HongLeong Investment Bank

INTRODUCTION TO
WHEAT FUTURES

Published date: May 2024

WHAT IS WHEAT?

A grass that is extensively grown for its seeds known as **cereal grains**

1

Can be processed into wheat flour used for making **staple food** like pasta and bread

5

The food crop that is grown on the **most land** worldwide

2

Contains a host of **nutrients** beneficial to health: protein, vitamin B and dietary fiber

4

First domesticated in Southwest Asia and was later spread across **Europe**, **Asia** and **Africa**.

3

CHARACTERISTICS OF WHEAT

- Long slender leaves

- Hollow stem, cylindrical in shape with nodes and internodes

- 30 -120cm in height

- Contains protein which is known as **gluten**

TYPES OF WHEAT

Hard Red Winter

- Planted in the Great Plains
- Used to make all-purpose flour, hard rolls, cereal and Asian noodles

Hard Red Spring

- Primarily from Northern States of America
- Used to make bagels, croissants, hearth bread and pizza crust

Soft Red Winter

- Found mostly east of the Mississippi River
- Great for making pastries, pretzels, crackers and cookies

Soft White

- Based in Pacific Northwest
- Commonly used to make pastries, cakes and Middle Eastern flat breads

Hard White

- Can be found largely in Great Plains
- Used for tortillas, flatbreads and Asian noodles

Durum

- Grown primarily in North Dakota and Montana
- Ideal for pasta, couscous and Mediterranean breads

USAGE OF WHEAT
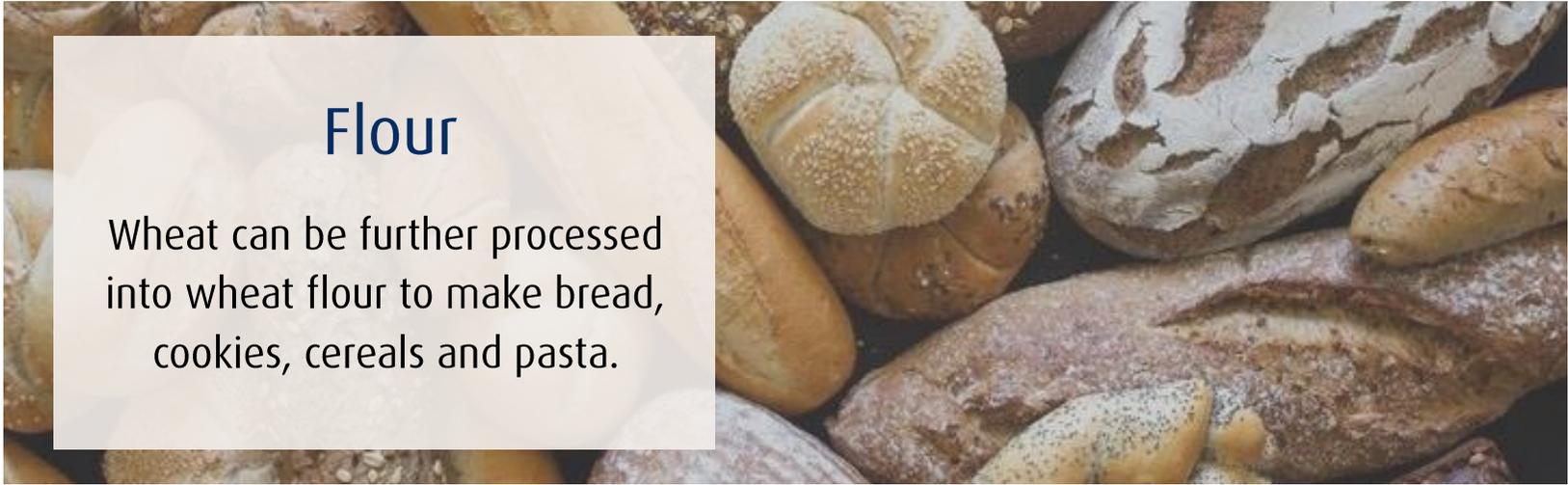
Flour

Wheat can be further processed into wheat flour to make bread, cookies, cereals and pasta.

Animal Feed

Wheat grain can be grounded into animal feed for livestock, poultry and cattle.

Alcoholic Drinks

Wheat can be fermented and distilled to make beer, vodka and whiskey.

DEMAND FOR WHEAT

The top 5 global importers of wheat in 2022 are shown below:

Country	USD Billion
Egypt	4.82
China	4.52
Indonesia	3.38
Nigeria	3.03
Turkey	2.77
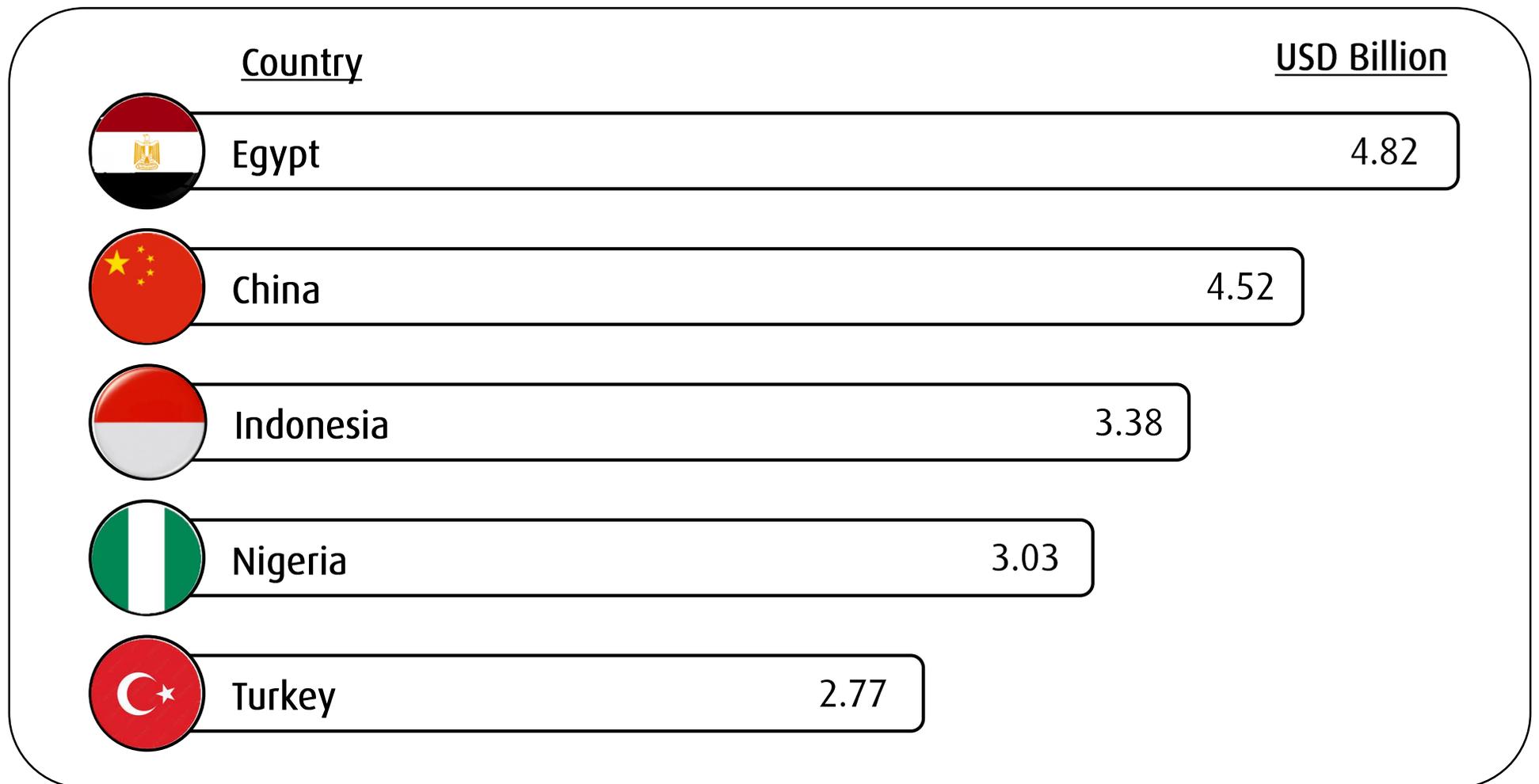
The top importer of wheat, **Egypt**, needs **20 million tons** of wheat each year to feed its population. Although Egypt has its own wheat production, that is only enough to meet 40 - 45% of its needs.

SUPPLY OF WHEAT

The top 5 global exporters of wheat in 2022 are shown below:

Country	USD Billion
Australia	10.20
United States	9.21
Canada	8.87
France	8.09
Russia	5.88
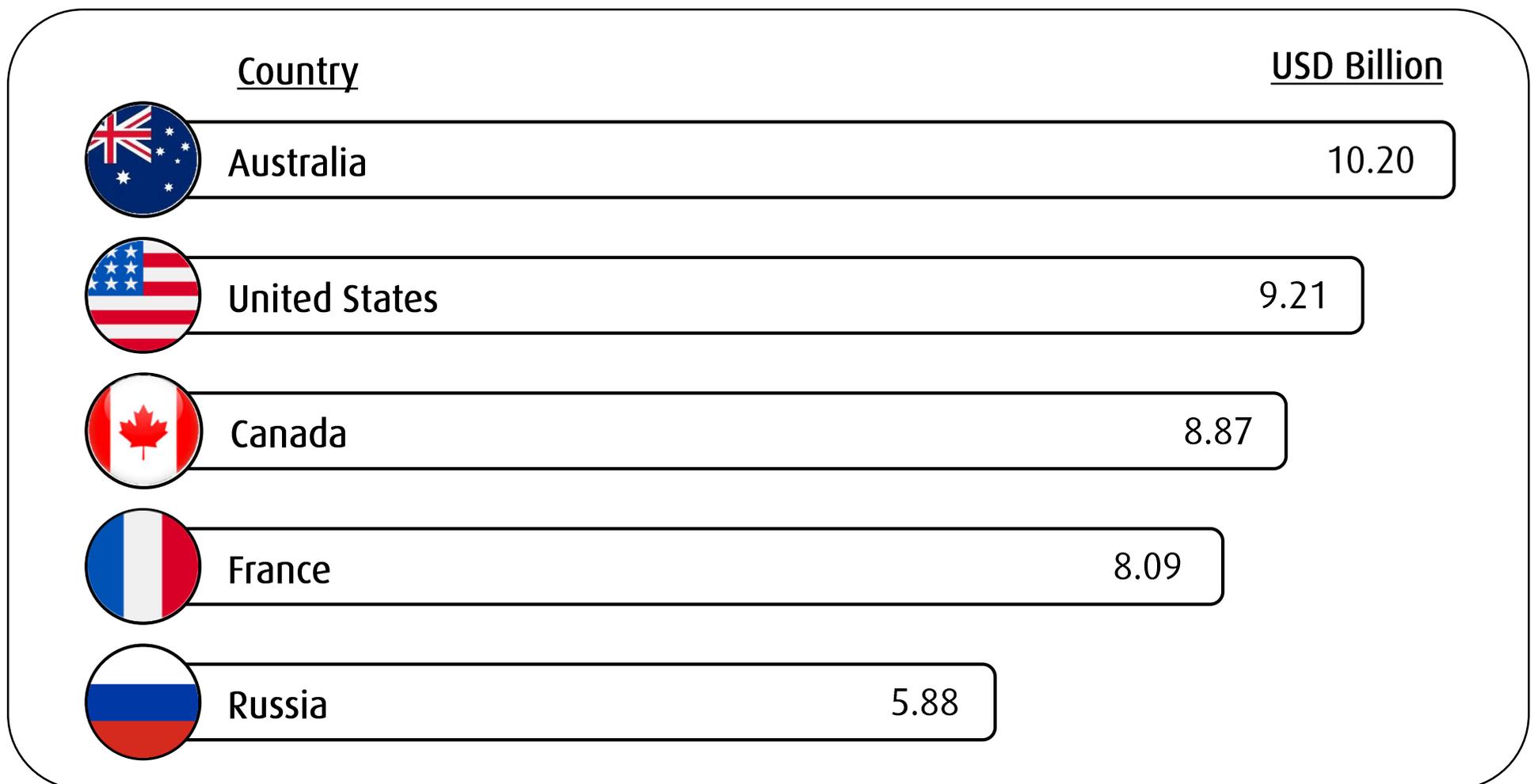
Australia imported the most wheat in 2022 and wheat is the country's **largest agricultural export**. In 2022-23, wheat exports accounted for 66.4% of the total grain exports.

FACTORS AFFECTING DEMAND AND SUPPLY

CLIMATE

Extreme weather like excess cold, heat and lack of rain will cause a fall in wheat supply.

LAND PRODUCTIVITY

Efficient use of fertilizers and pesticides can increase the land productivity and yields.

GEO-POLITICS

Political instability in wheat-producing countries will affect the price and supply of wheat.

For example, the Russia-Ukraine war disrupted the world's wheat production and supply.

GOVERNMENT POLICY

Import/export policies, trade agreements and exchange rates can impact the global supply of wheat.

For instance, India imposed a ban on wheat exports to control increasing domestic prices in 2022.
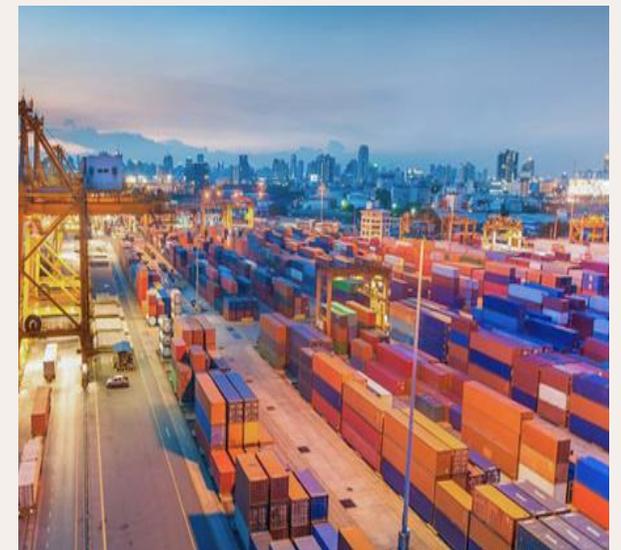
POPULATION

The demand for wheat as a staple food product increases when the world population grows.

CHANGE OF LIFESTYLE

Less desire for wheat-based processed food like pasta and bread will negatively impact the demand for wheat.

WHAT ARE WHEAT FUTURES

Contracts to buy or sell wheat at a set price for a future date.

A fully electronic, exchange-traded contract listed on **Chicago Board of Trade (CBOT)** under CME Exchange.

World trade in wheat is greater than all other crops combined.

Used by fund managers to **hedge** against the price movements of wheat.

CONTRACT SPECIFICATIONS

	Wheat Futures	**Mini Wheat Futures**
Contract Code	ZW	XW
Underlying Instrument	SRW Wheat Futures	SRW Wheat Futures
Contract Size	5,000 bushels	1,000 bushels
Minimum Fluctuation	0.25 pt = USD 12.50 (1 pt = USD 50)	0.125 pt = USD 1.25 (1 pt = USD 10)
Settlement Method	Physical delivery	Physical delivery
Contract Month	15 monthly contracts of Mar, May, Jul, Sep, Dec listed annually.	15 monthly contracts of Mar, May, Jul, Sep, Dec listed annually.
Trading Hours	21:30 - 02:15 08:00 - 20:45, 21.30 - 02:20 (Globex)	21:30 - 02:15 08:00 - 20:45, 21.30 - 02:20 (Globex)

WHEAT FUTURES (ZW)
Trading Examples
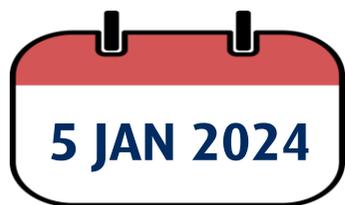
Bullish Market

5 JAN 2024

You think the price of ZW will go up and **BUY 1 lot @551.25**

23 JAN 2024

You close your position and **SELL 1 lot @573.50**

Gross Profit
= Price Difference x Contract Size
= (573.50 - 551.25) x USD 50
= **USD 1,112.50**

Bearish Market

10 JAN 2024

You think the price of ZW will go down and **SELL 1 lot @548.75**

27 JAN 2024

You close your position and **BUY 1 lot @522.75**

Gross Profit
= Price Difference x Contract Size
= (548.75 - 522.75) x USD 50
= **USD 1,300**

MINI WHEAT FUTURES (XW)
Trading Examples
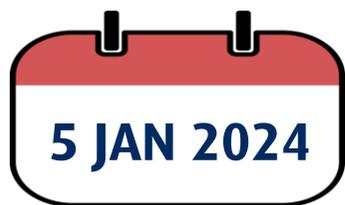
Bullish Market

5 JAN 2024

You think the price of ZW will go up and **BUY 1 lot @551.25**

23 JAN 2024

You close your position and **SELL 1 lot @573.50**

Gross Profit
= Price Difference x Contract Size
= (573.50 - 551.25) x USD 10
= **USD 222.50**

Bearish Market

10 JAN 2024

You think the price of ZW will go down and **SELL 1 lot @548.75**

27 JAN 2024

You close your position and **BUY 1 lot @522.75**

Gross Profit
= Price Difference x Contract Size
= (548.75 - 522.75) x USD 10
= **USD 260**

HongLeong Investment Bank

📍 Mezzanine Floor, Block B, Plaza Zurich, No. 12, Jalan Gelenggang, Bukit Damansara, 50490 Kuala Lumpur

📞 +603-2080 8678

✉ helpdeskfutures@hlib.hongleong.com.my

HL e Futures