AUSTRALIAN WHEAT EXPORTS IN THE GLOBAL CONTEXT:
LOCAL & INTERNATIONAL PRESSURES ON PRICE FORMATION

Australian Grains Industry Conference
GTA Advisory & Compliance Workshop
25-27 Jul 2016

Julien Hall
WHEAT EXPORT PRICE UPDATE

FORCES AT WORK IN PRICE FORMATION

WHAT IS A ROBUST PRICE INDEX
S&P Global Platts is the leading independent provider of information and benchmark prices for the commodities and energy markets.
AREAS OF COVERAGE

BIOFUELS
Started in 2003
Global Ethanol and Biodiesel coverage
US & Europe ethanol benchmarks

SUGAR
Kingsman acquisition in 2012
Global Analysis and pricing

GRAINS
Started in 2014
Global Wheat and Corn coverage
WHEAT EXPORT PRICE UPDATE
LONG-TERM TREND

USD/mt

APW FOB Kwinana Nominal Replacement
Overall trend - slow erosion interrupted by sharper volatility

- Pressure from Black Sea, Canada & US milling wheat, W. Europe & Argentina feed wheat
- Low global freight rates reducing Australian freight advantage to Asian buyers
- Mar-Jul volatility caused by CBOT and forex
FORCES AT WORK IN PRICE FORMATION
FOB PRICE-SETTING PRESSURES

UPSTREAM
- Grower selling patterns
- Regional price variances
- Australian weather
- Track market
- AUD-USD
- Whether seller has to use a shipping slot

(FOB basis)
OFFERS

BIDS
(FOB basis)
- IDR-USD
- Freight rates
- Black Sea, US, Canada prices
- CFR Asia
- Flour prices
- CBOT

MARKET PRICE
MARKET PRICE BETWEEN THE BEST BID AND OFFER

Best bid

Offers

Bids

USD/mt

10-Nov 200 205 210 215 220 225 230 235


PLATTS APW

OFFERS

BIDS
UPSTREAM
TYPICAL SUPPLY CHAIN COSTS

Price at farm
Cartage to Bin
Storage
Upcountry handling
Transport to Port
Handling at Port
Export discount
Handymax freight to Indonesia

“FOB Replacement”
“True FOB”

Source: AEGIC, Platts
Export prices at a discount to replacement

- Since Nov 2015, on average $6.47/mt discount to FOB Kwinana replacement value
- Due to more shipping capacity than wheat demand, traders are discounting to avoid wasting the cost slots (up to $9/mt)
- Export discount has reduced to around $4/mt since late May 2016
Since Nov 2015, on average $6.47/mt discount to FOB Kwinana replacement value

Export discount has reduced to around $4/mt since late May 2016 - less supply + traders long slots
DOWNSTREAM
AUSTRALIAN WHEAT STRUGGLING TO COMPETE IN SEABORNE MARKET

USD/mt

- Platts Russian 12.5 (CFR Indo)
- Platts APW (CFR Indo)
- Ukr 11.5 deals (CFR Indo)
- APW deals (CFR Indo)
- HRW 11.5 deals (CFR Indo)
Platts Russian 12.5 (CFR Indo)
Platts APW (CFR Indo)
Ukr 11.5 deals (CFR Indo)
APW deals (CFR Indo)
HRW 11.5 deals (CFR Indo)

Change in Indonesian phytosanitary requirements

US pricing competitive
...USING APW CFR INDONESIA AS THE BASELINE

-50 -40 -30 -20 -10 0 10 20

2-Nov 2-Dec 2-Jan 2-Feb 2-Mar 2-Apr 2-May 2-Jun

APW CFR Indonesia

Rus 12.5 price advantage
Ukr 11.5 price advantage
HRW 11.5 price advantage
WHAT IS A ROBUST PRICE ASSESSMENT –
AND HOW CAN IT BE USED?
Main characteristics

• Accurately reflects market value
• Transparent and precise methodology
• Open to market scrutiny and feedback
• Broad industry participation
• Powered by rich, granular and verifiable price data
• Independent, impartial
Many price assessments have become “benchmarks” that market participants use to write contracts, monitor their commodity market and achieve full transparency around transactions. For example:

**Dated Brent**: Price of physical, light North Sea crude. Estimated to be the reference for 60% of world’s oil.

**Platts IODEX**: Primary physical market pricing reference for seaborne iron ore fines delivered into China, the biggest importer of iron ore.

**Henry Hub**: Platts price for physical Henry Hub and related basis point are the benchmark for North American gas and underpin ICE’s exchange contracts.

**UK NBP**: Platts price for UK NBP, gas traded within the national transmission system. Widely used as an indicator for Europe’s wholesale gas market.

**Japan Korea Marker (JKM™)**: Price of liquefied natural gas (LNG) delivered into Japan and South Korea, the largest global importers. Considered the global reference for LNG pricing.

**Platts Dubai**: Physical price of Dubai crude oil loading through the month of assessment. Price reference for crude oil delivered to Asia from the Middle East.
TRANSPARENT AND RIGOROUS ASSESSMENTS

METHODODOLOGY AND SPECIFICATIONS GUIDE

GRAINS

Latest update: April 2016
Main applications of an index in the physical cargo market

• **Frame agreements** (long-term contracts) at “market price” which mitigate price volatility
• Lower-risk, **index-linked spot transactions**, which help to manage cash flow
• **Fixed margins for millers** selling flour as a “wheat plus” formula
• **Improved “mark-to-market”** for risk and accounting functions
• **New trading strategies** (sell fixed / buy floating priced cargoes in a falling market, for example)
• **A reference** for current market price (for analysts, investors, traders just returned from holidays…)

Other applications of a credible index

• Used in supply contracts as a ‘**fall-back**’ pricing solution in case of non-agreement
• Used in arbitration for commercial **dispute resolution**
• Used by governments for **royalty calculations & domestic pricing formulas**
HOW CAN A ROBUST PRICE ASSESSMENT BE USED FOR HEDGING?

Applications of an index for derivative markets
- The **index functions as the underlying price** for settlement basis of derivatives
- Used for both **OTC (over the counter) paper swaps** and **exchange-cleared futures & options**
- Settlement mechanism tends to use average of the month of index prices

Other points
- Liquidity tends to concentrate in the first few months where spot cargo hedging takes place
- Speculative position-taking in paper markets is an important liquidity provider for market players seeking true risk management (hedging)
- A forward curve tends to be priced (by brokers & market makers) 1-2 years into the future
- Month, Quarter and Annual contracts help producers/end-users and buyers/sellers to lock in their price in forward positions, to safeguard margins and smooth their cash flow
EXPLORING THE POTENTIAL FOR REGIONAL, CASH-SETTLED WHEAT FUTURES
CASH-SETTLED COMMODITY FUTURES SUIT MARKETS WITH NON-STANDARD DELIVERY

Cash-settled futures

- CME Group
  - Wheat, Corn, Soybean, RBOB Gasoline
- Lean Hogs
- Ethanol

Physically-delivered futures

- CME Group
  - Sugar, Coffee, Cocoa, Cotton
- COMEX
  - Gold, Silver, Copper
Currently most hedging for physical Australian wheat is done basis CBOT

APW – CBOT correlation was 51% between Nov 2015 – Jul 2016

A proxy hedge is usually considered effective between 80-100%

Hedgers of Australian wheat would be better served by a derivative reflecting true regional market value of APW

APW can then be priced and hedged as a regional basis differential to CBOT
THE SAME APPLIES IN THE BLACK SEA

Some hedging for physical Russian milling wheat is done basis MATIF

**Platts Rus 12.5 – MATIF** correlation was 72% between July 2015 – June 2016

**Platts Rus 12.5 – CBOT** correlation was 62% between July 2015 – June 2016

A proxy hedge is usually considered effective between 80-100%

Hedgers of Black Sea wheat would be better served by a derivative reflecting true regional market value of Russian milling wheat
PLATTS APW: SOME METRICS
Daily APW export value is known to core market traders within 98% accuracy: Platts’ observed bid-offer range of $4.96/mt on average reflects competitive pricing at the margin.

Observed wheat transactions* occur on average within $1.01/mt of Platts APW – a consistent market price is now being discovered.

*Includes flat-price ASW and APW cargoes loading out of WA and SA. Appropriate adjustments were made to account for quality, loading port, and carry.
# AUSTRALIAN TRADES*

*PLATTS-OBSERVED*

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<thead>
<tr>
<th>Australian Trades</th>
<th>Volume observed (kt)</th>
<th>Number observed</th>
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<td>Nov 2015</td>
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<td>11</td>
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<td>515</td>
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<tr>
<td>Jan 2016</td>
<td>690</td>
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<td>Feb 2016</td>
<td>743</td>
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<td>Mar 2016</td>
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<td>Apr 2016</td>
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<td>May 2016</td>
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<td>Jun 2016</td>
<td>465</td>
<td>17</td>
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<td><strong>TOTAL</strong></td>
<td><strong>4.43 mil mt</strong></td>
<td><strong>159 deals</strong></td>
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PLATTS APW AT A GLANCE

**Quality:** Milling wheat, normalized to APW1

**Volume:** Typical export cargo sizes, normalized to 30,000 mt

**Timing:** Typical spot cargoes, normalized to a loading 60-90 days ahead of publication date

**Location:** WA and SA ports, normalized to Kwinana. EC loading monitored for pricing consistency
WHERE TO FIND OUR INFORMATION

PDF

DAILY GRAINS

Volume 8 / Issue 23 / February 23, 2016

Commentary and Analysis

Western corn was softer by 0.5c per bushel above the $3.75 level, with traders attributing the drop to a lack of demand.

The cash wheat market in Manitoba was lower on Wednesday, with a trade near 800.00/t for CIF. Other cash markets were steady at 842.00-859.00/t higher than the traded levels on Tuesday. According to traders, the former price was due to sales covering activity for future delivery with buyers running up their monthly purchase levels and to the lower values of the Canadian loonie Wednesday.

Argentina could be a major buyer for rolling wheat with shipments between April and May due to Sunday. While the prices of purchased remained relatively stable, the average price was between 779.60 and 787.00/t CIF, which was lower by 1700 t for March origin, according to traders, or some Silent origin.

RUSSIAN WHEAT EXPORT RACE

FLATTS GRAINS ASSESSMENTS

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FUTURES CONTRACTS [Sept. 2016]

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Wire

WHERE TO FIND OUR INFORMATION
THANK YOU!

Asia-Pacific

Alexis Gan  
+65 6530 6489  
alexis.gan@spglobal.com

Samar Niazi  
+65 6216 1192  
samar.niazi@spglobal.com

EMEA

Andrei Agapi  
+44 207 176 3533  
andrei.agapi@spglobal.com

Thomas Houghton  
+44 207 176 7832  
thomas.houghton@spglobal.com

USA

Erik Papke  
+1 713 658 3228  
erik.papke@spglobal.com

Sergio Alvarado  
+1 832 918 3370  
sergio.alvarado@spglobal.com