Coping with the shifting tides in the cocoa grinding industry

Carlos Mera  - Senior Commodity Analyst
Rabobank London
carlos.mera@rabobank.com
+44 (0) 207 6649512
Rabobank group strategy

- Market leadership in the Netherlands
- Leading International F&A Bank

- 51,859 employees
- 670,373m euro balance sheet
- 8.6 million clients

Figures as of December 2015
Rabobank: Financing the whole value chain

Finance on Cocoa Beans and Products,
Commodity and Currency Risk Management Solutions,
Export Finance,
Rabobank Foundation
Rabo development
...among many other services.
Strong relationships across the cocoa value chain

Cocoa exporters, traders, grinders, chocolate manufacturers and product users
CDI’s grinding overtook the Netherlands’ in 2014/15 and this is likely to be the case in the future.

Source: ICCO, Rabobank, 2016
And West African countries are incentivising local grinding

Even though 2015/16 sees African grindings down (mid crop quality problems due to the strong Harmattan in early 2016), we expect another increase in 2016/17

Source: ICCO, Rabobank, 2016
Growth particularly strong in Côte d’Ivoire

Source: ICCO, Rabobank, 2016
The proportion of beans used for local grindings is increasing

Source: ICCO, Rabobank, 2016
Two different commercialisation systems

➢ Côte d’Ivoire:
  • Cocoa sold in auctions. Local grinders need to buy the cocoa in these auctions. Internal prices paid to farmers are fixed.

  • New export taxes:
    • Beans: 14.6%
    • Cocoa mass: 13.2%
    • Butter: 11%
    • Powder: 9.6%
    • Chocolate: 0.0% ...

  • What is chocolate?
Two different commercialisation systems

Ghana:

- Cocobod, a government body with an excellent credit record, borrows money. Cocobod sells the crop forward to lock in prices

- Cocobod distributes fertilisers and agrochemicals to farmers (from 180 distribution points, up from only 27 about 3 years ago)

- Cocobod sets the internal price and buys the cocoa through LBCs

- It also determines how much cocoa is left for the local grinding industry at a 20% discount. If the midcrop beans are not enough, grinders need to buy from the main crop, without the discount. Unlike Ivory Coast, everything gets grounded.

- Tax free enclaves

(ii) Composition of Bean-size Categories

<table>
<thead>
<tr>
<th>Bean-size category</th>
<th>2013/14</th>
<th>2012/13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Main Crop</td>
<td>76.87</td>
<td>72.03</td>
</tr>
<tr>
<td>Light Crop</td>
<td>21.33</td>
<td>19.02</td>
</tr>
<tr>
<td>Small Beans</td>
<td>1.64</td>
<td>6.84</td>
</tr>
<tr>
<td>Type “4” Beans</td>
<td>0.14</td>
<td>1.71</td>
</tr>
<tr>
<td>Remnant</td>
<td>0.02</td>
<td>0.39</td>
</tr>
</tbody>
</table>

Source of tables: Cocobod annual report 2014
Consequences

• Machines need to be imported from Europe, most likely the Netherlands.

• More dependence on the mid crops.

• Potentially some more volatility in ratios and/or prices as increasing amounts of working stocks will be needed at origin, where they are less visible.

• Potentially higher product stocks in consumer countries, to mitigate any risks in the supply chain.
Disclaimer

Non Independent Research
This document is issued by Coöperatieve Rabobank U.A. incorporated in the Netherlands, trading as Rabobank London ("RL"). The liability of its members is limited. RL is authorised by De Nederlandsche Bank, Netherlands and the Prudential Regulation Authority (PRA) and subject to limited regulation by the Financial Conduct Authority (FCA) and PRA. Details about the extent of our authorisation and regulation by the PRA, and regulation by the FCA are available from us on request. Registered in England and Wales No. BR002630. This document is directed exclusively to Eligible Counterparties and Professional Clients. It is not directed at Retail Clients.

This document does not purport to be impartial research and has not been prepared in accordance with legal requirements designed to promote the independence of Investment Research and is not subject to any prohibition on dealing ahead of the dissemination of Investment Research. This document does NOT purport to be an impartial assessment of the value or prospects of its subject matter and it must not be relied upon by any recipient as an impartial assessment of the value or prospects of its subject matter. No reliance may be placed by a recipient on any representations or statements made outside this document (oral or written) by any person which state or imply (or may be reasonably viewed as stating or implying) any such impartiality.

This document is for information purposes only and is not, and should not be construed as, an offer or a commitment by RL or any of its affiliates to enter into a transaction. This document does not constitute investment advice and nor is any information provided intended to offer sufficient information such that it should be relied upon for the purposes of making a decision in relation to whether to acquire any financial products. The information and opinions contained in this document have been compiled or arrived at from sources believed to be reliable, but no representation or warranty, express or implied, is made as to their accuracy, completeness or correctness.

The information contained in this document is not to be relied upon by the recipient as authoritative or taken in substitution for the exercise of judgement by any recipient. Any opinions, forecasts or estimates herein constitute a judgement of RL as at the date of this document, and there can be no assurance that future results or events will be consistent with any such opinions, forecasts or estimates. All opinions expressed in this document are subject to change without notice.

To the extent permitted by law, neither RL, nor other legal entities in the group to which it belongs accept any liability whatsoever for any direct or consequential loss howsoever arising from any use of this document or its contents or otherwise arising in connection therewith.

Insofar as permitted by applicable laws and regulations, RL or other legal entities in the group to which it belongs, their directors, officers and/or employees may have had or have a long or short position or act as a market maker and may have traded or acted as principal in the securities described within this document (or related investments) or may otherwise have conflicting interests. This may include hedging transactions carried out by RL or other legal entities in the group, and such hedging transactions may affect the value and/or liquidity of the securities described in this document. Further it may have or have had a relationship with or may provide or have provided corporate finance or other services to companies whose securities (or related investments) are described in this document. Further, internal and external publications may have been issued prior to this publication where strategies may conflict according to market conditions at the time of each publication. This document is not intended for distribution in the United States or to or for the account of US persons and the distribution of this document in other jurisdictions may be restricted by law and recipients of this document should inform themselves about, and observe any such restrictions. This document may not be reproduced, distributed or published, in whole or in part, for any purpose, except with the prior written consent of RL. By accepting this document you agree to be bound by the foregoing restrictions. Please email fm.global.unsubscribe@rabobank.com to be removed from this mailing list.

© Rabobank London, Thames Court, One Queenhithe, London EC4V 3RL +44(0) 207 809 3000
Thank you!

Carlos Mera - Senior Commodity Analyst
Rabobank London
carlos.mera@rabobank.com
+44 (0) 207 6649512