

# Fact sheet:

## Agricultural Swap Contracts

### What is a Swap?

A Swap allows you to exchange, or swap, a floating price for a fixed price for a specified commodity at an agreed future date. This provides the security of a fixed commodity reference price, allowing you to budget and plan with more certainty. Swaps can be particularly useful for primary producers who are looking to protect their revenue against declining commodity prices.

### Benefits

- Price protection<sup>1</sup> – you receive a guaranteed price for a pre-agreed quantity of a commodity on an agreed future date.
- Flexibility – you choose the quantity of the commodity you want to cover, the timeframe and the price protection level that best suits your situation.
- Simplicity – you can make your swap transactions in Australian or US dollars. By choosing Australian dollars, you eliminate the need to hedge the associated foreign currency exposures.

### Risks

- You cannot take advantage of favourable price movements during the period of the contract.
- If you terminate your contract early there may be a cost to you.
- You are not covered for total risk, you will still carry 'basis risk' (see overleaf for details).

### Quick Facts<sup>2</sup>

<b>Costs</b>	There are no direct fees associated with a Swap Contract
<b>Minimum Transaction Amount</b>	Wheat – 100 metric tonnes Sugar – 100 metric tonnes (smaller amounts and other commodities may be available on request)
<b>Term</b>	1 week to 3 years (longer terms may be available on request)
<b>Settlement</b>	A Swap Contract is cash settled at maturity. On the Settlement Date, which must be agreed upfront, amounts owing or due must be paid. Once the Settlement Date is agreed it cannot be varied. No physical delivery of the underlying commodity occurs
<b>Early Termination</b>	You can terminate a Swap Contract early but there may be a cost to you if you do

<sup>1</sup> Provided there is no basis risk between the underlying price you achieve in the physical market and the floating reference price – see overleaf for details.

<sup>2</sup> More details can be found in the Product Disclosure Statement which can be found at [www.westpac.com.au](http://www.westpac.com.au).

## Example:

### Commodity Producer (Seller of Wheat – USD Swap)

You are a wheat producer looking for protection from falling wheat prices in December and you decide to hedge the price on 250 metric tonnes of wheat for this period. You decide to only protect the USD value of your production, choosing to manage your AUD/USD exchange rate risk separately.

#### Without a Swap Contract

If you did nothing, the amount of USD you will receive in December when you sell your wheat will depend on the market price for wheat at the time as specified in your sales contract.

If the wheat price falls you will receive less USD when you sell your wheat in the physical market. Alternatively, if the wheat price rises you will receive more USD when you sell your wheat.

#### With a Swap Contract

You enter into a Swap Contract with a notional volume of 250 metric tonnes and a maturity date of 30 November and specify the floating reference price to be the December Chicago Board of Trade (CBOT) Wheat Futures contract. Based on these details Westpac determines the fixed Swap Price to be USD 145 per tonne.

There are two possible scenarios on the maturity date of 30 November. These are:

- a) If the floating reference price is less than the USD 145 per tonne fixed Swap Price, Westpac will pay you the difference in USD on the Settlement Date (2 December).  
This amount will compensate you for the lower price you will receive when you sell your physical wheat.
- b) If the floating reference price is greater than the USD 145 per tonne fixed swap price you will pay Westpac the difference in USD on the Settlement Date (2 December).  
This amount will be offset by the higher price you receive when you sell your physical wheat.

By entering into a Swap Contract you have removed the uncertainty of commodity price fluctuations between now and December. Provided you can sell your physical wheat at the floating reference price you have effectively fixed the sale price of your wheat at the fixed swap price of the Swap Contract.

#### What is not covered with a Swap Contract?

You need to remember that the price you receive under the contract for the physical sale of your wheat may not be an exact reflection of the floating reference price under your Swap Contract. This could occur, for example, because the price that you receive for the physical sale of your wheat takes into account matters such as transport costs, the quality of the wheat and other factors.

These fluctuations in the price that you receive are referred to as the 'basis risk' and are not covered by a Swap Contract. Any slippage between the price you receive in the physical market and the floating reference price effectively reduces the fixed price you actually achieve.

This example is indicative only and uses rates and figures that we have selected to demonstrate how the product works. In order to assess the merits of any particular Swap Contract, you would need to use the actual rates and figures quoted to you at the time.

For more information

Speak with your local Westpac Agribusiness Banker or call **1300 134 979**.

**Your future is our future**

**Things you should know:** Westpac Banking Corporation (ABN 33 007 457 141 AFSL 233714) is the issuer of the Agricultural Swap Contract. You can obtain a copy of the Product Disclosure Statement (PDS), or contact Westpac, by calling your local Westpac Agribusiness Banker or visiting [westpac.com.au/agribusiness](http://westpac.com.au/agribusiness). You should consider the PDS before making any decisions about the product. You can also obtain a Financial Services Guide (FSG) by calling 132 032 or visiting [www.westpac.com.au](http://www.westpac.com.au). This information has been prepared without taking into account your objectives, financial situation or needs. Because of this you should, before acting on this information, consider its appropriateness, having regard to your objectives, financial situation and needs. Information current as at 10 September 2008. WES1350 ABC001 (08/08)