COCOA MARKET REVIEW

MAY 2009

The current review reports on cocoa price movements on the international markets during May 2009. **Chart I** illustrates price movements on the London (Liffe.Euronext) and New York (ICE Futures US) markets in May. **Chart II** shows the evolution of the ICCO daily price, quoted in US dollars and in SDRs, from March to May 2009. Finally, **Chart III** depicts the change in the ICCO daily price Index, the Dow Jones-UBS Commodity Index and the US Dollar Index.

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

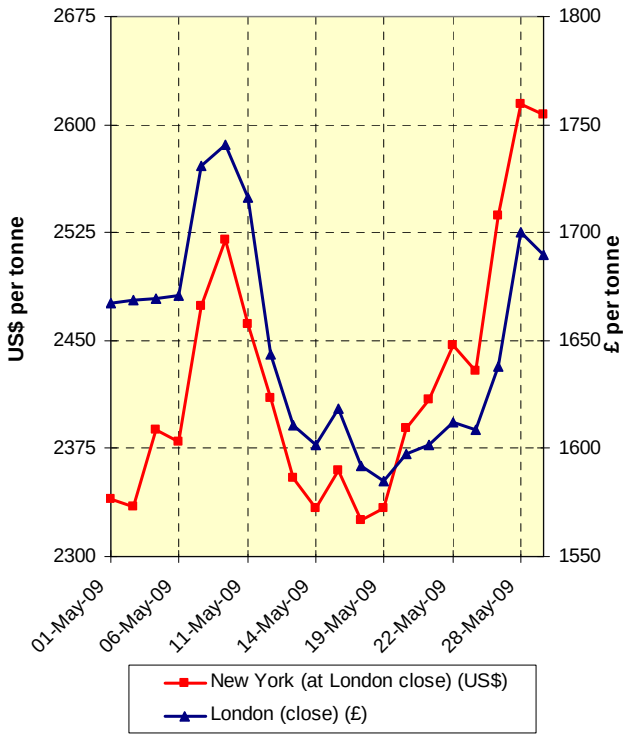
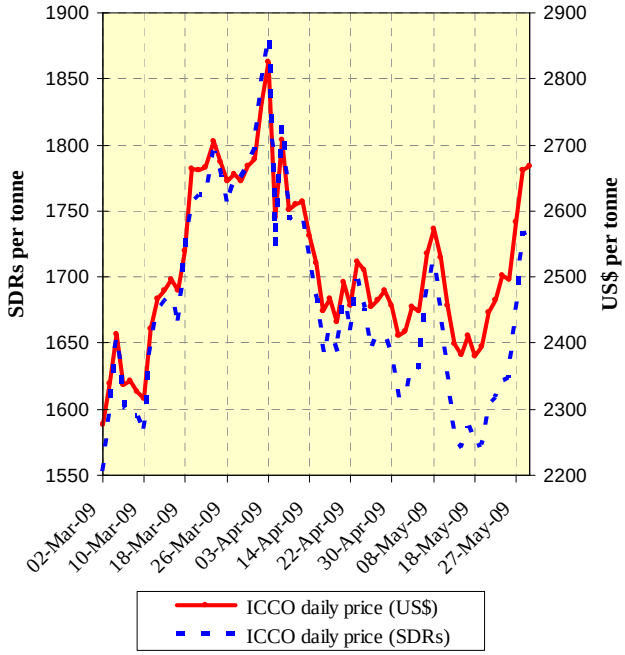


Chart II: ICCO daily prices
March –May 2009



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.

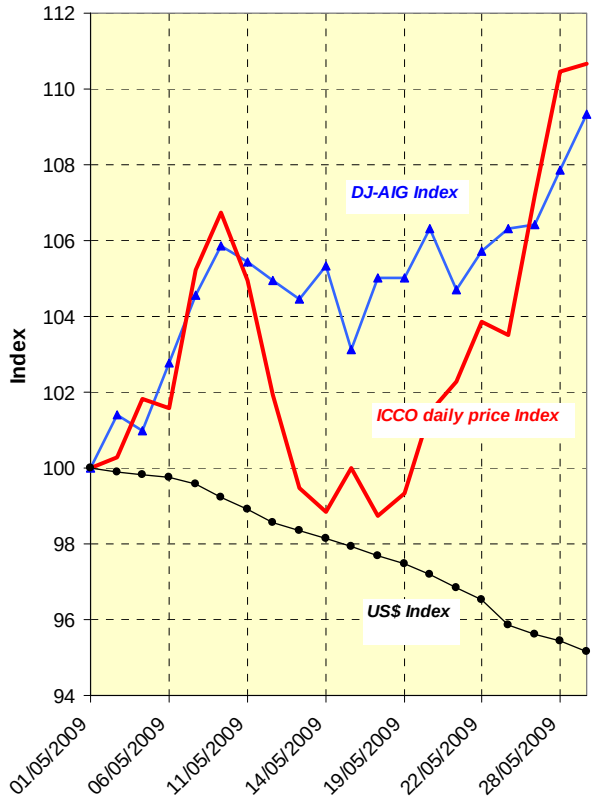
Price movements

In May, the ICCO daily price averaged US$2,481 per tonne, down by US$74 compared to the average price recorded in the previous month (US$2,555), and ranged between US$2,379 and US$2,668.

Following a price decline in the previous month, cocoa futures bounced back in the first week of May, with prices reaching £1,740 per tonne in London and US$2,520 per tonne in New York. As shown in Chart III, cocoa, as most commodities, benefited from the fall of the US Dollar against other major currencies and from concerns over future inflation risks, partly due to accommodative monetary policy in several countries. Indeed, commodities are often used to hedge against inflation as their price usually rise when inflation is accelerating.

In the second week of the month, prices started to revert to lower levels, falling to £1,584 in London and US$2,325 per tonne in New York in the third week. New reports on the supply and demand situation provided a bearish tone to the market: high stocks of cocoa butter in Indonesia, upward revision to data published on cocoa beans arrivals in Côte d'Ivoire and ICCO reporting that demand for cocoa beans for the 2008/09 cocoa year would be significantly lower than previously expected. During that period, the cocoa market decoupled from the broader commodity market which continued to be supported by the weakening US Dollar.

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



Notes:
The *US Dollar Index*, created by the US Federal Reserve, is an index or measure of the value of the United States dollar relative to a basket of six foreign currencies. It is a weighted geometric mean of the dollar's value compared to the euro, Japanese yen, British pound, Canadian dollar, Swedish krona and Swiss franc.
The *Dow Jones Commodity-UBS Index* (formerly the *Dow Jones Commodity-AIG Index*) tracks price movements across various commodities, including energy, precious metals, industrial metals, grains, livestock, softs (cocoa being excluded) and agriculture.

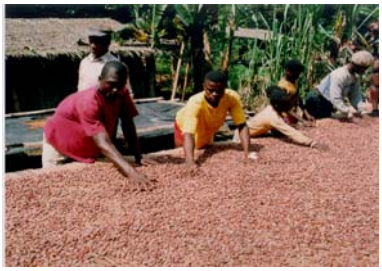
In the last ten days of the month, cocoa prices found some fresh impetus with futures prices reaching £1,690 (up by seven per cent) in London and US$2,607 (up 12%) in New York at the end of the month compared to the low level attained around the middle of the month. This development was mainly seen as a long overdue correction as the cocoa market significantly under-performed the broader commodity sector in the previous days. Once again, the continuous weakening of the US Dollar was the main drive behind the price fluctuations, also explaining the stronger rise of cocoa prices in New York than in London.

Supply and demand situation

On the supply side, news agency data showed that cocoa bean arrivals to ports in Côte d'Ivoire reached 1.016 million tonnes at the end of May, down by 166,000 tonnes compared to the previous season. In Ghana, similarly, cocoa purchases recorded by the *Ghana Cocoa Board* totalled 623,000 tonnes at the end of the month, down by 23,000 tonnes. In the third major cocoa producing country, Indonesia, exports of cocoa beans from *Sulawesi* have been significantly lower than average. However, the increasing volume exported from *Sumatra* has been partially offsetting this decline.

On the demand side, the *Malaysian Cocoa Board* reported that the country's processing activity had plummeted by 18% in the first quarter of 2009 compared to a year earlier.

The ICCO Secretariat's revised forecasts for the current 2008/09 cocoa year, published in the latest issue of the *Quarterly Bulletin of Cocoa Statistics*, envisage a third year of production deficit, of around 84,000 tonnes. World cocoa bean production is expected to decline by 7.2% (down by 269,000 tonnes) over the previous season, to 3.466 million tonnes. Grindings are forecast to decrease by 6.5% (down by 243,000 tonnes) to 3.515 million tonnes. If realized, this would reduce the total statistical stocks of cocoa beans as at the end of the 2008/09 cocoa year from 1.555 million tonnes in the previous season to 1.471 million tonnes, which would be equivalent to 42% of projected annual grindings in 2008/09.



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