



COCOA MARKET REVIEW

OCTOBER 2009

The current review reports on cocoa price movements on international markets during October 2009. **Chart I** illustrates price movements on the London (NYSE LIFFE) and New York (ICE Futures US) markets in October. **Chart II** shows the evolution of the ICCO daily price, quoted in US dollars and in SDRs, from August to October 2009. **Chart III** depicts the change in the ICCO daily price Index, the Dow Jones-UBS Commodity Index and the US Dollar Index. **Chart IV** presents recent changes in warehouse stocks of cocoa beans and the price differential between the two cocoa futures markets.

Chart I: Cocoa bean prices on the London (NYSE LIFFE) and New York (ICE) futures markets October 2009

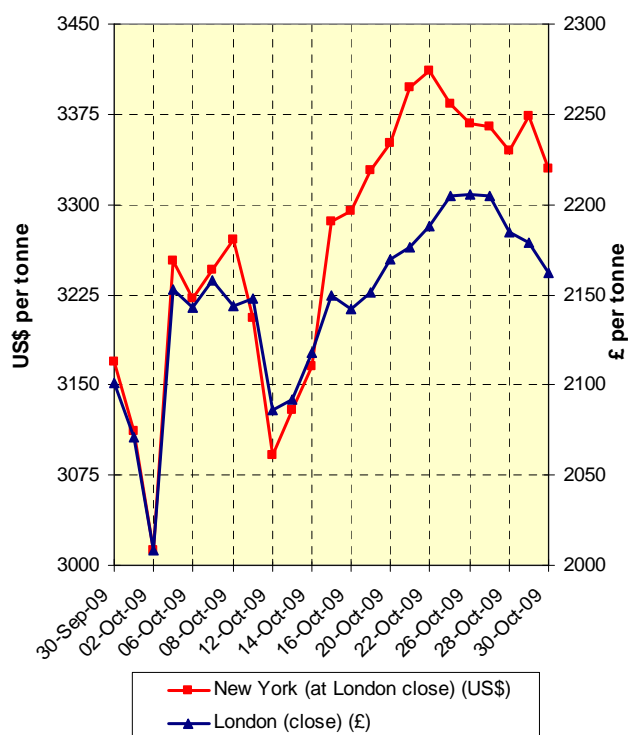
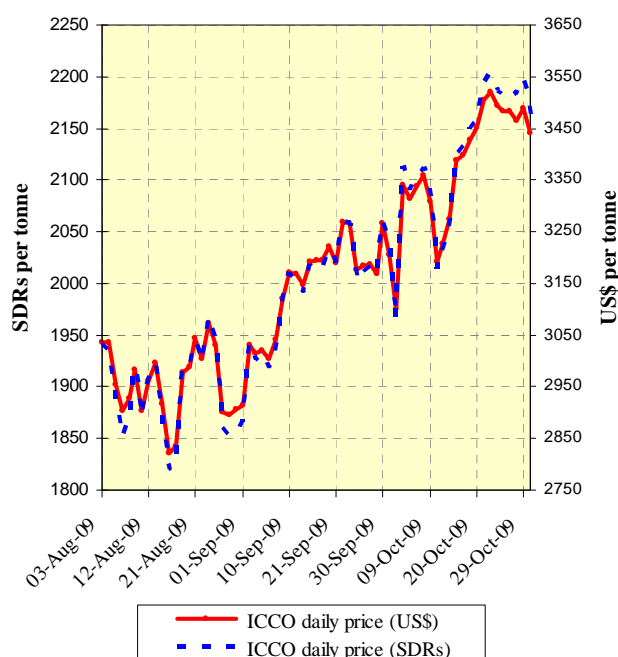


Chart II: ICCO daily prices August – October 2009



Note: The ICCO daily price for cocoa beans is the average of the quotations of the nearest three active futures trading months on NYSE Liffe and ICE Futures U.S. at the time of London close, converted into US\$ and SDRs using the appropriate exchange rates.

Price movements

In October, the ICCO daily price averaged US\$3,373 per tonne, up by US\$230 compared to the average price recorded in the previous month (US\$3,143), and ranged between US\$3,099 and US\$3,520.

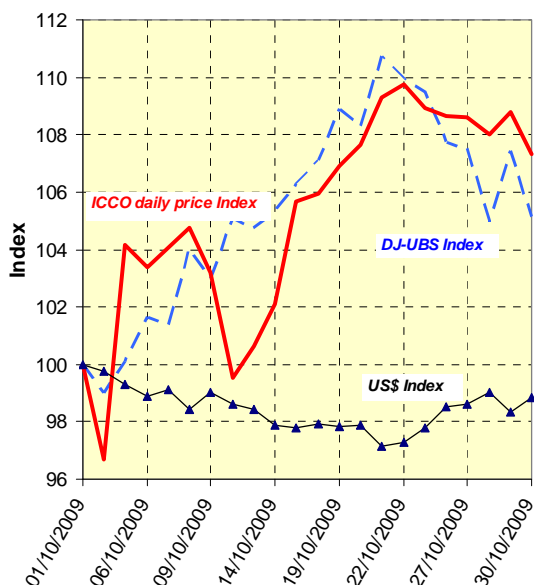
Despite two corrections, cocoa futures prices continued to follow a rising trend in October until the fourth week of the month.

The first downward movement occurred at the beginning of the month when pessimistic statistics on the state of the economic and financial environment triggered a widespread commodity price correction. Cocoa was one of the most affected commodities, partially as its price had experienced one of the strongest rises in recent months (up by 26% in the past two months compared to an increase of three per cent only for other commodities in general, as measured by the *Dow Jones-UBS commodity index*).

This correction was short-lived and was immediately followed by a several decade record daily increase in both markets, up by £145 per tonne to £2,153 in London and up by US\$240 per tonne to US\$3,253 in New York. The surge was reported to have been initiated by strong buying activity by some investment funds which triggered a flood of buy-stop orders.

The second downward movement occurred in the middle of the month after the publication of end-of-season data for Ghana and Côte d'Ivoire. A report on cocoa purchases by the *Ghana Cocoa Board* for the 2008/2009 season showed an increase of 4.5% over the previous season, at 711,000 tonnes. In addition, the

Chart III: ICCO daily price Index, Dow Jones-UBS commodity index and U.S. Dollar Index



Notes:

The US Dollar Index is a measure of the value of the United States dollar relative to a basket of six major foreign currencies.

The Dow Jones Commodity-UBS Index tracks price movements across various commodities, including energy, precious metals, industrial metals, grains, livestock, softs (cocoa being excluded) and agriculture.

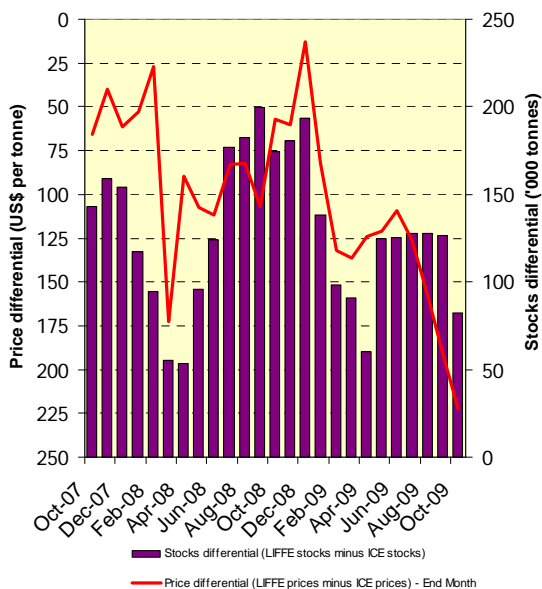
Bourse du Café et du Cacao reported that cocoa arrivals to ports in Côte d'Ivoire reached 1.223 million tonnes in 2008/2009, an upward revision by 43,000 tonnes compared to a previous estimate, based on the declaration by exporters reported one week earlier. Both futures prices experienced a five per cent decline in three trading sessions, down to £2,086 in London and to US\$3,092 in New York.

Towards the fourth week of the month, the upward trend resumed, propelling futures prices to their highest level in over 24 years in London, at £2,206, and reaching their highest level for 30 years in New York, at US\$3,411.

In addition to cocoa-specific bullish factors (cf. previous report), as shown in **Chart III**, cocoa prices found some support from the weakening US dollar against other major currencies which bolstered the price of cocoa and other commodities (both up by around 10% in the fourth week of October compared to the beginning of the month).

In the last few sessions of the month, the strengthening of the US dollar placed pressure on all commodity prices. In addition to this, large weekly cocoa bean arrivals to ports in Côte d'Ivoire since the beginning of the season cleared some of the concerns of market participants about the outlook of the current season's country cocoa output. Indeed, at the end of October, cocoa arrivals reached 121,000 tonnes, up by 63,000 tonnes compared to the same month in 2008.

Chart IV: Arbitrage spread between LIFFE and ICE Futures and licensed warehouse stocks



Certified warehouse stocks of cocoa beans

As depicted in **Chart IV**, the price premium fetched by the London cocoa futures market against the New York market widened in October to US\$222 at the end of the month.

This was mainly the result of the reduction of certified warehouse stocks in Europe during the month, by 42,000 tonnes to 258,000 tonnes at the end of October while, in the United States, the level of stocks increased by 2,000 tonnes to 175,000 tonnes.

On this occasion, NYSE.Liffe certified warehouse stocks reached their lowest level since 2002, when stocks data became available. Their highest level was reached in September 2002, at 642,000 tonnes. Since then, they have experienced a declining tendency. This can be explained by global declining cocoa stocks since 2006 and by the increasing share of non-certified warehouse stocks. Indeed, a survey conducted by ICCO showed that London terminal market stocks represented only 37% of total European cocoa stocks as at 30 September 2008.

