



COCOA MARKET REVIEW

FEBRUARY 2012

The current review focuses on cocoa price movements on international markets during the month of February 2012. **Chart I** illustrates price movements on the London (NYSE Liffe Futures and Options) and New York (ICE Futures US) markets in February. **Chart II** shows the evolution of the ICCO daily price, quoted in US dollars and in SDRs, from December 2011 to February 2012. **Chart III** presents recent changes in cocoa price daily volatility against that of coffee. Finally, **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 (LIFFE) and New York (ICE) futures markets
February 2012

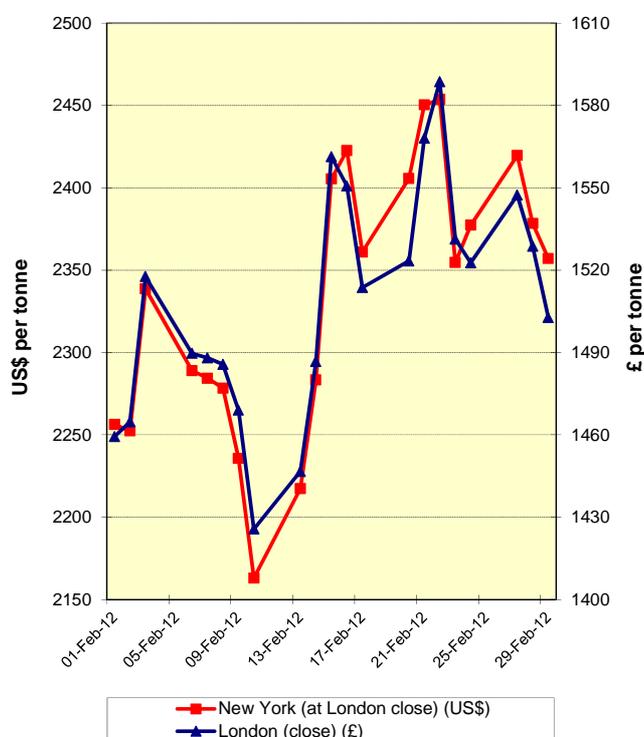
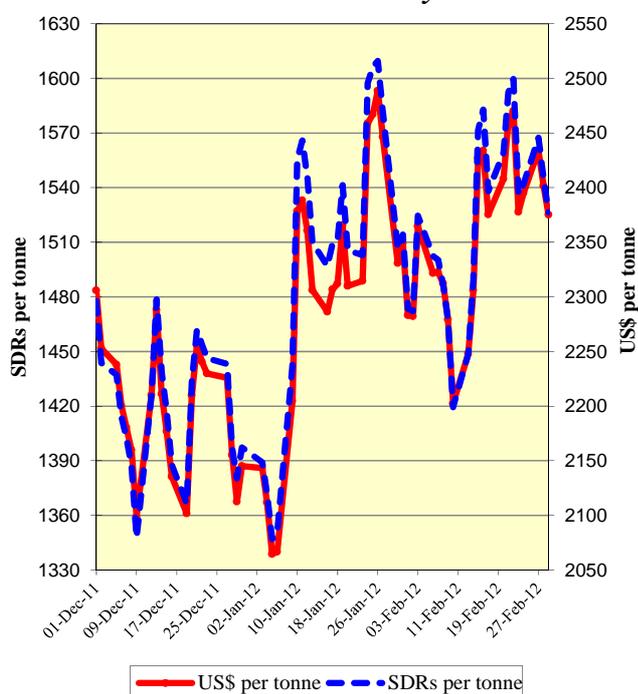


Chart II: ICCO daily prices
December 2011 - February 2012



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 price averaged US\$2,356 per tonne, up by US\$48 compared to the average price recorded in the previous month (US\$2,308). Prices ranged between US\$2,202 and US\$2,471.

Cocoa futures experienced a slight uptick in prices after the initial trading days of February. This upward movement, though short-lived, was in correlation with the broader commodity complex which received support from reports of an improving global macro-economy. As shown in **Chart I**, in the subsequent days, cocoa futures moved in a downward trend. During this period, reports of exporters in Côte d'Ivoire ending the boycott and agreeing to participate in the forward sales programme initiated a bout of origin hedging which increased trading volumes. This hampered cocoa prices and cocoa futures fell to their lowest level for the month at £1,426 per tonne in London and US\$2,163 per tonne in New York. Thereafter, cocoa futures rallied through to the middle of the month. Fundamental news of dry weather conditions and supply tightness from major producing countries, against the backdrop of a weakening US dollar supported the markets. By the end of the month, cocoa futures moved sideways, influenced by reports of improved weather conditions amidst analysts' expectations of a deficit for the current crop year.

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

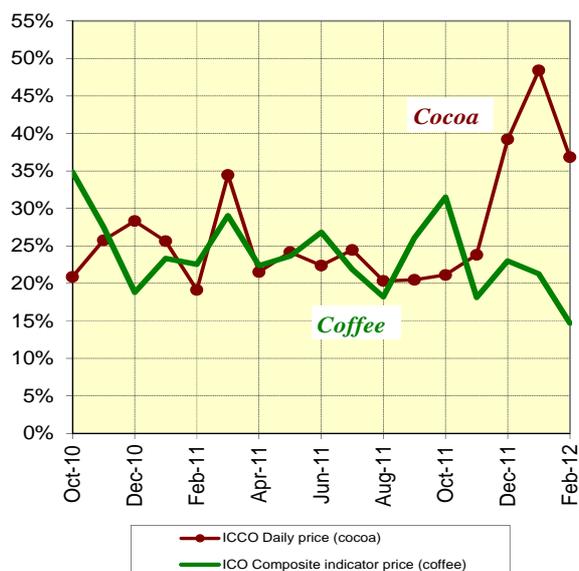
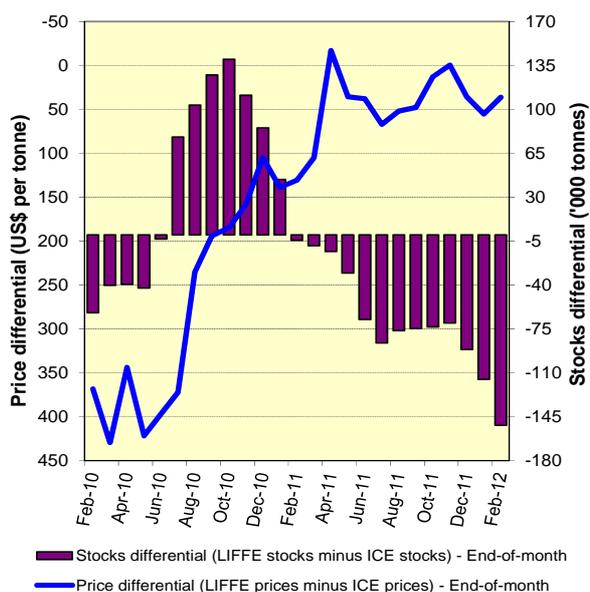


Chart IV: Arbitrage spread between LIFFE and ICE Futures and licensed warehouse stocks
February 2010 – February 2012



Price volatility

The relatively high level of uncertainty in regard to the availability of cocoa beans has led to an increased level of price volatility since December 2011, as shown in **Chart III**.

Arbitrage spread between LIFFE and ICE Futures

As illustrated in **Chart IV**, the price differential between LIFFE and ICE futures markets was reduced to US\$36 at the end of the month under review. However, it did not reflect an increase of LIFFE certified warehouse stocks compared to licensed US stocks. Indeed, certified warehouse stocks in LIFFE declined by 4,000 tonnes to 140,000 tonnes at the end of February while, in the United States, the level of stocks increased by about 33,000 tonnes to 291,000 tonnes.

The disconnection between prices and movements of stocks differentials has been a common feature of the cocoa market since October 2010. One of the reasons relates to the reduced share of LIFFE certified stocks in total European stocks, and hence its limited indication of the level of scarcity of cocoa beans in Europe. A survey conducted by the ICCO showed that LIFFE certified stocks represented only 19% of total European warehouse stocks as at the end of September 2011.

ICCO forecasts for 2011/2012

The ICCO Secretariat's first forecasts for the current 2011/2012 cocoa year, published in the latest issue of the *Quarterly Bulletin of Cocoa Statistics*, envisage a production deficit of around 71,000 tonnes. World cocoa bean production is expected to decline by eight per cent (down by 343,000 tonnes) over the previous season, to 3.961 million tonnes. Grindings, on the other hand, are forecast to increase by two per cent (up by 78,000 tonnes) to 3.992 million tonnes. If realized, this would reduce the total statistical stocks of cocoa beans as at the end of the 2011/2012 cocoa year from 1.777 million tonnes in the previous season to 1.706 million tonnes, which would be equivalent to 42.7% of projected annual grindings in 2011/2012.

