PRICE RISK MANAGEMENT IN THE THAI SUGAR INDUSTRY

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Abstract

This research studied the risk management of price volatility for sugar in Thailand, due to intense competition from other countries. It considers four hedging instruments and explores which are used (if any) and the criteria used to select these. Data was collected from the owner or manager in 47 Thai sugar mills. The data was analyzed using arithmetic mean, median, mode, interquartile range, and standard deviation.

The findings revealed that a ‘futures contract’ hedge was used by 14 of the 47 sugar mills. This can reduce the price risk, obtain the highest price, achieve sales targets and control production cost. Of the four decision-making criteria for selecting each of the four hedges, the ‘set up cost premium’ criterion was most favoured.

The 33 mills that did not use hedging made that decision due to the high initial hedging cost. The risk management strategy used by these very experienced owners and managers was to monitor many factors which affect price, such as demand and supply, world market stock, natural disasters, changes in government policy, climate change, activities of speculators, and currency exchange rates.

*This is a much condensed version of Mr. Wattanavong’s dissertation in part fulfillment for the degree of MSc awarded him by Assumption University.