Benefiting from Objective Observations

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Fear of a major supply shortfall of 100,000 or 200,000 tons remains an almost yearly concern due to underestimating output and / or overstating demand

Supply shortages of this magnitude are relatively rare

- In the past 60 years:
  - 11 years have had supply deficits which exceeded 5% of use (Equivalent to 200,000 for 12/13)
  - 15 years have had supply deficits which exceeded 2.5% of use (Equivalent to 100,000 for 12/13)

The impact will primarily be felt in continued volatility

- Estimates continue to show similar margins of error to 30 years ago
- Increased concentration of production in west Africa will elevate weather worries
Volatility Has Remained In A Tight Range For The Past 30 Years

Weekly Volatility

Source: Futuresource
Only 20 Of The Past 60 Cocoa Crops Resulted in Deficit Years

Source: USDA, J. Ganes Consulting
And in only 9 years did the deficit exceed 100,000 tons.

Source: USDA, J. Ganes Consulting
Shortfalls of above 5% of use are infrequent.

Change in stocks as percentage of use.

Source: USDA, J. Ganes Consulting.
Refocusing on Grind Data and Commercial Use

- Emphasis continues to be placed on anything from package size, fat content, to health concerns to address growth in demand
- Ingredient product pricing may be a better indicator of the direction of demand
  - A combined ratio of cocoa powder and cocoa butter of 3.0 to 3.2 should be sufficient for commercial users to continue to grind
  - Grind profitability has drifted from its highs in 2004 and 2005 and the floor which would spur demand has dropped from 3.2 to around 3.0
  - Large decrease in grindings, such as in 01/02 and 08/09, at times of combined ratios around 2.8.
  - Current combined ratios have rebounded from a low of 2.72 in September to 3.17 in October
Cocoa Butter Supply Weighed On Price Ratio But Recovering in Late 2012

Source: Milling & Baking News
A Combined Ratio of 3 Should Be a Floor For Grinding Growth

Combined Cocoa Butter and Powder Ratio

Source: Milling & Baking News
Largest Grind Declines in 01/02 and 08/09 Coinciding With Dip of Combined Ratio

Source: Milling & Baking News, ICCO
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