



COCOA MARKET REVIEW

MAY 2014

The current review focuses on cocoa price movements on the international markets during May 2014. **Chart I** illustrates price movements on the London (NYSE Liffe Futures and Options) and New York (ICE Futures US) markets for the month under review. **Chart II** shows the evolution of the ICCO daily price, quoted in US dollars and in SDRs, from March to May 2014. **Chart III** depicts the change in the ICCO daily price Index, the Dow Jones-UBS Commodity Index and the US Dollar Index in May while **Chart IV** illustrates the end-of-month stocks in licensed warehouses in Europe and in the United States and the arbitrage between the LIFFE and ICE futures markets.

Chart I:
Cocoa bean prices on the London (LIFFE)
and New York (ICE) futures markets
May 2014

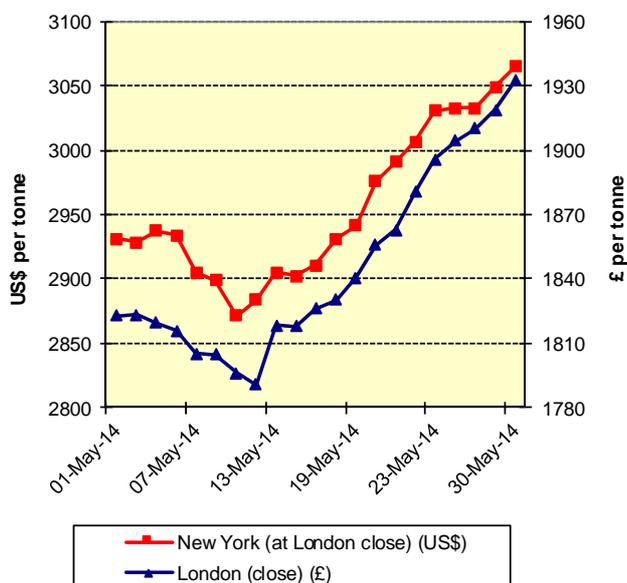
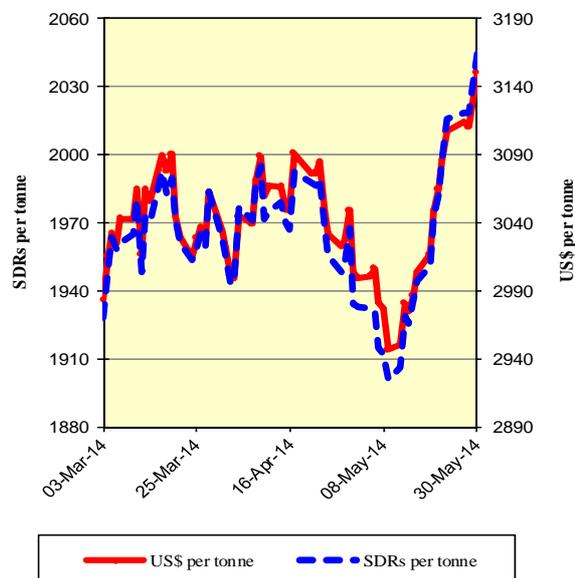


Chart II: ICCO daily prices
March – May 2014



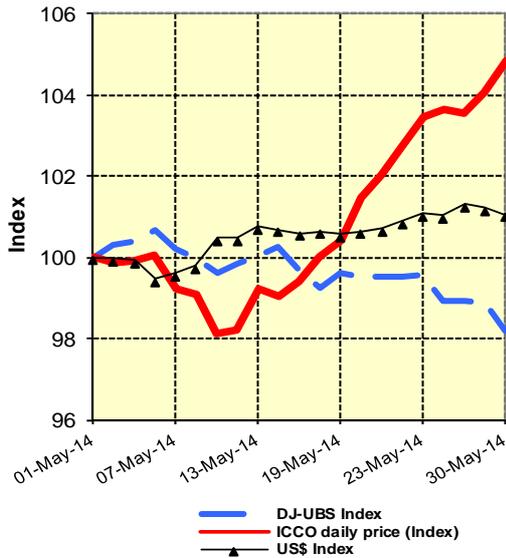
Note: The ICCO daily price for cocoa beans is the average of the quotations of the nearest three active futures trading months on NYSE Liffe and ICE Futures U.S. at the time of London close, converted into US\$ and SDRs using the appropriate exchange rates.

Price movements

In May, the ICCO daily price averaged US\$3,030 per tonne, down by US\$21 compared to the average price recorded in the previous month (US\$3,051), and ranged between US\$2,946 and US\$3,150 per tonne.

During the beginning of May, cocoa futures prices continued the downward trend experienced at the end of the previous month. Reports of ample cocoa bean supplies from leading producing countries as well as optimistic prospects for the mid-crop provided bearish sentiments within the cocoa markets. Thus, cocoa futures prices fell to a three month low in both London and New York to £1,791 per tonne and US\$2,871 per tonne respectively. As seen in **Chart I**, the dip in cocoa prices was not sustained and cocoa futures changed course and rallied unabatedly from the middle of May through to the end of the month. Despite the aforementioned strong supply of cocoa beans, several fundamental factors which could lead to long term structural deficits provided bullish sentiments within the cocoa markets and supported prices. With regards to weather, excess rainfall in the West African region is likely to affect the drying of cocoa beans, cause an outbreak of diseases and consequently the quality of cocoa bean output. In addition, the imminent signs of an *El Niño* related weather condition developing by the end of the second quarter of 2014 would negatively impact cocoa production for the 2014/2015 season. The ICCO estimates that, globally, cocoa production is reduced by 2.4% on average under such conditions.

**Chart III: ICCO daily price Index, Dow Jones-UBS commodity index and U.S. Dollar Index
May 2014**



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

As shown in **Chart III**, cocoa prices from the middle of May outperformed most commodities as it experienced strong gains mainly due to a supportive fundamental situation.

Certified warehouse stocks of cocoa beans

As illustrated in **Chart IV**, compared to the beginning of the 2013/2014 cocoa season, both markets reported an increase in the volume of certified warehouse stocks. In New York, volumes edged upwards by 41% from 236,534 tonnes to 334,251 tonnes and in London by 18%, from 130,490 tonnes to 153,910 tonnes. The rise in volumes reflects the current strong buying interest of traders in anticipation of long term structural deficits. Moreover, the arbitrage spread (difference in price) between the LIFFE and ICE cocoa futures widened from an average of US\$64 in October to US\$149 in May 2014.

Supply and demand situation

On the supply side, although news agencies reported that Côte d'Ivoire's main crop were 74,000 higher than previously estimated, cocoa prices did not budge from their high levels. According to news reports, total cocoa arrivals at Ivorian ports as at 1 June 2014 were about 1,467,000 tonnes up from 1,238,000 tonnes in the same period of the previous season. In Ghana, cocoa purchases were reported to have reached 766,620 tonnes as at 8 May 2014. This represented a rise of around 16% compared with the same period for the previous year. At the time of writing, news publications showed that the two top producers are yet to revise their forecast data for the current season – with Ghana projecting about 900,000 tonnes for the 2013/2014 season. The deficit published in the latest ICCO *Quarterly Bulletin of Cocoa Statistics* would therefore be changed accordingly in the next issue.

On the demand side, cocoa butter ratios continue to increase and are being quoted between 2.58 and 2.60 times of London futures. The upward trend signals that the market is underpinned by a strong demand that is absorbing the growth in global cocoa output.

**Chart IV: Arbitrage between LIFFE and ICE Futures (Monthly average)
End-of-month cocoa stocks
October 2013- May 2014**

