COCOA MARKET REVIEW

APRIL 2009

The current review reports on cocoa price movements on the international markets during April 2009. **Chart I** illustrates price movements on the London (Liffe.Euronext) and New York (ICE Futures US) markets in April. **Chart II** shows the evolution of the ICCO daily price, quoted in US dollars and in SDRs, from February to April 2009. **Chart III** depicts the link between the ICCO daily price Index and the Dow Jones-AIG Commodity Index. Finally, **Chart IV** presents recent changes in cocoa price volatility.

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

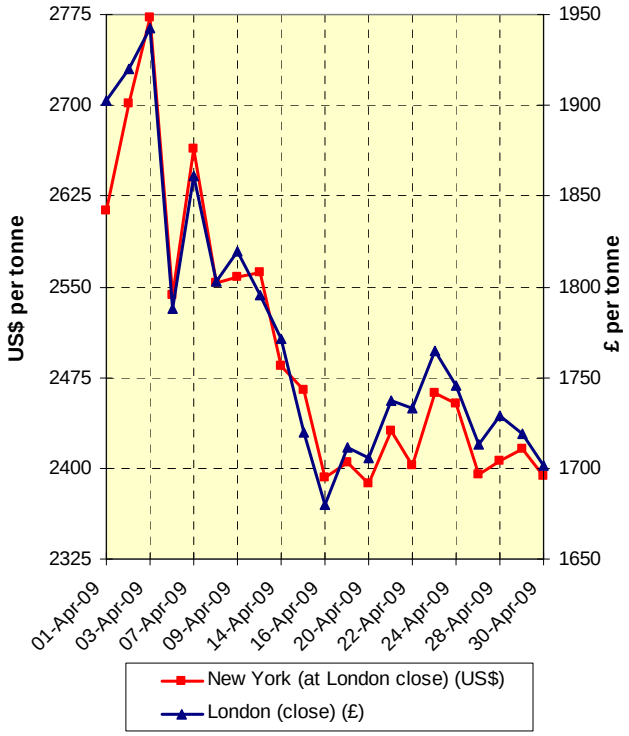
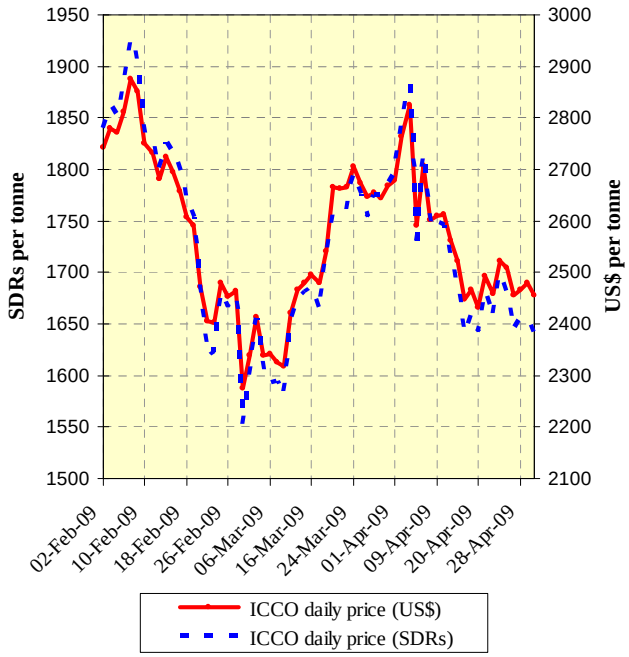


Chart II: ICCO daily prices
February – April 2009



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 April, the ICCO daily price averaged US$2,555 per tonne, up by US$45 compared to the average price recorded in the previous month (US$2,510), and ranged between US$2,432 and US$2,825.

The sharp rise in cocoa futures prices initiated at the beginning of the previous month continued during the first three trading sessions of April, with quotations climbing to their highest level for eight weeks. Cocoa prices reached £1,943 per tonne in London and US$2,772 per tonne in New York. In the latter case, prices increased by almost seven per cent during the three trading sessions, mainly due to the support provided by the weakening US dollar against other major currencies.

Thereafter, cocoa futures markets drifted downwards until the middle of the month, falling to £1,680 in London and to US$2,392 in New York, a decline of almost 14% in both markets. While in the past few months, the cocoa market had usually outperformed the broader commodity market, the decline was, on this occasion, specific to the cocoa market, as the Dow Jones Commodity-AIG Index, which tracks price movements across various commodities, remained stable during the period under consideration, as shown in **Chart III**. The recent accumulation of bearish news regarding the situation and prospects for demand of cocoa beans was partly held responsible for this development. Indeed, this view was supported by statistics published by the *European Cocoa Association* (ECA) which showed that grindings by its Members (the 15 European Union

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

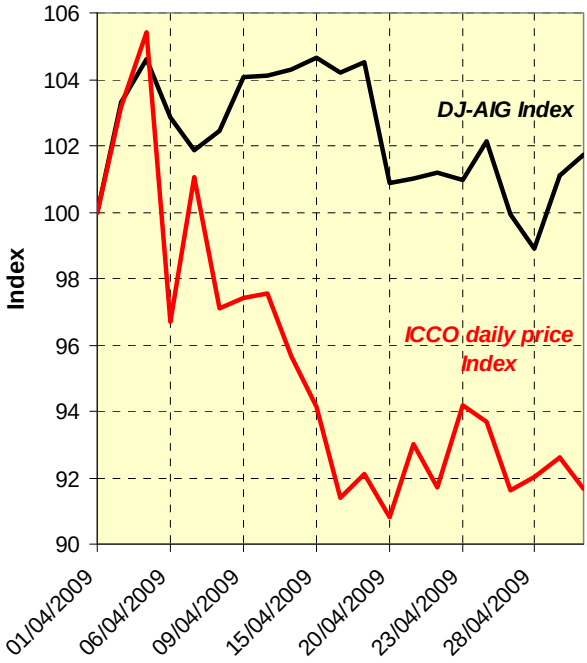
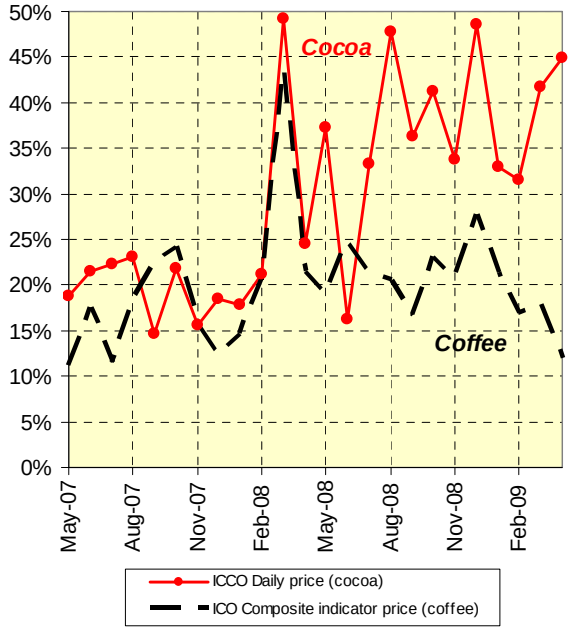


Chart IV: Cocoa and coffee price volatility
(values expressed in annual terms)



countries prior to the 2004 enlargement plus Switzerland) fell by 11.1% during the first quarter of 2009 compared to the same quarter for the previous year while the *National Confectioners' Association* (NCA) reported that aggregated grindings in Canada, Mexico and the United States shrank by 13% during the same period. Moreover, the current build up of stocks of unsold cocoa butter and expectations that demand for cocoa beans may continue to suffer next season from the adverse economic environment have added to the bearish sentiment. These developments challenged the view that the fundamental situation in cocoa was significantly more supportive than in most other commodities.

After the strong correction experienced in the first half of the month, the lack of clear direction in the market caused a number of major market participants to "wait and see" while cocoa prices moved sideways.

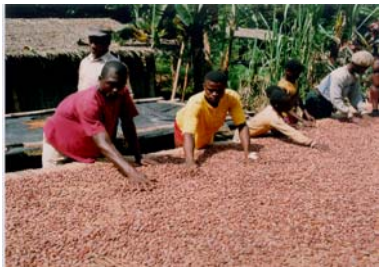
On the supply side, the *Comité de Gestion de la Filière Café-Cacao* (CGFCC) reported a main harvest in Côte d'Ivoire (October 2008 - March 2009) of 894,000 tonnes, 16% lower than in the previous season. However, it should be noted that this figure was 22,000 tonnes higher than the data previously reported by news agencies on port arrivals for the same period. In April, around 60,000 tonnes were delivered to the country's two ports, according to news agencies.

Price volatility

The relatively high level of uncertainty on the extent of the impact of the adverse economic environment on the demand for cocoa beans led to a high level of price volatility in recent months, as shown in **Chart IV**. As long as uncertainty remains, so will the volatility.

Supply and demand situation

At the end of May, the ICCO Secretariat will release its revised crop forecasts for the current year in the *Quarterly Bulletin of Cocoa Statistics*.



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