

# Control what you can. **Plan for what you can't.**

Commodity Price Risk Management



**To find out more**

contact your local Agribusiness Banker or  
call Country Business Direct on **1300 134 979**

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**Your future is our future**



# Managing the risks of **your agribusiness**

The very nature of primary production exposes your agribusiness to all manner of risk. Local and overseas markets, technology, seasonal conditions and political landscapes are constantly changing. As they do, invariably, so do commodity prices. In such an uncertain business climate, commodity price risk management has become an increasingly important part of the agribusiness owner's arsenal, and it's an area where Westpac Agribusiness is ideally placed to help you.

## **What is Commodity Price Risk Management?**

Commodity price risk management, or hedging, is the process of protecting the value of your business from the impact of commodity price fluctuations. By planning for future scenarios, it can help to minimise any adverse changes in prices, and also capitalise on positive movements. In doing so, it can help with everything from long-term business planning to managing your day-to-day cash flow. Ultimately, less risk means more peace of mind for you.

## **What are the benefits?**

### Price protection

Depending on the strategies you put in place, commodity price risk management has the ability to offer price protection in two ways:

1. The certainty of a fixed price, where you are guaranteed to receive/pay the agreed fixed price<sup>1</sup> even if commodity prices move adversely.
2. The flexibility of an agreed worst-case price<sup>1</sup> and the potential to benefit from positive commodity price movements.

### Greater cash flow certainty

Cash flow is the lifeblood of every business. By providing you with greater certainty around the commodity price(s) that affect your operations from season-to-season, you'll be able to plan and grow with greater confidence and security. Whatever the future holds.

### **Westpac. Working for your agribusiness.**

Whether you're experienced in commodities hedging, or considering it for the first time, Westpac is your ideal commodities partner. Our agribusiness team has worked alongside primary producers for generations.

<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 "Important things you should know."

# Which solutions are right for you?

Every agribusiness is different. Accordingly, it's important to develop a commodity risk strategy that's uniquely suited to your situation. The options available are as wide and varied as Primary Industry itself. This is why, before recommending anything, your Westpac Agribusiness Banker, working with the Westpac Commodity Specialists, will take a considerable amount of time to understand the key issues and risks at play for your business, your region and your market(s).

Ultimately, the majority of commodity solutions used by Australian agribusinesses can be grouped into two broad areas. These are summarised below.

## 1. Swaps

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.

## 2. Options

Like a swap, options can be used to protect your agribusiness against adverse commodity prices. However unlike a swap, options also allow you to benefit from any favourable price movements that may occur.

### Benefits

- Price protection<sup>1</sup> – you receive protection against adverse commodity price movements through a guaranteed worst-case price.
- With no fixed price you benefit from any favourable commodity price movements.
- Flexibility – you determine the quantity of the commodity you want to cover, the timeframe, the option style, the currency and the price protection level that suits your needs.
- Simplicity – you can make your option transactions in Australian or US dollars. By choosing Australian dollars, you eliminate the need to hedge the associated foreign currency exposures.

<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 "Important things you should know."



## Important things you should know

Like any business decision, there are things you need to be aware of before embarking upon a commodity risk strategy in your agribusiness.

- In any option transactions you will be required to make an upfront payment to Westpac for each agreement you enter into. The amount of this payment depends on a range of factors including the transaction amount, the agreed price(s) and the maturity date.
- There is no cooling off period. This means it's important that you are confident of your decision prior to entering into any agreement.
- While agreements can be cancelled prior to the maturity date should you require, there may be a cost for doing so. We can provide a quote for cancelling your agreement at the time of your request.
- Your agreement does not protect you against 'basis risk'. By this we mean any price risk that exists when the floating reference price used by Westpac (typically derived from the relevant global Futures Exchange for a given commodity) does not match the actual commodity price you pay or receive in the physical market – which also takes into account specific factors such as the grade of your commodity and your location.

# Getting started is easy

If you're interested in enjoying the advantages of commodity price risk management, it's easy to get started. The first step is to sit down with your local Westpac Agribusiness Banker who can discuss your requirements, and introduce you to some of the specific options that may be beneficial for your agribusiness.

Westpac swaps and options are amongst the most keenly priced and flexible in Australia. For details please speak with your local Westpac Agribusiness Banker.

Westpac offers many products, including swaps and options, that are specifically designed to help you manage your price exposure to a wide range of commodities. These include:

- Wheat
- Sugar
- Corn
- Cotton
- Soybeans
- Diesel

Talk to your local Westpac Agribusiness Banker

**Call 1300 134 979**

or visit **[westpac.com.au/agribusiness](https://www.westpac.com.au/agribusiness)**

To explore specific commodity price risk management strategies for your agribusiness, please call your Westpac Agribusiness Banker.

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