COCOA MARKET REVIEW

FEBRUARY 2011

The current review reports on cocoa price movements on international markets during the month of February 2011. **Chart I** illustrates price movements on the London (NYSE Liffe Futures and Options) and New York (ICE Futures U.S.) markets in February. **Chart II** shows the evolution of the ICCO daily price, quoted in US dollars and in SDRs for the period from December 2010 to February 2011. **Chart III** presents recent changes in warehouse stocks of cocoa beans and the price differential between the two cocoa futures markets. **Chart IV** shows the price performance of European cocoa products since the beginning of the 2010/2011 cocoa year.

Chart I: Cocoa bean prices on the London (LIFFE) and New York (ICE) futures markets
February 2011

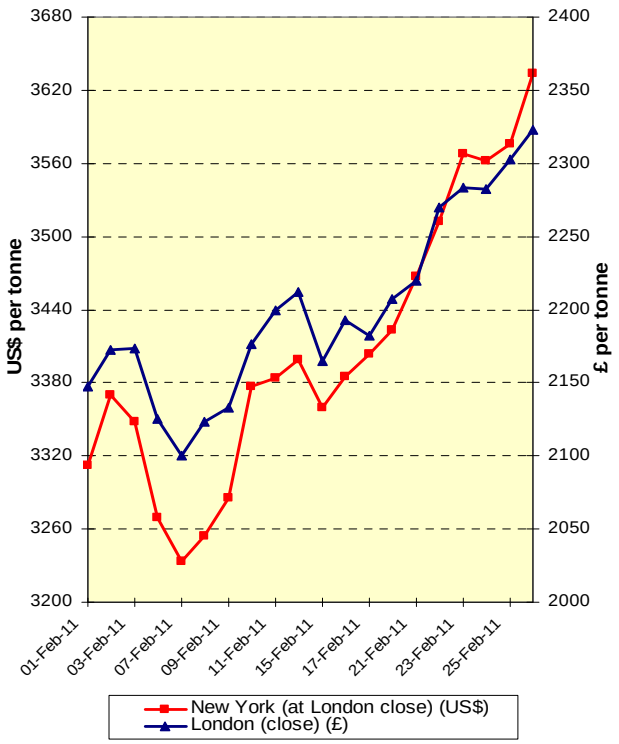
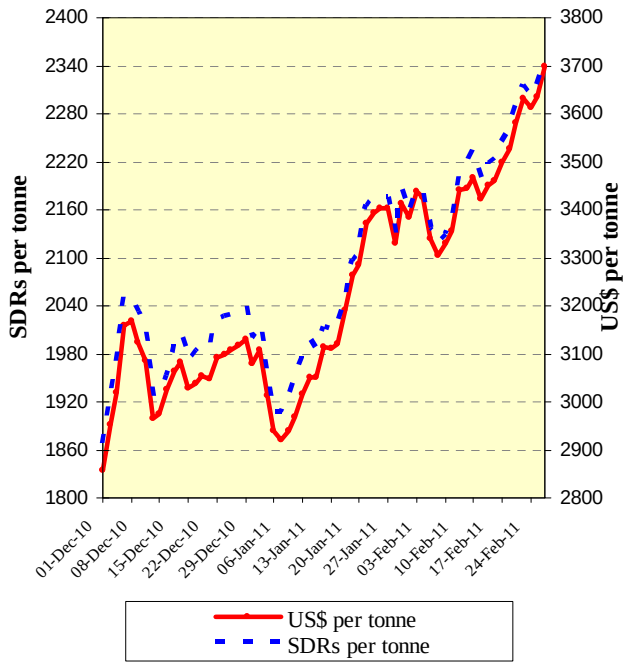


Chart II: ICCO daily prices
December 2010 – February 2011



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 February, the ICCO daily cocoa prices averaged US$3,472 per tonne, up by US$307 compared to the average price recorded in the previous month (US$3,165). Prices ranged between US$3,304 and US$3,699.

During the first sessions of the month, as a result of strong arrivals of cocoa beans in Côte d'Ivoire and Ghana, cocoa futures prices eased to £2,100 per tonne in London and to US$3,234 per tonne in New York. However, as shown in **Chart I**, this correction was short-lived as the political crisis in Côte d'Ivoire continued and the March contract approached its expiry date. Indeed, during the month in question, no cocoa was exported from Côte d'Ivoire as a result of the European Union Council Regulation (No. 25/2011) which took effect in the middle of January and the call for a month-long ban on Ivorian cocoa exports by one of the parties involved in the political dispute in Côte d'Ivoire. On 22 February, the ban on Ivorian cocoa exports was further extended until the middle of March. In addition, exporters in Côte d'Ivoire faced liquidity problems in financing their daily business, owing to the suspension of operations by major banks. As tensions over cocoa supplies increased, cocoa futures rallied by the end of the month and attained a 32-year high in New York at US$3,633 per tonne and a nine-month high in London at £2,323 per tonne, an increase of 21% and 17% respectively, compared with the levels reached at the start of the 2010/2011 cocoa season. It should be noted that these rises occurred in the framework of an expected global supply surplus.

Chart III: Arbitrage spread between NYSE Liffe and ICE Futures and licensed warehouse stocks

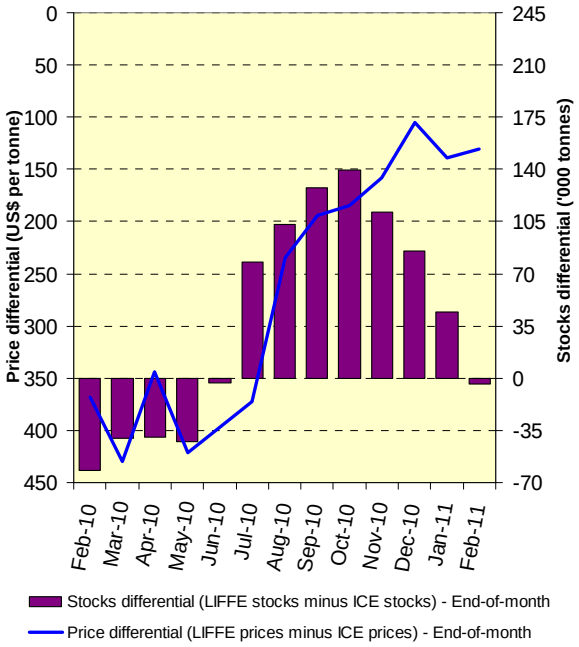
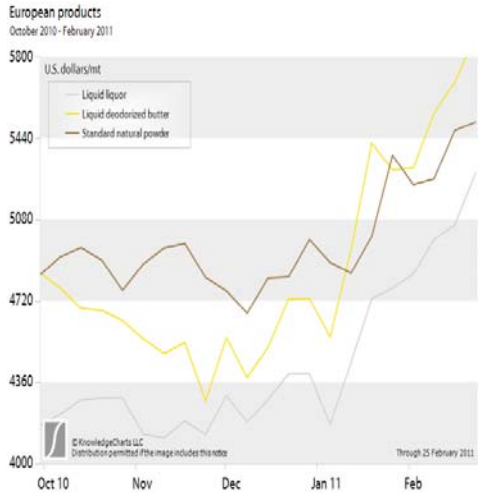


Chart IV: European cocoa products in US$/tonnes October 2010 – February 2011



Source: Commodities Risk Analysis LC

Certified warehouse stocks of cocoa beans

The NYSE Liffe reported a decrease in the volume of certified warehouse stocks in Europe by 19,730 tonnes to 223,310 tonnes at the end of February, compared to the previous month. The export ban and the restrictive measures imposed by the EU Commission in Côte d'Ivoire may have contributed to the fall in certified warehouse stocks of cocoa beans. Conversely, US certified warehouse stocks increased to 227,552 tonnes (up by 28,589 tonnes) during the same period. However, this stocks development in the two markets was not accompanied by a logical increase of the price differential between London and New York. Indeed, as depicted in **Chart III**, the price premium fetched by the London cocoa futures market against the New York market weakened in comparison with the previous month, and reached only US$131 by the end of the month. In general terms, the lower the level of stocks, the higher the market price.

Supply & demand situation

Data from news agencies indicated that cocoa arrivals at ports in Côte d'Ivoire reached 1,013,000 tonnes by the end of February. As arrivals of cocoa remained strong, stocks at port level and up-country were increasing, raising concerns in relation to the impact on the quality of the cocoa under storage. While cocoa can be stored for years before its quality deteriorates as long as the storage conditions follow good practice, it is expected that the quality of cocoa not stored in adequate conditions will suffer. In Ghana, the *Ghana Cocoa Board* raised its forecast for the 2010/2011 main crop to 850,000 tonnes. As at the end of the month, total cocoa purchases were over 700,000 tonnes.

Chart IV shows that prices of cocoa products continued to increase during the month. The stagnant flow of cocoa beans from Côte d'Ivoire during the month may have contributed to the price hike of cocoa products.

Conclusions

The ICCO Secretariat's first forecasts for the current 2010/2011 cocoa year, published in the latest issue of the *Quarterly Bulletin of Cocoa Statistics*, envisage a supply surplus of around 119,000 tonnes. World cocoa bean production is expected to increase by eight per cent to 3.938 million tonnes. Grindings are also forecast to increase by three per cent to 3.780 million tonnes. If realized this would increase the total statistical stocks of cocoa beans as at the end of the 2010/2011 cocoa year from 1.644 million tonnes in the previous season to 1.763 million tonnes, which would be equivalent to 46.6% of projected annual grindings for the current season.

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