



COCOA MARKET REVIEW

JULY 2011

The current review reports on cocoa price movements on international markets during the month of July 2011. **Chart I** illustrates price movements on the London (NYSE Liffe Futures and Options) 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 2011. **Chart III** depicts the change in the ICCO daily price Index, the Dow Jones-UBS Commodity Index and the US Dollar Index. **Chart IV** presents recent changes in warehouse stocks of cocoa beans and the price differential between the two cocoa futures markets.

Chart I: Cocoa bean prices on the London (NYSE Liffe) and New York (ICE) futures markets
July 2011

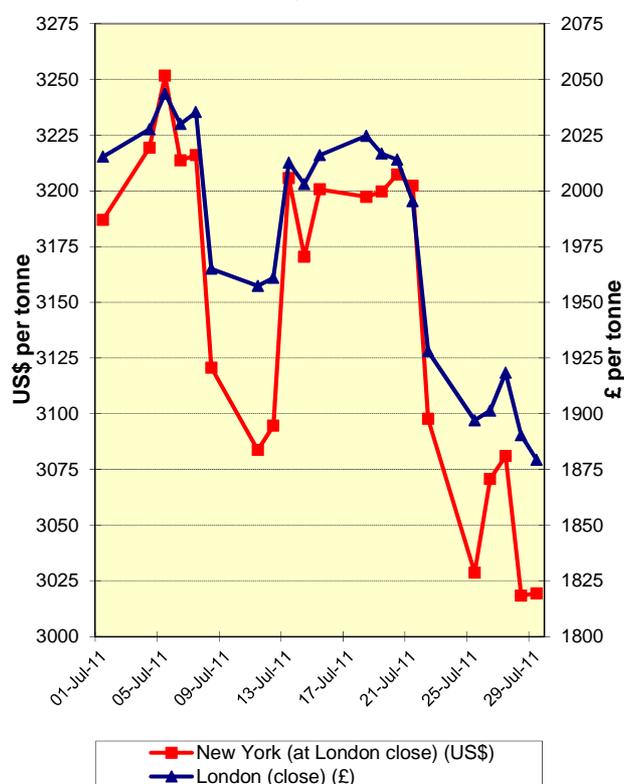
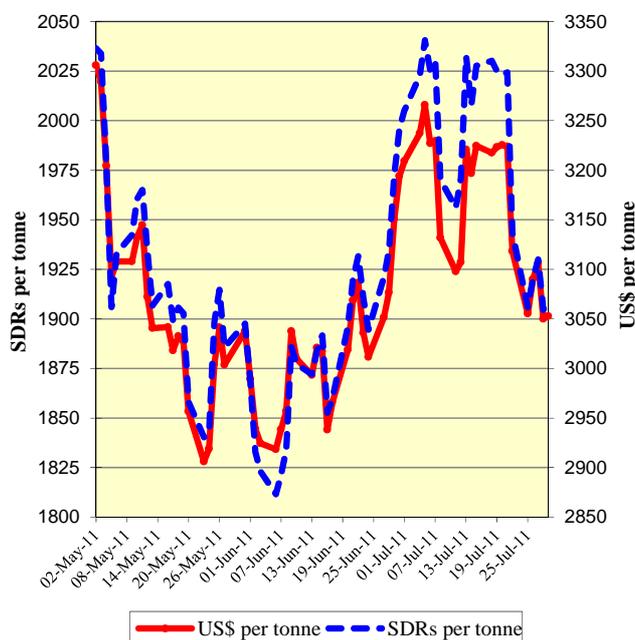


Chart II: ICCO daily prices
May – July 2011



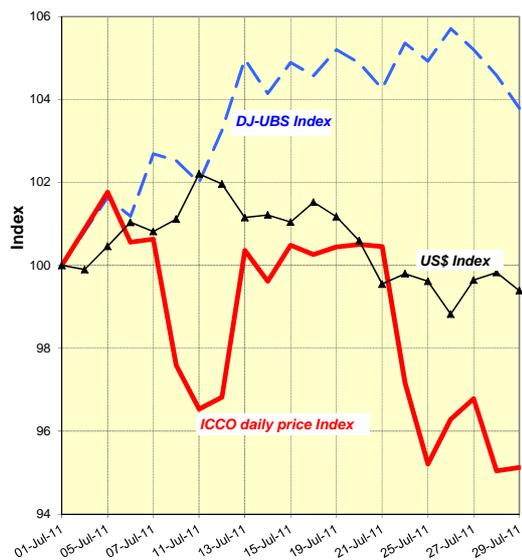
Note: The ICCO daily price for cocoa beans is the average of the quotations of the nearest three active futures trading months on NYSE Liffe and ICE Futures U.S. at the time of London close, converted into US\$ and SDRs using the appropriate exchange rates.

Price movements

In July, the ICCO daily price averaged US\$3,167 per tonne, up by US\$151 compared to the average price recorded in the previous month (US\$3,016), and ranged between US\$3,050 and US\$3,266.

The upward movement in cocoa prices recorded on both the LIFFE and ICE futures markets at the end of the previous month continued into early July. Although a larger than anticipated global surplus is expected for the current crop year, the prospects for the size of cocoa output for the next crop year (2011/2012) do not appear to be favourable and reports of a supply deficit may have supported cocoa prices. As depicted in **Chart I**, cocoa prices in London and in New York attained their highest levels of the month on 5 July, at £2,044 and US\$ 3,252 per tonne respectively. In the subsequent trading sessions, the lack of fresh fundamental news and continuous reports of ample supplies of cocoa beans from West Africa led to bearish sentiments in the markets. Within a week, cocoa futures lost four per cent in London, down to £1,957 and five per cent in New York, down to US\$ 3,084. Conversely, as shown in **Chart III**, the value of the commodity complex rose by 0.4% during the same period. However, by the third week of July, cocoa futures rallied in reaction to the publication of favourable cocoa grindings data from Europe and North America.

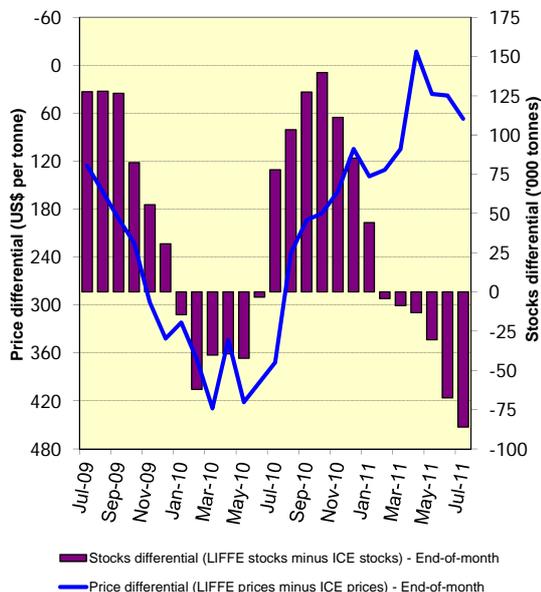
Chart III: ICCO daily price Index, Dow Jones-UBS commodity index and U.S. Dollar Index



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.

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



At the end of August, the ICCO Secretariat will release its revised crop forecasts for the current year in its *Quarterly Bulletin of Cocoa Statistics*.

Cocoa prices fell to their lowest levels at the end of the month, to £1,879 in London and to US\$3,018 in New York, as a result of the confirmation of higher arrivals and purchasing figures from Côte d'Ivoire and Ghana.

In total, cocoa prices fell by five per cent during the month under review, while the value of the commodity complex rose by almost four per cent.

Certified warehouse stocks of cocoa beans

Cocoa bean stocks in European warehouses had been depleting in previous months. However, this trend reversed and in July, certified warehouse end-of-month stocks in Europe increased to 177,510 tonnes (up by about 10,000 tonnes compared to the previous month). The warehouses may have benefitted from the resumption of operations in Côte d'Ivoire. US certified warehouse end-of-month stocks continued their upward trend and rose to 264,000 tonnes (up by 29,000 tonnes).

The stocks development in the two markets has been accompanied by an increase in the price differential between the two markets. As illustrated in **Chart IV**, the price premium fetched by the London cocoa futures market against the New York market strengthened in comparison with the previous month, and reached US\$ 67 by the end of the month.

Supply and demand

According to news agency data, cocoa arrivals to ports in Côte d'Ivoire were nearly 1.368 million tonnes as at the end of July compared to 1.1 million tonnes during the same period for the previous season. However, exports of semi-finished products from Côte d'Ivoire have decreased. The political uncertainty in the country over recent months had resulted in a temporary closure of many grinding facilities.

In Ghana, cocoa purchases continued to increase at a strong pace. Although the country had targeted one million tonnes for the 2012/2013 season, reports indicated that a record output of more than one million tonnes is expected by the end of the 2010/2011 season.

On the other hand, in Indonesia, erratic weather conditions and fungal diseases have led to a decrease in cocoa production for the current season. Output is expected to fall.

Grindings in both Europe and North America increased in the second quarter of 2011. The *European Cocoa Association* reported that cocoa grinding activity had risen by 8.3% to 355,593 tonnes in Europe while the *National Confectioners' Association* reported a grindings increase of 6.22% to 124,970 tonnes for North America.

Both continents benefited from the transfer of processing activities from Côte d'Ivoire, arising from its political *impasse*.

