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Orange Juice and the Weather

The reason for this article is to show how one could possibly predict the weather based on orange juice future prices. The paper will show us the aggregate of the information people have reflected in the price of these futures to what the weather will be like.

The reason that orange juice is an effective good to look at is because it is not, at least in the short term, affected by other outside factors besides weather.

When looking at orange juice future prices the paper ignores the longest and the shortest contracts. The shortest because there have been some fluctuations in prices in a small period of time creating a very large annual rate. This is not due to weather and we should ignore it.

From the data in the paper when we look at Monday’s return we should see that it is three times the other weeks since it incorporates the weekend but we only see a 1.5 times increase which leads us to believe that there are other factors affecting orange juice futures besides weather. However, no one has come up with an explanation before this paper was written.

The biggest problem with weather affecting orange juice futures is a freeze that could stun the crop. In the paper we find that we can try and predict when these freezes’ might happen.

The paper finds that weather only makes up a small fraction of the daily price movements. They also looked at other factors such as substitutes, general demand, export demand, and costs still only made up a fraction of the price movements.