12.8 Relation to Expected Spot Price
Relationship between futures $F_0$ and spot prices.

$F = F_0 = \text{price for purchase of 1 unit of asset at time } T$

agreed price now, $t = 0$

$S(T) = \text{spot price at time } T: \text{unknown, treat as random variable}$

$\mathbb{E}[S(T)] = \text{expected value}$

Expect $F_0 = \mathbb{E}[S(T)]$ would hold.

If: $F > \mathbb{E}[S(T)]$, called contango

If: $F < \mathbb{E}[S(T)]$, called normal backwardation.

Two types of investors:

speculators & hedgers.