



CRC

for

Premium

Quality

Wool

Your Own Floor Price Scheme (Options)

Produced for the CRC for Premium Quality Wool undergraduate program by;
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OPTIONS

WHAT IS AN OPTION CONTRACT?

- An option is the right but not the obligation to sell or buy a commodity for an agreed price and time of delivery
- PUT Option
 - right to SELL
- A CALL Option
 - right to BUY
- Types
 - SFE Options
 - OTC Options (Macquarie Bank)

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Features of OTC Options

- **Micron Category, 19 to 25 micron, based on MPG**
- **Quality, minimum 2,000 clean kgs**
- **Length of contract**
 - determined by the grower
- **Level of protection**
 - determined by the grower

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Why use OTC Options?

- **Flexibility**
- **Cost is limited to the premium**
- **Benefit from price increases**
- **Price Risk is managed**

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A woolgrower produces 22 micron fleece wool.
Shears in two months and sells in three months.

Example - Cash Price Falls / OTC

	Physical	Futures
Now	<ul style="list-style-type: none">• Intends to sell wool in 3 months• 22 MPG currently 630 cents/kg	<ul style="list-style-type: none">• Buys 610 cents, 22 MPG put options for 39 cents/kg
+ 3 months	<ul style="list-style-type: none">• Sells wool for 550 cents/kg	<ul style="list-style-type: none">• MPG currently 530 cents/kg• Profit $610 - 530 = 80$ cents/kg

Price realised = 550 + 80 - 39 = 591 cents/kg

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A woolgrower produces 22 micron fleece wool.
Shears in two months and sells in three months.

Example - Cash Price Rises / OTC

	Physical	Futures
Now	<ul style="list-style-type: none">• Intends to sell wool in 3 months• 22 MPG currently 630 cents/kg	<ul style="list-style-type: none">• Buys 610 cents, 22 MPG put options for 39 cents/kg
+ 3 months	<ul style="list-style-type: none">• Sells wool for 750 cents/kg	<ul style="list-style-type: none">• MPG currently 730 cents/kg• Woolgrower discards Option

Price realised = 750 - 39 = 711 cents/kg

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Stepping Through An OTC Option

1. Determine your contract specifications
open an account with bank
2. Obtain cost of option premium
3. Analyse option premiums
4. Enter contract, pay premium
5. Review market, reassess cover
6. Contract expires

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