

Coffee Futures Trading - Full Market Harmonic Coverage

© Branton Kenton-Dau

branton@kenton-dau.com

October 2020

Coffee futures prices contain harmonic patterns covering the entire market. They have produced a 16% average annual return and 68% win rate since 1980 before any technical or fundamental analysis is applied. These observations are based on the analysis of ICE US Coffee C Futures. The contract is rolled on the 14th of the month prior, e.g. the March contract is rolled on Feb 14th. Data is from 1980 to June 2020.

A Simple Pattern

The coffee market can be divided into 4 equal intervals A B C and D that repeat themselves:

A	B	C	D	A	B	C	D
---	---	---	---	---	---	---	---

These can be traded alternating long and short:

A up	B down	C up	D down	A up	B down	C up	D down
------	--------	------	--------	------	--------	------	--------

Since 1980 this simple pattern has a win rate of 65% and an average annual return of 12%.

Improvements

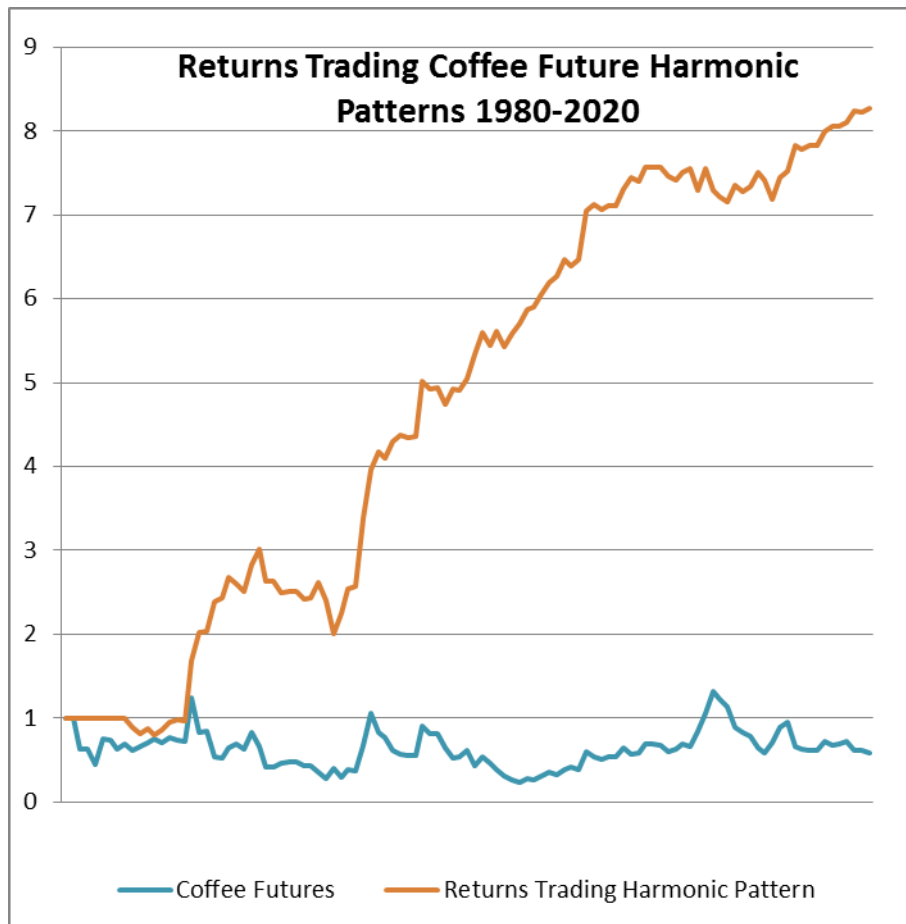
The returns of interval D can be improved if organised as 4 sequential periods:

D1	D2	D3	D4
----	----	----	----

If each of these periods is divided in half the following long/short pattern occurs:

D1a	D1b	D2a	D2b	D3a	D3b	D4a	D4b
down	up	down	up	up	down	up	down

When interval D is looked at this way the overall win rate for the entire market improves to 68% with an average annual return of 16% since 1980.



Summary

- Coffee futures can be traded based on fixed repetitive intervals – their natural harmonics
- Since 1980 these simple patterns produce a win rate of 68% and average annual return of 16% before any technical or fundamental analysis is applied
- The patterns cover the entire market
- They are balanced long and short.

This brief analysis gives some indication of the influence of harmonics in coffee futures. Ten years of research has shown the presence of harmonic patterns in other commodities and indeed non-commodity datasets.