ABSTRACT

This research studied the price risk management strategy for commodity procurement; a case study of Thai sugar. The objectives of this are to study the hedging instruments that the Thai Sugar industry used, the strategy that they used, and identify and describe the effect of decision criteria in selecting hedging instruments. The data was collected from 47 Thai sugar mills, by semi-structured interviews through the telephone, and the data was analyzed by the statistical tools of arithmetic mean, median, mode, interquartile range, and standard deviation.

The analysis result revealed that the hedging instrument that 14 of 47 Thai sugar mills used is the futures contract. It can reduce price risk in the cost of production, obtain the highest price under the prevailing circumstances, achieve sales targets, and can control estimated production cost in each year. The survey found that the set up cost/cost of premium has highest decision criteria to select a hedging instrument. Some sugar mills do not use a hedging instrument, due to the greater expense of hedging in the sugar world market. The initial margin for hedging in the world market is more costly for them. The strategy that they used is to monitor fundamental and technical factors due to affect the world sugar market price, such as demand and supply in the world market, stock of the world market, natural disasters of competitor e.g. Brazil, India, Australia, changes in Government policy, climate and regulations, availability of new substitutes, activities of speculators, and exchange rates, in order to forecast future prices of sugar in the world market in future.

The findings generate direct benefits to the commodity procurement trade on sugar exchanges. It is recommended when buying domestic sugar quota C, the selected hedging should be through buying forward, using futures as a buying strategy in order to maintain price and save their companies more expense.