

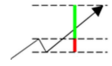
# Flash Report Coffee

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November 11<sup>th</sup>, 2015

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*“Quantitative approach for asymmetric results”*



Coffee: the art for a tasteful one is only patience



Figure 1: Chart of Commitment of Traders for Coffee

The above is the daily chart derived from the website [www.cotbase.com](http://www.cotbase.com) which I strongly suggest you to be familiar with if you aren't already. The chart shows the daily price movements for the famous and tasteful commodity and below it also shows the movements of the traders who take position on this future. Just very briefly for those who are not familiar with it:

Large Traders (A): are the big institutions, banks or (hedge) funds.

Small Traders (B): are smaller institutions, banks or (hedge) funds or retail investors.

Commercials (C): are the providers of this future, the ones who "create" every month, the future we are trading.

In each moment  $(A)+(B)$  must always equals minus  $(C)$ , meaning that the net position has to make zero. It is indeed a zero sum game.

A smart (retail) investor what shall do withi this report (even though it is published every Thursday and represents positions of the previous Sunday)?

A smart investor wants to check on which side the Large Traders are invested on the particular insturment they are looking at, as in this case, Coffee.

Looking at the chart it can be seen that since last April Large Traders are net short on Coffee, and in particular they get maximum short positions at each high the Coffee has done so far: it means that right now each new high for the commodity is a perfect short position and it should not be seen, the upward trend, as the final inversion all investors (epsecially the Small ones) are waiting.

Most Small investors are right now losing quite lot of money as they are the only one betting highly on a still-to-see inversion: their net position is at this year's high as a long position.

This situation can lead to only two outcomes:

1. **Small Investors are wonrg**, price of Coffee will again start diving and they will be forced to a mass sell off, which will add fuel to the downside movement. We should then expect a **capitulation** with the price that goes vertically down, significantly with a volume explosion.
2. **Large Investors are wrong**, or simply will be forced to close their short positions as Small will continue to add to their longs. Their short positions is smaller compared to the Small Investors' long ones and therefore the spike up should be nothing major, but maybe this will lead to an inversion.

In either cases, the moment of now, brings all of us to avoid to take any position on this commodity, but it is something that as some point should invert (go tell this to Natural Gas investors), so my only advice is to keep it on your radar screen for the time being.

**Important disclosure of potential conflict of interest:**  
at the time this report is issued, Francesco **doesn't own** any share or future or ETF on Coffee.



Mr. Maggioni has been working in the financial markets for the last 15 years covering different roles and working in tier 1 consulting companies and banks worldwide.

In recent years his studies have been focused on the psycho-emotional aspects of trading and how those aspects have an impact on traders' behavior.

Before starting this venture, he was head of a hedge fund desk at HSBC Private Bank in Monaco and before that he was employed at Credit Suisse Asset Management (CSAM) in Zurich covering the in-house single manager hedge funds.

Most of his experience in hedge funds was gained while working in a Swiss family office where he was in charge of the research and analysis as well as due diligence for US and European hedge funds. He also performed quantitative analysis and portfolio construction for several funds advised by the family office.

Prior to that he worked as an external consultant for KPMG Financial Services in the Milan office. In 2002 he has been hired by Ernst & Young LLP, San Francisco as auditor for hedge funds, auditing large single funds and fund of funds. In 2000 he joined Ernst & Young in Milan as an auditor for mid-sized companies.

Mr. Maggioni holds an MBA from IUM and a Portfolio Management degree from the University of Chicago GSB.

**Useful Links:**

European Central Bank:	<a href="http://www.ecb.int">www.ecb.int</a>
Bank for International Settlements:	<a href="http://www.bis.org">www.bis.org</a>
International Monetary Fund:	<a href="http://www.imf.org">www.imf.org</a>
Federal Reserve:	<a href="http://www.federalreserve.gov">www.federalreserve.gov</a>
US CFTC	<a href="http://www.cftc.gov">www.cftc.gov</a>

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