

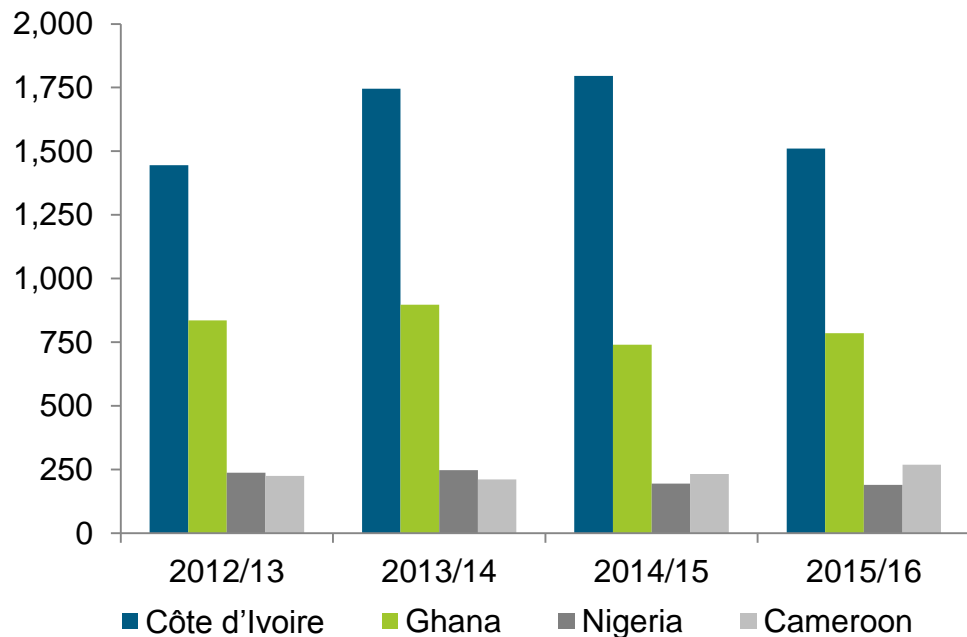
Rebounding with La Niña: the outlook for West Africa's 2016/17 Cocoa Season

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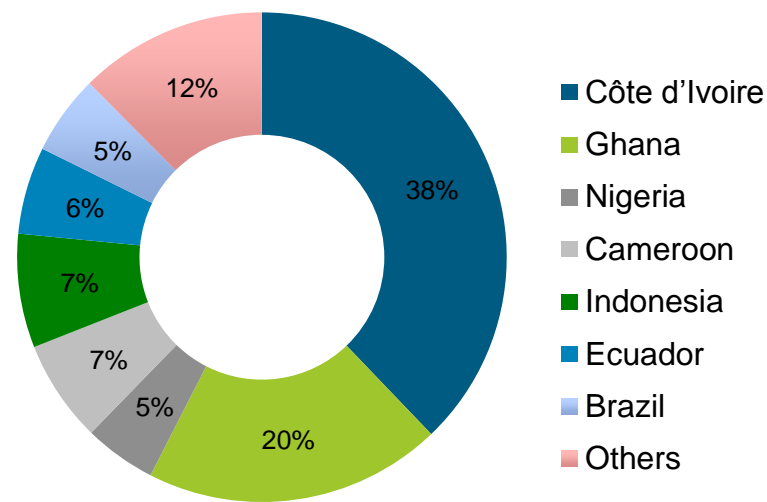
El Niño impacted West Africa's 2015/16 crop

Côte d'Ivoire's slump drove down output for the region

West African cocoa production, 000s tonnes



Share of world cocoa production, 2015/16



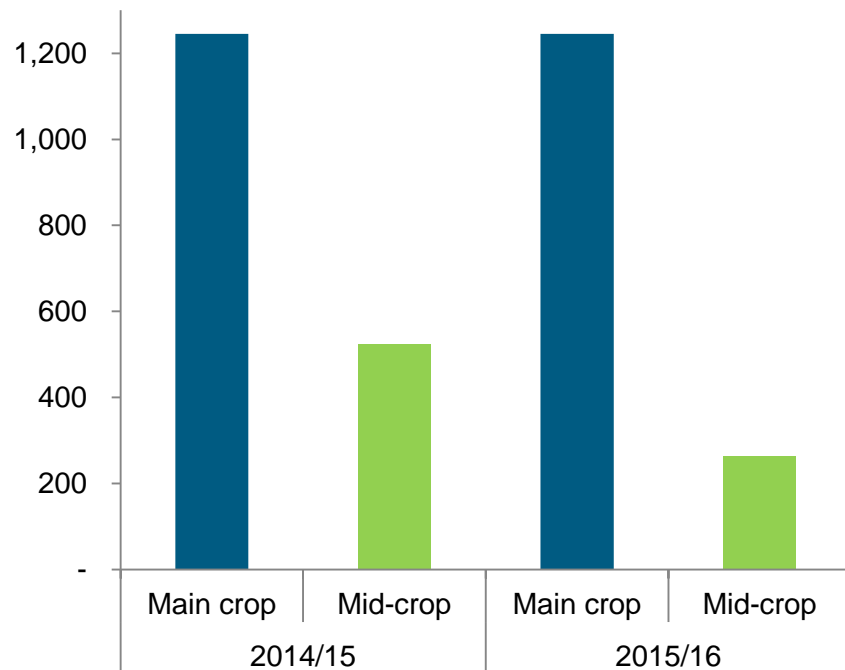
- After a record crop in 2014/15, West Africa's output fell by 7% to 2.8mn tonnes in 2015/16.
- Côte d'Ivoire's crop was down by 15.9%, partly offset by Ghana's 6.1% rebound in output.
- Cameroon's crop grew by 16%, but Nigerian output was broadly flat.

Sources: ICCO, Ecobank Research.

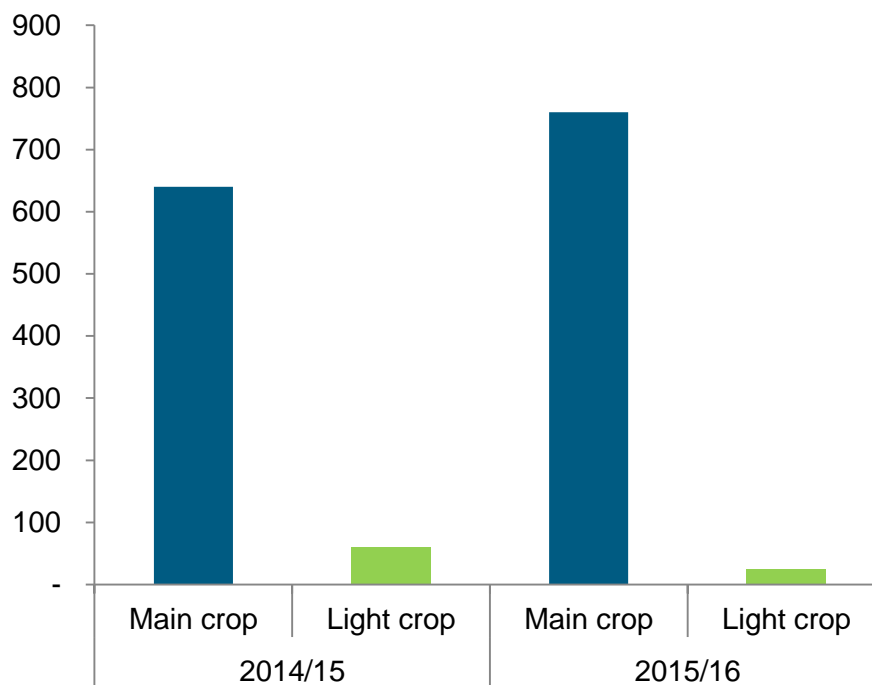
The region's mid-crops were badly affected

Seasonal Harmattan winds were the strongest since 1984

Côte d'Ivoire's main & mid crop, 000s tonnes



Ghana's main & light crop, 000s tonnes



- The Harmattan had little impact on the main crop, but it decimated the mid- and light crops.
- Dry weather resulted in high bean counts, especially in Côte d'Ivoire where in some regions they reached 240 per 100g (double the CCC's permitted ceiling).

Source: Ecobank Research.

Will La Niña work its magic in West Africa?

La Niña has historically driven a rebound in West Africa's cocoa crop

West Africa's cocoa production before, during & after the five strongest El Niño events since 1960, 000s MT

Strong El Niño years	Previous season	El Niño season	Season +1	Season +2	% change El Niño season	% change season +1	% change season +2
1965-66	1,176.3	847.3	957.7	970.3	-28.0%	13.0%	1.3%
1972-73	1,150.5	1,008.3	940.0	995.7	-12.4%	-6.8%	5.9%
1982-83	1,037.8	845.3	849.0	1,074.4	-18.5%	0.4%	26.5%
1997-98	1,742.5	1,829.7	1,908.2	2,143.7	5.0%	4.3%	12.3%
2009-10	2,488.2	2,448.5	3,187.7	2,892.2	-1.6%	30.2%	-9.3%

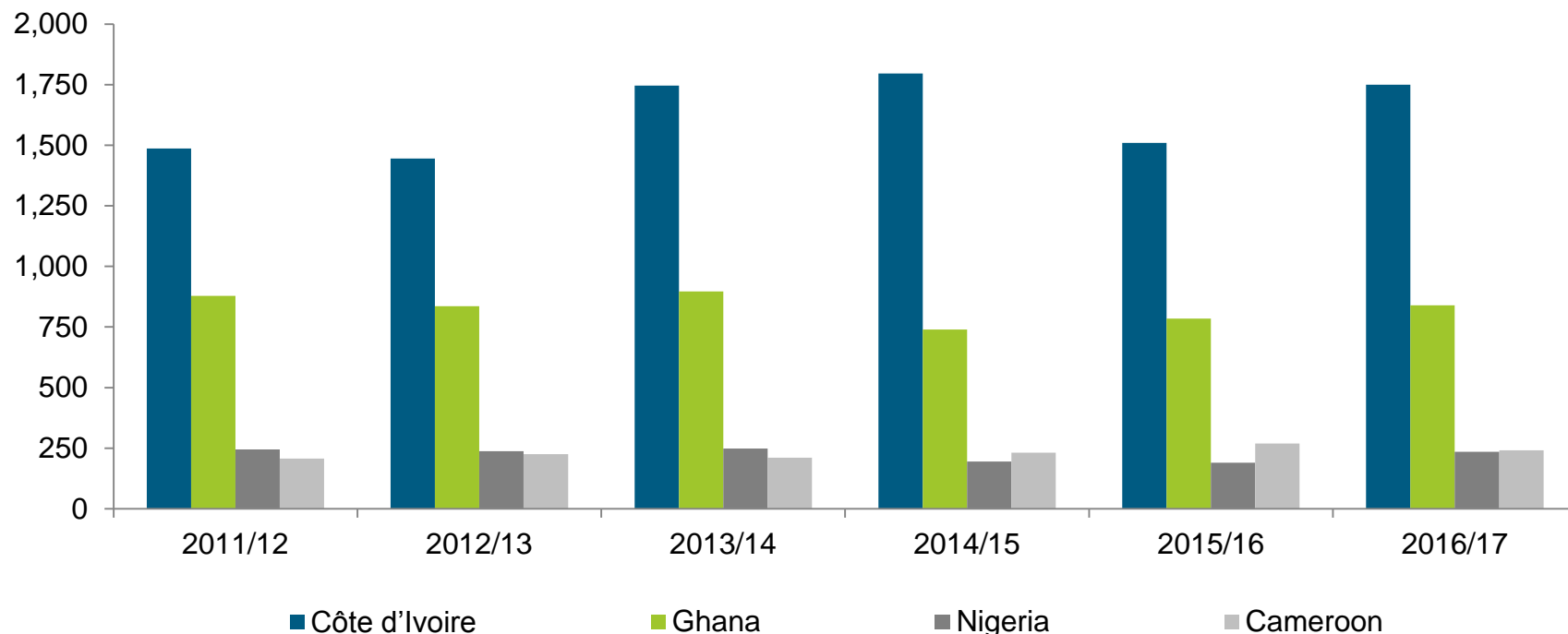
- El Niño typically drives a slump in West Africa's cocoa crop, with varying severity.
- The last two strong El Niños (1997-98 & 2009-10) were followed by strong La Niñas, which drove a rebound in production the following season.
- The likelihood of La Niña occurring during the 2016/17 season is waning, leaving open the question over whether it will affect West Africa's crop.

Sources: ICCO, Ecobank Research.

West African output is on track to rebound in 2016/17

Both Côte d'Ivoire and Ghana are forecast strong performance

West African cocoa production, 000s tonnes



- Better weather in the lead-up to the main crop bodes well for West Africa's 2016/17 season.
- Côte d'Ivoire's output is forecast to rise by 16%, to 1.75mn MT, Ghana by 7% to 840,000 MT and Nigeria by 24% to 235,000 MT. Only Cameroon will disappoint, with a 10% fall.

Sources: ICCO, Ecobank Research.

Fixed farmgate prices are likely to remain flat

The peaking of international prices is a major constraint

Fixed farmgate price, local currency & US\$

	2013/14	2014/15	2015/16
Côte d'Ivoire (XOF/kg)	750	850	1,000
Ghana (GHS/MT)	3,392	5,520	6,720
Côte d'Ivoire (US\$/MT)	1,546	1,356	1,681
Ghana (US\$/MT)	1,201	1,438	1,706
ICE cocoa futures (US\$/MT)	3,008	3,060	3,107
Côte d'Ivoire (% of ICE price)	51.4	44.3	54.1
Ghana (% of ICE price)	39.9	47.0	54.9

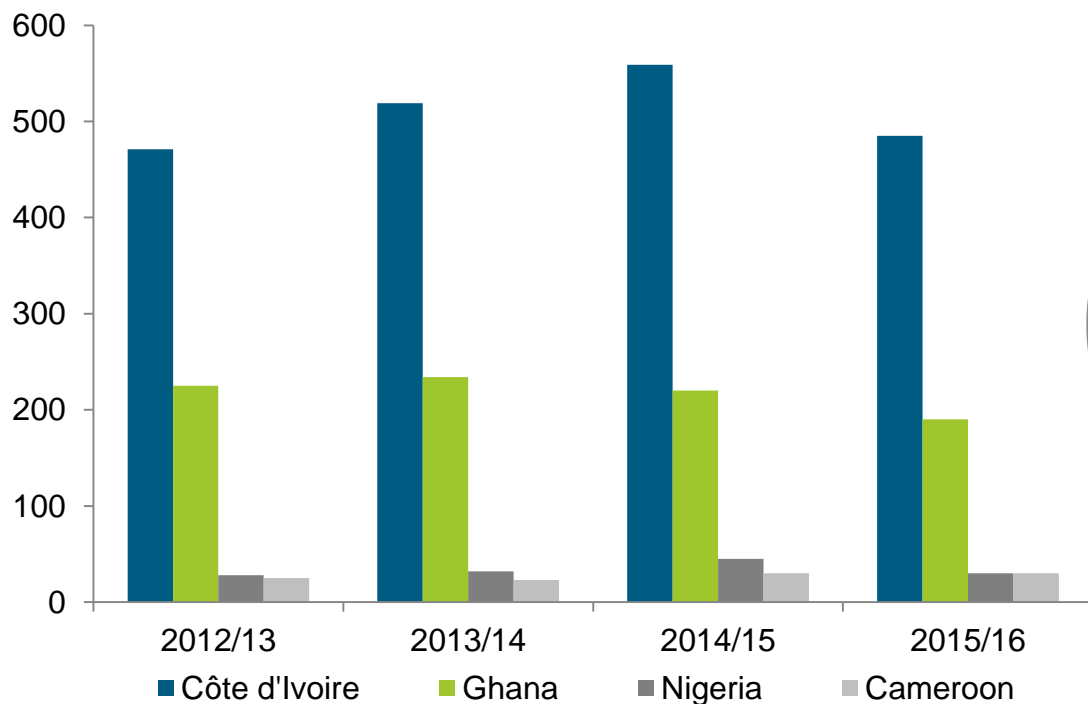
Sources: CCC, Cocobod, Bloomberg, Ecobank Research. ICE cocoa futures average for season.

- Côte d'Ivoire's fixed price peaked at XOF1,000/kg in 2015/16, while Ghana's rose to GHS6,720/MT.
- Both fixed prices averaged around 54% of the USD international price over the season, a major improvement on the previous two seasons.
- With international prices peaking and bearish factors predominating, the CCC is likely to freeze the price in 2016/17.
- Cocobod plans to raise the price from GHS425 per 64kg bag to GSH475 per bag, but it may struggle to achieve this as the GHS has not depreciated as much as it did in previous years.

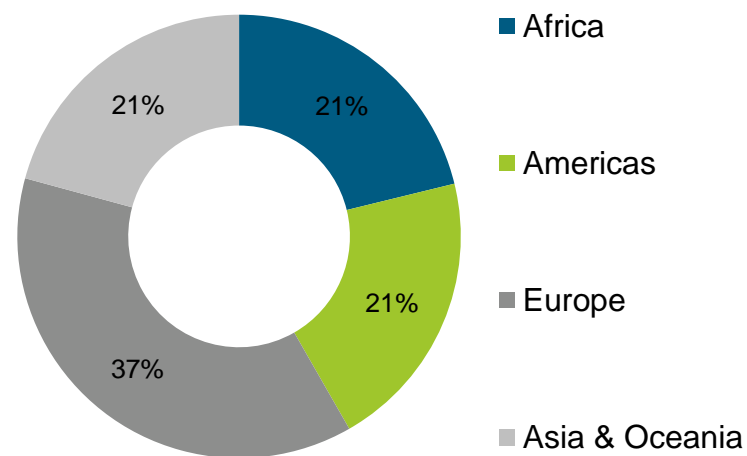
West Africa's grind fell in 2016/17

Côte d'Ivoire has probably lost its position as world's number one grinder

World cocoa grind, 000s tonnes



Share of world cocoa grind, 2014/15



- Côte d'Ivoire's cocoa grind peaked at 559,000 MT in 2014/15, 13.1% of the world total.
- But lack of decent beans crimped the grind to less than 500,000 MT in 2015/16.
- Ghana's grind also fell to under 200,000 MT, reflecting the poor availability of light-crop beans.

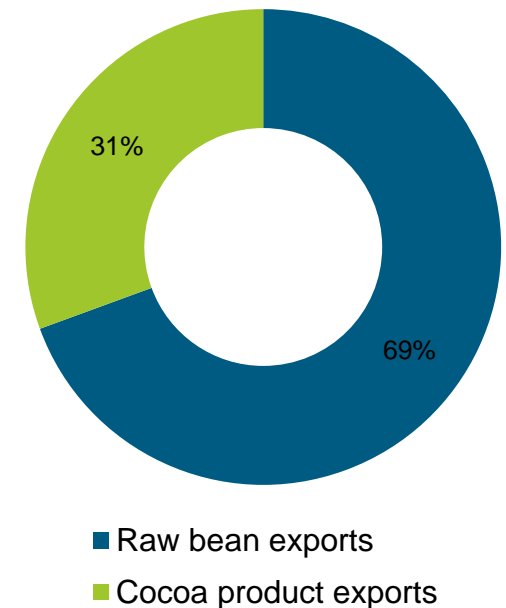
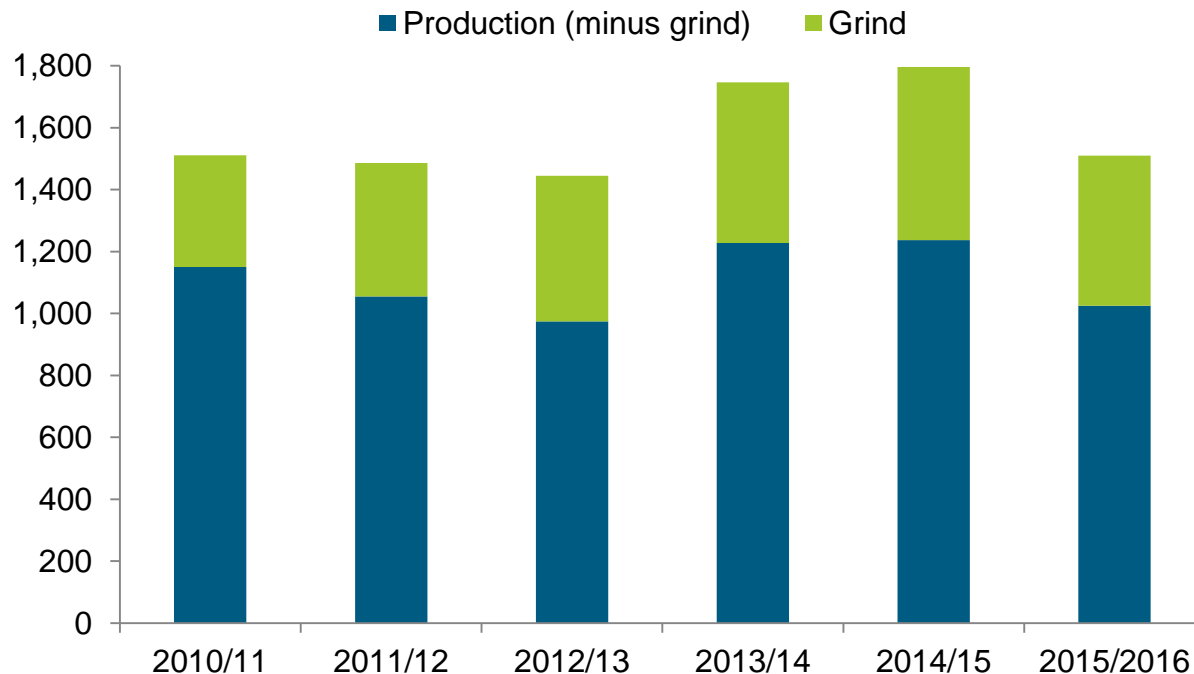
Sources: ICCO, Ecobank Research.

Most beans are still exported raw

Only around 30% of the cocoa crop is processed into products

Côte d'Ivoire's cocoa production & grind, 000s MT

ave % of cocoa processed



- Proportion of the crop which is ground fell from 34.2% in 2008/09 to 32.1% in 2015/16.
- The government aims to increase this to 40% in the short term, and 50% in the medium term.

Sources: ICCO, Ecobank Research.

Processing of cocoa is still rudimentary

Cocoa liquor dominates African exports of cocoa products

Africa's share of world cocoa bean & product exports, tonnes, 2013/14

	Africa	World	% of total
Raw beans	2,348,673	2,920,196	80.4%
Cocoa butter	145,636	855,685	17.0%
Cocoa powder & cake	171,010	992,708	17.2%
Cocoa paste/liquor	338,348	755,774	44.8%
Chocolate	77,821	5,300,706	1.5%

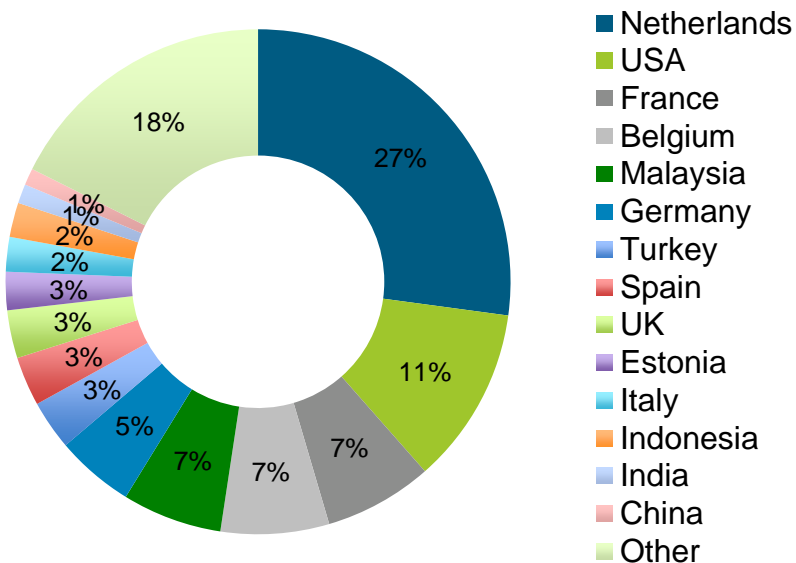
Source: ICCO.

- Africa is the key supplier of raw beans to the world market, exporting 2.9mn tonnes in 2013/14, 80.4% of the world total.
- Cocoa paste/liquor, from which cocoa powder and butter are extracted, was Africa's largest cocoa product export, accounting for 44.8% of world supply.
- Africa has a tiny share of the high-end cocoa product market, accounting for just 1.5% of chocolate, 17% of cocoa butter and 17.2% of cocoa powder exports.

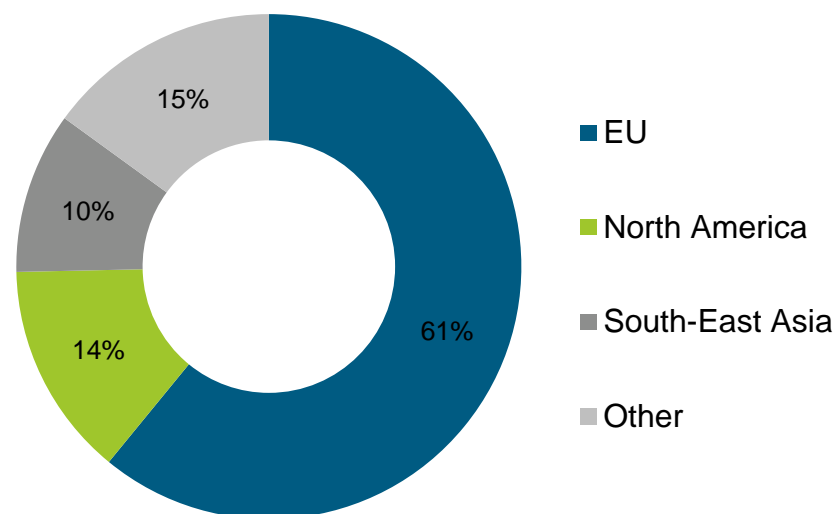
Europe remains the key offtaker of African cocoa

China & India are growing fast, but have a tiny market share

Leading importers of African cocoa, US\$, 2014



By region



- EU continues to take around 60% of Africa's cocoa, and North America around 15%.
- Chinese & Indian consumption is rising fast, but is still less than 3% of world demand.
- Of greater significance is the emergence of new grinding hubs in South-East Asia, led by Indonesia, which are increasing competition for West African grinders.

Source: Intracen.

Serious risks weigh on the outlook

- **Ivorian output growing out of control**

Consistently high farmgate prices have driven a surge in plantings, many in areas unsuitable for long-term cultivation. This increases the risk of a surprise slump in the future.

- **Disease & pests – they're always there**

Black pod, swollen shoot disease & caterpillars remain a constant threat to the crop, although they impact cocoa growing areas unevenly.

- **Unused Ivorian export contracts**

Small Ivorian exporters will have to return 200,000-250,000 MT of export contracts to the CCC after the market moved against them. This could prove hugely disruptive to the market, potentially driving a price slump if the CCC mismanages the redistribution of these contracts to the large exporters.



Key takeaways

- **A strong rebound is on the cards in 2016/17**

Given that the drop in West African output in 2015/16 was primarily due to El Niño, the improved weather outlook bodes well for a strong main crop in 2016/17.

- **La Niña is this season's wild card**

Should La Niña return to West Africa it could disrupt all assumptions, as La Niña tends to bring unpredictable weather patterns that can have both positive and negative impacts.

- **West Africa's smaller grinders face an uncertain future**

Although Africa accounts for 21% of the world cocoa grind, local grinders are hobbled by their dependence on locally-sourced beans, which forced many smaller grinders to suspend operations after this season's weak mid-crop. The dwindling availability of mid-crop beans raises questions over the viability of the local grinding model.

- **Reform of the CCC's allocation of export contracts is likely**

This could greatly reduce the systemic risks resulting from small exporters taking on too many contracts and failing to deliver on them, as well as help stem speculation.

Thank you