

Trading Harmonics in Coffee Futures

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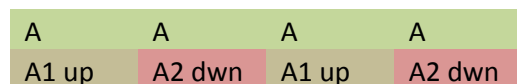
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Harmonics in coffee futures can inform when to trade. These observations are based on the analysis of ICE US Coffee C Futures. The contract is rolled on the 14th of the month prior, e.g. the March contract is rolled on Feb 14th. Data is from 1980 to June 2020.

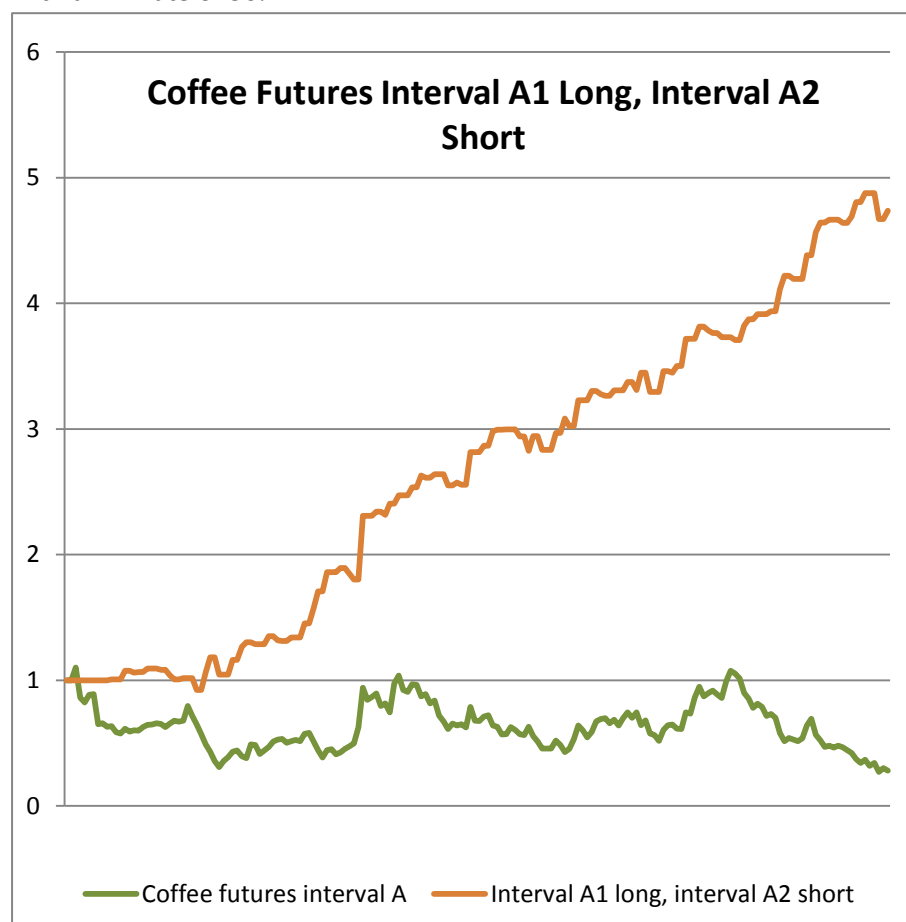
The coffee market can be divided into two equal intervals one following the other:



Focusing on interval A we can divide it into equal intervals, A1 up, A2 down:



If A1 is traded long and A2 traded short 50% of total market is being traded, equally long and short with a win rate of 56%.

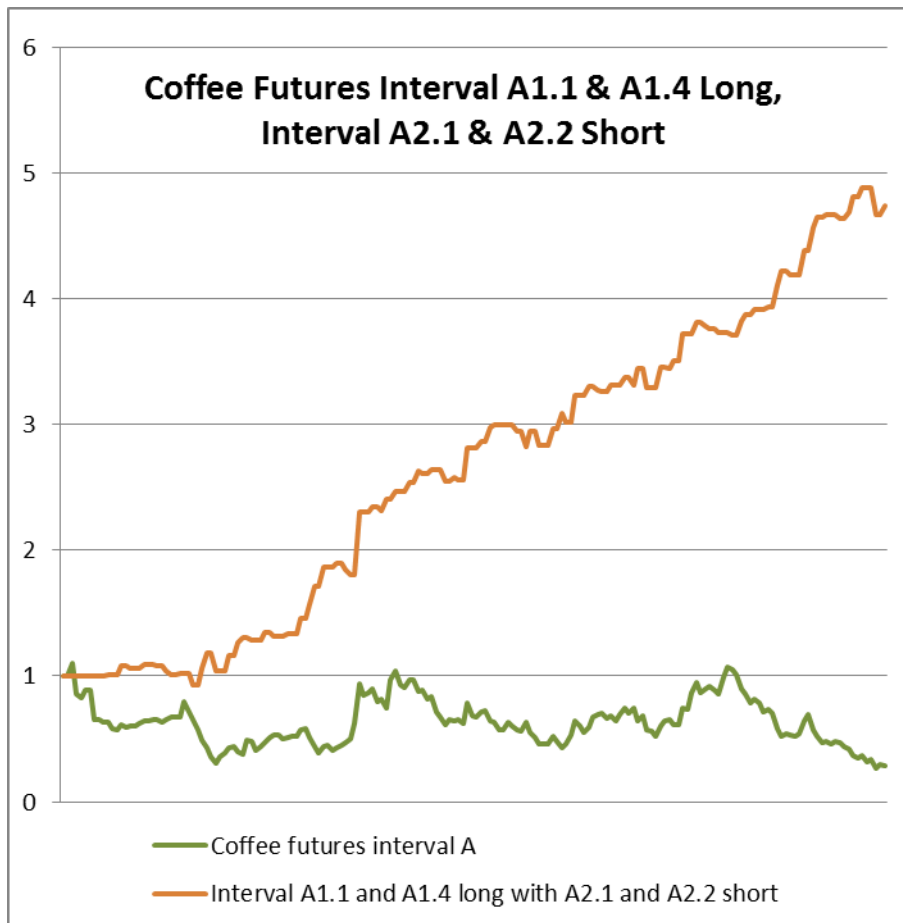


The win rate can be increased by dividing interval A into 8, rather than 2, sequential intervals:

A	A	A	A	A	A	A	A
A1.1 up	A1.2 flat	A1.3 flat	A1.4 up	A2.1 down	A2.2 down	A2.3 flat	A2.4 flat

We are now focused on 25% of the total market. Trading A1.1 and A1.4 long and A2.1 and A2.2 short produces:

- Equal long and short periods
- Win rate: 62% since 1980.



Summary

- Coffee futures can be traded based on fixed repetitive intervals – their harmonics
- No fundamental or technical analysis is required
- 50% of the market can be traded equally long and short with a win rate of 56% since 1980
- The win rate increases to 62%, with twice the return per interval, if 25% of the market is traded.

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.