



December 2018

Futures Market



Overview

- Futures trading dates back to 1750 BC in ancient Mesopotamia
- Modern Futures Contracts were introduced in 1848 with the establishment of the Chicago Board of Trade
- In 1865 standardised futures contracts were introduced
 - Each futures contract now has a standard weight or measure that each paper contract issued on the exchange represents
 - In coffee the weight is 37,500lbs or 17,009KG

Conceptually

- Reduce the demand and supply volatility by allowing buyers and sellers to fix prices at any time they choose

Terminal Months:

- March, May, July, September, December



Futures contracts

Positions

There are two fundamental positions market actors can take:

- sell or “go short”
- buy or “go long”

Options

A market actor can also buy Options:

- A “Put” is the option to sell
- A “Call” is the option to buy

Participants

- The Exchange
- Physical Traders
- Funds
- Speculators



A Real Coffee Transaction

- Falcon Coffees Sells one container of El Salvador SHG conventional coffee to a UK Roaster.
- We agree a price of ICE + 10.00c/lb FOB with both parties
- For Simplicity lets ignore any Margin for Falcon as the trader

	Farmer (Short)	Roaster (Long)	Falcon Account
Futures	+115	- 100	+15
Physical	- 125	+ 110	- 15

The Market Now



Fundamentals

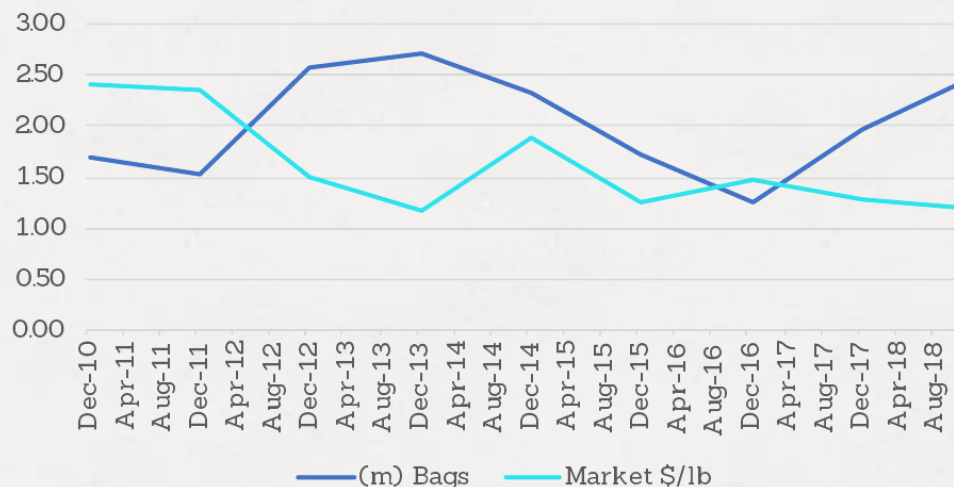
World Consumption
161.93m bags

World Production
163.52m bags

Oversupply = 1.59m
(ICO)

- Exchange Stocks

Exchange Stocks vs. Market



Inequity

- Markets never balance perfectly
- There can be sustained periods of inequitable pricing
 - The last time market levels surpassed \$1.40 in Jan '18
- Market Access (particularly for small holders)
- Market consolidation (Production & consumption)
- Access to market information

Further Information



Contact:

Richard Williams – Trader (east Africa)

Falcon Coffees

Richard.Williams@falconcoffees.com

+44 758 4410 1078

Resources:

ICO:

<http://www.ico.org>

Investopedia:

<https://www.investopedia.com/terms/f/futuresmarket.asp>

<https://www.investopedia.com/terms/f/futurescontract.asp>

<https://www.investopedia.com/terms/f/futuresexchange.asp>