



CRC

for

Premium

Quality

Wool

Price Risk Management

Produced for the CRC for Premium Quality Wool undergraduate program by;
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Forward Markets

- A forward market is a market where the quality, quantity, and the price of a product is derived before the product is available for sale.
- **Examples**
 - newspaper subscription
 - bus fare
 - University fees

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The Forward Market

- **Physical Forward Agreement**
 - buyer and sellers
- **Futures Contracts**
 - Sydney Futures Exchange (SFE)
- **Options**
 - SFE
- **Over the Counter (OTC)**
 - accessible Futures and Options
 - Macquarie Bank

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Who is the competition?

- Cotton
- Chemical Fibres
 - regenerated cellulose
 - synthetic (polyester & nylon)

What can the competition do?

- Supply product to processors
 - true to description
 - at a predetermined price

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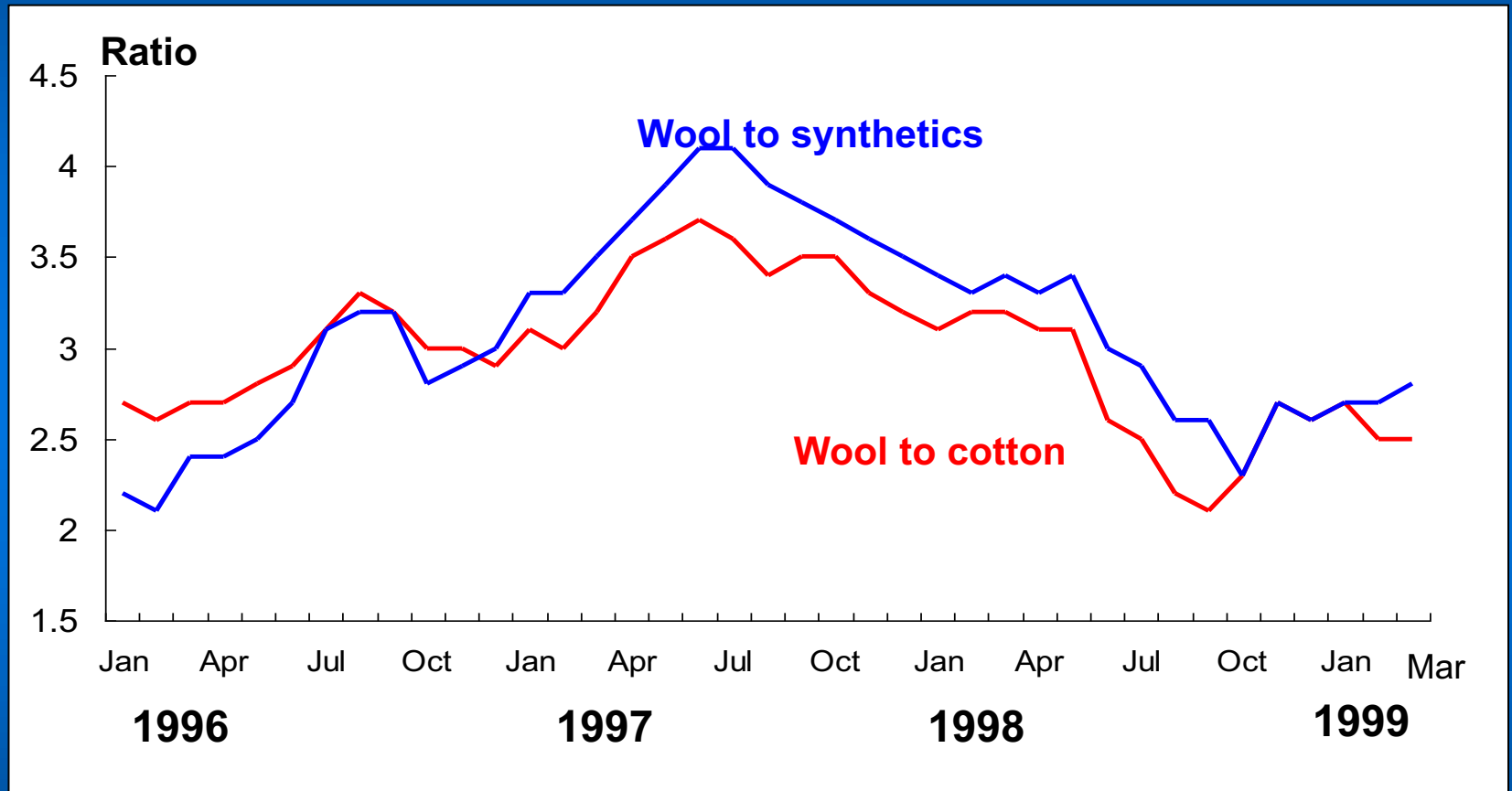
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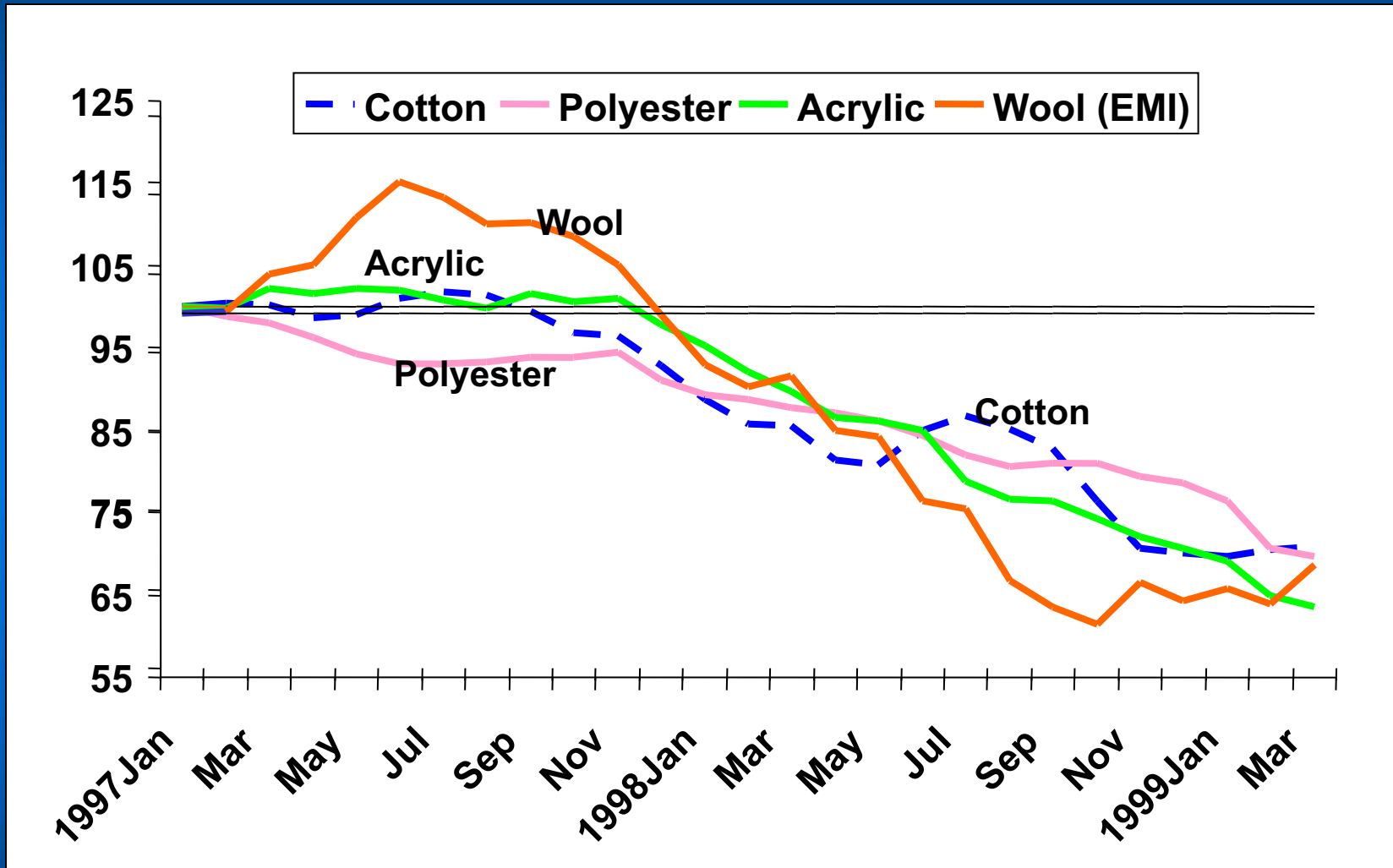
Wool Price Relativities

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Trends in Textile Fibre Prices



Index; Jan 97=100 (US c/lb)

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PRM: Processors

- Processors cover by:
 - Macquarie Bank & Elders products
 - growing market
 - Using SFE futures contracts
 - low volume at present
 - Purchasing forward
 - this market needs to expand
 - Purchasing stockpile wool
 - this will disappear eventually

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Advantages and Disadvantages of Forward Selling

advantages

- ➔ ability to budget confidently
- ➔ plan their financial affairs
- ➔ better for the customers

disadvantages

- ➔ there has to be a buyer
- ➔ not suitable for everyone's situation
- ➔ not suited to the whole clip

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Question without notice

- Do woolgrowers want to enjoy the benefit of price protection or are they happy to be a speculator with their income?

The choice is theirs!

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How does a woolgrower start?

- Find some soul mates
- Put in the time, education
- Identify strategies that suit them
- Develop a plan
- Slowly, slowly catches the worm

Classic WIN WIN

for woolgrowers and wool processors

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