COCOA MARKET REVIEW

DECEMBER 2008

The current review reports on cocoa price movements on the international markets during December 2008. **Chart I** illustrates price movements on the London (Liffe.Euronext) and New York (ICE Futures US) markets in December. **Chart II** shows the evolution of the ICCO daily price, quoted in US dollars and in SDRs, from October to December 2008. **Chart III** depicts the link between the ICCO daily price and the *Dow Jones* commodity index. **Chart IV** presents recent changes in cocoa price volatility. Finally, **Table 1** summarizes major price developments in the 2008 year.

Chart I: Cocoa bean prices on the London (LIFFE) and New York (ICE) futures markets
December 2008

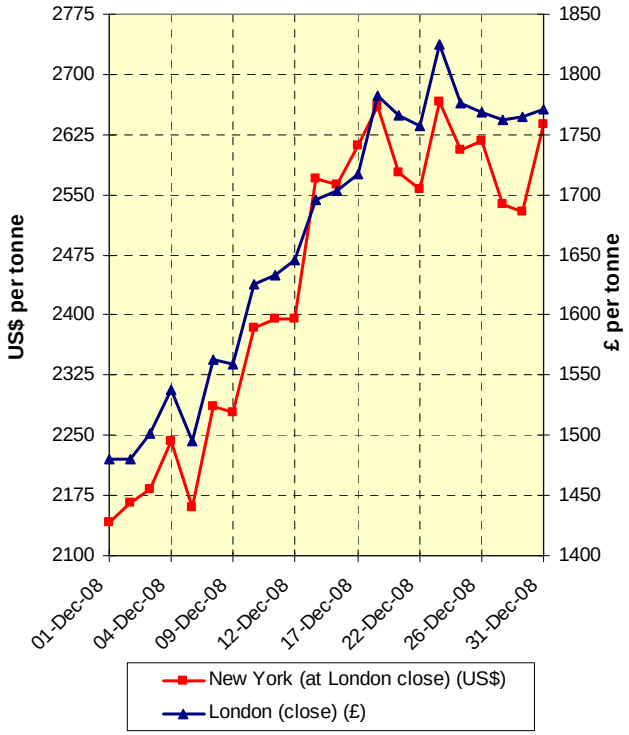
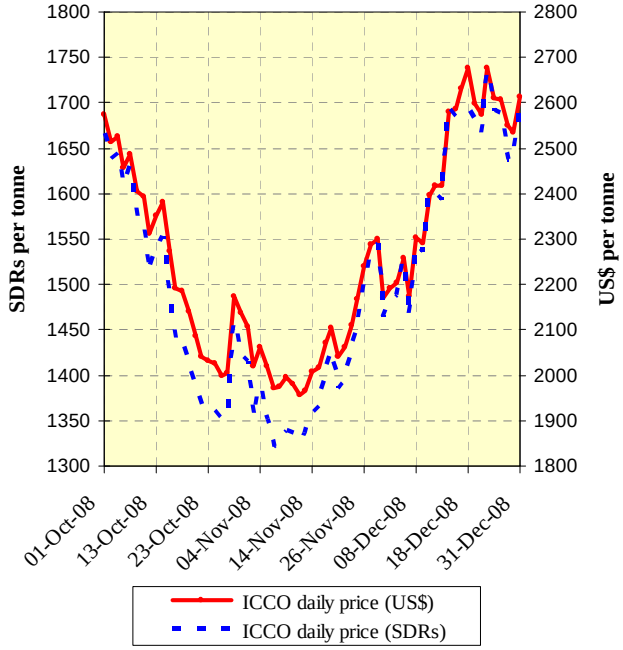


Chart II: ICCO daily prices
October – December 2008



Note: The ICCO daily price for cocoa beans is the average of the quotations of the nearest three active futures trading months on 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 December, the ICCO daily price averaged US$2,457 per tonne, up by US$389 compared to the average price recorded in the previous month (US$2,068), and ranged between US$2,171 and US$2,678.

The sharp rise in cocoa futures prices initiated in the previous month continued in December, with prices reaching £1,824 per tonne in London and US$2,666 per tonne in New York just before the Christmas break. As shown in *Table 1*, the London market experienced a new record level on this occasion, with the price surging to

Table 1: Cocoa bean futures prices, record levels and growth rates

Cocoa bean prices	Unit (in nominal terms)	2008 high *(date)*	Date previous high	% increase as at 31 Dec 2008 (past year) a/	% increase as at 31 Dec 2008 (past two years) b/
ICCO daily prices	SDRs/tonne	2,015 *(1 Jul)*	31 Jan 1986	+ 29%	+ 49%
ICCO daily prices	US$/tonne	3,296 *(1 Jul)*	15 Feb 1980	+ 26%	+ 53%
ICCO daily prices	Euro/tonne	2,089 *(1 Jul)*	19 Feb 2003	+ 32%	+ 45%
London futures	£/tonne	1,824 *(23 Dec)*	20 Sep 1985	+ 66%	+ 97%
New York futures	US$/tonne	3,245 *(1 Jul)*	14 Feb 1980	+ 29%	+ 59%

Notes: a/ Percentage increase in 2008
b/ Percentage increase from the beginning of 2007 to the end of 2008

Chart III: ICCO daily prices and Dow Jones-AIG commodity index (US$ terms)

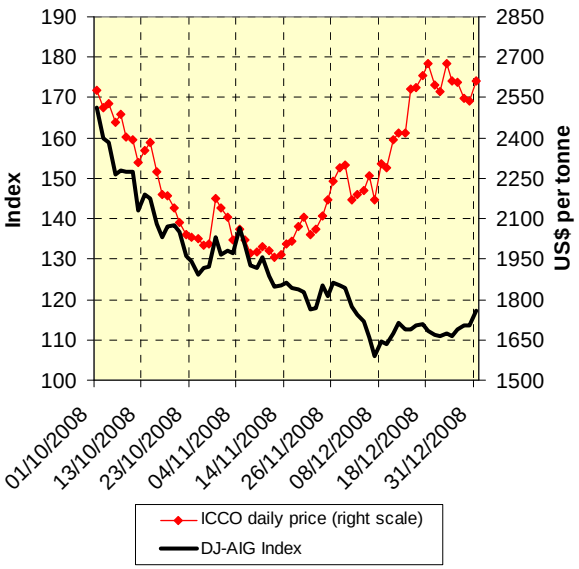
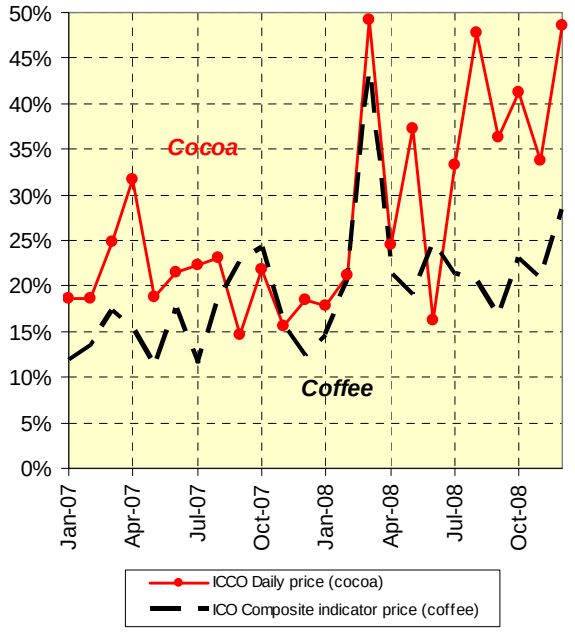


Chart IV: Cocoa and coffee price volatility

(values expressed in annual terms)



their highest level for 23 years. At the end of the year, the New York market recorded a 29% increase over the year before while the London market rose by 66%. The stronger increase in the latter was due to the weakness of the Pound Sterling in the second half of the year compared to the other major currencies.

As shown in *Chart III*, cocoa prices and the Dow Jones commodity-AIG index, which tracks price movements across various commodities (cocoa not included), followed different patterns since the first week of November. Indeed, while the cocoa market experienced strong gains (+14% in December) mainly due to a supportive cocoa fundamental situation, most commodities suffered losses (with the Dow Jones commodity-AIG index declining by 4% in December).

Price volatility

As shown in *Chart IV*, the low liquidity of the cocoa futures markets in December, reflected by low daily volumes traded, was a major factor contributing to the high level of price volatility.

Supply & demand situation

The tightening availability of cocoa beans was reflected by the results of a survey conducted by the ICCO Secretariat which showed that cocoa bean physical stocks located in European warehouses declined by 19% to 943,831 tonnes and by 36% to 146,000 tonnes in the United States at the end of the 2007/08 season compared to a year earlier.

Although demand for cocoa is suffering from an adverse global economic environment, the prospect for a third consecutive supply deficit in the current 2008/09 season has been growing over the past few months. Indeed, it was the main factor supporting cocoa prices in recent weeks. As regards to cocoa bean production in the major cocoa producing country, news agency data showed that only 446,000 tonnes of beans are estimated to have reached ports in Côte d'Ivoire during the first quarter of the season, a level almost 40% below the preceding season. Even if the situation improves in the second half of the main crop season, it is very unlikely that the gap with the previous season will be filled.

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