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The Role of Coffee Futures in Discovering Prices for Latin American Producers

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Structure

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Introduction

- Coffee = important exporting crop for many Latin American countries
- Prices volatile → Futures markets = opportunity to hedge price risk and provide price discovery vehicle
- Research divided on direction of relationship between spot and futures prices
 - investigating the relationship between the two markets

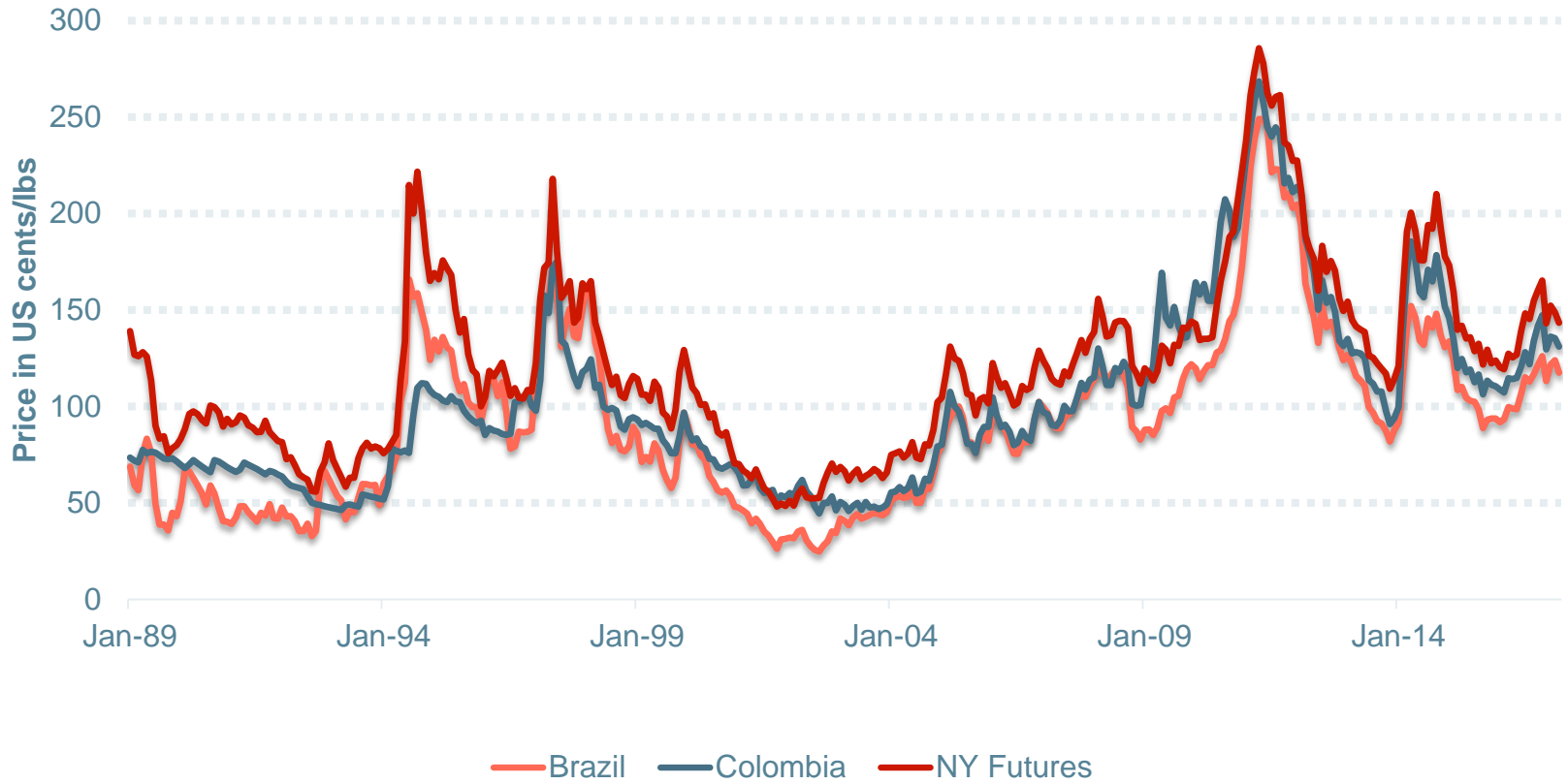


Futures markets and price discovery

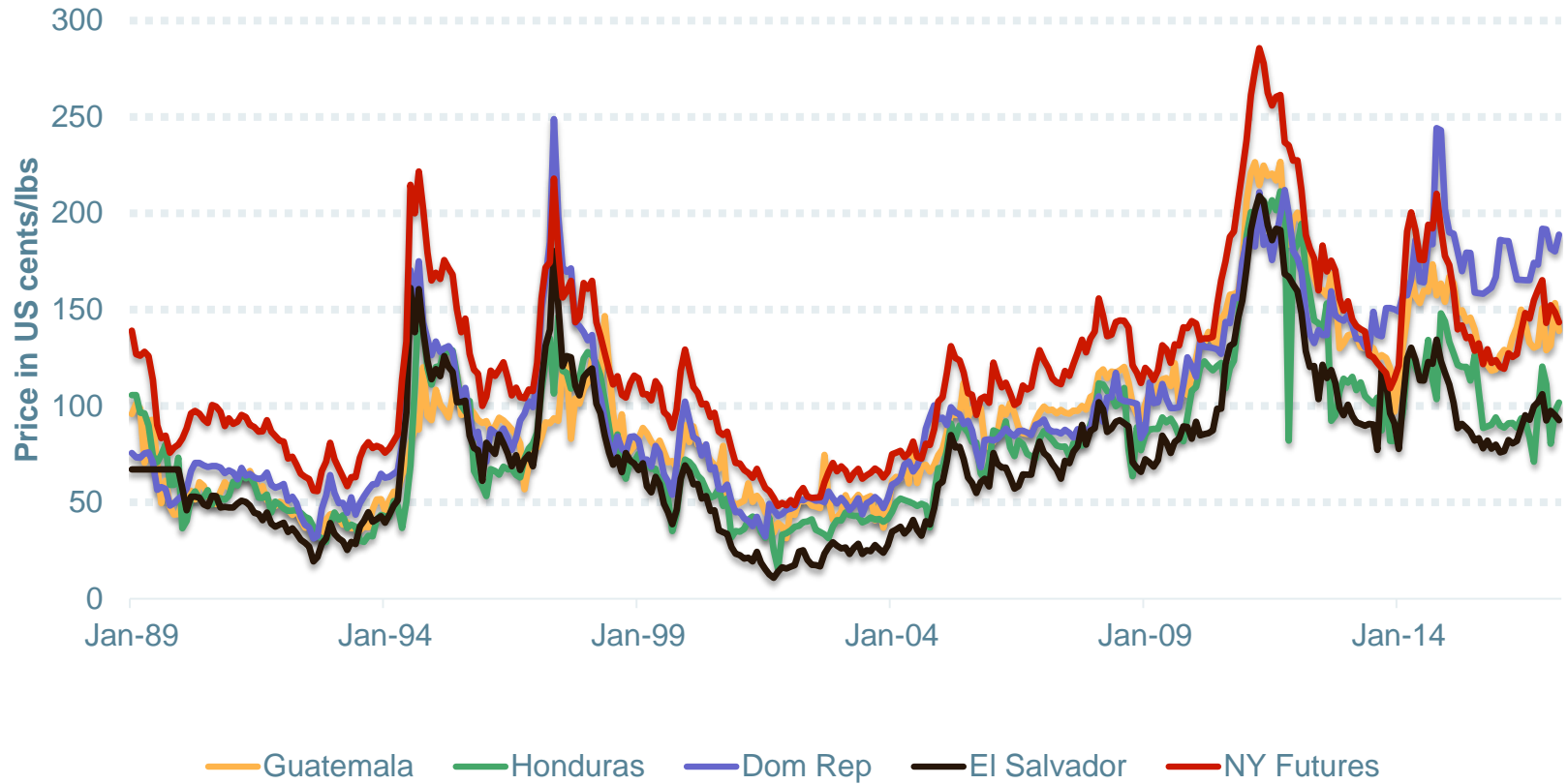
- Coffee futures markets → trading of standardized contracts regarding quality and quantity
- Spot market → trading of (green) coffee differing in quantity and quality
- Prices discovered by information gathered and interpreted in these markets → prices in both markets react to same set of information
 - Which market incorporates new information faster?



Data



Data



Methodology

1. Identify appropriate time frame
2. Test for stable relationship between futures and producer prices
3. Identify role of spot and futures prices in price discovery process



Results – Time Frame

	Time Frame	No of Observation
Brazil	1992-2017	299
Colombia	1989-2017	336
Guatemala	1998-2017	231
Honduras	2001-2017	187
Dominican Republic	1990-2017	320
El Salvador	1994-2017	272



Results - Cointegration

Statistical Analysis confirms:

	Cointegrated
Brazil	✓
Colombia	✓
Guatemala	✓
Honduras	✓
Dominican Republic	✓
El Slavador	✓



Results

Price Discovery Results – 1

Country	Market	Dominating price discovery	
		PT	IS
Brazil	Futures Price		
	Producer Price	✓	✓
Colombia	Futures Price		
	Producer Price	✓	✓
Dominican Republic	Futures Price		
	Producer Price	✓	✓

Results

Price Discovery Results – 2

Country	Equation	Dominating price discovery	
		PT	IS
Honduras	Futures Price	✓	✓
	Producer Price		
Guatemala	Futures Price	✓	✓
	Producer Price		
El Salvador	Futures Price	-	-
	Producer Price	-	-

Discussion

- Market size (Brazil, Colombia)
- Strong domestic consumption (Brazil, Dominican Republic)
- Existence of futures exchange at country level (Brazil)



Conclusion

- Analysis provided mixed results
 - In Brazil, Colombia, and the Dominican Republic, producer prices incorporate information faster
 - In Guatemala and Honduras, the New York futures market dominates price discovery → provides useful basis for production and marketing decisions
 - For El Salvador, results inconclusive → limitations of the estimation method
- Further research → Robusta, additional countries





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Thank you