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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 US66.30 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 US50.80¢ — 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 US255¢/bushel, for instance, had peaked at US480¢/bushel as recently as 1989. This would relate to $368/tonne if in 1986 a Forward Currency Rate was locked in at US53.80¢, he said.

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

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 magin he will take them.

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

"You lock in at a rate where you can gaurantee 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 occured 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."