



COCOA MARKET REVIEW

DECEMBER 2011

The current review focuses on cocoa price movements on international markets during the month of December 2011. **Chart I** illustrates price movements on the London (NYSE Liffe Futures and Options) and New York (ICE Futures US) markets in December. **Chart II** shows the evolution of the ICCO daily price, quoted in US dollars and in SDRs, from October to December 2011. **Chart III** depicts the change in the ICCO daily price Index, the Dow Jones-UBS Commodity Index and the US Dollar Index. **Table 1** summarizes major price developments in 2011.

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

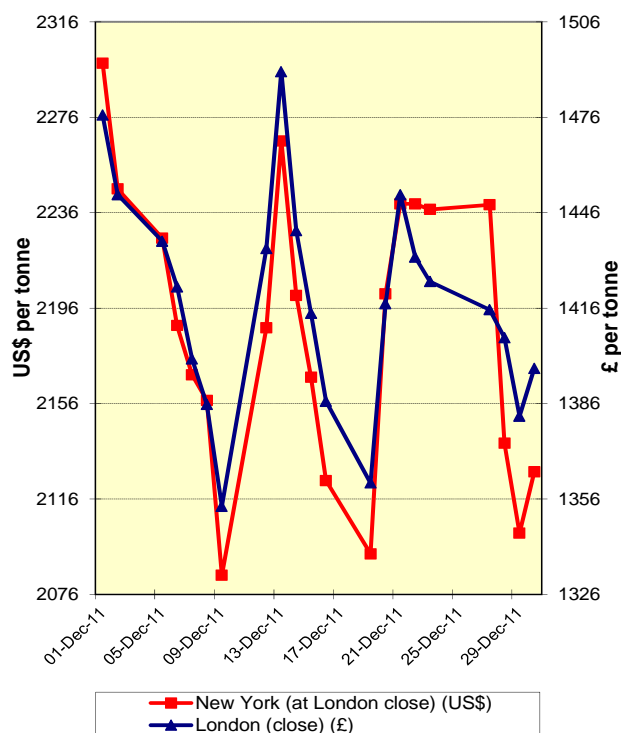
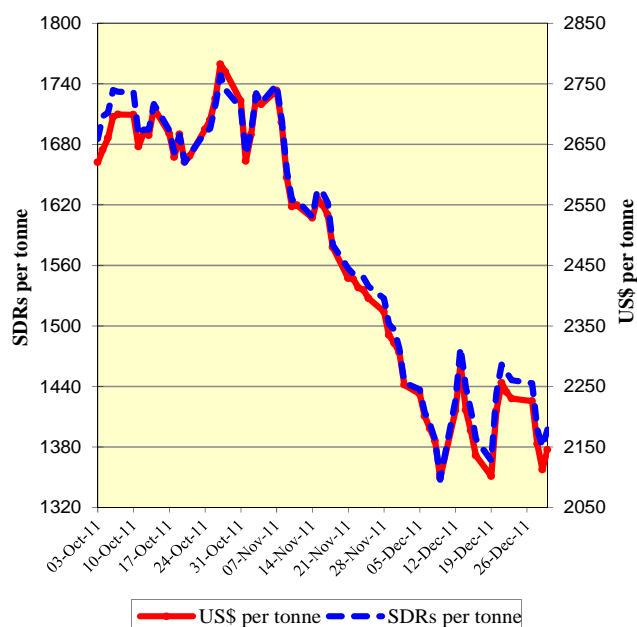


Chart II: ICCO daily prices
October – December 2011



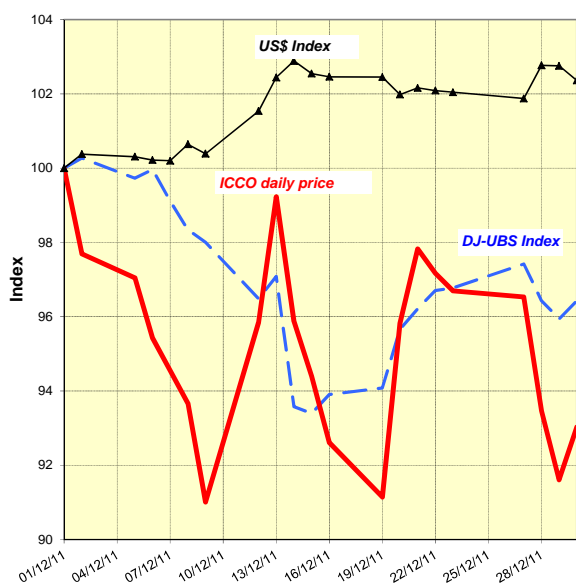
Note: The ICCO daily price for cocoa beans is the average of the quotations of the nearest three active futures trading months on NYSE Liffe and ICE Futures U.S. at the time of London close, converted into US\$ and SDRs using the appropriate exchange rates.

Price evolution

In December, the ICCO daily price averaged US\$2,197 per tonne, down by US\$331 compared to the average price recorded in the previous month (US\$2,527). Prices ranged between US\$2,305 and US\$2,099.

At the beginning of December, cocoa futures continued to follow the downward trend experienced in previous months. Markets were weighed down by fundamental news of ample supplies from West Africa which had prompted bouts of origin selling, and cocoa prices fell to a three-year low at £1,354 per tonne in London and US\$2,084 per tonne in New York. By the middle of the month, cocoa futures changed direction and increased by 10% to £1,490 per tonne in London and by nine per cent to US\$2,266 per tonne in New York, compared to the low prices recorded at the start of the month. This rally may have been sparked by a report from Olam International of a significant deficit for the current season. Thereafter, cocoa prices shed their gains as the dollar strengthened and most commodities experienced a similar price decline to cocoa, as charted by the movements of the Dow Jones commodity-AIG index in **Chart III**. In addition, there was bearish fundamental news of increased supplies and overstocked warehouses within the industry. As shown in **Chart I**, cocoa prices surged by the third week of the month, as positive economic sentiments from the European Central Bank and the US Federal Reserve supported the global macro-economy and subsequently, the commodity markets.

Chart III: ICCO daily prices and Dow Jones-AIG commodity index (US\$ terms)



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.

In Europe, the issue of a three-year loan to banks within the Eurozone benefitted the euro currency, while in the USA, positive housing data and the improved capital requirements for banks aided the markets. As the Christmas holidays approached and most participants abstained from the markets, cocoa futures drifted downwards during the end of the month, as continuous supplies flooded the markets.

Supply & demand situation

Key to the fall in cocoa prices in December was the strong arrivals in major producing countries. By the end of the month, arrivals in Côte d'Ivoire, as reported by Reuters, were 676,000 tonnes compared to the 653,943 tonnes recorded in the same period of the previous season. In Ghana, *Cocobod* declared that purchases were reported as 556,847 tonnes. This indicated an increase of about seven per cent over purchases recorded at the end of December of the previous crop year.

Grindings data by the *European Cocoa Association* (ECA) and the *US National Confectioners' Association* for the fourth quarter of 2011 are due to be released shortly with the former expected to show a significant year-on-year increase.

Table 1: Prices for cocoa beans on Futures markets, record levels and growth rates

Cocoa bean prices	Unit	2011 high (date)	Date previous high	Year-on-year change (%) a/
ICCO daily prices	SDRs/tonne	2,368 (3 March)	25 Sept 1985	- 31%
ICCO daily prices	US\$/tonne	3,730 (3 March)	11 Jan 1979	- 31%
ICCO daily prices	Euro/tonne	2,681 (28 Feb)	28 June 2010	- 29%
London futures b/	£/tonne	2,334 (3 March)	14 June 2010	- 31%
New York futures b/	US\$/tonne	3,674 (3 March)	11 Jan 1979	-30%
Dow Jones-UBS Commodity Index	Index	175 (29 April)	26 Sept 2008	- 13%

Notes:

a/ Percentage increase from 31December 2010 to 30 December 2011

b/ Average of the quotations of the nearest three active futures trading months

Conclusions

As depicted in **Table 1**, at the end of the 2011 year, the New York market recorded a 30% decrease over the previous year while the London market fell by thirty-one per cent. During the month of December, cocoa futures recorded a three-year low not witnessed since the low levels in November 2008. Commodities have been affected by the poor global economic growth prospects of 2011 and cocoa has been no exception. The ample supply of cocoa beans from West Africa added to the downward pressure on cocoa prices. However, a recovery in cocoa prices is to be expected when flows of cocoa from Africa begin to diminish.

