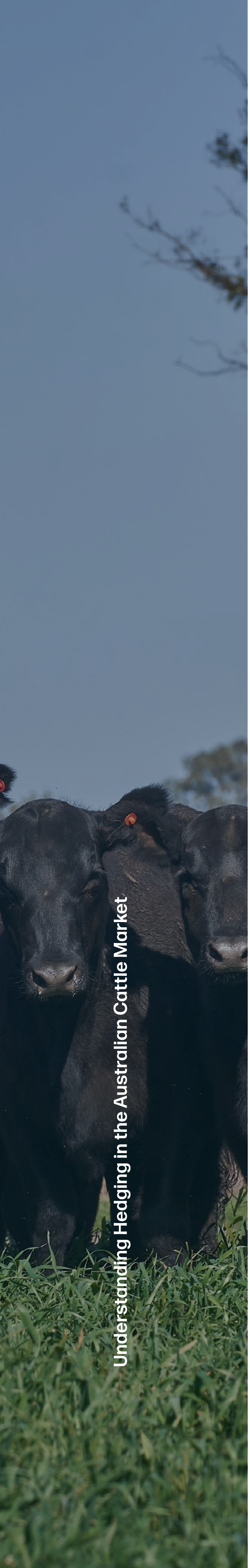
StoneX

Understanding Hedging in the Australian Cattle Market



What is Hedging?

Hedging is a risk management strategy that protects cattle farmers against unfavorable price movements in the market. It helps secure your income even when market prices fall.

Why is Hedging Important for Cattle Farmers?

The Australian cattle market can be extremely volatile due to:

- **Unpredictable weather conditions**
- **Changing supply and demand**
- **Global market influences**
- **Biosecurity incursions affecting market outcomes**

Hedging gives you more financial stability and peace of mind by allowing you to lock in prices for future cattle sales.

How Does Hedging Work?

When you hedge, you're essentially securing a fixed price today regardless of how the market moves later.

Here's how it works:

1. You arrange a contract to sell cattle at an agreed price in the future
2. If market prices fall by the time you sell, your hedging contract protects your income
3. If market prices rise, your hedged portion won't benefit from the higher price, but your unhedged cattle can still take advantage of the improved market conditions

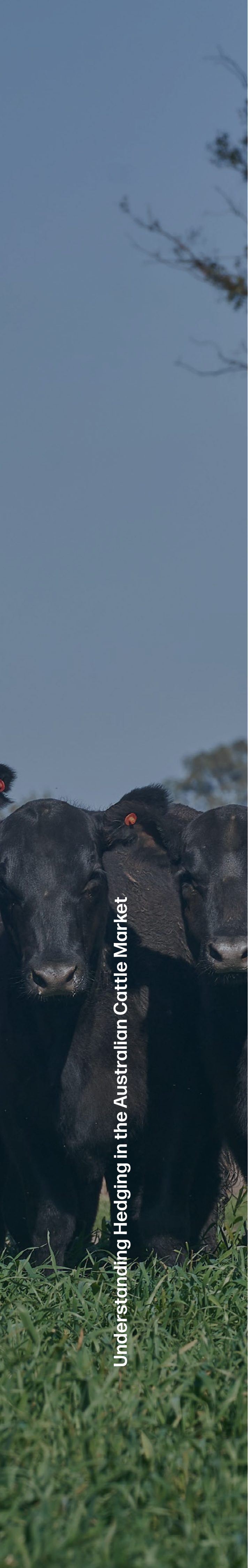
A Simple Example for Australian Cattle Farmers

Meet John, a cattle farmer from Queensland:

- John plans to sell 100 feeder steers in July at around 420kg liveweight each
- Today's feeder steer price is $4.20/kg
- John is concerned prices might drop by July

John's Hedging Strategy:

1. He decides to hedge 50% of his cattle (50 head of feeder steers) through a swap contract at the current price



2. By July, two scenarios could occur:

Scenario 1: Market prices drop to $3.80/kg

- For the 50 unhedged cattle: John receives the lower market price ($3.80/kg)
- For the 50 hedged cattle: John still effectively receives $4.20/kg through the swap
- The swap provides a payment that offsets the price drop
- **Result:** John protects half of his income from the fall in market prices.*

Scenario 2: Market prices rise to $4.60/kg

- For the 50 unhedged cattle: John benefits from the higher market price ($4.60/kg)
- For the 50 hedged cattle: John is committed to the $4.20/kg price through the swap
- John makes a payment to settle the swap difference, but still comes out ahead overall
- **Result:** While John doesn't gain on the hedged cattle, he still benefits thanks to the higher returns on his unhedged portion.*

*in a perfectly correlated market environment

Benefits of Hedging

- **Price Security:** Locks in a minimum price for your cattle, protecting against downside risk
- **Better Financial Planning:** Makes your income more predictable, locking in a margin
- **Peace of Mind:** Reduces stress from market volatility
- **Flexible Options:** Can hedge all or just a portion of your herd, based on your risk tolerance
- **Strategic Sales:** Can build your position over time with multiple hedges

Getting Started

To begin hedging, or have further discussions, contact Ripley Atkinson who specializes in livestock risk management at StoneX in Australia. StoneX can help assess your needs and set up swap contracts to support your pricing strategy.

Remember: *While hedging protects against downside risk, it also limits potential gains on the hedged portion of your cattle.*

Contact us

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