

RESEARCH PROJECT SUMMARY

1 Organisation:

Australian Bureau of Agricultural and Resource Economics.

Project Number:

BAE 2L

2 Project Title:

A study of marketing options for cotton in Australia.

3 Project Supervisor:

Paul Morris (Replaced Phil Simmons in March 1989).

4 Objective of Research Project:

To provide growers with knowledge of the workings and relative merits of available marketing options by making them aware of each marketing methods' revenue potential and income stability.

5 Extent to which project objectives have been achieved:

Given the results and the wide exposure they received when they were published in *The Australian Cottongrower*, it appears that the project objectives have been achieved.

6 Research Results:

It was concluded that no single marketing strategy would have returned significantly higher returns over the 1973-74 to 1987-88 period. Hence, the focus of the study became the price stability or risk characteristics of each alternative. The results indicated that a grower can trade off the costs of hedging through the call pool option provided by processors against the reduction in price risk that hedging provides compared to the alternative selling methods studied. This is because the basis risk faced when hedging is typically less than the price risk faced in the cash market.

In addition, it was concluded that yield variability must be taken into account when deciding on a marketing strategy. In certain circumstances, significant crop losses may expose the grower to additional financial loss.

7 Benefits:

By disseminating the research results, those growers who desire a degree of price stability with respect to their price expectations, will be aware of the probable costs and benefits of achieving this by hedging cotton on futures markets. Full utilisation by growers of the available marketing options has the potential to lead to a reduction in the risk faced by growers, facilitate planning for long-term investments and reduce the need for financing in years of poor prices.

8 Recommendations for further research:

Due to data limitations, it was not possible to include cotton futures options in the analysis. The usefulness of cotton futures options for Australian cotton growers may be an area for future research. However, it should be recognised that quality differentials and exchange rates may limit the usefulness of cotton futures options for Australian growers.

9 Publications:

Mues, C. (1989), 'An analysis of marketing options for cotton', *The Australian Cottongrower*, 10 (4), 94 - 101.

Mues, C. (1990), An analysis of marketing options for cotton in Australia. Paper presented to the 34th Annual Conference of the Australian Agricultural Economics Society, University of Queensland, Brisbane, 13 - 15 February.