

COCOA MARKET REVIEW

MAY 2011

The current report contains a review of cocoa price movements on international futures markets during the month of May 2011. **Chart I** illustrates price movements on the London (NYSE Liffe Futures and Options) and New York (ICE Futures U.S.) markets in May. **Chart II** shows the evolution of the ICCO daily price, quoted in US dollars and in SDRs for the period from March to May 2011. **Chart III** depicts the link between the ICCO daily price index, the Dow Jones-UBS commodity index and the US Dollar index for the period under review. **Chart IV** presents changes in the daily price volatility of cocoa compared to coffee since the beginning of the 2010/11 cocoa season.

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

May 2011

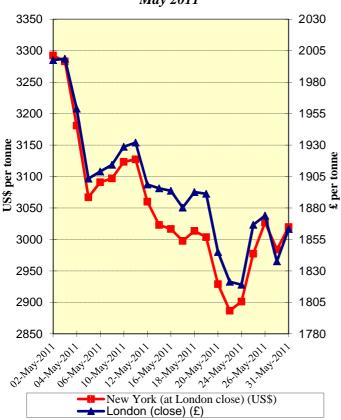
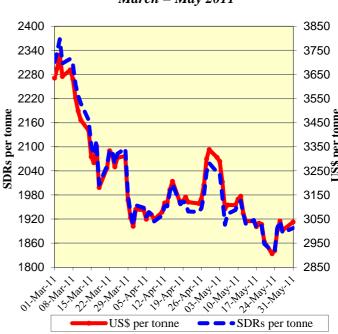


Chart II: ICCO daily prices March – May 2011



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 May, the ICCO daily price averaged US\$3,071 per tonne, down by US\$63 compared to the average price recorded in the previous month (US\$3,134) and ranged between US\$2,906 and US\$3,306.

As opposed to the price increases experienced during the end of April, cocoa futures followed a downward pattern in May. By the end of the first week of the month, cocoa futures on the London and New York markets plummeted by over 5% to £1,903 per tonne and by 8% to US\$3,067 per tonne respectively. This development was not only triggered by the strengthening of the U.S. dollar against other major currencies but was also a consequence of fears of a stall in the recovery of the global economy. However, futures prices changed course in the days that followed. As shown in **Chart III**, the commodity complex closed higher during the second week of the month and likewise, cocoa futures rebounded from their recent lows. By the third week of the month, bearish fundamental news of large volumes of cocoa beans leaving the ports of Côte d'Ivoire as well as record production data from Ghana incited cocoa futures to settle lower, falling to £1,819 in London and to US\$2,887 in New York. At the end of the month, cocoa futures followed a rally experienced in the broader commodity market and made some modest gains. This slight increase in prices was supported by a weak US dollar which attracted investors to the commodity markets.

Chart III: ICCO daily price index, Dow Jones-UBS commodity index and the US Dollar index

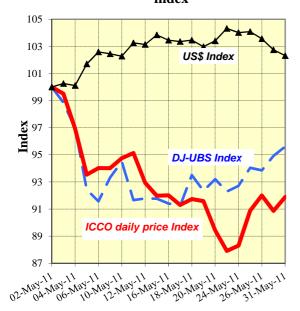
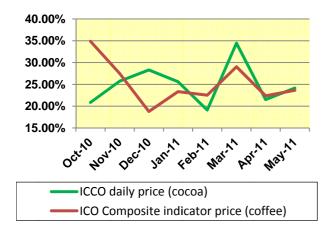


Chart IV: Cocoa and coffee daily price volatility (values expressed in annual terms)



As displayed in **Chart III** by the Dow Jones commodity index which tracks price movements across various commodities, cocoa futures followed the same trend as other commodities during the month.

Supply & demand situation

Estimates from the latest *ICCO Quarterly Bulletin of Cocoa Statistics* indicate that most major producers are anticipating large supplies for the current season, with world production of cocoa beans expected to increase by nearly 11% to 4.025 million tonnes compared to the previous season.

Exports of cocoa beans from Côte d'Ivoire finally resumed in May. At the end of the month, data published by news agencies showed that cocoa arrivals reaching the ports in Côte d'Ivoire since the start of the season were about 1.142 million tonnes, up by 153,000 tonnes. However, there were concerns that the four-month post-election conflict had affected the size and quality of the Ivorian output. In addition, security issues in rural areas and difficulties in obtaining credit for cocoa purchases within the country continued to be a problem.

The situation was more promising in Ghana, with *Cocobod* reporting a record of 904,000 tonnes for the main crop purchases, up by 55% compared to last year's levels.

The ICCO Secretariat forecasts that global cocoa grindings are set to increase by just over three per cent in the current 2010/2011 cocoa year, to 3.798 million tonnes, the highest grindings figure on record. Nevertheless, the relatively weak economic growth in Europe and North America in the past few years is still having an impact on current demand. Indeed, the cocoa butter ratio (the price of the cocoa butter against the beans) fell to 1.2, a low record level.

Final comments

As shown in **Chart IV**, volatility in prices has been one of the main features of the cocoa market since the start of the current season, with a high reached in March when Côte d'Ivoire was facing political disturbances. This portrays the nervousness among market participants, although most analysts of the cocoa market expect the 2010/11 season to experience a supply surplus. Although the ICCO Secretariat forecasts that the current season will reach a surplus of 187,000 tonnes this season, there are concerns about a possible lack of supply in coming years.





