The current review reports on cocoa price movements on the international markets during January 2009. **Chart I** illustrates price movements on the London (Liffe.Euronext) and New York (ICE Futures US) markets in January. **Chart II** shows the evolution of the ICCO daily price, quoted in US dollars and in SDRs, from November 2008 to January 2009. **Chart III** depicts the link between the ICCO daily price and the Dow Jones commodity indexes. **Chart IV** presents recent changes in warehouse stocks of cocoa beans and the price differential between the two cocoa futures markets.

### Price movements

In January, the ICCO daily price averaged US$2,626 per tonne, up by US$169 compared to the average price recorded in the previous month (US$2,457), and ranged between US$2,432 and US$2,834.

In the first half of January, futures prices on the London market moved sideways albeit with a declining tendency. In the first week of the month, the New York market was supported by a weakening US dollar against the other major currencies, but reversed suddenly downwards during the second week, losing 10% when the US dollar began to strengthen. Moreover, data published by the German Confectionery Association revealed that cocoa grindings in Germany declined by 17.2% in the October – December 2008 quarter compared to the same period a year earlier, casting doubts about the resilience of the demand for cocoa during the economic recession. Consequently, cocoa futures prices dropped to £1,715 per tonne in London and US$2,370 per tonne in New York by the middle of the month.

In the second half of January, however, cocoa prices edged upwards in both markets, following the publication of bullish cocoa processing activity data for the October – December 2008 quarter. Indeed, the European Cocoa Association figure showed an increase of 0.1% in Western Europe (whereas most analysts had expected the figure to be negative) while the figure published by the National Confectioners’ Association for the United States was 1.9% higher compared with the same quarter of the previous year. These data corroborated the view of some market participants that the cocoa and chocolate market may be recession-proof.
However, it should be noted that the figure published for the United States was misleading, as the survey has recently been extended to a larger number of cocoa processing plants, which artificially increased the grindings figure in the last quarter of 2008.

The steady weakening of the Pound sterling against the US dollar in the course of the month resulted in a sharper rise in prices in London than in New York. On 23 January, following the decline of the Pound sterling to its lowest level against the US dollar in 23 years, cocoa futures prices in London surged to their highest level for almost 24 years, breaching the £2,000 per tonne level.

As shown in Chart III, the decoupling of the cocoa market with most other commodity markets was confirmed in January. Indeed, cocoa prices and the Dow Jones commodity-AIG index, which tracks price movements across various commodities (cocoa not included), have followed different patterns since the first week of November.

**Arbitrage spread between LIFFE and ICE Futures**

Largely for methodological reasons, cocoa prices on the Liffe.Euronext futures market, converted in US dollar terms, usually fetch a premium against prices on the ICE futures market. This premium expanded to US$83 per tonne (up by US$56) in January (see Chart IV) as a result of the depletion of licensed warehouse stocks in Europe by 17,000 tonnes to 299,000 tonnes at the end of January. Conversely, in the United States, the level of stocks rose by 38,000 tonnes to 161,000 tonnes.

**Concluding remarks**

Up until the last quarter of 2008, demand for cocoa beans had proved relatively resilient to the adverse global economic environment. However, 2009 might reveal a less positive outlook. As expected, cocoa bean production has improved slightly. However, news agencies have reported that only 711,000 tonnes of beans are estimated to have reached ports in Côte d’Ivoire in the October 2008 – January 2009 period, a level 23% below the preceding season. Most analysts now expect a third consecutive supply deficit to occur in the current 2008/09 season. The key question relates to the size of the deficit.

At the end of February, the ICCO Secretariat will release its first crop forecasts for the current year in the Quarterly Bulletin of Cocoa Statistics.