



AST Live
Amsterdam
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How to teach Futures for the Green Module at the Professional Level?

Content

- Reminder of the Intermediate Level
- Professional Curriculum
- Key Vocabulary
- Practical exercises

Tips

- Manage unequal knowledge: adapt to your students
- Demystification
- Illustrate (align volumes and crops for example)
- Explain the broad lines, the mechanisms and then go into details
- Give personal exercises to make attendees confident and make sure everybody understands

Reminder of the Intermediate Level

- History of Markets
 - Agricultural constraint
 - Logistic constraint
- Use of Futures Markets
 - Pricing
 - Hedging
 - Speculating
- Differentials
 - Vs outright
 - Examples
- Arbitrage
 - Use
 - Calculation



AUTHORIZED
SCA TRAINER
2016-2019



Practical Exercise

- Calculate a Differential
- Calculate the Arbitrage London/NY

Arabica Market History

- 1882: Founded as "Coffee Exchange of City of New York"
- 1916: Name changes to "NY Coffee and Sugar Exchange" (sugar added in 1914)
- 1979: Merges and becomes "Coffee, Sugar, and Cocoa Exchange" (CSCE)
- 1998: Merges and becomes "New York Board of Trade" (NYBOT) (cotton included)
- 2007 InterContinental Exchange (ICE) acquires NYBOT
- 2013 ICE merging with NYSE/Euronext.

Robusta Market History

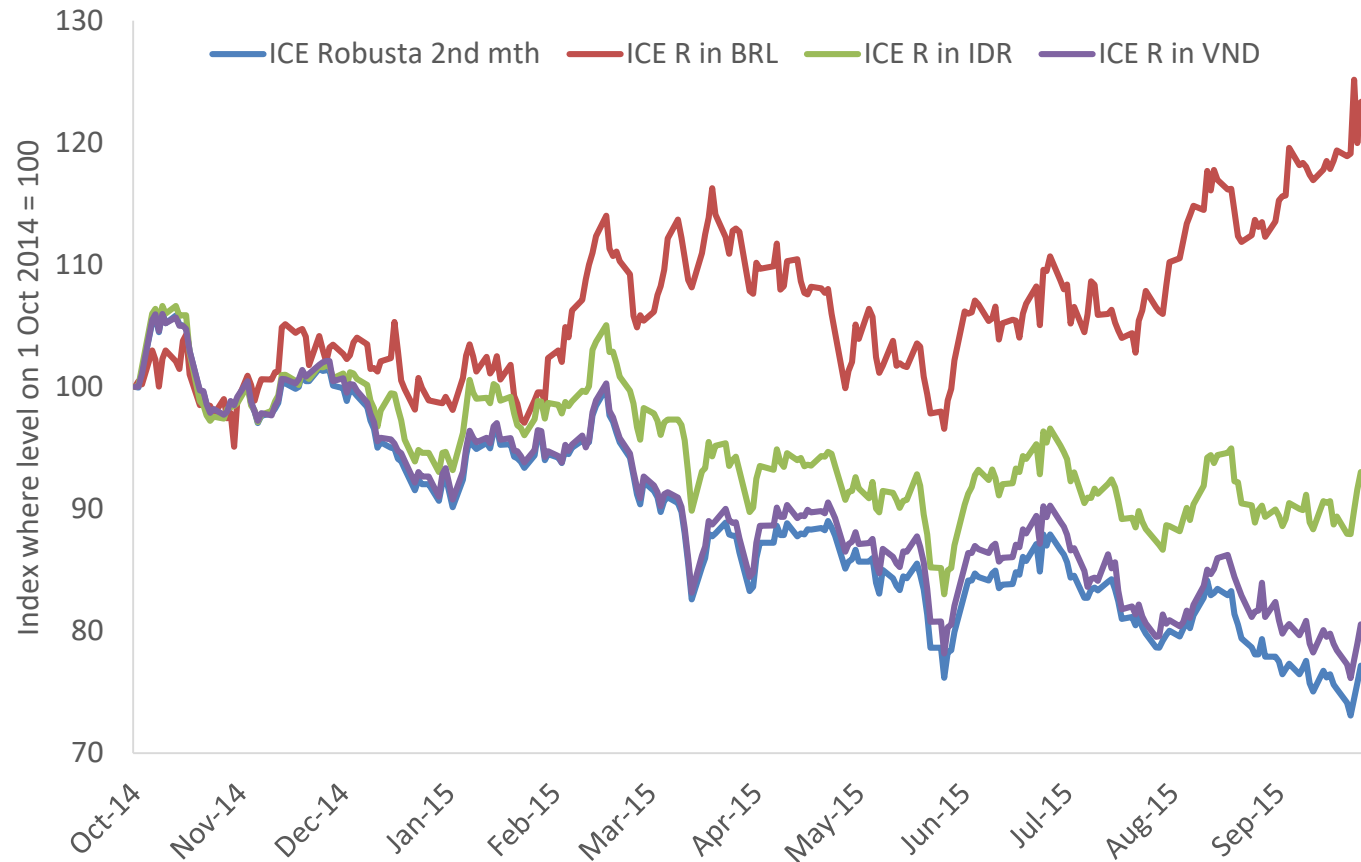
- 1958:futures contract on Ugandan Robusta launched by the Coffee Terminal Market Association of London
- 1928:London Cocoa Terminal Market Association
- Both merge in 1986 in Futures and option Exchange (FOX) to update the London Commodity Exchange (LCE)
- London International Financial Futures and options Exchange (LIFFE) appeared in 1996 when it merged with London Commodity Exchange
- Acquired by Euronext in 2002, joining Amsterdam, Paris, Lisbon and Brussels exchanges
- Merging with ICE in 2013/2014

Professional Curriculum

- Currencies
- Market Mechanisms
- Certified stocks
- Spread
- Hedging
- Options
- Technical Market Analysis



Currencies



Market Mechanisms

	Last	Net	%	Bid	Ask	Vol	Open Int.	Op. Int. Net
DEC7	125.95	-1.65	-1.29 %	125.90	126.00	18,172	42,177	-11,141
MAR8	129.30	-1.45	-1.11 %	129.25	129.30	30,426	110,657	10,141
MAY8	131.50	-1.55	-1.16 %	131.50	131.55	5,482	35,870	-896
JUL8	133.90	-1.50	-1.11 %	133.85	133.90	2,609	18,551	229
SEP8	136.25	-1.45	-1.05 %	136.20	136.25	1,176	7,656	-62
DEC8	139.65	-1.45	-1.03 %	139.60	139.70	142	4,952	-19
MAR9	141.95	-2.40	-1.66 %	142.90	143.00	13	1,705	-7
MAY9	146.30			144.85	145.00	7	391	
JUL9	148.15			146.75	146.95	2	285	
SEP9	150.00			148.60	148.90		552	
DEC9	152.75			151.30	151.70		537	4
MAR0	155.50			154.05	154.50		150	1
MAY0	156.95			155.45	156.35		2	
JUL0	158.70			157.15	158.65			0
SEP0	159.95			158.40	160.95		2	

Market Mechanisms

- In order to make sure all operations are safe, market authorities use 2 different tools :
- Deposits: it is compulsory prior to any operation
 - 2850\$/lot in New York
 - 1750\$/lot in London
- Margin calls: operators have to cover any unfavorable price move
- Deposits and margin calls guarantee the good execution of every contracts
- Risk is limited to the operator's financial capacity
- It is a zero-sum game. What is gained by an operator is lost by another one

Certified Stocks

	ANTWERP	BARCELONA	HAMB. / BREM.	HOUSTON	MIAMI	NEW ORL.	NEW YORK	Total
Burundi	53,649		34,872				5,337	93,858
Colombia	112,732		1,023	1,352	33,716	825	64,697	225,879
Costa Rica	250							250
Ecuador							250	250
El Salvador	2,450		25	225	250	250	16,494	18,944
Guatemala	31		200	850		4,160	5,075	10,116
Honduras	611,439	250	82,681	74,417	250	3,500	45,957	833,767
India	30,707	200	4,345				960	35,052
Mexico	150,883		52	26,541		250	14,740	192,216
Nicaragua	51,237		1,993	550	6,050	1,925	47,550	109,305
Panama								
Peru	85,166		36,788	31,060	125	1,000	76,565	232,579
Rwanda	37,119		7,353				640	45,112
Tanzania	70		227				578	578
Uganda	16,129	295	17,339				3,800	38,523
Venezuela					254		150	150
Total in Bags	1,218,602	295	192,985	134,770	39,766	11,410	283,859	1,911,954

Options

- Option gives the right, but not the obligation to buy (call) or to sell (put) an underlying futures
- This right is possible through the payment of a premium whose value relies on time and volatility
- Time value and delta resulting from volatility add up to the intrinsic value
- Options can be traded on futures market like any other commodity

Hedging

Physical:

11/17: Purchase 100 t Ivory Coast G1 1300 \$/MT

12/17: Sale 100t Ivory Coast 1470 \$/MT

Result: gain 170 \$/MT

Futures:

Sale 100t London at 1150 \$/MT

Purchase 100t London at 1320 \$/MT

Result: loss 170 \$/MT

Final result:

Physical gain: 170 \$/MT

Futures loss: 170 \$/MT

Technical Market Analysis

Bollinger Bands

- The Bollinger Bands indicator is made up of two simple moving averages with 2 standard deviations applied
- When the bands lie close together, a period of low volatility is indicated. Conversely, as the bands expand, an increase in price action/market volatility is indicated
- A buying signal could be when price breaks above the upper Bollinger Band or a selling one when price falls below the lower Bollinger Band

Technical Market Analysis

Bollinger Bands



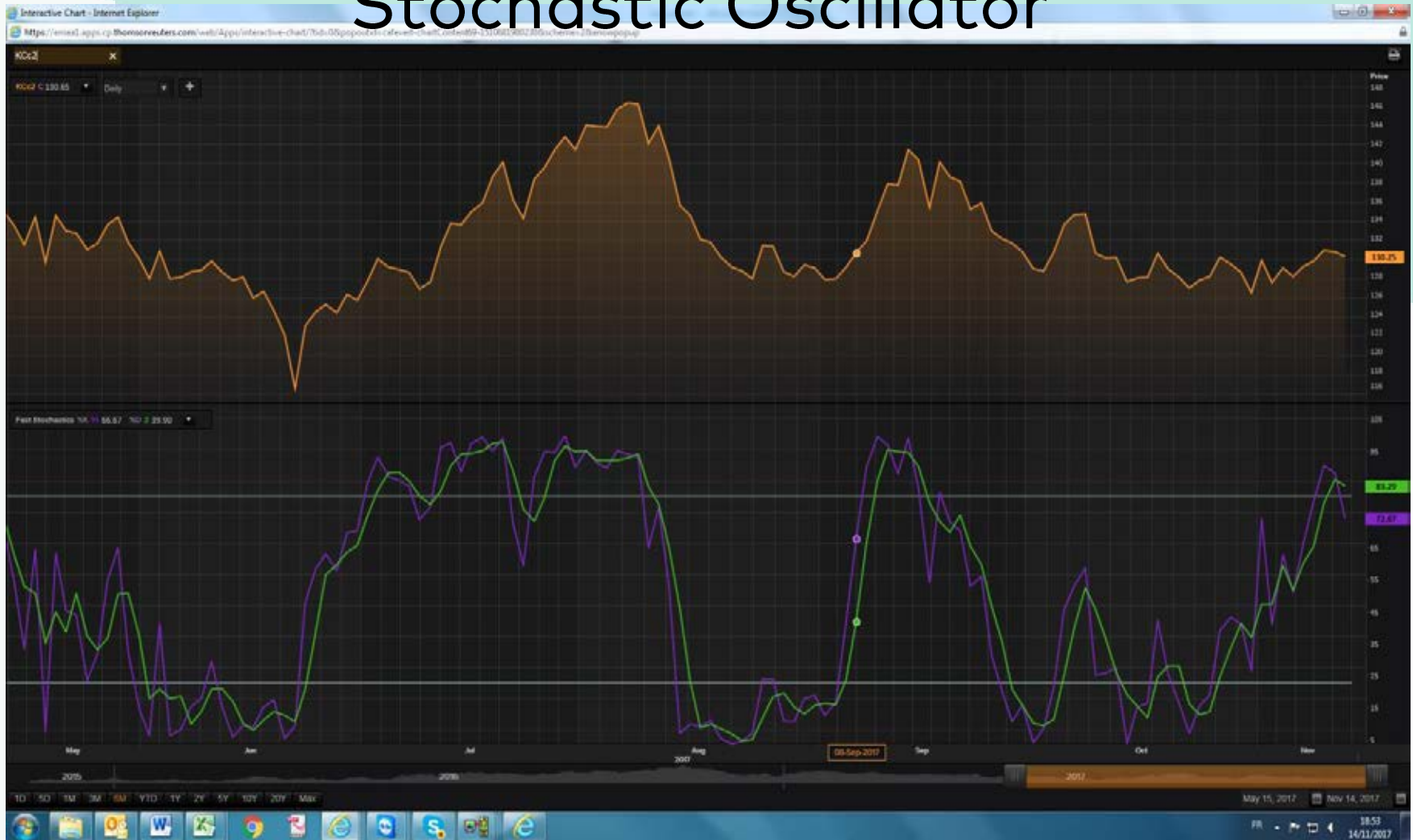
Technical Market Analysis

Stochastic Oscillator

- The Stochastic Oscillator is a momentum indicator that shows the location of the close relative to the high-low range over a set period
- The Stochastic Oscillator makes it easy to identify overbought and oversold levels
- It is made of :
 - A fast stochastic noted %K and %D
 - A slow stochastic noted %DS and %DSS
- Stochastics are mainly used to signal reversals

Technical Market Analysis

Stochastic Oscillator



Technical Market Analysis

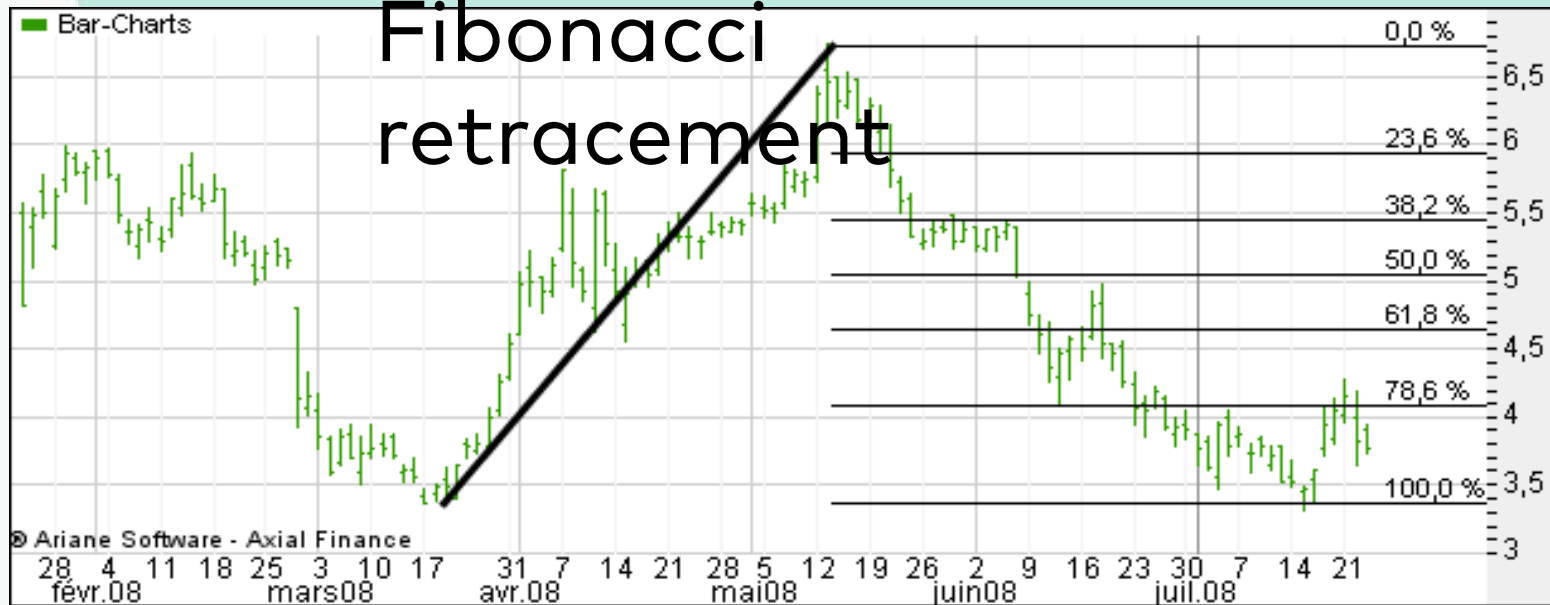
Fibonacci

retracement

- Fibonacci retracement is created by taking two extreme points on a chart and dividing the vertical distance by the key Fibonacci ratios
- 0.0% is considered to be the start of the retracement, while 100.0% is a complete reversal to the original part of the move
- Once these levels are identified, horizontal lines are drawn and used to identify possible support and resistance levels
- The key Fibonacci ratios are 0%, 23.6%, 38.2%, 61.8%, 78.6% and 100%

Technical Market Analysis

Fibonacci retracement



Key vocabulary

- See Daily Coffee Report
 - Delivery
 - Points
 - Spreads/switches
 - FND
 - OI
 - COT
 - Short/long
 - Support/resistance
 - Structure
 - Contango/backwardation

Commitment of Traders

- Producer/merchant/processor/user: an entity that predominantly engages in the production, packing or handling of a physical commodity and uses the futures markets to manage or hedge risks associated with those activities
- Swap dealer : an entity that deals primarily in swaps for a commodity and uses the futures markets to manage the risks associated with those transactions.
- Managed money: Funds who offer to their customers speculative investments
- Other reportables : Any other trader that is not placed in the

FAQ

- Can I hedge Ethiopian Coffee?
- What is the link between futures markets and physical markets?
- Why aren't you rich with all this information?
- GCA stocks and certified sotcks?

Codes

- NY
 - H = March
 - K = May
 - N = July
 - U = September
 - Z = December
- London
 - F = January
 - H = March
 - K = May
 - N = July
 - U = September
 - X = November



Practical Exercise

- Spread Calculations
- Hedging





**Specialty
Coffee
Association**