



COCOA MARKET REVIEW

JULY 2009

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

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

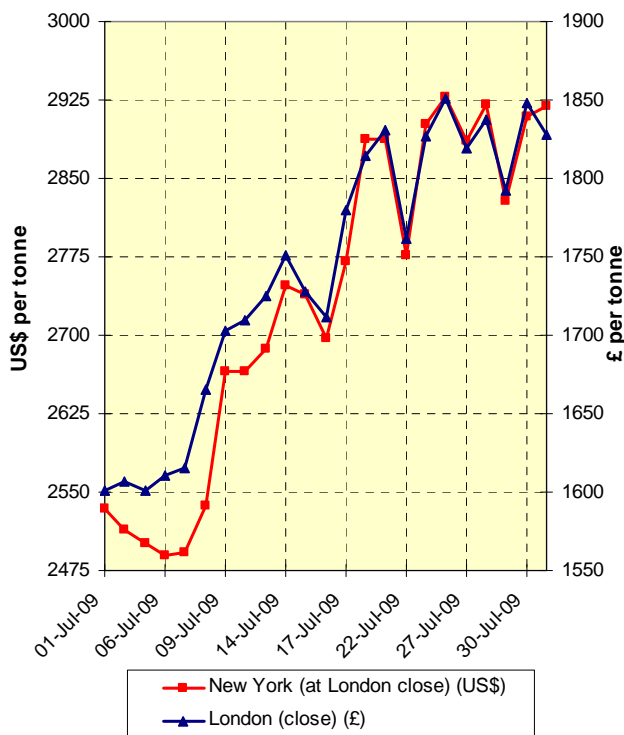
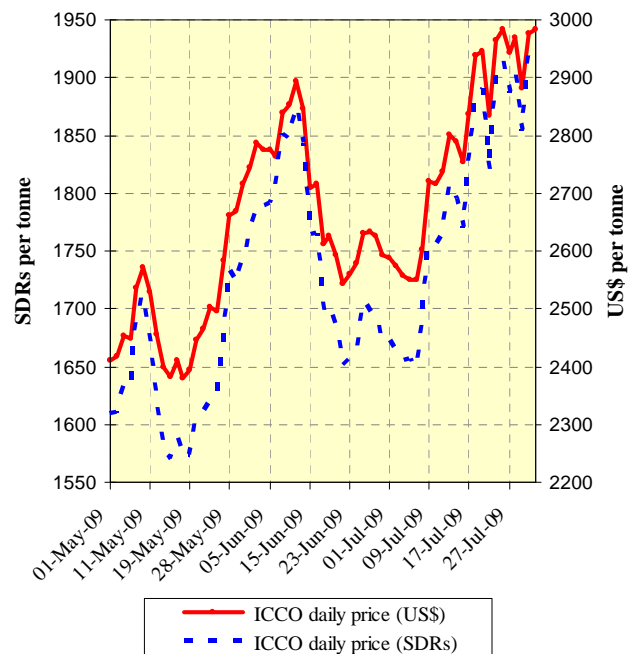


Chart II: ICCO daily prices
May – July 2009



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 July, the ICCO daily price averaged US\$2,791 per tonne, up by US\$91 compared to the average price recorded in the previous month (US\$2,700), and ranged between US\$2,550 and US\$2,984.

In the first four trading sessions of the month, cocoa futures prices moved sideways in London while, they dropped in New York by two per cent (down by US\$50) to US\$2,489. The decline in the latter was attributed to the appreciation of the US Dollar against other major currencies which had increased the price of cocoa in foreign currency terms and thus reduced demand in the US market.

Thereafter, from July 6th, cocoa prices bounced back, posting gains of 13% and 17% in London and New York respectively by the end of the month. Quotations reached their highest level for three months in London at £1,851 and for one year in New York, at US\$2,928 in the fourth week of the month.

From July 10th, the strong performance of the cocoa market mirrored the general development in commodity and equity markets. Indeed, by the end of the month, the *Dow Jones Industrial Average* had surged by 13% while the increase was 12% for the *FTSE 100*. As depicted in **Chart III**, the *DJ-UBS commodity Index* and the ICCO daily prices posted gains of 11% and 10% during the same period, respectively. The slightly lower performance of the cocoa market from July 10th onwards compared to the other markets may be explained by the fact that cocoa had enjoyed better returns in the first days of July.

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

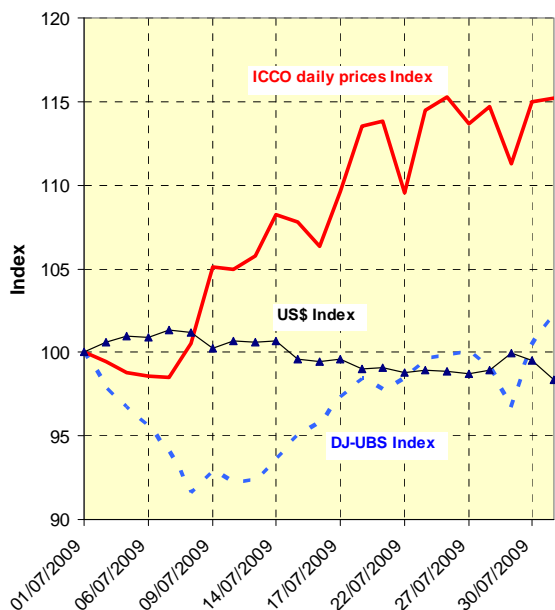
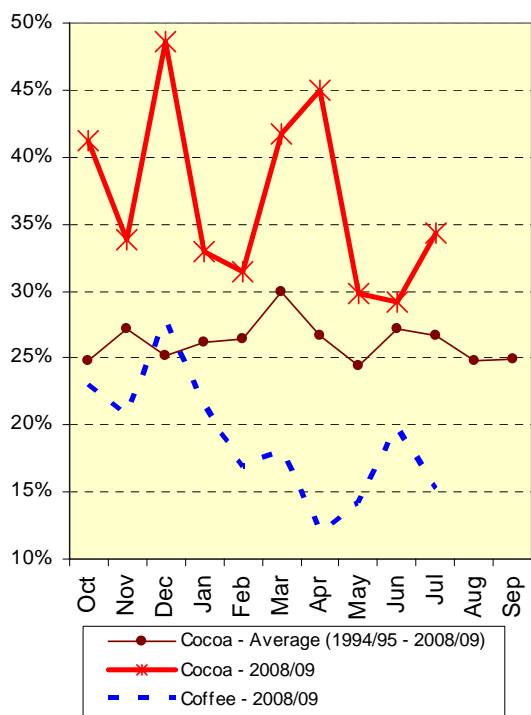


Chart IV: Cocoa and coffee daily price volatility (values expressed in annual terms)



Overall, the cocoa market out-performed other commodity markets in July. Specific bullish fundamental factors included the facts that:

- the current 2008/09 season is likely to experience a third cocoa supply deficit;
- 2009/10 cocoa production is expected to suffer from an *El Niño* weather condition which had developed in June 2009 and is expected to strengthen and last through the 2009 – 2010 winter; and
- demand for cocoa beans is expected to bounce back in the near future.

It should be noted that the publication, in the course of July, of data revealing that grindings contracted in the leading countries in the second quarter of 2009, compared to the same quarter a year earlier, failed to break the upward price trend as these data were largely anticipated. Processing activity dropped in Germany (down by 15.3% according to the *German Confectionery Association*), in Western Europe (down by 11.3% according to the *European Cocoa Association*), in North America (down by 6.7% according to the *National Confectioners' Association* and in Malaysia (down by 21.8% according to the *Malaysian Cocoa Board*).

Price volatility

The summer period is known as the “silly period” when cocoa prices supposedly show strong erratic price movements (generally with an upward trend) in a relatively illiquid market.

Indeed, in July, low volumes were traded on the futures markets and prices experienced an upward trend during the month. However, as shown in **Chart IV**, the average day-to-day price volatility in July 2009 was below the levels experienced in October, December, March and April of the current 2008/09 season.

It should also be noted that price volatility was generally higher in 2008/09 compared to the 1994/95-2008/09 average. This may be explained by the high level of uncertainty this season on the extent of the impact of the adverse economic environment on the demand for cocoa beans.

