COCOA MARKET REVIEW

MARCH 2011

The current review reports on cocoa price movements on international markets during the month of March 2011. **Chart I** illustrates price movements on the London (NYSE Liffe Futures and Options) and New York (ICE Futures U.S.) markets in March. **Chart II** shows the evolution of the ICCO daily price, quoted in US dollars and in SDRs for the period from January to March 2011. **Chart III** links cocoa bean price movements to the *Dow Jones* commodity index as well as to the US dollar index. **Chart IV** presents prices of European cocoa products for the period under review.

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

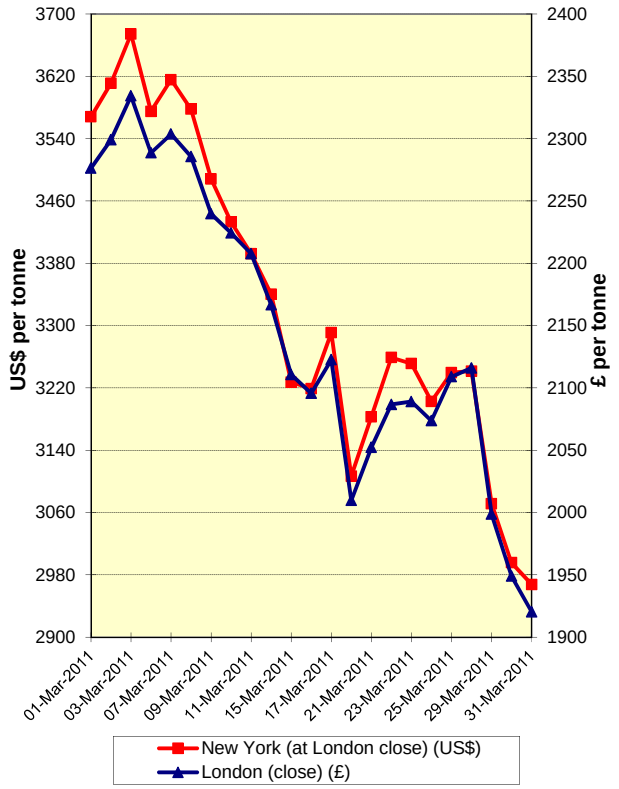
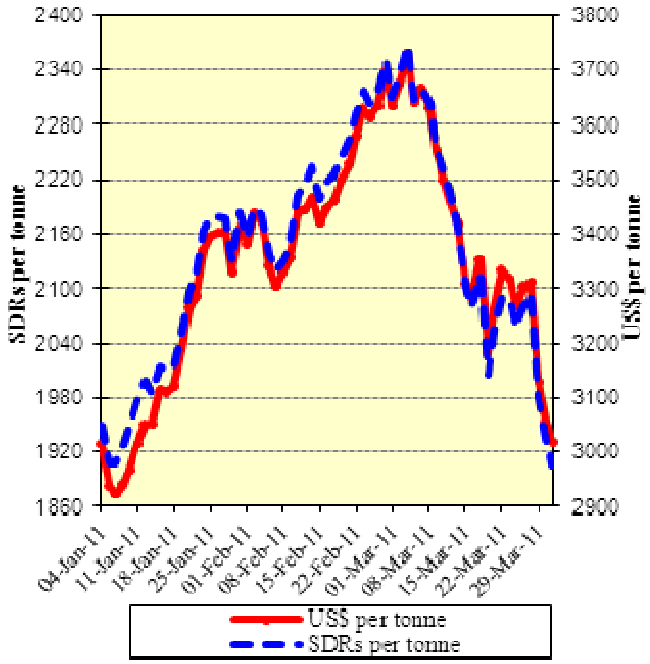


Chart II: ICCO daily prices
January – March 2011



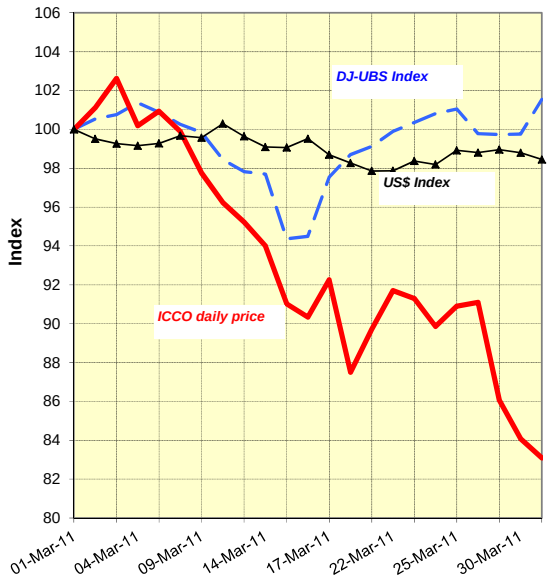
Note: The ICCO daily price for cocoa beans is the average of the quotations of the nearest three active futures trading months on NYSE Liffe and ICE Futures U.S. at the time of London close, converted into US$ and SDRs using the appropriate exchange rates.

Price movements

In March, the ICCO daily cocoa prices averaged US$3,393 per tonne, down by US$79 compared to the average price recorded in the previous month (US$3,472). Prices ranged between US$3,020 and US$3,731.

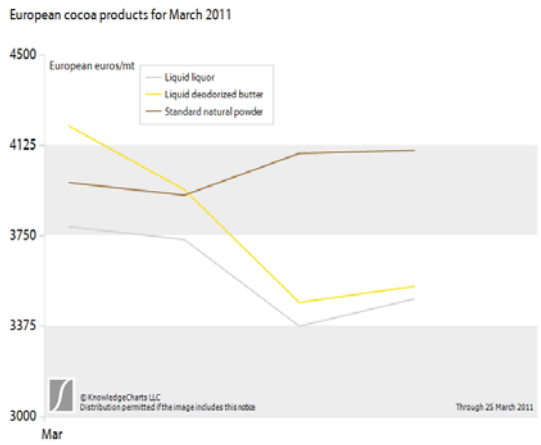
As in the previous month, cocoa futures followed an upward trend at the start of the month as the export ban in Côte d'Ivoire initiated by one of the parties involved in the political dispute, combined with international sanctions and a disrupted banking system stalled cocoa exports from Côte d'Ivoire. With the export ban still in force, raising further concerns over future cocoa supplies, cocoa prices in London reached a nine-month high at £2,334 per tonne while in New York, prices attained a 32-year high of US$ 3,674 per tonne in the first week of the month. Thereafter, prices drifted downwards as a result of bearish macroeconomic news and confirmation of a larger than envisaged global cocoa surplus. By the middle of the month, cocoa prices fell by 14% to £2,010 in London and by 15% to US$3,107 in New York. From that point onwards, cocoa futures rallied to £2,116 in London and to US$3,242 per tonne in New York as the situation in Côte d'Ivoire deteriorated and tensions mounted over cocoa supplies. However, by the end of the month, political news from Côte d'Ivoire that the internationally recognized President was in control of one of the major ports eroded the political risk that had fuelled prices at the start of the month. Consequently, cocoa futures in both markets plummeted to their lowest levels for the month to £1,920 and to US$2,968 per tonne in London and New York respectively.

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



Notes:
The *US Dollar Index* is a measure of the value of the United States dollar relative to a basket of six major foreign currencies. The *Dow Jones Commodity-UBS Index* tracks price movements across various commodities, including energy, precious metals, industrial metals, grains, livestock, softs (cocoa being excluded) and agriculture. Both indexes are rebased.

Chart IV: European cocoa products in Euros/tonne March 2011



Source: Commodities Risk Analysis LC

As shown by the movement of the Dow Jones UBS commodity index in **Chart III**, most commodities generally experienced a price decline during the first half of the month. This downward movement in commodities including cocoa was influenced by external factors such as the deterioration of the global macroeconomic environment, as the tensions in the Middle East and the earthquake in Japan caused losses in most commodity and equity markets.

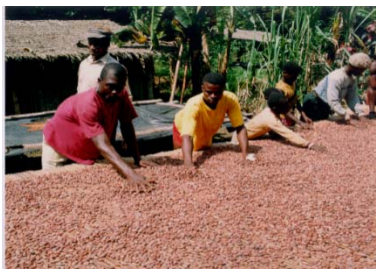
Supply & demand situation

The political crisis in Côte d'Ivoire continued to play a role in the price movements of cocoa futures. This notwithstanding, the fundamental picture in West Africa looked bearish. News agency data showed that cocoa bean arrivals in Côte d'Ivoire were more than one million tonnes as at the end of the month. This is about 100,000 tonnes more compared to the same period for the previous season. Similarly, in Ghana, cumulative cocoa purchases recorded for the current crop year totalled about 744,000 tonnes as at 24 March, representing an increase of approximately 44% compared with the same period for the previous season. On the other hand, reports from Indonesia show that fungal diseases are spreading as a result of excess rainfall which could be detrimental to cocoa production in the country.

On the demand side, there are concerns that the unrest in Côte d'Ivoire which disrupted the supply of cocoa beans could affect grinding activities. As illustrated in **Chart IV**, while the price for cocoa butter and liquor declined during the month, prices for cocoa powder have remained steady.

Conclusions

The political situation in Côte d'Ivoire dominated the movement of cocoa futures during the month. The crisis continued to instil nervousness among market participants. However, should the dispute be resolved, significant volumes of cocoa will flow from the country after the logistical issues have been addressed. Such a development could lead to a likely decline in prices as a result of the bearish fundamental outlook of the cocoa market.



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