
The Western Australian Wheat Futures Contract

The new ASX West Australian Wheat (WAW) contract began trading on the 15th September 2009. The WAW contract will allow participants in the export, storage, and manufacturing of West Australian milling wheat a visible form of price discovery.

The deregulation of the Australian wheat industry has effectively opened the door for growers to participate in the world grains markets. There are many factors that affect the price growers receive for their grain in WA such as world supply and demand, global climatic conditions and commodity fund manager's view on the markets.

There are a number of global price discovery mechanisms currently available for growers, traders and end users. Examples of these include the Chicago Board of Trade (CBOT) and the Kansas Board of Trade (KBOT). The view from an Australian perspective is there is a distinct divergence between these futures markets and what it actually reflected in Australian physical markets. From a West Australian perspective market participants will now be looking at the WAW contract as an effective tool to manage price risk against WA production.

WA produces approximately 40 percent of the nation's wheat of which more than 90 percent of this is exported. The WA futures contract will increase the price transparency of West Australian wheat as the contract is physically deliverable and its export focus will generate interest from Asian milling consumers.

Delivery of WAW futures contracts is facilitated through the CBH Group storage and handling network. The ability to physically deliver throughout the Kwinana port zone will hopefully remove any convergence problems between the cash market and local futures market.

The ASX WA contract complements the existing east-coast based Australian Milling Wheat contract in its ability to allow spread trading between the two contracts. Market participants also have the ability to own east coast and sell west coast as a means of protecting themselves against drought, something that has not been entirely achievable in the past.

Industry players hope the WA futures contract will catch on among the Australian trade and Asian customers; however there are some fence sitters. A major trading company in Asia said its traders were unlikely to be active participants in the WA wheat futures market until the new contract proved to be successful in a liquid market.

The ASX WA futures contract will hopefully fill a void in managing price risk through benchmarking WA wheat globally for Australian growers, traders and end-user customers both domestically and internationally.

I would urge growers who are looking at using futures as a risk management tool to seek advice from the relevant financial professionals who can best provide the necessary guidance when using such instruments.

If you require further information on the specifications of the West Australian wheat futures contract (WAW) visit the ASX website and select the link futures and options.

For further information please contact Australian Grain Accumulation,
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