

Coffee

FUTURES & OPTIONS



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The New York Board of Trade® (NYBOT®) provides the world's premier futures and options markets for several internationally traded agricultural commodities: cocoa, coffee, cotton, frozen concentrated orange juice (FCOJ) and sugar.

The trading of agricultural commodities represents one of civilization's oldest commercial activities. Crop commodities, such as cotton and sugar, have been in use for around 3,000 years. Basic commodities with universal value in different cultures served as the first international currencies of exchange. With such a long history as a basis of world trade, commodities played a major role in the rise and fall of empires.

The shape and scope of commodity trading has evolved since the early trading routes were established, but it still remains a fundamental economic component in world economic development. The price fluctuations of a basic commodity can still shock the economy of a country or an entire region. The price of the latest yield of the citrus grove or the coffee plantation matters a great deal. The central importance of commodity pricing gave rise to the commodity exchanges and their principal pricing tools – futures and options contracts.

For well over a century, cotton, coffee, sugar, cocoa and citrus industry representatives have joined traders and investors in the New York Board of Trade futures and options markets to engage in price discovery, price risk transfer and price dissemination for these internationally traded commodities. Each day, people from around the world look to the NYBOT markets for a benchmark price.

While the pricing role of the NYBOT markets has remained the same, the exchanges have changed their names, merging, expanding and adding new agricultural products over the years.

New York Board of Trade Historic Timeline

- 1870** The New York Cotton Exchange (NYCE®) trades first cotton contracts
- 1882** Coffee Exchange of the City of New York trades first coffee contracts
- 1914** Coffee Exchange adds sugar futures
- 1916** Coffee Exchange becomes the New York Coffee and Sugar Exchange
- 1925** New York Cocoa Exchange begins trading cocoa futures
- 1966** New York Cotton Exchange adds Frozen Concentrated Orange Juice (FCOJ) futures
- 1979** New York Coffee and Sugar merges with New York Cocoa Exchange forming the Coffee, Sugar & Cocoa Exchange, Inc. (CSCE)
- 1982** CSCE introduces options on sugar futures, first U.S. exchange-traded option
- 1984** NYCE introduces cotton options
- 1985** NYCE adds FCOJ options
- 1986** CSCE adds cocoa and coffee options
- 1998** CSCE and NYCE form New York Board of Trade
- 2004** CSCE & NYCE become New York Board of Trade

Potential users of the NYBOT coffee futures and options markets are strongly encouraged to read a companion NYBOT publication entitled “Understanding Futures and Options” for an overview and explanation of the basics of these markets. More information is also available at www.nybot.com.

COFFEE IN HISTORY

Coffee first appeared in Ethiopia around 2,000 years ago. Legend has it that an Ethiopian goatherd, who witnessed the energized behavior of his goats after they feasted on the berries of a coffee tree, tried the berries himself and discovered their unusual properties. Monks in a local monastery took this discovery and turned it into a beverage.

Whatever the actual origins, historians say that in Ethiopia people seasoned foods with ground coffee beans. By the 10th century, traders had brought the beans to the Arabian peninsula (Yemen) where Muslim monks grew the shrubs and made a “wine” (“Qahwah” in Arabic) from the fermented coffee berries. With wine forbidden to Muslims, this liquid became a substitute beverage.

In about 1300 the southern Arabians began roasting and brewing coffee. This development meant wider use of coffee as a beverage for everything from religious purposes to medical applications. Even as early as the 10th century, a respected Arab physician wrote about the positive physical effects of coffee. As coffee became a greater part of Arab life, it assumed a social role as well. In fact, the original “coffee houses” sprang up in and around Mecca in which people could not only drink the beverage but exchange ideas, listen to music or play chess. The early coffee houses also exposed European travelers to this unique beverage.

The Arabians initially protected their production of coffee and maintained an early monopoly on this lucrative source of trade. The free marketplace, in the form of the legendary Middle Eastern hub of the trade routes to Asia, Africa and later to Europe, rebelled against such controls. Curiosity and the profit motive quickly moved the idea of coffee far beyond its early boundaries. With the many pilgrims that passed through Mecca, the popular beverage began to appear beyond Arabia. By the 15th century, coffee was growing in Yemen and within the next hundred years its use reached Egypt, Persia, Syria and Turkey.



COFFEE IN EUROPE

By the 17th century, coffee had increased its presence and popularity in Europe. In contrast to the Arab countries, European clergy initially condemned the new beverage until the Pope himself declared that it was all right to drink it. Coffee houses quickly sprang up in the major cities of Austria, England, France, Germany and Holland. In London, for example, over 300 coffee houses were flourishing, serving merchants, tradesman, shippers and artists. The coffee houses became a source of new businesses, such as Lloyd's of London, which was born in a London coffee house. In England, coffee became the "drink of commerce" and for the centuries since it has been associated with the work place in western culture.

The coffee house assumed the same prominent role in the foundation of the American economy. Business leaders gathering at the Merchants Coffee House in Lower Manhattan created the first bank of New York and many of those same merchants organized the beginnings of the New York Stock Exchange.

The Dutch opened the door to European participation in coffee production in 1616, cultivating their own coffee trees. By 1658, the Dutch had begun production in Ceylon, Java and Sumatra. In 1723, a French Naval Officer transported a seedling from a plant that had been given to the King by the Dutch nine years earlier, to Martinique. In the next fifty years this plant evolved into 18 million coffee trees. Thus a single royal gift became the plant stock from which coffee trees in South and Central American and the Caribbean originated.

The enormous Brazilian coffee industry (Brazil is now the world's largest coffee producer) is said to have also originated from a gift by a Governor's wife to an attractive admirer. Although the French, like the Arabians, tried to protect their valuable production monopoly, a few seeds hidden in a gift spread coffee production widely. By the end of the 18th century, Brazil had become a major coffee producer and coffee had become one of the world's most profitable export crops. Within one hundred years, coffee had moved from a carefully guarded monopoly to a commodity produced and consumed throughout the world.

Another factor, of course, that helped the global growth of coffee involved the tea monopoly, the tariffs associated with tea and the rejection by the American colonies of that same tea-based commerce. As coffee became more widely available, it supplanted tea in western culture, first in the workplace and then in the home.

PRICE VULNERABILITY

When a commodity assumes a prominent position in the global economy, it also invites speculative excess and ever-increasing vulnerability to major price shocks. The coffee trade – with its long sea-route, supply lines and weather variables – suffered from wild price swings.

After uncontrolled cash market speculation brought about a calamitous market collapse in 1880, a group of coffee merchants mobilized to bring some order to the chaos. As result of this effort, on March 7, 1882, 112 dealers and importers gathered in lower Manhattan to buy and sell coffee futures. The first transaction on the New York Coffee Exchange of 250 bags of coffee helped to establish an organized marketplace that served several key functions: set standards for different grades of coffee; provided a market where growers, merchants, roasters and wholesalers could hedge against losses in the cash market; established an arbitration system to settle disputes; recorded and disseminated current market information to members.

The Fundamentals of Supply and Demand

GROWING COFFEE

The remarkable coffee bean, or “cherry” as it is called in its natural form, is a seed that can become a fruit-bearing coffee tree in approximately four years. Although coffee, like cotton, has many grades, growths and specific growth qualities, it is primarily classified into two types – **arabica** and – **robusta**. Arabica coffee beans, which grow mainly in the tropical highlands of the Western Hemisphere, make up the bulk of world production. Robusta coffee beans, less mild than arabica, are produced largely in the low, hot areas of Africa and Asia.

Arabica coffee (the coffee represented by the Coffee “C”[®] futures contracts traded at NYBOT) is the preferred, higher quality coffee. It is higher in price due to several factors. Growing conditions for arabica are affected more often by weather events (drought, freeze). The picking of arabica coffee cherries is also labor intensive. In most countries, quality arabicas must be harvested by hand selectively.

In most countries there is one main harvest a year. In Colombia, the source of a large amount of fine quality arabica coffee, there is a main and a secondary crop. The labor-intensive nature of arabica coffee production is reflected by the large number of small family-owned farms engaged in the production of coffee.

Coffee processing relies on two different methods initially. The oldest method, common in areas with limited water resources, is the dry method. The coffee cherries are spread out to dry in the sun to be raked and turned every few days. This process may go on for several weeks until the moisture content of the berries goes below 11 percent. The cherries are then moved into warehouse storage.

The wet method involves the removal of pulp from the coffee cherry. When this process is complete, the beans are then dried by machine or in the sun. When they reach the 11 per cent moisture content mark, the beans can then be readied for export.

Coffee milling before export involves three basic steps: hulling to remove the parchment layer (husk); polishing (optional polishing of the bean); grading and sorting of beans according to size and to remove beans with color flaws and imperfections. The removal of imperfect beans is a process best done by hand. The milled beans (“green coffee”) are bagged and shipped.

Coffee is repeatedly tested for quality and taste at every stage of production. The “cupping” of the coffee involves roasting the beans and tasting the results under carefully controlled conditions. Coffees, therefore, are analyzed for their characteristics and flaws and to determine blending possibilities (different combinations of beans and roasting techniques to produce coffee with specific qualities). Grading for coffee relies on subjective criteria applied by licensed graders. Grading is an important factor in pricing coffee.

Coffee is a vital export crop for many developing countries. Approximately 70 countries produce coffee with some 45 accounting for 97% of world production. Although coffee production began in Africa, Brazil has led world production since the middle of the nineteenth century. Viet Nam (a new player in the industry in the last decade) has vied for position as the number two producer with Colombia, followed by Indonesia. The emergence of Viet Nam as a major producer of robusta coffee and greater production from Brazil has changed the supply / demand equation significantly in recent years.

WORLD PRODUCTION* (millions of bags)

Coffee Year	World Total	Brazil	Vietnam	Colombia	Indonesia
1999	114.8	32.3	11.6	9.3	5.7
2000	112.3	32.0	14.7	10.5	6.9
2001	109.3	33.7	13.1	11.9	6.8
2002	120.9	48.4	11.5	11.8	6.7
2003	101.3	28.8	11.2	11.7	6.0

*International Coffee Organization (ICO)

On the demand side, world consumption has increased by an average of only about 1.2% since the 1980s. While increases have occurred in the producing countries and in Japan in particular, consumption in the largest importing country, the United States, has remained relatively flat. The boom in specialty coffees has shifted the consumption of types of coffee but has not led to an overall large increase. Consumption therefore has not been able to keep pace with the increase in production. In coffee year 2000/01, for example, world consumption was estimated to be 109 million bags; production the same year totaled approximately 111.7 million bags. Coffee faces serious competition from other beverages in the marketplace such as soft drinks and juices. In 1975, coffee was the dominant beverage with 62% of the population drinking it. In 2001, soft drinks had become the dominant beverage at 58% with coffee falling to only 52% of the population.

The **roasting of coffee** usually takes place in the importing countries where freshly roasted beans can reach the consumer as quickly as possible. More information about the history, production and processing of coffee can be found through the National Coffee Association, Specialty Coffee Association, International Coffee Association and the Green Coffee Organization.

COFFEE PRICING FACTORS

At any time along the marketing chain for coffee from the tree to the cup, coffee prices can move quickly and often in response to key supply and demand factors such as weather, political policies, labor contracts, crop predictions, etc. Given the **growth cycle/characteristics** of the coffee bush/tree (three to five years from planting before bearing marketable beans), the **processing capabilities** necessary for higher grade and quality washed arabica coffee and the **shipping/storage demands**, the physical market cannot respond quickly to reflect changing supply/demand conditions. In the absence of a major increase in consumption, adjustments on the supply side are difficult to implement in a short time frame and involve painful choices for producers that cannot be easily undone.

Futures markets, however, can respond quickly through their price discovery process that reflects changing cash market conditions. Futures markets react immediately to any fundamental change in the marketplace and the price discovery process reflects this shift. The coffee futures and options markets at NYBOT provide the perfect tools for risk managers throughout the coffee marketing chain to help protect the bottom line.

TRADING COFFEE FUTURES AND OPTIONS

The NYBOT coffee market trades the Coffee “C”[®] Futures Contract, the Mini Coffee “C” Futures Contract and options on the regular Coffee “C” contract.

Each Coffee “C” futures contract (ticker symbol KC) traded in the NYBOT coffee market is for 37,500 lbs. (approximately 250 bags) of Exchange-certified arabica coffee produced in several Central and South American, Asian and African countries. The contract has a minimum price fluctuation of .05 cents/lb. equivalent to \$18.75 per contract. At 70 cents/lb., one contract would be worth \$26,250.

The Mini “C” Contract (equivalent to 12,500 lbs. of arabica coffee) is designed to provide access to the NYBOT market for smaller producers, retailers and investors for whom the regular “C” contract is impractical. The Mini “C” contract has many of the same specifications as the regular. It differs primarily in size and settlement provisions. At one-third the size of the regular, the Mini “C” (12,500 lbs.) is **Cash Settled**. At 70 cents/lb. the contract has a total value \$8,750. It has a minimum price fluctuation equivalent to \$6.25 per contract.

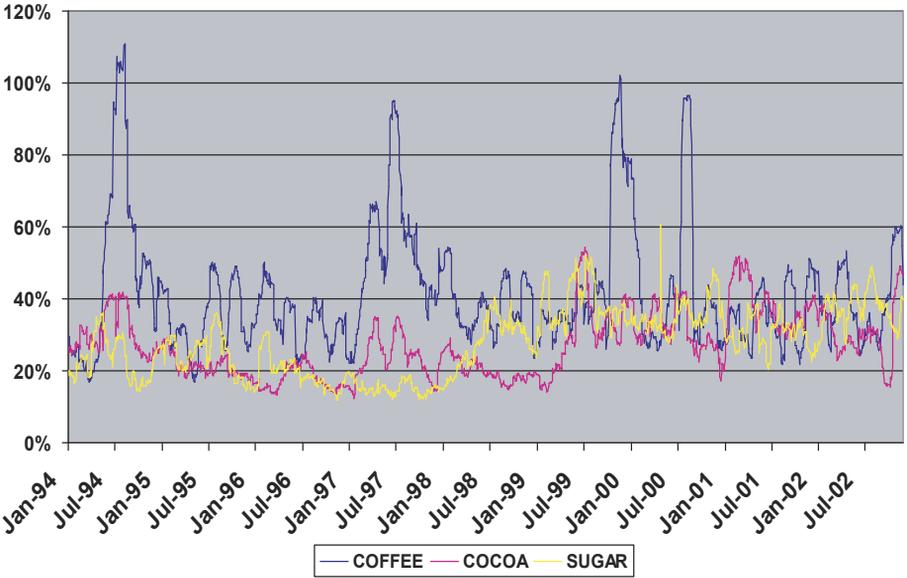
The world’s coffee industry now looks to the Coffee “C” contract market each business day to provide a price for arabica coffees. The “nearby contract” (the Coffee “C” regular futures contract nearest to expiration) is used as the **benchmark** for cash pricing.

For example, on January 22, 2001, the nearby “Mar 01” Coffee “C” futures contract (the one that expires in March) was trading on NYBOT’s CSCE at 71.25 cents/lb. In the cash market, actual deliveries for March might see Colombians trading at a premium of 4 cents/lb. over the Mar 01 price and prime Mexicans at 7 cent/lb. discount. The commodity cash price is “based” on the nearby futures price (in this case the Mar 01 price).

Coffee offers a good illustration of the vital risk management function of futures and options. Coffee production's sensitivity to weather shocks and its limitations of climate and geography are a constant source of price volatility. The historical volatility for coffee has been significantly greater than for other commodities (like cocoa or sugar).

Coffee futures and options markets do not increase volatility. The volatility and risk originate in the cash market. The cash price of coffee, while benchmarked to the Coffee “C” futures price, is determined primarily by cash market conditions. Coffee futures and options markets cannot remove volatility and risk arising from a change in cash market conditions; they do allow coffee industry participants to transfer and manage risk.

COMPARED VOLATILITY



COFFEE "C" MONTH-END NEARBY PRICES



The same coffee price **volatility** that makes coffee futures and options markets **necessary to risk managers** creates **opportunities for investors**. Since volatility measures the frequency and size of price movements in both directions, it affects all levels of the marketing chain and brings in market users with opposing price goals. As the levels of volatility and risk management activity in the futures market increase, the speculative opportunities on both the buy and sell side of the market often expand as well. The speculative activity in the coffee market provides a critical mass of liquidity and pricing opportunity. Increasing the numbers of bids and offers in the trading ring throughout the day increases the pricing efficiency of the market.

Basis is a major factor in coffee pricing and hedging. Basis refers to the difference between the New York **spot futures price** (nearby futures contract) and the **cash price** at the local delivery point (wherever the cash market transaction takes place). **Carrying charges** and **delivery location** all affect coffee basis pricing. Coffee delivered at the Port of New Orleans or the Port of Hamburg, for example, trades at a discount of 1.25 cents/lb. to the coffee delivered in New York.

While coffee futures and cash prices do have a strong parallel relationship, the **basis figure is not constant**. Basis changes over time and can provide both opportunities and risks. **Basis risk, however, is less than cash market price risk**.

The grading of coffee plays a major role in cash pricing and therefore contributes to the basis differential. The coffee industry has organized itself around a system of grading that allows the market to price coffee based on consistent standards of quality. In the classification system established by the Specialty Coffee Association of America, (SCAA) for example, green coffee is divided into five defined grades. Each class is determined by the number of full defects found in a formal sampling of the coffee. A defect may consist of such imperfections as stones, sticks, hulls and spoiled or broken beans. For example, the exchange grade (Class 3) can have no more than 23 defects. The “exchange grade” of arabica coffees in the SCAA classification is comparable to the standard or constant benchmark for the pricing of coffee.

GRADE AND BASIS

Class 1	Specialty Grade (0-5)
Class 2	Premium Grade (6-8)
Class 3	Exchange Grade (9-23)
Class 4	Below Standard Grade 24-86
Class 5	Off Grade (more than 86)

All other coffees trade at a **premium** or a **discount** to the arabica coffee that is the standard for the Coffee “C” Contract. The cash price for a premium grade (Class 2) might be 25 cents/lb. above the nearby coffee futures price. This differential is negotiated in the cash market, but it uses the nearby Coffee “C” futures contract price as its base price.

SERVICE TO THE INDUSTRY

The NYBOT provides key services and capabilities to the entire coffee industry. Although only a small percentage of coffee futures contracts ever result in delivery, the New York Board of Trade is heavily involved in the **warehousing, sampling and grading** of arabica coffees for delivery against the Coffee “C” contract. In July 2004, over 5 million bags of exchange-certified coffee were stored in exchange-licensed warehouses in the U.S. and Europe. Coffee from the deliverable growths listed in the contract specifications must be sampled, graded, weighed and certified in accordance with the certification rules of the Exchange. If the Exchange coffee graders have determined that the coffee meets the minimum standards, the Exchange then issues a certificate that the coffee is deliverable under the contract. The grading process is a crucial component in maintaining contract specification standardization and consistency, ensuring that the trading process focuses entirely on price. Grading is handled through the Exchange’s state-of-the-art facility in New York City, the largest green coffee grading facility in the U.S. The Exchange licenses warehouses in designated ports that meet conditions specified in the Exchange rules. Designated ports now include: New York, New Orleans, Miami, Bremen/Hamburg, Antwerp (and Houston beginning with the March 2005 futures contract).



NYBOT state-of-the-art grading facility

The NYBOT participation in the physical side of the market involves delivery for coffee against the exchange contracts as well as non-certified and commercial coffee. Beginning in 1990, it used an internal electronic system – the Commodity Operations and Processing System (COPS®) to track the shipments of coffee certified for Exchange delivery and their accompanying certification information.

In 2003, NYBOT transformed its pioneering COPS into **eCOPS®**, **an electronic system that allows electronic transfer of all critical documentation and ownership via the Internet**. As eCOPS is expanded, the coffee industry will be able to move all labor intensive and error prone manual documentation processes to the electronic platform, providing major cost savings and efficiencies.

TRADING EXAMPLES:

The range of potential hedging strategies in the NYBOT coffee market is substantial. Beginning with a straight futures hedge, strategies can evolve into options or futures/options combinations and various types of fixed price forward contracts. The choice of strategy is determined by the specific marketing plan developed by the risk manager. This plan involves calculating risk exposure, assessing the market, identifying possible strategies, choosing and executing a strategy and monitoring events and market positions.

Coffee producers, importers, exporters, trade houses and roasters hedge with Coffee "C" futures and options. Because price volatility affects each part of the marketing chain differently, all participants have an equal say in pricing. Coffee futures and options serve different hedging strategies, but they both share the same goal – to protect the manager's bottom line that would be fully exposed to adverse price moves when unhedged.

The coffee cash market uses the coffee futures market to determine price in a number of ways. Hedging with futures and options is the most familiar method. The New York Board of Trade markets also support **"AA (Against Actuals – also called "exchange of futures for physicals" – "EFP") transactions**. An EFP is a simultaneous cash and futures transaction. One party buys the cash and sells futures and the other party sells the cash and buys futures. An "Exchange for Swaps" (EFS) is another possibility. An EFS transaction permits market users to exchange futures contracts for qualifying swap agreements. A swap is a contractual agreement in which two parties agree to make periodic payments to each other: one party pays a floating price for the coffee and the other pays a fixed price.

EXAMPLE 1

SCENARIO: On March 5, a coffee roaster is committed to receive a delivery of 300,000 pounds of green coffee on or about June 4. The roaster has tried and failed to obtain a price-to-be-fixed contract with the dealer. The Coffee "C" nearby contract price on the scheduled delivery day will be the benchmark to determine the cash price for the shipment. The roaster's delivery price is therefore unknown.

July futures are trading at 59.45 cents/lb. on March 5. The roaster's assessment of the market historical patterns and current conditions suggests that prices are likely to rise in the next three months. The roaster, therefore, is exposed to a price risk.

July Futures @ 59.45 cents/lb.

STRATEGY: Since the roaster's cash market delivery is scheduled for June 3, the cash market delivery price is pegged to the then nearby (July) contract. Therefore the roaster would need eight July contracts (each contract is for 37,500 lbs./250 bags) to cover his entire green coffee delivery of 300,000 lb./ 2000 bags. The roaster decides the July futures price is one that will result in a reasonable profit for his operation, so he buys eight July futures contracts at 59.45 cents/lb.

$$37,500 \text{ lbs.} \times 8 \text{ contracts} = 300,000 \text{ lbs.}$$

8 July Futures @ 59.45 cents/lb.

RESULT: On June 4, July coffee futures are trading at 72.70 cents/lb. The roaster pays 68.70 for his/her cash market delivery and immediately places an order with his broker who sends the order to the Exchange floor to close out (sell) his eight futures contracts at (or near) that price. In the cash market the roaster has paid 9.25 cents/lb. more than expected, but the 9.25 cents/lb. gain in the futures market gives the roaster a net price of 59.45, the target price back in January.

$$\begin{aligned} &74.70 \text{ cents/lb. (June 4 futures price)} \\ &\text{minus } 59.45 \text{ (March 5 futures price)} \\ &= 15.25 \text{ cents/lb. (futures gain)} \\ &74.70 \text{ (cash price) minus } 15.25 \text{ (futures gain)} \\ &= 59.45 \text{ (target price)} \end{aligned}$$

If the price had fallen during that same period, the roaster would still achieve a target price of 59.45 with the gain in the cash market balanced against the loss in the futures market. Achieving the target price is the key objective of futures hedging. By locking in the June price back in March, the roaster had protected his/her profit margin.

EXAMPLE 2

Options can be a powerful hedging tool and they offer many advantages. They provide price protection and flexibility. They are particularly valuable in periods of extreme volatility. In the coffee market, which frequently experiences such volatility, options have considerable value.

SCENARIO: In the roaster example (receiving 300,000 lbs of green coffee on or about June 4, 1999), the roaster realizes that in light of a likely rise in prices, some price protection is necessary, but he wants to protect the possibility of cash market gains should the price fall before June. July futures are trading at 59.45 cents/lb. July 65 calls are available @ 6.65 cents/lb.

July futures @ 59.45 July 65 call @ 6.65 cents/lb.

STRATEGY: July 65 calls are available @ 6.65 cents/lb. By purchasing eight July calls on March 5, 1999, he establishes an approximate* ceiling of 71.65 cents/lb.

\$2,493.75 each x 8 contracts = \$19,950 (total premium)

65.00 + 6.65 = 71.65 (price ceiling).

RESULT (PRICES UP): On June 4 July futures are trading at 74.70 cents/lb. The roaster pays 74.70 for his cash market delivery on June 3 and then exercises his eight July 65 call options. With July futures trading at 74.70, he then closes out the long futures position for a net 3.05-cents/lb. gain. He can also capture the value of the option position by selling the options in the option market. Regardless of his approach his net coffee price of 71.65 cents/lb. is therefore still a good price in the rising market.

74.70 (June 4 futures price) – 59.45

(March 5 futures price)

– 6.65 (premium) = 3.05 cents/lb. (option gain)

Net Price w/call options = 71.65 cents/lb.

(74.70 minus 3.05)

RESULTS (PRICES DOWN): If prices had fallen by June 5 to 51.00 cents/lb., the roaster pays the dealer 8.45 cents/lb. less than expected (59.45 - 51.00) in the cash market. With July 65 call options as a hedge, the dealer lets the option expire and pays a net cash price of 57.65 cents/lb.

$$\begin{aligned} & \mathbf{51.00 \text{ cents/lb. (cash price) + 6.65 (premium)} \\ & \mathbf{= 57.65 \text{ cents/lb. (net price)} \end{aligned}$$

The call options hedge has allowed the roaster to take advantage of the favorable cash market move while still maintaining price protection. The only loss is the premium (6.65 cents/lb.).

Even during periods of very low or high prices, hedging can help. A grower can take advantage of a temporary rise in price and lock in a more favorable selling price and thereby limit losses. At the high end, a roaster can use a momentary dip in price to capture the most favorable price available for a future delivery of coffee. Such strategies illustrate the importance of continuous monitoring of the market and taking advantage of pricing opportunities when they occur.

For a more detailed view of coffee hedging, NYBOT offers the Coffee Hedging Workbook and the Coffee RiskMaster — a Software®, CD-based trading simulator that provides learning tools for those considering the NYBOT coffee markets. Anyone considering hedging or investing with coffee futures and options should read, among other publications, “Understanding Futures and Options”, an overview of the basics of NYBOT futures and options markets published by the Exchange.

The NYBOT coffee contract markets offer important capabilities and advantages.

Enhanced Open Outcry: The proven, traditional pricing strengths of open outcry trading are supported by all the convenience and technical sophistication of NYBOT's new state-of-the-art trading facility at the World Financial Center in Lower Manhattan.

Market Integrity: Every transaction in the NYBOT markets is subject to the traditional regulatory scrutiny that characterizes the U.S. futures and options exchanges, ensuring a fair and transparent marketplace. The historical integrity of the NYBOT coffee market strengthens the quality and reliability of the price discovery process.

Clearinghouse Security: Each of the contracts traded at NYBOT is guaranteed by the New York Clearing Corporation (NYCC), the designated clearinghouse for all NYBOT markets, which represents over a century of continuous financial integrity. All market participants trade in the secure knowledge that they face no counterparty credit risk and no transaction uncertainty.

Personalized Broker Service: Experienced floor brokers offer personal service and competitive pricing for specialized options trading. Brokers in NYBOT's coffee options markets can design and execute simple and complex options strategies and write options to implement those strategies at very competitive prices.

Order Processing: Electronic Order Routing (EOR) – market users who have internet access to EOR can send orders electronically to the trading floor, where they are filled by open outcry, and then matched, cleared and confirmed electronically in real time. All EOR users can enter, change or cancel all types of orders (including complex). Users have real time trade reconciliation in the pit and/or in the booth.

Market Information Access: The New York Board of Trade now offers real time streaming data directly from the NYBOT trading floor and delivered over the Internet through NYBOTLive.com. Market users should visit www.nybotlive.com and sample the many features of NYBOT's direct data service. Market users also have access to a wide range of educational materials, market analysis and commentary through the NYBOT web site at www.nybot.com.

This brochure serves as an overview of the coffee futures and options exchange markets of the New York Board of Trade (NYBOT). Examples and descriptions are designed to foster a better understanding of the coffee futures and options market. The examples and descriptions are not intended to serve as investment advice and cannot be the basis for any claim. While every effort has been made to ensure accuracy of the content, the New York Board of Trade does not guarantee its accuracy, or completeness or that any particular trading result can be achieved. The New York Board of Trade cannot be held liable for errors or omissions in the content of this brochure. Futures and options trading involves risk and is not suitable for everyone. Trading on the NYBOT is governed by specific rules and regulations set forth by the Exchange. These rules are subject to change. Contact a licensed broker for additional information. For more detailed information and specifications on any of the products traded on the Exchange, contact NYBOT or your broker.

The New York Board of Trade (NYBOT), New York's original futures exchange, provides a global marketplace for a wide variety of traditional and innovative agricultural and financial products including futures and options for cocoa, coffee, cotton, ethanol, orange juice, sugar and currencies as well as equity, currency and commodity indexes.

Beginning in 1870 with the founding of the New York Cotton Exchange and the Coffee Exchange of New York City in 1882, the NYBOT exchanges have built and sustained crucial futures and options markets through dangerous and difficult times. The NYBOT and its predecessor exchanges have a long history of providing effective risk management tools for major international industries and opportunities for well-informed investors. Risk management is the foundation of our business.

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