



# COCOA MARKET REVIEW

## **March 2024**

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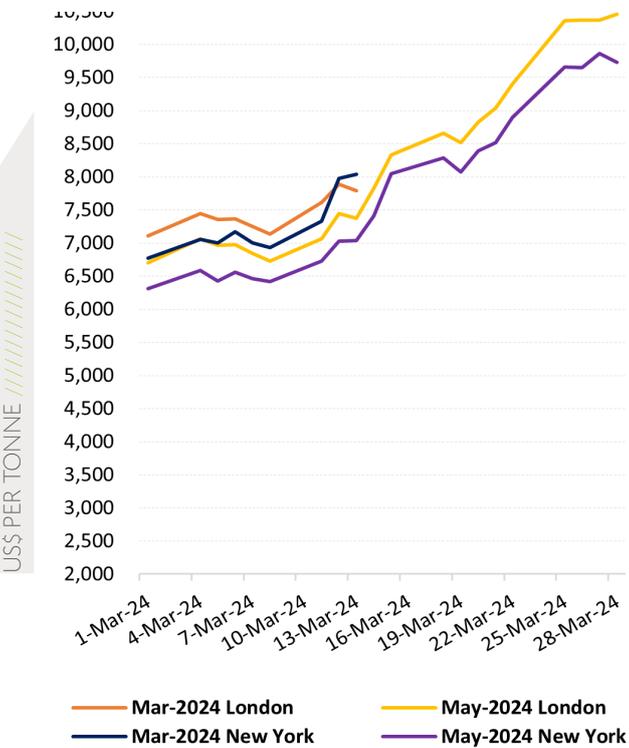
## MARCH 2024

### PRICE RALLIES CONTINUE UNABATED

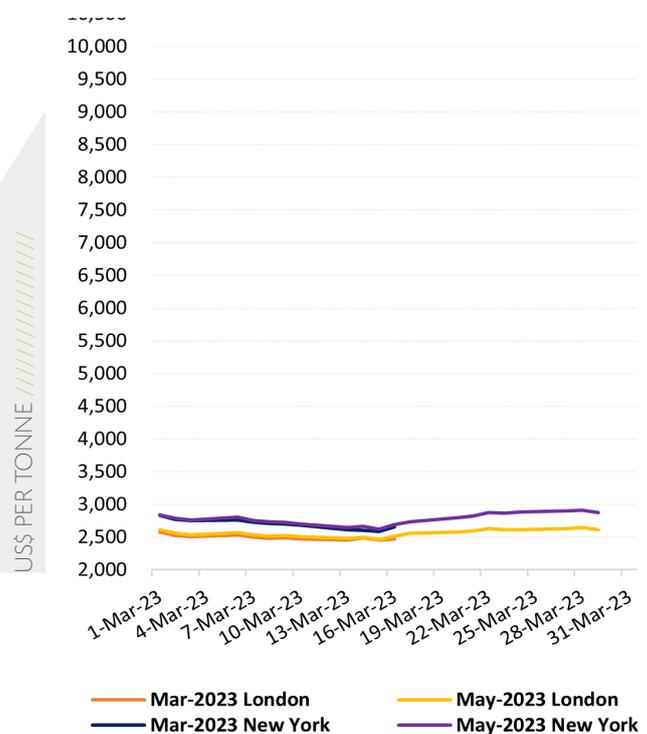
It is now widely accepted that the current significant decline in production from the two leading producers has spurred the ongoing price hikes. With Côte d'Ivoire and Ghana accounting for approximately 54% of global production, any issue with their production will ultimately have an impact on global supplies and prices. With prices at US\$7,109 at the start of March 2024, by the end of the month, the nearby contract in London increased by 47% to US\$10,455 per tonne while in New York it rose by 44% from US\$6,769 per tonne to US\$9,729 per tonne (Figure 1).

For the corresponding period a year ago, the nearby contract in London had increased by only 4% from US\$2,574 per tonne to US\$2,670 per tonne while in New York it was up by 3% from US\$2,831 per tonne to US\$2,927 per tonne (Figure 2).

**Figure 1: Prices of the MAR-2024 and MAY-2024 futures contracts on the London (ICE Futures Europe) and New York (ICE Futures U.S.) markets**



**Figure 2: Prices of the MAR-2023 and MAY-2023 futures contracts on the London (ICE Futures Europe) and New York (ICE Futures U.S.) markets**



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### OBSERVATIONS FOR THE PRICE RALLIES

#### (i) Backwardation structure of market

With reference to Figure 1, for both the London and New York markets, the nearby MAR-24 contract was in backwardation as its prices were higher than the deferred contract month i.e., MAY-24. The current backwardation structure of the cocoa market continues to underscore the supply challenges and consequent high prices. It must be noted that the MAR-24 contract expired by the middle of the month as illustrated in Figure 1, and, thereafter, prices started to significantly climb up.

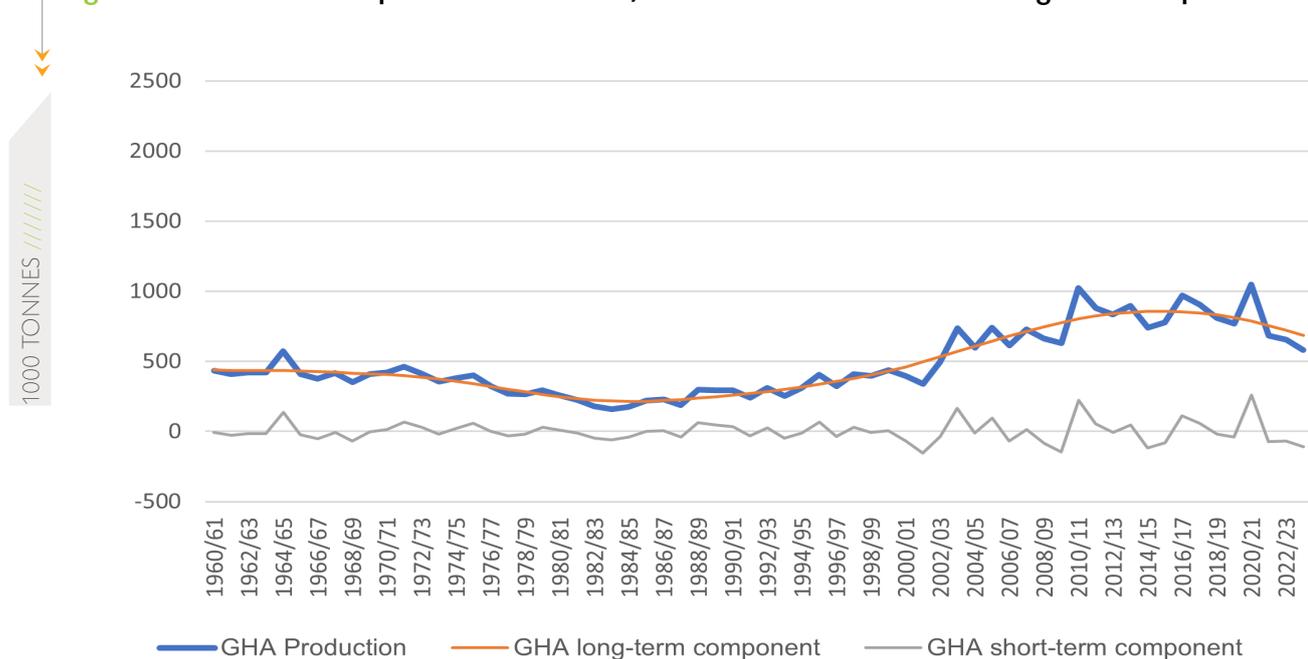
It is important to note that 80% to 85% of the production for this season had already been harvested since the main crop was coming to an end. As a result, chances of the mid-crop reversing the current market deficit are very slim.

#### (ii) Is the production decline a structural change or not?

Cocoa production in Côte d'Ivoire and Ghana has decreased by 467,000 tonnes and 448,000 tonnes respectively over the past three seasons and has equally contributed to the current shortfall in the world cocoa production. A short- and long-term analysis conducted by the Secretariat shows that Ghana's production deficit appears to be structural in nature. In fact, a long-term negative trend appears to have started in 2016/17 (**Figure 3**). This is due to a combination of negative events: the large number of cocoa trees infected with deadly swollen shoot virus disease; illegal mining, which has reduced the number of cocoa farms; ageing trees and unfavourable weather conditions.

In Côte d'Ivoire, the forecast production shortfall appears to be an isolated short-term event at least for the time being (**Figure 4**). Indeed, some recent reports indicate that 25% to 30% of Ivorian farms are infected by CSSVD. If these estimates are accurate, Côte d'Ivoire is likely to reach the peak of its production capacity in the medium term, all other things being equal.

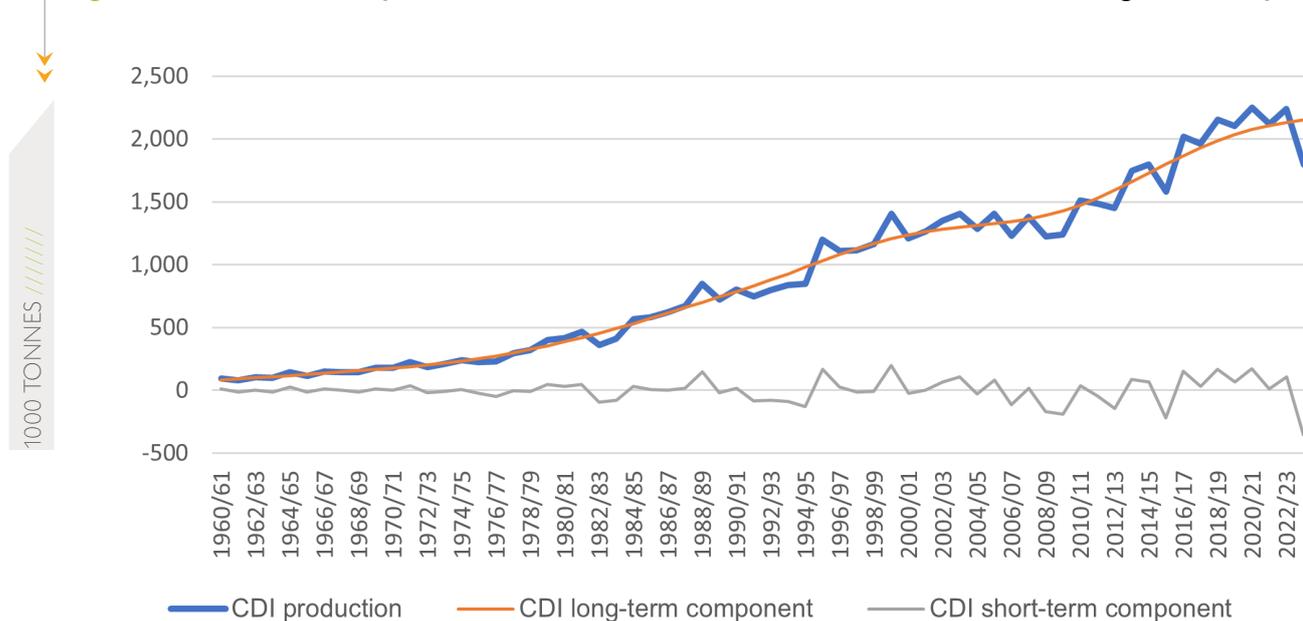
**Figure 3: Historical cocoa production in Ghana, and its estimated short- and long-term components**



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Figure 4: Historical cocoa production in Côte d'Ivoire, and its estimated short- and long-term components



The ageing cocoa trees is the most daunting factor for the long-term market equilibrium. When cocoa prices are high, farmers will aim to produce more by planting more. However, in the current situation of the cocoa market, this rational response to price increases will not lead to an immediate increase in supply due to the time lag effect. As a perennial tree, it can take as long as three to four years for the new cocoa trees to begin producing beans and eventually reach their maximum yield after ten years.

With not much change in the fundamentals for the current season, the 2024/25 season will now be the focus on how prices and the balance sheet will evolve. When will the cocoa market reach a market equilibrium and when will this be reflected in prices? It is extremely difficult to make such a prediction. But some price adjustments will be expected when the new grindings data are made public in the coming weeks and after the completion of the pod-counting surveys, expected between the end of August and mid-September. These data will allow an initial estimate of the expected market balance for the 2024/25 year.

