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How to Read Futures Prices in *The Wall Street Journal*¹

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Futures prices are the decision tools for hedgers and speculators. Hedgers are individuals, companies, and institutions that want to lower the risk of owning commodities in their marketing programs. They supply the goods for the market. Speculators simply want to make money and are prepared to take on risk in order to reach their objective. They supply the cash or liquidity for a market to function properly. Hedgers and speculators are akin to the blades of scissors. It is impossible for scissors to cut without both blades, and it is impossible to have a proper market without hedgers and speculators. Both hedgers and speculators make and follow futures prices.

The biggest and newest commodity groups traded on world futures markets are the financials (which include interest rates and stock indices), followed by petroleum products, currencies, and precious metals. The least important in volume terms are the originators of futures markets, namely the agricultural commodities, which now only account for some five percent of futures volume. Annual trade in futures in the top 10 world exchanges is currently probably over \$200 trillion. They create world prices for the commodities (both "spot"), and for commodities such as Eurodollars, gold and oil, do so more than 10 years ahead.

Futures market prices were once readily available only in specialist newspapers such as *The Wall Street Journal* (hereafter referred to as the *Journal*), *The Financial Times*, and *The Investors Business Daily*. More abbreviated versions were also found in the quality press such as *The Times*, *The New York Times*, and *Washington Post*. In the last 30 years, many regional newspapers have also provided some futures reporting. Futures markets have now become accepted, increasingly used by business and, consequently, almost respectable. They were always very efficient and are perhaps more merciless than other markets that unavoidably deal with business risk. But they are still virtually unknown to the general public and politicians.

Today, the print version of the *Journal* is still a good source for futures prices; however, the *Journal* has its own website, www.wsj.com, which provides even better information. This paper will use both the print and online versions of the *Journal* as sources, though of course there are others.

Table 1 illustrates the *Journal's* report on frozen concentrate orange juice (FCOJ) contracts for Thursday, August 9, 2001. It is essentially a photograph of the FCOJ market after that day's trading. The prices reflect the events interpreted by the traders of FCOJ during that day. The next day will

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bring new events that will influence the collective feelings of the market, and so prices will change. A new photograph will develop as the day progresses.

The upper left of Table 1 shows "Orange Juice (NYCE) - 15,000 pounds; cents per pound." These simply describe the commodity, contract size, and location of the exchange. Orange juice contracts are traded at the New York Commodity Exchange (NYCE). Frozen orange juice contracts are typically sold in rail car units, with a standard capacity of 15,000 pounds. Therefore, one contract of Frozen Concentrated Orange Juice (FCOJ) is 15,000 pounds. This contract is the smallest unit of FCOJ that is traded in the futures market. Because FCOJ is standardized, buyers and sellers all over the world know exactly the quality of the FCOJ that they are buying and selling. FCOJ has contracts for delivery in January, March, May, July, September, and November only. These are currently the ones the trade thinks it needs, and the trade can change the delivery months whenever it wants to do so. Contract names are shown in the first column of Table 1.

Most orange juice is sold as concentrate (all water is removed) in units of "pounds solid", which are approximately 1.17 pounds per unit (<http://www.floridajuce.com>). All prices are in cents per pound. For example, the September contract closed at 76.5 cents per pound solid. At 15,000 pounds per contract, this was the equivalent of \$11,483 per contract.

The next column is labeled OPEN. This shows the price of the first trade for each contract when the market opened for trading at 10:15 a.m. For the September contract, one pound of orange juice opened at 77.00 cents. The next column, HIGH, represents the highest price per pound that the contract reached during the day. For the January 2002 contract, the high was 83.40 cents. The next column, LOW, represents the lowest price for the day. For the March 2002 contract, the low was 87.00 cents per pound. The SETTLE column represents the price for each contract when the market closed at 2:45 p.m. That price represents the collective wisdom of the market in regards to the prices of the various contracts of FCOJ for that day with the information they had at their disposal. The settle price for the September contract was 76.5 cents per pound.

The next two columns come under one heading, CHANGE. These columns represent the change in the prices of each contract from the previous day's SETTLE. The first column will either have a positive (+) symbol, a negative (-) symbol, or a blank line. The + and - symbols indicate whether the settle was higher or lower than the previous day's settle price, and the blank line indicates that there was no change from the previous day's settle price. The second column shows the actual dollar amount of the change. For example, the November contract settled at 80.10 cents per pound, up 0.20 cents from the previous day's close.

The next two columns represent prices over the life of the contract. There is no fixed life for any contract in futures. Traders decide when to start a contract, and depending on the excitement or the acceleration in the market, most agricultural contracts "live" around 18 to 24 months. All trading of a contract stops in the third week of its delivery month (which is the same as the contract month), and the contract officially dies at the end of that month. The two columns, HIGH and LOW, show the highest and lowest prices that any specific contract has held since it was originally traded. For example, the September contract reached a high of 95.85 cents and had a low of 76.10 cents, a spread of about 26 percent. These two columns tend to show lost opportunities. Interestingly, this contract is currently trading close to its lifetime low, suggesting that the times for higher prices have gone.

The last column in the table is labeled OPEN INTEREST. Open interest shows the number of contracts that are still in the market. Futures contracts either promise future delivery (sell or short) or a promise to receive delivery (buy or long) at a specific time in the future. While these contracts are in the market they are counted as part of the open interest. A large number means that there is a lot of potential acceleration in the market. This, in turn, means that a lot could happen quickly, particularly as traders adjust large positions by offsetting or getting some or all of their contracts out of the market.

Futures markets allow traders to buy and sell a contract without having or wanting to have the product. There is, however, the essential feature that

each contract must be shipped, (sold or short) or receive the product (bought or long) once the contract's delivery date arrives. But these short or long positions can be offset at any time the trader holds a contract. Offsetting means taking an equal and opposite position to what is already held. For example, if a trader is short a March 2002 contract, he may either deliver this contract in March 2002 or offset it at any time before this date by going long one March 2002 contract. His open interest has fallen from one to zero. Or he might hold 10 March 2002 contracts for delivery (open interest, 10) and offset six before March 2002. His open interest is then four. According to Table 1, at the close of the trade on August 9, 2001, there were 339 contracts outstanding for the March 2002 delivery period.

Table 2 shows the online version, albeit on a different date. This is similar to the print version except that the prices are quoted without decimal points. Thus the September 2001 contract settled at 8310, meaning that the settle price was 83.10 cents. This version also has two additional columns, VOLUME and CONTRACT. Contract is the far left column and is an identifier that traders use to catalog the contracts, similar to a UPC code on a retail sale item. The other new column, Volume, refers to the number of contracts that were traded during the day.

Hedgers and speculators who do not trade on the floors of the futures exchanges will use brokers to execute their trades. The brokers will sell contracts at an "asking price" (the "ask") or, if you own the security already and want to sell, they will buy the security from you for some offer a price (the "bid"). The difference between the *bid* and *ask* is called the *spread*. Commodities that are heavily traded tend to have narrow spreads (e.g., 1/8 of a point), but those that are lightly traded can have spreads that are significant, even as high as several dollars.

Table 2 shows that the November 2001 contract was the most heavily traded during that day. The online version also offers "real time" quotes and is like a movie that is paused at the end of the day. This pause reflects the settle price for the day. In the SETTLE column, settle prices have a small subscript "s" next to them. The "s" signifies that it is the

settle price for that day's trading. The website price on Saturday for the settle prices would not have an "s" because the market closes for the weekend.

Open interest for the September 2001 contract in the online version differs from that of the print *Journal*. This is because (besides being a different date) when a contract approaches maturity, traders begin to close out their positions in the market. If a trader buys a contract and does not intend on taking possession, he must offset the position by selling the contract. The trader then has no position in the market. So the reason that the open interest is so different between the two *Journal* entries is because the online entry is from the end of August while the print *Journal* entry is from earlier in the month. Typically a contract expires on the 20th of the month of the contract. So, the September 2001 contract will expire on September 20, less than one month from the time of the online *Journal* listing.

Even those not interested in futures trading should find it useful to better understand and interpret the prices in local markets. Following prices adds to marketing skills, and it is marketing skills that provide the rewards of business today.

References

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Table 1. Frozen concentrated orange juice commodities, *The Wall Street Journal*, August 10, 2001.

<i>Orange Juice (NYCE) - 15,000 pounds; cents per pound</i>									
Date	Open	High	Low	Settle	Change	Lifetime			
						High	Low	Settle	
September 2001	77.00	77.00	76.30	76.50	+ 0.30	95.85	76.10	14,399	
November 2001	80.00	80.40	79.90	80.10	+ 0.20	98.35	79.70	6,038	
January 2002	83.00	83.40	83.25	83.20	+ 0.20	97.00	80.20	880	
March 2002	86.00	87.00	87.00	86.20	+ 0.15	103.35	86.00	339	
Estimated volume 900; Volume Wednesday 1,259; Open Interest 22,604, +274.									

Table 2. Florida concentrated orange juice commodities, *The Wall Street Journal Online*, August 28, 2001.

Contract	Date	Last Trade	Open	High (Ask)	Low (Bid)	Last (Settle)	Change	Volume	Open Interest
OJU01	September 2001	08/28 14:30	8020	8330	020	8310s	350	1613	5921
OJX01	November 2001	08/28 14:30	8100	8160	7980	8015s	-80	2374	2114
OJF02	January 2002	08/28 14:30	8405	8410	8200	8200s	-170	148	1515
OJH02	March 2002	08/28 14:30	8720	8720	8610	8610s	-80	175	1042
OJK02	May 2002	08/28 14:30	9000	9000	8910	8910s	-55	10	761
OJN02	July 2002	08/28 14:31		9300a		9210s	-55	0	69
OJU02	September 2002	08/28 14:31		9600a		9510s	-55	0	88
OJX02	November 2002	08/28 14:33		9900a		9810s	-55	0	60
OJF03	January 2003	08/28 14:33				10110s	-55	0	0