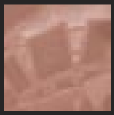
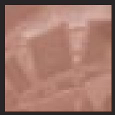
Understanding Futures & Options

	Sep3	Nov3	Jan4	Mar4	May4	Jul4	Sep4
3rd	7815	8170	8295	8500	8620	8760	9350
2nd	7820	8200b	84000B	8500B	8625	8765	9355
Last	7600	8300A	8700A	8630	8888	8888	9368

	Sep3	Dec3	Mar4	May4	Jul4	Sep4	Dec4
3rd	7095	105	766	3564	5985	145	7295c
2nd	7100	110	771	3574	5998	699	

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NEW YORK BOARD OF TRADE®

Since 1870, the futures and options markets of the New York Board of Trade® (NYBOT®) have provided price discovery, risk management and price dissemination tools for industry users and ongoing investment opportunities for market participants. By developing and supporting efficient and transparent markets, the New York Board of Trade reaffirms on a daily basis the historic role of the traditional futures and options exchange.

The New York Board of Trade, Inc. was formed in 1998*, as the parent company of the Coffee, Sugar & Cocoa Exchange, Inc. (CSCE) and the New York Cotton Exchange (NYCE®). Through the merger of its two exchanges, NYBOT provides futures and options markets for a broad range of products including cocoa, coffee, cotton, frozen concentrated orange juice (FCOJ), ethanol, sugar, currency cross-rates, the U.S. Dollar Index® (USDX®), the Russell Indexes, the New York Stock Exchange (NYSE) Composite® Index and the Reuters CRB℠ Futures Price Index.*

While providing market users with reliable ***price discovery*** *and* ***price risk transfer*** *functions through traditional open outcry trading in its global marketplace, the NYBOT offers* ***price dissemination*** *via the internet through its real time market data service at* ***www.nybotlive.com****. Continuous exchange and market information is also available through the NYBOT web site at* ***www.nybot.com.***

In addition to its traditional price-related functions, the ***NYBOT develops and supports innovative industry-related services*** *such as the electronic commodity operations and processing system (eCOPS®) – a web-based electronic delivery documentation platform that serves the coffee trade.*

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NYBOT eCOPS®

Understanding Futures and Options

The Markets *(Cash and Futures)*

Trading of basic commodities represents one of humanity's oldest commercial activities. Nearly every community throughout history developed some sort of central marketplace where people could meet and trade necessities such as foods, fibers and other basic commodities. Over time, more participants entered the **physical (cash) market.** This lengthening of the marketing chain directly affected the value (price) of each commodity. Each participant in the chain added value to the commodity (processed, transported, stored, refined, manufactured, etc.) and this affected the price. As participants added value, they acquired a stake in the price and thus a profit margin to protect. Participants became more and more vulnerable to sudden price changes, thereby increasing instability and supply/demand speculation. A sudden change in the supply/demand equation can squeeze anyone in the chain needing to acquire a commodity that suddenly jumps in value or required to hold a commodity that decreases in value.

As the markets for commodities like sugar, cocoa, cotton and coffee grew larger, the supply lines grew longer. The TransAtlantic route (e.g. between London and New York) introduced another level of risk and merchants began writing individual contracts for expected deliveries **(forward contracts)** containing specific terms of delivery (quantity, quality, anticipated date of delivery) all for a fixed price.

With this increasing cash market risk, merchants for several basic commodities joined together in the late nineteenth century to establish a more organized and specialized marketplace for each commodity where they could meet and negotiate these forward contracts. The forward contract, however, was still a cash market instrument whereby a price was negotiated for an actual physical commodity transaction at a future date of delivery. The contract applied to the unique terms of one transaction, but the existence of this piece of paper added another possible level of trade – the idea of buying and selling the contract itself. As a binding instrument that committed the holders to a transfer of the physical commodity, the contract itself could change hands many times as long as its terms remained outstanding (until the actual delivery took place).

As the buying and selling of an existing contract became an accepted practice, the standardization of that contract became the next logical step. The standardization of the forward contract led to the creation of the **futures contract** that added a whole new dimension to commodity trading. The cash market continued its day-to-day business of selling and buying a commodity at that day's price.