

Should Beef Producers be hedging the A\$?

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- What **pricing mechanisms** are available for beef compared with other commodities ?
- Factors influencing Australian beef prices.
- Impact of **exchange rate** on beef export prices - what correlation?
- What can be done to hedge against a rising A\$ & what FX **hedging tools** are appropriate?

What pricing mechanisms are available for beef compared with other commodities ?

- Forward selling - in A\$ or US\$?
- Hedging commodity price using US futures markets?
- Australian cattle futures markets?

Factors influencing Australian beef prices.

- US beef industry & its cycle
- Consumption - health issues - Jap Ox/BSE
- Climatic influences
- Economics & politics
- EXCHANGE RATES

Impact of exchange rate on beef export prices - what correlation?

- Which figures to use to establish any correlation...
- ABARE stats for prices to US markets over 20 years

What can a beef producer do to hedge against a rising A\$?

“Hedging” vs “speculating”...

- “Hedging is - taking steps to protect against, or at least reduce, a risk; a form of insurance.” Edna Carew- The Language of Money

Hedging vs speculating

“A speculator is a trader in any market who uses the market purely to make a profit, who may not have a direct interest or connection with the commodity traded.

The speculator often takes a risk (punts) but does so deliberately, in the hope of reaping a handsome gain.” Edna Carew- The Language of Money

Foreign exchange hedging tools - which are appropriate?

- Fixing the exchange rate - using Forward Exchange Contracts (FECs) - NO
- A\$ futures - NO
- Currency options - MAYBE
 - Buy or Sell ?
 - Calls or Puts?
 - Cash settled?

Options - the basics

- Can be bought or sold
- Puts & Calls
- You decide:
 - strike rate (worst case rate)
 - amount
 - expiry date
 - = premium

