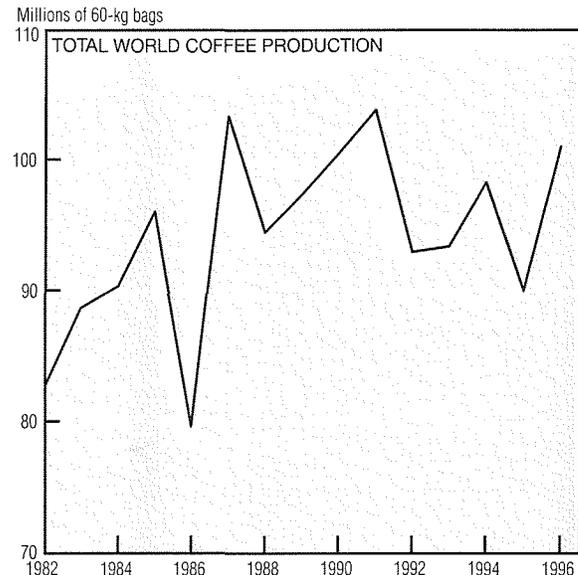
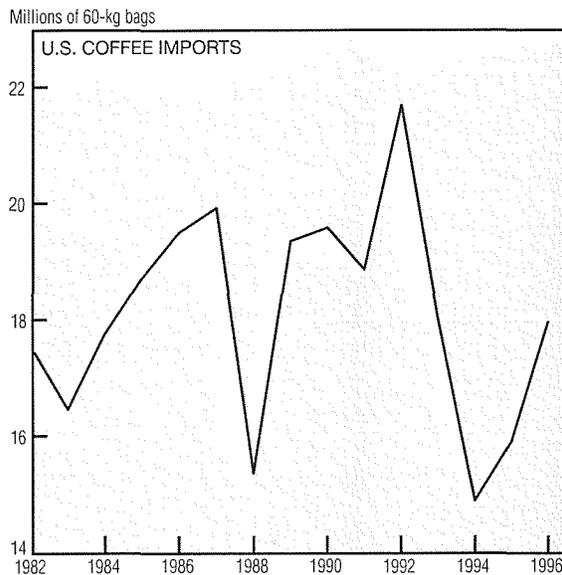
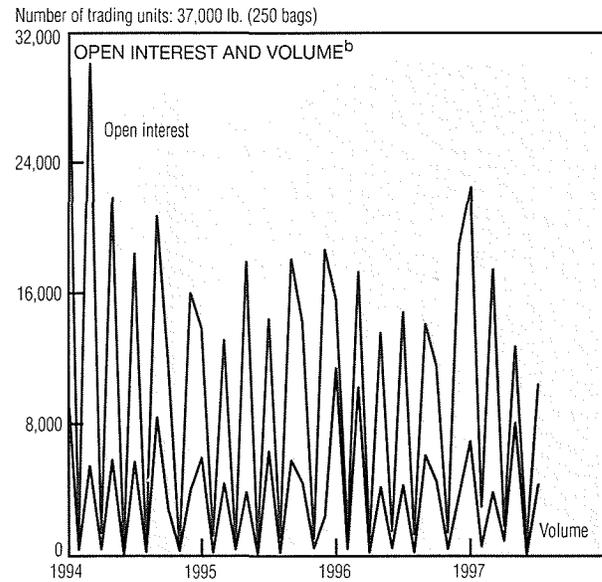
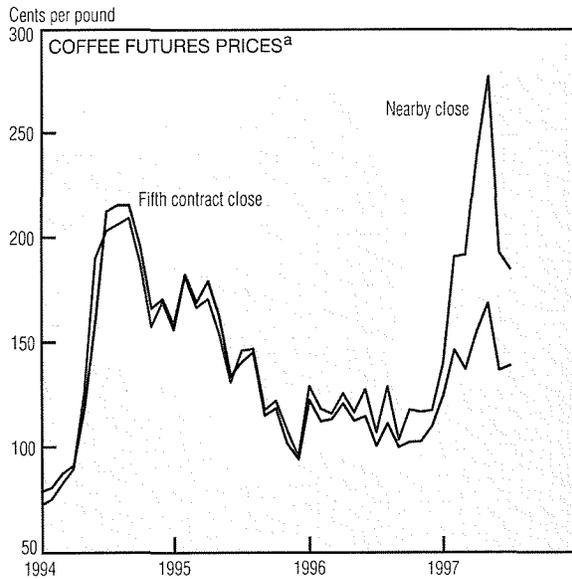


Coffee Production and Prices



a. "C" contracts. "Nearby close" refers to the contract maturing the earliest, and "fifth contract close" refers to the contract maturing the latest.

b. Nearby contract.

NOTE: All data are for green coffee.

SOURCES: U.S. Department of Agriculture, Foreign Agricultural Service; U.S. Department of Commerce, Bureau of the Census; and Coffee, Sugar and Cocoa Exchange, Inc.

Coffee prices—both spot and futures—have fluctuated widely in the past year. The spot price for mild Colombian arabica doubled between May 1996 and May 1997, and other prices rose by more than 50%. Most analysts attributed this volatility to production uncertainty, even though total production was expected to increase. (World demand was also expected to rise.)

Although coffee production has diversified internationally, weather conditions around the world remain an important factor in futures prices.

Fear of inclement conditions in Brazil and Colombia—the world's top two producers—has apparently subsided, as the nearby futures price (the next maturing contract, usually a maximum of three months away) dropped 23% between April and June. These contracts still stand far above 1996 prices, however. The longest actively traded contracts (currently due in July 1998) show much less variation. This has led to rather extreme *backwardation*, where short-term futures prices exceed long-term ones.

Interestingly, the surge in prices

has not been reflected in either open interest (the total number of open contracts) or volume (the number of contracts traded over a given period). In the case of coffee, open interest usually exceeds volume, since a contract must exist to be traded. However, volume can surpass open interest if contracts are traded more than once. The strongly seasonal pattern seen in many markets reflects the increase in volume and open interest as a contract nears maturity and becomes the "nearby" contract.