437 \div$ the forward exchange rate of .7016 = \$299 per tonne for the season. If you used today's exchange rate of 78 cents, you would end up with \$269 per tonne.

If, when the market collapsed to a low of \$3.68 per bushel, you sold the whole crop at that low, and sold all your put options at the same time, you would have ended up with the following prices:-

The 420 put would be worth 37 cents (420 - 368 - 15 cents for the cost of the put option)
The 470 put would be worth 87 cents (470 - 368 - 15 cents for the cost of the put option)
The 520 put would be worth 137 cents (520 - 368 - 15 cents for the cost of the put option)
The 570 put would be worth 187 cents (570 - 368 - 15 cents for the cost of the put option).

All together, you have accumulated \$4.48 which is added to the low price of \$3.68 to give you \$8.16 plus the basis of 30 cents $\times 36.7437 \div$ your forward rate of .7016 = \$443 per tonne. If you used today's spot rate of 78 cents, you would end up with \$398 per tonne.

If you sold your physical wheat for \$6.01 U.S./bushel, and let the options run, and closed those out at the recent bottom, you would have accumulated a profit of \$4.48 per bushel, this would give you a price of \$565 per tonne (\$6.01 + \$4.48 + .30 cents for basis $\times 36.7437 \div$ your forward rate of .7016). Not a bad price compared with today's wheat pools!

If you are already achieving these returns for your commodities you must already have knowledge of hedging programs.

HOW TO IMPROVE YOUR HEDGING PROGRAM

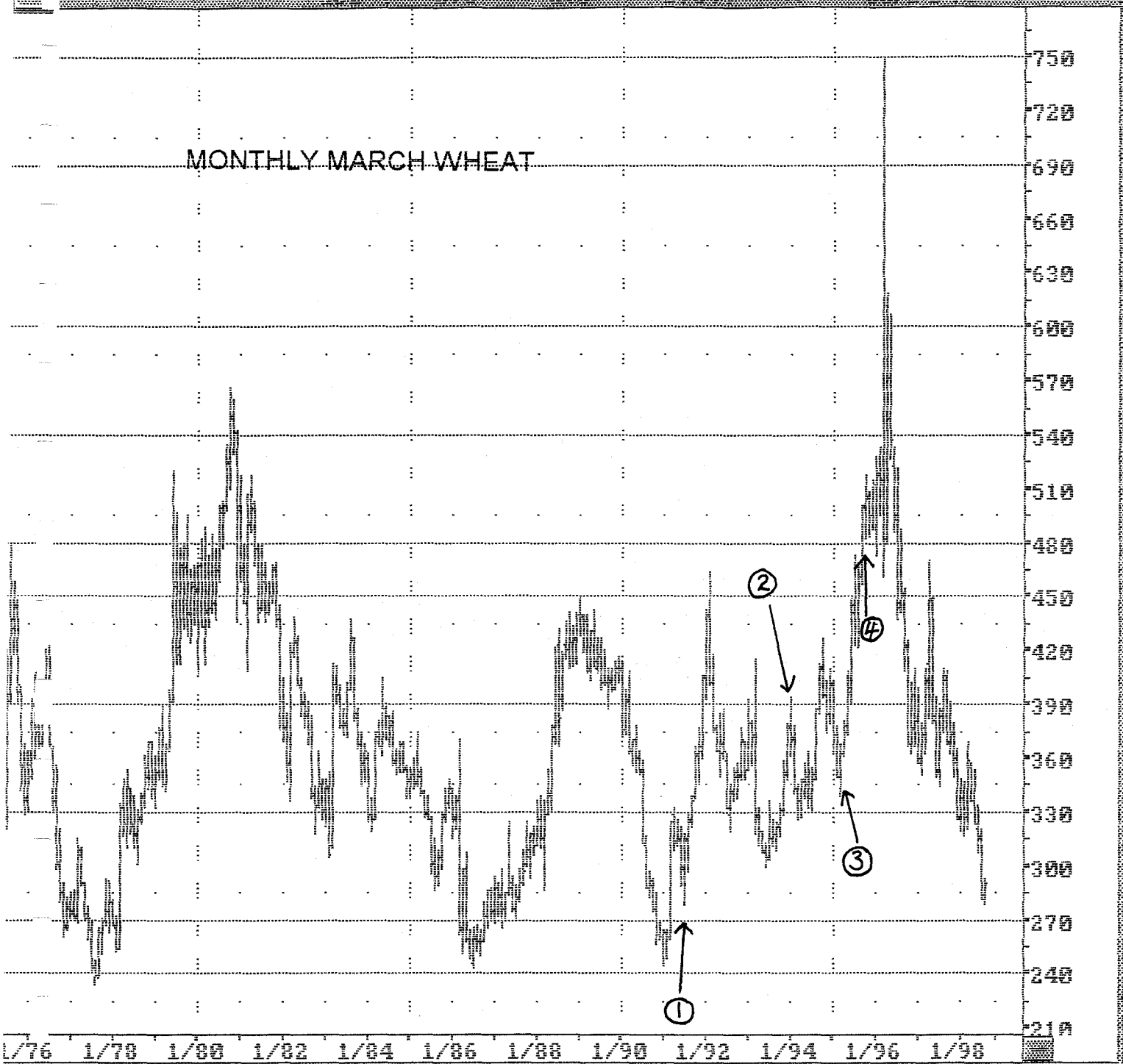
Because farming is a long term business, you should base all your hedging strategies on a long term basis. With hedging, I mostly concentrate on long term cycles in commodities, currencies and interest rates. Using these cycles and seasonal patterns appropriate strategies can be applied for maximum financial gain.

FORECASTING

Enclosed are a number of previous forecasts and articles for your perusal proving that cycles work and that it is possible to significantly improve your risk management. You can access further information on our website at www.commhedge.com.au or alternatively please do not hesitate to contact us directly with your enquiries.

DAVID BURTON
Managing Director

MONTHLY MARCH WHEAT



1. Interview conducted with Queensland Country Life in February 1991 forecasting wheat to remain low until August 1991 (bottom right of page). That was the last low in wheat until 1998.
2. Letter dated October 5th 1994, sent to the Australian Wheat Board forecasting wheat to top between 13th and 18th October 1994 and then drop back to the 370/360 area. Outcome was that wheat bottomed at 359.5. Letter dated February 27th 1995 sent to the Australian Wheat Board with copy of previous letter.
3. Interview with Knight Ridder on April 13th 1995 forecasting wheat had bottomed and that wheat would test the all time highs from 1974 of \$5.82 per bushel - wheat exceeded that level.
4. Interview with Knight Ridder on November 1st, 1995 forecasting wheat to go to \$7.70 per bushel. Outcome was that wheat hit \$7.50 per bushel on March 21st, 1996 which was a 737 year high.

Timid marketers may cut return to farmers

By SIMON PICKERING

AUSTRALIA'S wheat producers could be looking forward to payments close to \$240/tonne for ASW this year, if the Australian Wheat Board had taken advantage of long-term currency contracts.

And that figure takes into account international subsidy programs, the Gulf crisis and other factors which have reduced returns to \$120/tonne.

Managing director of Caloundra-based Commodity Hedging Co. David Burton, is adamant that the reluctance of Australian marketing boards to properly deal with the currency and futures markets is costing producers dearly. The current poor wheat prices reflect this reluctance, he believes, and emphasise the need for wheat and other commodities to fully deregulate their marketing systems.

Mr Burton said the huge advantage of a fully deregulated market for growers in the example above was based solely on the process of locking into currency rates up to five years forward.

For example, the Mean Spot Rate in 1986 was US\$66.30 cents.

Mr Burton said the ideal strategy to exploit this figure would have been to lock in the currency for 1990 at the then available Forward Currency Rate (FCR) of US\$50.80¢ — the FCR was lower than the spot rate due to Australia's interest rates being higher than those in the US.

Mr Burton said the use of currency in this manner would have given growers a near \$120/tonne advantage from marketing the same wheat on the same world market for the same price.

Mr Burton said grower returns could benefit even further if proper advantage was similarly made of the opportunities available on the commodity futures market.

The Chicago wheat futures which were presently slumped at around US\$255¢/bushel, for instance, had peaked at US\$480¢/bushel as recently as 1989. This would relate to



▲ Managing director of Caloundra-based Commodity Hedging Co, David Burton.

\$368/tonne if in 1986 a Forward Currency Rate was locked in at US\$53.80¢, he said.

When figures such as these were viewed in the context of the present dwindling commodity prices, Mr Burton said, it brought the performance of marketing boards into question — basically they were doing nothing.

The most probable reason for this was that the marketing boards were scared of being wrong if prices moved higher after contracts had been finalised, he said.

Mr Burton, who handles futures and currency deals for a number of Queensland cotton growers, has no such fears of changing rates.

Provided the currency or commodity rates on offer guarantee growers a good operating margin he will take them.

"The idea is to keep the farm profitable," Mr Burton said.

"You lock in at a rate where you can guarantee that the farmer will make money.

"I'm aware that there will be occasions when the prices will move higher. My main aim, however, is to provide the grower with a good return that is near the peak.

"If this situation occurs you can lock in the improved prices for the following year anyway."

Mr Burton is confident marketers can pick close to the year's best rates if they do their homework.

"You should be able to get within 80 percent of the year's high by selling according to a combination of historical and seasonal fluctuations — provided you've got the data," Mr Burton said.

"Historical data is fine tuned with present market information to see if the market is running according to the normal cycle, check on volumes being traded and that sort of thing.

"With all that data you can get fairly close to the top price."

Mr Burton said farmers should also come to realise that it was not always in their best interests to grow a crop.

He said there would always be Bear and Bull markets which would effect all commodities, currencies and interest rates.

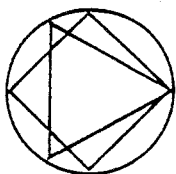
Just as wheat had collapsed so would cotton in the coming years.

The main difference, however, was that cotton growers could lock in their crop for 1992 now, so that any low prices that occurred would not effect the growers who had forward sold, he said.

"Farmers think they have to grow something every year even if its going to earn them less than the cost the production," Mr Burton said.

"If you grow a crop when the price is low, you have to realise you have become a cash speculator and this could send you further into debt."

"Wheat prices should remain low until August 1991, so the farmer should seriously consider his production costs as opposed to the potential of his crop return."



Commodity Hedging Co. Pty Ltd

A.C.N. 010 644 612

• Hedging • Forecasting: Commodities, Interest Rates and Currencies •

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Fax: (074) 91 8398

Australian Wheat Board,
Marketing Department,
Attention: Ron Story.

Fax: (03) 670-5539.

5th October, 1994.

DECEMBER WHEAT FUTURES HEADING FOR MAJOR TOP!

Some methods of W.D. Gann were used for this forecast.

CYCLES

14 year cycle made a high on 22nd October, 1980.

13 year cycle made a high on 23rd October, 1981.

10 year cycle made a high on 24th October, 1984.

6 year cycle made a high on 13th October, 1988.

182 days ($\frac{1}{2}$ cycle) up from the low on the 19th April, 1994 is the 18th October, 1994.

102 days ($\frac{2}{7}$ cycle) up from the low made on the 5th July, 1994 is the 14th October, 1994.

122 days ($\frac{1}{3}$ cycle) from the high made on the 13th June, 1994 is the 13th October, 1994.

273 days (9 months) from the high on 14th January, 1994 is the 14th October, 1994.

PRICE RESISTANCE

There have been 3 tops over recent years of 438.00, 440.50 and 440.00. These levels should provide strong resistance.

238 low x 87.5% = 446.25

272 low x 66.6% = 453.15

294 low x 50% = 441.00

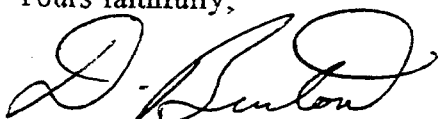
309 low x 37.5% = 424.87

SUMMARY

A top is due between the 13th and 18th October, 1994 around the 428/442 area. This would be a selling opportunity before going back down to the 370/360 area. This is likely to be a correction for 3 - 4 months with the main trend continuing up over the longer term.

Commodity Hedging Co. charts and monitors many commodities, interest rates and currencies for any inquiries please ring me on (074) 91 7443.

Yours faithfully,



D. BURTON.

W94Z D

222 1/2

364

300 1/2

364

49 1/4

12/29/94

* DECEMBER 94 WHEAT CONTRACT *

* HIGH* 12/10/94 *

420

415

410

405

400

395

390

385

380

375

370

365

360

355

350

345

340

335

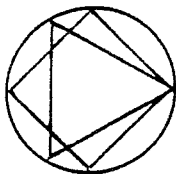
330

325

320

LOW PRICE
359 1/2

12/93 2/94 4/94 6/94 8/94 10/94 12/94



Commodity Hedging Co. Pty Ltd

A.C.N. 010 644 612

• Hedging • Forecasting: Commodities, Interest Rates and Currencies •

P.O. Box 216, Caloundra, Q 4551

Phone: (074) 91 7443

Mr. John Lawrence,
Managing Director,
Australian Wheat Board,
G.P.O. Box 4562,
MELBOURNE, VIC, 3000.

27th February, 1995.

Dear John,

Please find enclosed a copy of the forecast which I faxed to Ron Story on the 6th October, 1994.

As you can see by the forecast and the chart enclosed, our prediction was within one day of the high to date. We have had many successful forecasts with other commodities, currencies and interest rates by using the methods of W.D. Gann which we believe to be the most accurate method of forecasting in the world. Copies of these forecasts are available upon request

Like all hedging strategies, knowing what the future may hold can certainly save you a lot of money and I believe our company can help you in this area. If you require any further information please don't hesitate to call.

Yours faithfully,

D.K. BURTON
Managing Director

KR CHART FOCUS: Aussie "Gann" guru gets bullish on wheat futures

--Close above 3.68 dlrs major sign that Dec could climb to 4.40

Knight-Ridder

Chicago--Apr 13--Long-term cycles that form the basis of "Gann" technical analysis suggest Chicago Board of Trade wheat futures look extremely bullish, according to a Gann disciple in Australia.

William Gann (1878-1955) was a stock and commodity trader. He developed a complicated, even mysterious system of mathematical and geometric principles to govern his trading.

David Burton, a commodity hedger from Caloundra, Queensland, has based his activities on Gann patterns and has spent years chasing down the master's theories.

Now Burton sees signs that CBT Dec wheat is setting up for a major rally.

If Dec wheat can close above 3.68 dlrs per bushel at the end of this week, it will be a major bullish signal that projects to an eventual high near 4.40, he said. CBT Dec is currently trading at 3.69 1/2 dlrs.

One of Gann's signature beliefs was of the importance of the 45-degree trendline. A bull market is said to be in force as long as prices are above the rising line, and a bear market when prices are below the line.

On weekly charts, a close above 3.68 dlrs means Dec wheat "will have regained the 45-degree angle" from its low in July 1994, Burton noted: "It will also be above the 2-by-1 angle coming down from the major top made last October.

"I would not be short wheat if Dec closes above 3.68 dlrs" on a weekly basis, and, looking ahead, especially on a monthly basis.

"The pattern looks very bullish longer term. If you look at the 100-year cycle, Dec wheat could test the 1974 top of 5.82 dlrs."

CBT Dec '74 wheat futures peaked on Feb 26 of that year.

Burton is managing director of Commodity Hedging Co. and trades commodity and financial futures. Using Gann analysis, he predicted the huge rise seen earlier this year in US cotton futures.

CBT Dec wheat made a contract high Tuesday at 3.76 1/2 dlrs, but Burton said that should not be a disincentive to buying.

"It's never too high to buy as long as the trend is up," he said. "You just have to stick with it and have patience." End

By Rosalind Krasny, Knight-Ridder Financial News

Tel: (312) 454-3481

(NOTE: Comments or suggestions about this item or any other aspect of KRFN's grains coverage can be sent via the Internet to the following address: krf.agcommod@plink.geis.com)

KNIGHT-RIDDER MoneyCenter News #13516 Received at 01:34P on 1-Nov-95

KRF> CHART FOCUS: Gann devotee says higher wheat prices lie ahead
By Rosalind Krasny, Knight-Ridder Financial News

Chicago--Nov 1--US wheat prices have a chance to approach all-time highs this year or over the next few years, according to an Australian technical analyst.

David Burton of Caloundra, Queensland, bases his research on the theories of W.D. Gann, a legendary technician who charted commodity prices, stocks and bonds for 50 years using precise geometric and mathematical principles.

"Based on (Gann) cycles, wheat will be one of 'the' commodities over the next 4 years," Burton said. "Wheat could go back to the double top from 1974 at 6.45 dlrs per bushel, and then go on to 7.70 dlrs," Burton said.

Chicago Board of Trade Dec wheat futures made a contract high at 5.11 1/2 dlrs Oct 20, reaching the highest level in more than 14 years along the way, but has floundered near the 5.00-dlr level since.

Similarly, Mar has a double top at 5.17 dlrs from Oct 20 and 23, and is trading near 5.05.

Consensus at the CBT is that wheat prices have "topped out" and that the smartest near-term play is to be short the market. But thousands of miles away from trading floor "group-think," Burton says patience and a bullish bias will pay off.

"Wheat is having a bit of a rest here, but if Mar went to 5.19 dlrs I would not be short," Burton said. "Anyone who shorts this market should have a close stop."

Burton said the high in Mar of 5.17 dlrs is a 4-by-1 Gann angle drawn from the 1974 high on monthly charts of 6.45. If the contract high gives way, the next major resistance would be 5.66 dlrs, and then the 6.45 level.

"All the cycles suggest wheat is going up most of this year and next," he said. "To be a 'top picker' is very dangerous."

Burton has examined wheat charts constructed by Gann dating back to the year 1259, and has identified an 1812 peak of 3.85 dlrs as a significant level. A 1-by-1 Gann angle on yearly charts drawn from that long-ago bull market crosses at 7.70 dlrs.

"It's a realistic level to think about," Burton asserted.

Wheat's climb from spring lows below 3.50 dlrs basis Mar has come with only brief corrective spells. Burton said the market would need to turn down for several weeks to negate the bullish Gann angles.

A fall below 4.55 dlrs in Mar "would break the major Gann angle--the 1-by-2 angle," he said.

Burton warned that October is often a seasonal high month for wheat, and that more consolidation might lie ahead.

GANN ANGLES

Gann angles are moving averages of price and time. Lines of varying steepness are drawn from extreme highs and lows.

Using Gann methodology, a variety of "great time cycles" of lengths from 7 to 100 years project major highs in the wheat market between 1996 and 2000, according to Burton. End

Rosalind Krasny, Tel: (312) 454-3481

Send comments to Internet address krf.agcommod@plink.geis.com

O: 507 H: 750 L: 506 1/2 C: 640

03/20/96

+133



27/11/96

AWB saves growers \$84m by hedging

CURRENCY STRATEGY

LAST week's two cent hike in the Australian dollar would have shaved \$84 million from the value of the national wheat crop, if the Australian Wheat Board had not employed foreign exchange hedging to protect growers' incomes.

For every cent the \$A appreciates, relative to US currency, Australian wheat is worth A\$2 a tonne less on international markets, in the absence of currency hedging.

So the average Australian grower would have lost about \$2400 when the dollar shot to its six-year high of US\$1.5c last week.

According to AWB treasurer, Denis Gibson, the strength of the \$A will have little effect on the current season's prices.

"We taking hedging decisions well ahead of harvest and look to insulate the pool return from any adverse price movements," Mr Gibson said.

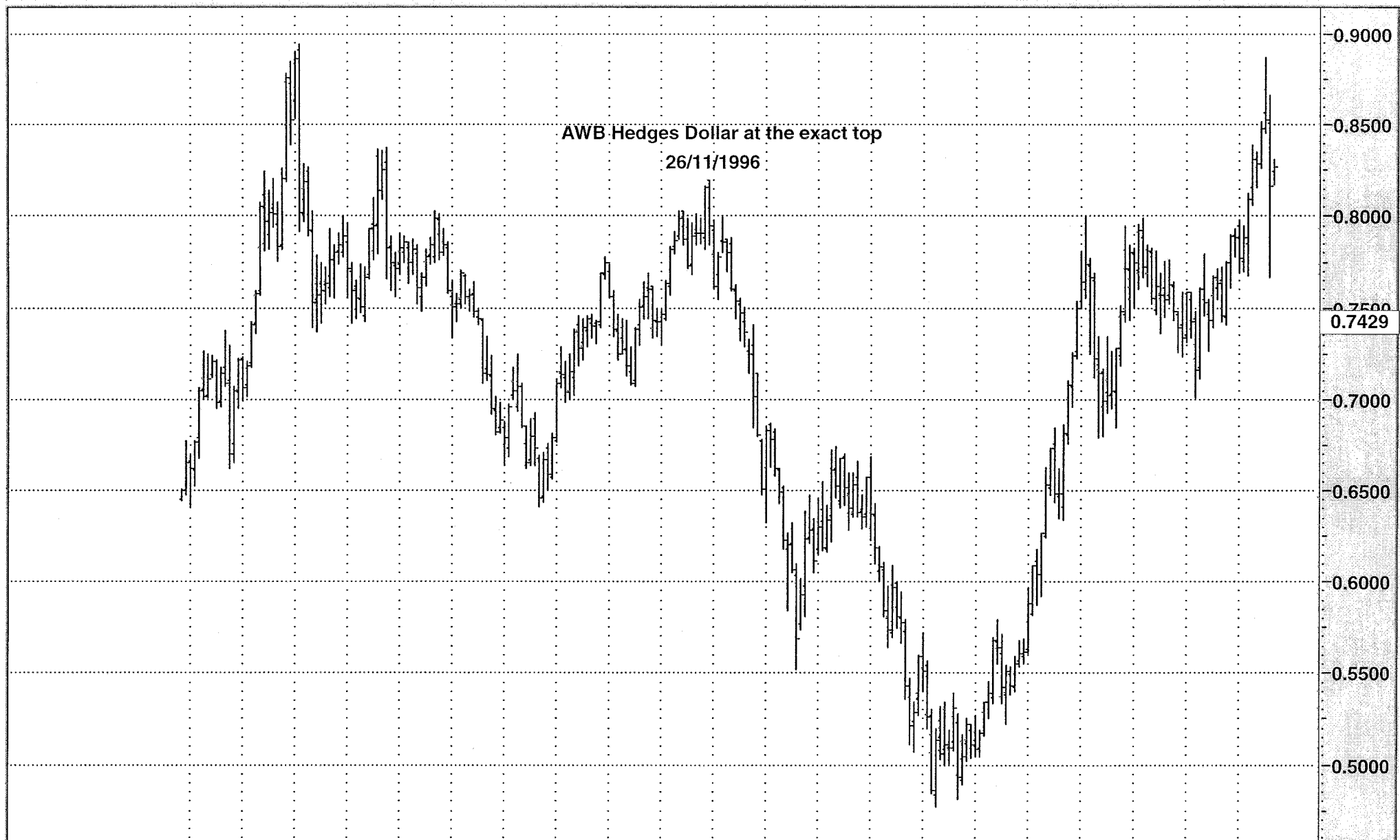
"In fact, the desk is manned 24 hours a day to make sure we're on top of the foreign exchange."

If the current \$A strength was sustained through next year, however, it could impact substantially on 1997-98 prices. "Given that the \$A has broken through that key 80.50 resistance level, it sounds rather ominous that the up-trend that it's been in for most of this year since February is still well and truly intact," Mr Gibson said.

The \$A appreciation has been fuelled by overseas investors (particularly Japanese) chasing Australia's more attractive interest rates.

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Namoi's low return shocks cotton growers

COTTON growers were stunned by the news last week that Namoi Cotton Co-operative's major 1994 seasonal pool had returned up to \$100 per bale less than its competitors. This comes on top of years of bad news out of Namoi.

Massive losses from speculating on cotton futures, political infighting, rapid staff turnover, accusations of special prices paid to special growers, and current legal action for non-performance in other pools, reflect just some of Namoi's problems.

A seasonal pool is a marketing alternative offered to growers, not just by Namoi but all the major exporters of Australian cotton (cotton merchants), where the merchant accepts to manage the marketing of cotton for growers who agree to deliver cotton to that pool.

It is managed marketing, not unlike the role played by superannuation fund managers.

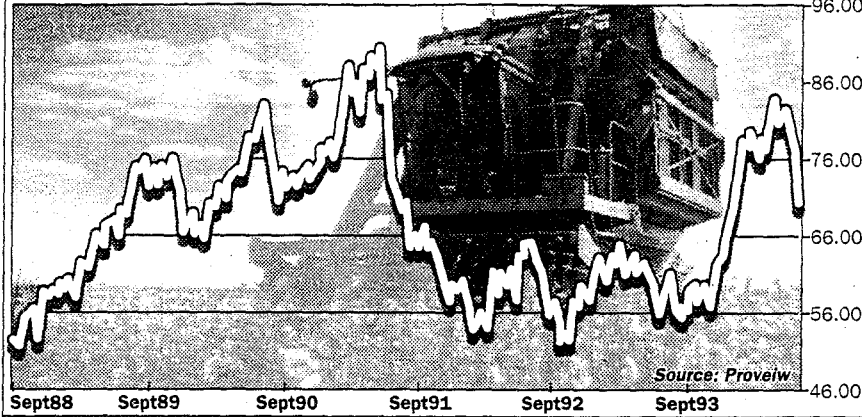
On June 29, Namoi sent a letter to those growers who had committed cotton to Namoi's Seasonal Pool 1, informing them that "on current estimates SP1 1994 valuation has declined to around \$370/bale".

This relatively low valuation is after a \$30 per bale subsidy was allocated to Seasonal Pool 1, which means the price is really \$340.

Something went terribly wrong with the marketing of Seasonal Pool 1 cotton during

Cotton NY

2mth Fwd



the past 12 months. The price is significantly lower than other merchants indicate they will be paying growers. It is also substantially below indications given by Namoi to growers just six months ago.

In late 1993 the then chief executive, Mr Rod Halliday, indicated to growers that the 1994 Seasonal Pool 1 should return around \$420 per bale.

While growers had been warned recently that the pool would more likely return \$400 per bale — due to currency that had been bought forward at substantially higher levels and could not be rolled to future years — few expected a return as low as \$370.

Growers typically commit

anything between 100 and 5,000 bales, so for those heavily committed to the seasonal pool, their expected income could be slashed by up to \$250,000.

"Some growers have put all their cotton in Seasonal Pool 1. The big blow was when it fell from \$420 to \$400. And now there's another stab in the back," said one Namoi Valley grower.

Namoi's new chief executive, Mr Iain Worrell, said that Namoi had a number of pools and Seasonal Pool 1 was the worst. "We are still hoping to enhance \$370 per bale significantly," he said. "The main reason for contacting growers now was so that they could take alternative arrangements."

By this, Mr Worrell means that, at the same time growers were told about the low prices, they were offered \$450 per bale if they agreed to commit the same amount of cotton each year for 1995 and 1996 at \$450.

This sweetener has clearly taken a lot of heat off the co-operative, and growers are taking it up. But grower disaffection remains widespread.

Mr Worrell said the major factor behind the fall was the drought. If growers cannot grow the cotton, they are not required to deliver it to seasonal pools. Namoi initially calculated it would receive about twice the amount of cotton that was eventually delivered, and had sold futures to hedge. Then,

while the cotton market rallied wildly by up to 25¢ against the short hedge positions, they realised the physical cotton was just not available.

In the parlance of Mr Halliday, they were "double sold". The losses on the futures had to be spread over less cotton.

But then other seasonal pool operators had to cope with the same problem, and their seasonal pool prices did not suffer nearly as much.

Auscott has indicated a seasonal pool price in excess of \$480 per bale; Cotton Trading Corporation around \$480 for its largest pool; Colly Farms Cotton \$465 for its Seasonal Pool 1; Dunavant Enterprises \$440; and Queensland Cotton \$405 for its Area Pool 1.

While this is not a very pretty story for some growers, it demonstrates the benefits that a competitive marketing structure has over single marketing authorities such as exist in the rice industry, raw sugar industry in Queensland, export wheat and barley industries, oilseeds in NSW and WA, and export sorghum in Qld and NSW.

If single marketing authorities make mistakes, growers often are none the wiser. At least when there are a number of merchants their performance can be compared and growers can move from one operator to another.

□ Stephen Wyatt

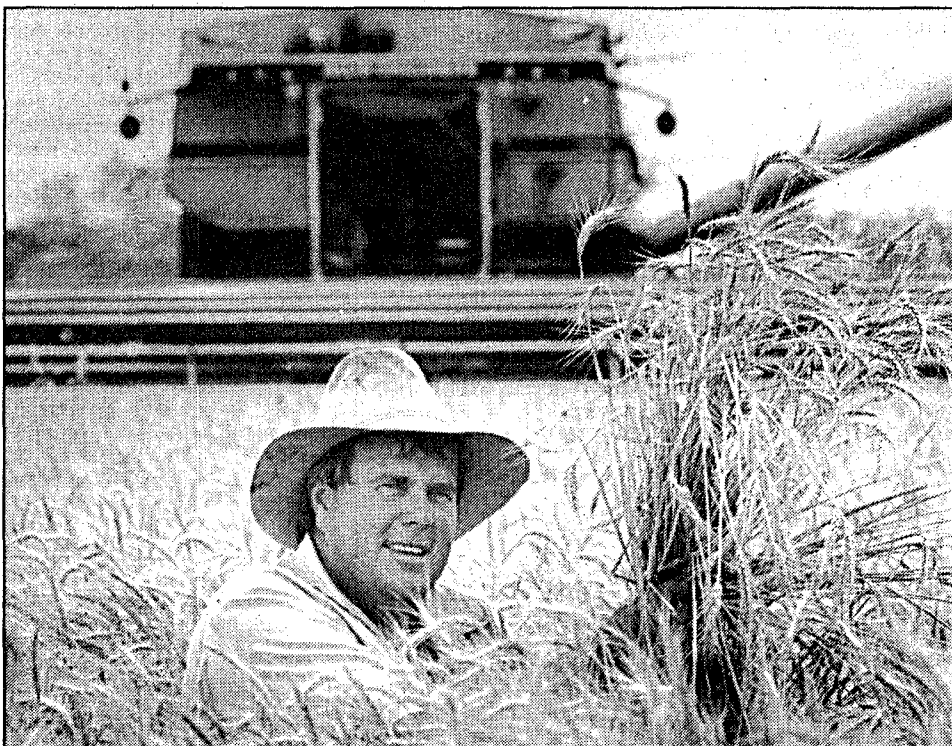
FINANCIAL REVIEW, Monday, July 4, 1994

Newspaper article:-

"Why Pools Don't Work" - I suggest that you only place the last 10 - 15% of

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.

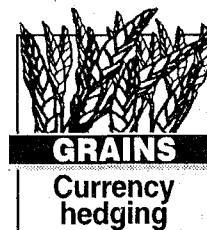
The A\$225/t which Mr Burton believes growers could have received for their wheat this season is based on a December Chicago wheat futures price of US\$4/bu, plus a basis (simply the futures price of a commodity subtracted from the cash price) of 30¢, multiplied by 36.7437 (ie US cents/bushel to US\$/t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



GRAINS & CROPPING

Hedging can increase profits

By **MICHAEL BURT**

HEDGING can increase farm profitability by protecting the commodity produced against sharp changes in price. That is according to David Burton, managing director of the Commodity Hedging Company.

Mr Burton recently conducted a growers' meeting in Toowoomba to discuss the benefits of hedging.

Hedging is a management tool that gives producers the opportunity to transfer risk.

It works by taking an equal and opposite position in the cash or futures market by forward pricing anticipated grain sales or purchases.

According to Mr Burton to be effective users must have knowledge of futures, options, and cash markets. Having the ability to read historical data and the patience to wait for the right opportunities to price commodities is also important. "It is helpful to study history in order to anticipate future cycles since the future is only a repetition of the past," Mr Burton said.

"Numbers and cycles are linked to given future highs and lows. There are a number of cycles for every commodity ranging from one year to 90-year cycles."

Mr Burton pointed out the example of the 10 year cycle in Chicago May wheat futures.

"If we look at the data we see there were highs in 1966 and '76, a low in 1986, then an all time high in 1996. Based on the 10 year cycle the next major turning point should be 2006 which is likely to be a low.

"Before the next major low in 2006, we should see a low about April this year prior to starting a bull market."

A bull market means the market will trend upwards.

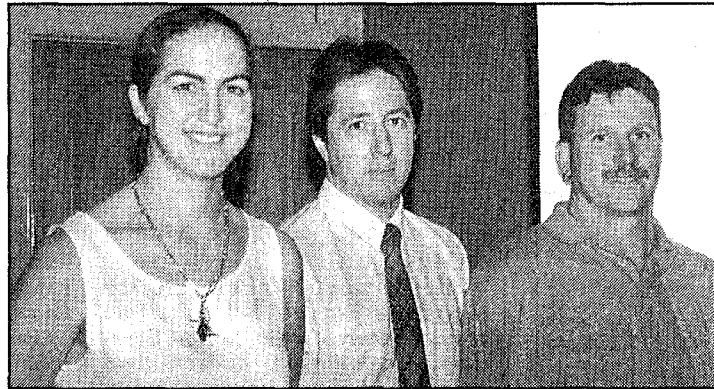
Mr Burton believes that the current commodity pool systems, particularly wheat, are not successful for a number of reasons. "They never fully hedge the pool because they do not know the yield and do not want to spend money on wheat options or currency options to protect the price if the crop is not there."

For every cent the Australian dollar appreciates, relative to US currency, Australian wheat is worth \$2 a tonne less on international markets. The Australian Wheat Board does include limited hedging in its pool system.

In 1996, the \$A jumped two cents in a week and hedging performed by the AWB protected \$84 million of grower incomes.

"In 1996, the AWB hedged currency at 80 cents, which was within two cents of the top of the market. "Since then the dollar has fallen almost 20 cents equating to a loss of \$840 million in potential income. "Even though \$84 million of growers' income was protected when the dollar rose to 82 cents, the benefits of knowing what the markets are doing is obvious. "To make money out of farming you need the opportunity to hedge 100 percent and current pool systems do not allow this," Mr Burton said.

Mr Burton said prices were usually low at harvest time and pool prices only increase if the market



Megan Thomas, area manager for Commodity Hedging Company, accountant Michael Williams, and managing director David Burton who uses historical data and forecasting to boost producer returns through hedging on the futures market. K5926

and yield is high at harvest time.

"Growers on pool boards also get to emotionally close to the market and tend not to follow market forces and trends."

Mr Burton has been involved in the futures industry since 1984 and holds a Futures Advisers Licence.

The Commodity Hedging Company has been operating since 1990 and already has a large number of client success stories. The company independently advise risk management strategies for producers and consumers. The company is close to finishing negotiations with merchants in a bid to set up its own wheat and cotton pools.

The pools are to be run by the Commodity Hedging Company and should be open in late April.

Michael Williams, accountant and director of Williams and Partner Pty Ltd, told growers to forward

plan so that the benefits of hard earned profits from hedging could be retained. Mr Williams discussed a number of options that will help reduce income tax.

"Repayment of funds often creates cash flow and income tax problems due to the fact that funds applied to reducing debt are not tax deductible," Mr Williams said.

He recommended a debt redemption program in combination with investment options as the best way to reduce income tax and improve net liability. "Investment options which are useful are farm management deposit schemes, self managed superannuation, and paying wages to your children."

The Commodity Hedging Company will be conducting another grower meeting on June 17.

● **Contact: Megan Thomas on (07) 4687 7318.**

NEWS IN BRIEF

Bamboo farm opens

AUSTRALIA'S first and largest bamboo farm and botanic garden will be open to the public for guided tours and a book launch on Saturday, April 24. Hosts for the day will be the author, Durnford Dart and Dr Cao Qungen, a visiting bamboo specialist from the Chinese Academy of Forestry. "The Bamboo Handbook" is a practical guide for growing and maintaining bamboo. For those wishing to attend the launch and farm tours contact: Belli Bamboo Parkland, 1171 Kenilworth Rd, Belli Park, Kenilworth.

Field day targets olive pruning

CLARENCE Catchment Olive Growers Association will host a field day on Saturday, April 17 commencing at 10am at Lanbruck, 323 Carrs Peninsula Road, Junction Hill. BYO picnic lunch and seating. The subject will be pruning. The tour of the grove will commence at 1.30pm. There will also be machinery on display of interest to growers. Telephone (02) 6642 6640 to confirm that the field day is on - subject to rain. All other inquiries please phone Susan on (02) 6647 3173 or Cheryl on (02) 6649 4211.

Stingless beekeeping

MORE than 200 Queenslanders have already taken part in Australia's first survey of beekeeping with native stingless bees. "Stingless beekeeping shows exciting potential for gourmet honey production and crop pollination, but to date no systematic information has been collected about the bee species or the methods being used," Dr Tim Heard, CSIRO entomologist in Brisbane and consultant with the Australian Native Bee Research Centre, of North Richmond, NSW said. For a survey form or for further information about Australian native bees, readers should send their name and address to: Reply Paid 47, ANBRC, PO Box 74-N3, North Richmond 2754 (no stamp required) or fax these details to (02) 4576 1196.

Winter Crop Options Advertising Feature

31LM011A/H

Time cycles are an important factor in wheat growing

By **DAVID BURTON**
Commodity Hedging Company

For the rural industry to survive in the long term vast improvements are required when hedging commodities.

Billions of dollars are lost each year due to low prices at harvest time.

It is helpful to study history in order to anticipate future cycles since the future is only a repetition of the past.

Numbers and cycles are linked to give future highs and lows.

There are a number of cycles for every commodity ranging from one-year to 90-year cycles.

If we look at the 10-year cycle from 1956 (see chart), we see there were highs in 1966 and 1976, a low in 1986, then an all time high in 1996.

The other highs and lows in the market relate to smaller and larger cycles. Based on the 10-year cycle, the next major turning point should be in 2006.

This is likely to be a low, based on a number of cycles combining at this time.

Before the next major low in 2006, we should see a low about April this year prior to starting a bull market.

You can also see on the chart, the lows in past years have been about \$2.50 per bushel and these lows are likely to hold in the next correction

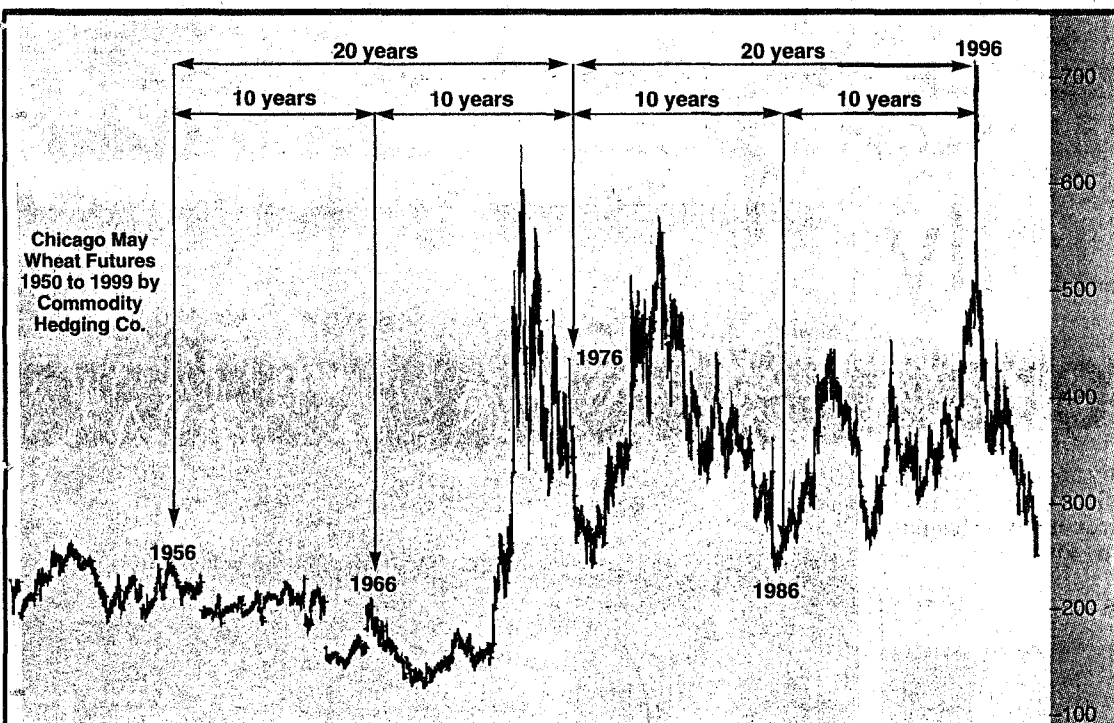
down.

The price will be pushed higher because of droughts and war cycles combining this year. The droughts are likely to be in the USA, and the wars accumulating in the Middle East.

When combining cycles we also convert price to time. For example, the all-time low of 28 cents per bushel in the year 1852, squares-out in April this year. This year 1999 minus 1852 equals 147 years which equals 1764 months. Divided by the low of 28 you get 63 squares and 63 is an important number because it is 7×9 . The number seven is important because it is the number of days in a week and nine is important because it is the highest single digit before we return to the beginning. Using cycles from as far back as the year 1259 allowed me to forecast the 737 high in wheat in 1996.

The Wheat Board can only hedge 15% of your crop but to make money out of farming you need to be able to hedge 100%. For example, the price fell in 1996 from \$7.17 per bushel down to \$2.50 per bushel, which is a difference of \$4.67 per bushel. On 5000 tonnes this is a loss of income of \$23.35 million.

A marketing seminar involving David Burton's hedging system is to be held in Toowoomba on Wednesday, March 31. Contact Megan Thomas 4687 7318 for details.



HEDGING HISTORY: To get a proper perspective when hedging commodities it is useful to study the history in order to anticipate future cycles, according to David Burton from the Commodity Hedging Company.

MARCH 26th 1999

The war with wheat

War has always been good for higher commodity prices and wheat is no exception.

Normally wheat collapses just after war begins but generally you end up with higher prices over the next three to four years and in some cases, extremely high prices.

With the war in Kosovo and tension continuing in the Middle East, I would expect wheat would bottom over the next month before moving to new highs over the coming three to four years.

Having wheat data back to 1259 and war data back to 1090, I have been able to correlate the effect of war on wheat prices.

Just going back over the past hundred years, I will show you how the wars have made wheat prices jump.

For example:

The 30-year war (1618-1648)

Wheat moved from a low of 77 cents per bushel in 1621 to a high of 141 cents per bushel in 1622 and remained at these levels for another five years.

The first Civil War (1642 - 1648)

Wheat made a low of 100 cents per bushel and moved to a high of 137 cents per bushel.

The second Civil War (1648)

Wheat moved from a low of 159 cents per bushel to 188 cents per bushel.

American War of Independence (1775 - 1786)

Wheat moved from a low of 87 cents per bushel in 1776 to a high of 143 cents per bushel in 1778.

Anglo American War (1812 - 1814)

Wheat moved up from 290 cents

By D. BURTON,
Commodity
Hedging Company

per bushel in 1811 to a high of 385 cents per bushel in 1812, the highest price in 500 years.

American Civil War (1861 - 1865)

Wheat moved from a low of 133 cents per bushel in 1859 to a high of 196 cents per bushel in 1867

World War One (1914 - 1918)

Wheat moved from 72 cents per bushel in 1914 to a high of 350 cents per bushel in 1920 - the highest level in more than 100 years.

World War II (1939 - 1945)

Wheat moved from 59 cents per bushel in 1939 to 321 cents per bushel in 1947 - the highest level in 30 years.

Vietnam War (1966 - 1975)

The war at Long Tan was in 1966 and from that date, wheat exploded from 145 cents per bushel to 600 cents per bushel - the highest level in 700 years.

The Gulf War (1990 - 1991)

We went from a low of 238 cents per bushel in 1990 to a high of 440 cents per bushel in 1992.

Current war

I believe the low is in place at 250 cents per bushel with the upside potential at more than 450 cents per bushel.

Following is an extract from the December 98 newsletter issued to clients of Commodity Hedging Company:

During the next few years we should have some wild swings in the market due to wars, droughts and financial movements in the stock and commodity markets. First, we will look at the up and coming war cycles.

The war cycles are likely to blow up towards the end of 1999 due to a number of cycles coinciding. One of the most important cycles that Gann used was the number 90 because it is a quarter of a circle and because markets often turn on 90 days, 90 weeks, 90 months and 90 years. Other important cycles are the 60, 50, 49, 45, 30, 20, 15, 13, 10, 9, 7, 5, 3, and one-year cycles.

War cycles that are due 1999 and beyond:

Jerusalem War 1099 + 900 years = 1999

30-year War 1618 - 1648 + 360 (4 x 90) years = 1999

War of Roses 1459 + 540 (6 x 90) years = 1999

Civil War 1864 + 135 (90 x 1.5) years = 1999

Second Boer War 1899 - 1901 +

100 years = 1999 - 2001

WWI 1914 - 1918 + 82 - 84 years = 1998 - 2002

WWII 1939 - 1945 + 60 years = 1999 - 2005

Korean War 1950 - 1953 + 49 years = 1999 - 2002

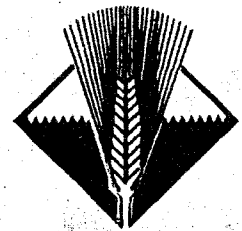
Arab/Israeli War 1956 + 45 years = 2001

Arab/Israeli War 1973 + 30 years = 2003

Falklands War 1982 + 20 years = 2002

Gulf War 1990/91 + 10 years = 2000/2001

At our next marketing seminar (June 17 in Toowoomba), we will discuss hedging and how to maximise returns on wheat and cotton. For further information contact Megan Thomas on (07) 4687 7318.



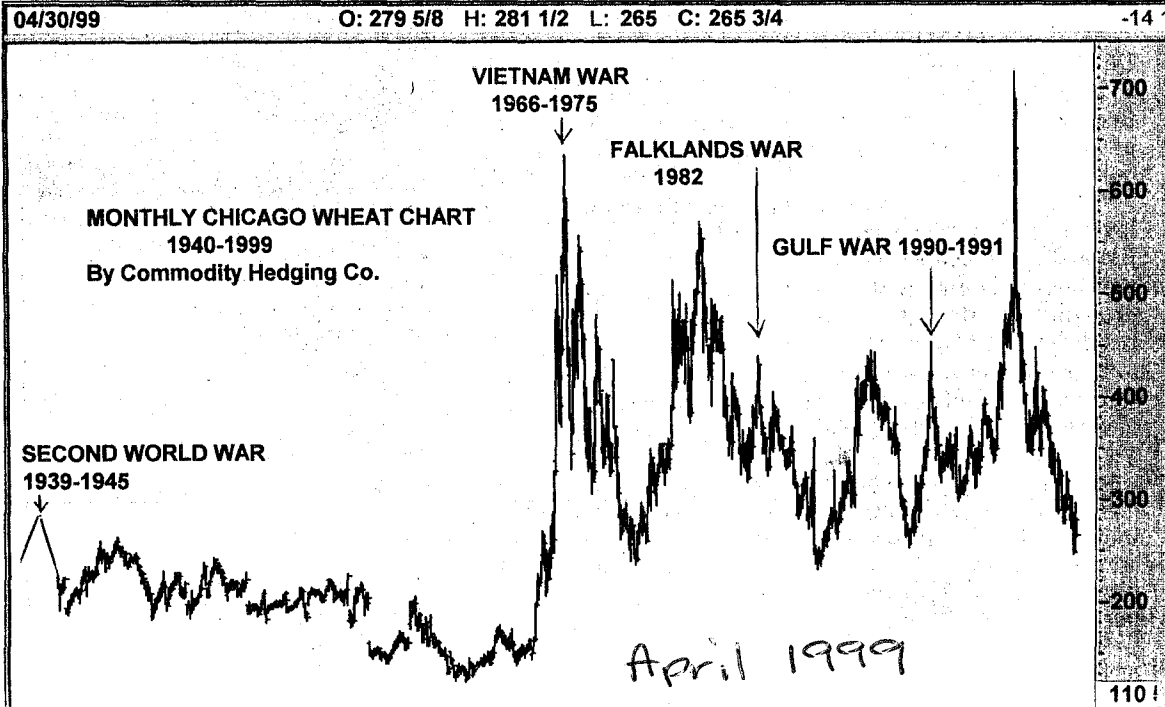
QGGA meeting notice

Goondiwindi

Thursday, April 22, 1pm, Goondiwindi RSL. Business: Amalgamation of QGGA, UGA and CU branches and election of office bearers.

Notification to branches

The deadline for a notice in this column is 9am Friday before publication. Notice should be forwarded to Head Office, Queensland Graingrowers Association, PO Box 360, Toowoomba, Qld, 4350. Phone (07) 4639 7301



COMMODITY

HEDGING COMPANY PTY LTD

P O Box 216 Caloundra Q 4551 Australia

Ph: (07) 5491 7443 Fax: (07) 5491 8398

The Great Marketing Debacle

By David Burton – Commodity Hedging Company

The wool industry has cost local communities billions of dollars over the past ten years. This is because they lack understanding of how commodity markets work. The wool industry has made numerous marketing blunders. Firstly, they tried to corner the market by having a set floor price, expecting buyers to keep purchasing above this level. Having a set floor price encourages over production because human nature means growers will go where the money is. No one in the past has been able to corner the market without going broke, why does the wool industry think history can be changed? The Hunt Brothers in the early 80's tried to corner the silver market and pushed silver up to \$50/ounce. Someone came along and wanted to sell more silver than they could purchase so the price was pushed much lower. They went broke.

At the top of the wool market there were no buyers left, so the price collapsed under the weight of its own production. Looks like the wool industry has forgotten that when demand falls due to recessions or depressions, you are left holding the commodity. It is a blunder to store commodities. If you store commodities, you become a cash speculator, hoping for higher prices. Anyone who has studied market history would know that some bear markets can last up to thirty years. Gold is a good example; it has been in a bear market for almost 20 years, sugar for around 25 years. Wool has only been in a bear market for 10 years to date.

If you are not prepared to hedge forward, then you must sell the commodity at harvest time. If you store the commodity, you not only have the next season's wool clip to deal with, you have also lost your cash flow, interest costs, storage costs and the price could collapse even further. If you add the cost of storing wool to the loss of income over ten years, the wool is now worth nothing. If you had sold 10 years ago, you would at least have received 700 cents/kilo.

If the wool industry is bullish, which it obviously is because wool is still being stored, then I would suggest they dump or burn the whole lot and buy wool futures or call options. This will have the same result without the hassles.

We have seen debacles and corruption over the years concerning various commodities. Having farmers on boards usually has a negative effect. Often, because they lack market knowledge and are so emotionally involved (it is their hip pocket being affected), they are not able to do a good job. As you may be aware, greed and fear drive the markets. Greed created the floor price, and fear will emerge when wool has to be dumped at the bottom.

A marketing seminar will be held in Toowoomba on 17th June 1999. For more information contact Megan Thomas on (07) 4687 7318.

E-mail: dburton@beachaccess.com.au

Website: www.commhedge.com.au

Futures Licence No 62399 ACN 010 644 612

CREDIT ADJUSTMENT NOTE

ABN 13 003 415 950

2007

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Facsimile: + 61 7 3257 4131
Website: www.dunavant.com

PO Box 183
ST GEORGE 4487

Cash Invoice

Account No : 3143-01
Invoice No : 1390
Invoice Date : 11/07/2007

DEAL	TRADE DESCRIPTION	VALUE	GST
1008	Sold 20 Dec 2007 58¢ NYK CTN Calls @ 925.00 points.	92,500.00	0.00
1009	Bought 20 Dec 2007 68¢ NYK CTN Calls @ 295.00 points.	-29,500.00	0.00
1068	Bought 20 Dec 2007 68¢ NYK CTN Calls @ 295.00 points.	-29,500.00	0.00
1069	Sold 20 Dec 2007 78¢ NYK CTN Calls @ 55.00 points.	5,500.00	0.00
<p>NETT PROFIT \$44,000.00 WITH 20 free Bull call spread</p>			
Reference : 488901			
Total Deal Value:		USD 39,000.00	0.00
Minus Handling Charge		USD -1,200.00	120.00
Total USD:		USD 37,800.00	120.00
AUD Spot Rate:		0.8590	0.8590
Invoice Totals :		AUD 44,004.66	139.70
		AUD	43,864.96

2007

TRADE CONFIRMATION

DUNAVANT
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11-Jul-2007

Ref #: 0710002

~~The Treasurer~~
~~Shekell Pty Ltd~~

PO Box 138
ST GEORGE QLD 4487
~~Fax: 07 46255302~~

Re: Grower Acct : 3145-01 - FEC Close Out

On the account of: ~~Shekell Pty Ltd~~

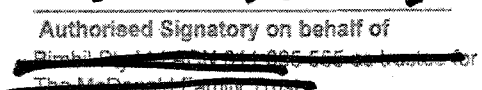
Following your instructions, FEC listed below has been closed out. Net Profit of **AUD \$156,799.92** will be credited to your 2007 FEC Close Out Account value 11-Jul-2007.

FEC #	Due Date		USD	Rate		AUD
280-3	11-Jul-07	(-)	455,026.02	0.863400	(+)	685,899.94
Close Out (944-1)	11-Jul-07	(+)	455,026.02	0.860000	(-)	529,100.02
			NIL		(+)	156,799.92

In acknowledgement, please sign this confirmation and fax it back to us on # 07 3257 4131.

**\$156,800 profit on
Currency and sold
cotton for \$600.00
IN 2007.**


Authorised Signatory on behalf of
Dunavant Enterprises Pty Ltd


Authorised Signatory on behalf of
~~Shekell Pty Ltd~~
The McDonald Family Trust