



COCOA MARKET REVIEW

MAY 2010

The current review reports on cocoa price movements on international markets during the month of May 2010. **Chart I** illustrates price movements on the London (NYSE Liffe Futures and Options) and New York (ICE Futures US) markets in May. **Chart II** shows the evolution of the ICCO daily price, quoted in US dollars and in SDRs, from March to May 2010. **Chart III** depicts the change in the ICCO daily price Index, the Dow Jones-UBS Commodity Index and the US Dollar Index. **Chart IV** presents recent changes in warehouse stocks of cocoa beans and the price differential between the two cocoa futures markets.

Chart I: Cocoa bean prices on the London (NYSE Liffe) and New York (ICE) futures markets
May 2010

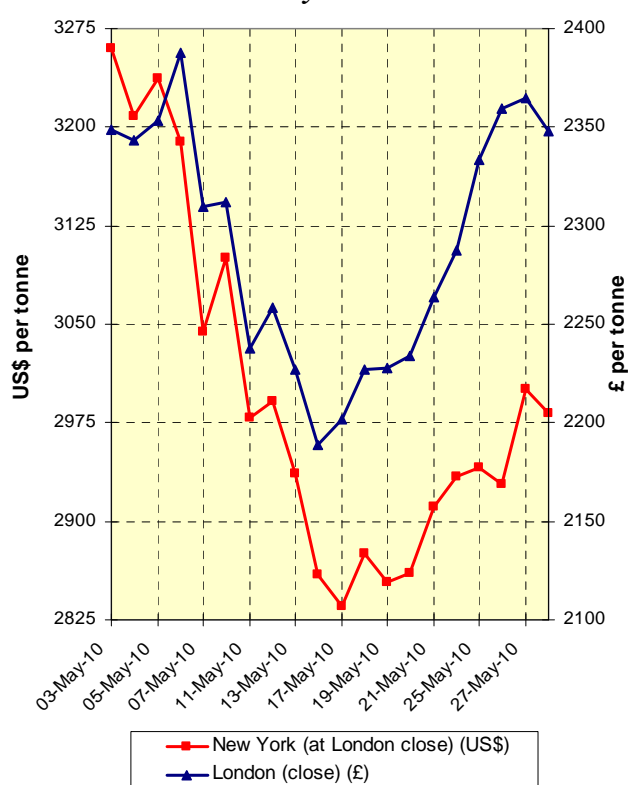
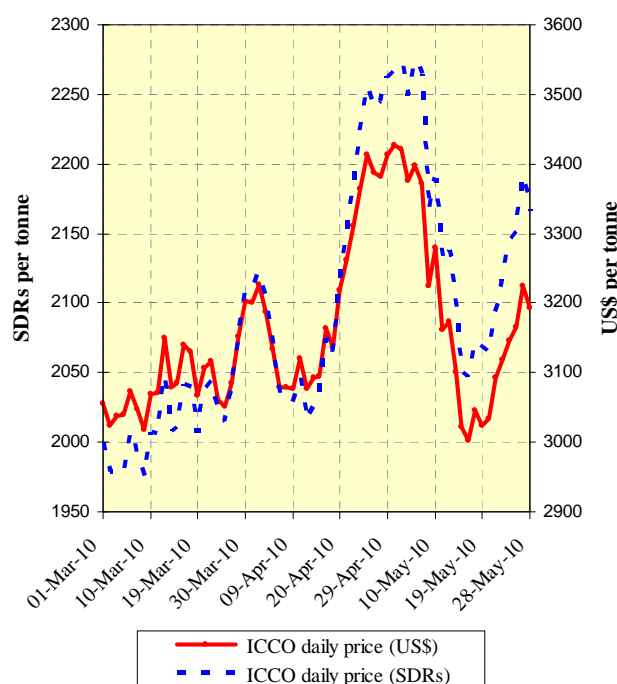


Chart II: ICCO daily prices
March – May 2010



Note: The ICCO daily price for cocoa beans is the average of the quotations of the nearest three active futures trading months on NYSE Liffe and ICE Futures U.S. at the time of London close, converted into US\$ and SDRs using the appropriate exchange rates.

Price movements

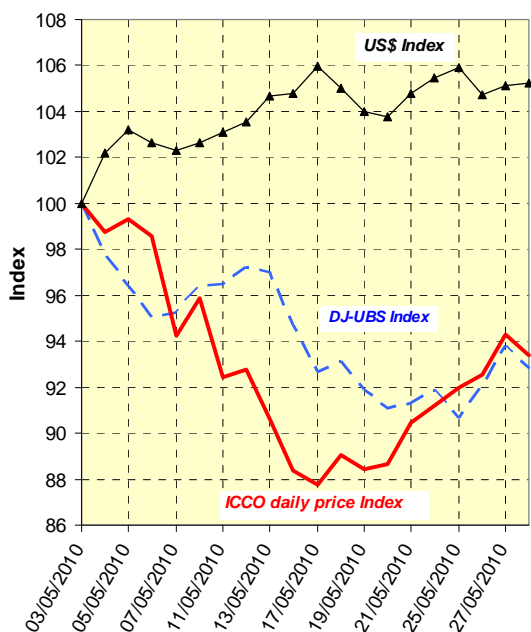
In May, the ICCO daily price averaged US\$3,178 per tonne, down by US\$43 compared to the average price recorded in the previous month (US\$3,221), and ranged between US\$3,001 and US\$3,421.

After recording an upward trend from the middle of April, cocoa futures prices drifted downwards from the beginning of May until the middle of the month, falling to £2,189 per tonne in London and to US\$2,835 per tonne in New York. This represented declines of seven per cent and 13% respectively compared to the levels reached at the end of April.

As shown in **Chart III**, one of the major factors behind the drop in the price of cocoa, as with other commodities, was the appreciation of the US dollar. Indeed the American currency benefited from concerns over the debt situation in Greece, the management of this issue by policymakers across the Euro-zone and worries that it could spread to other European countries. The stronger cocoa price decline in New York than in London resulted mainly from the strengthening of the US dollar against the Pound Sterling and from the continual depletion of European certified cocoa stocks, as described hereafter.

While the price of most commodities continued to follow a downward trend, cocoa prices found some fresh impetus in the middle of the month, with quotations climbing to £2,348 in London and to US\$2,983 in New York at the end of the month.

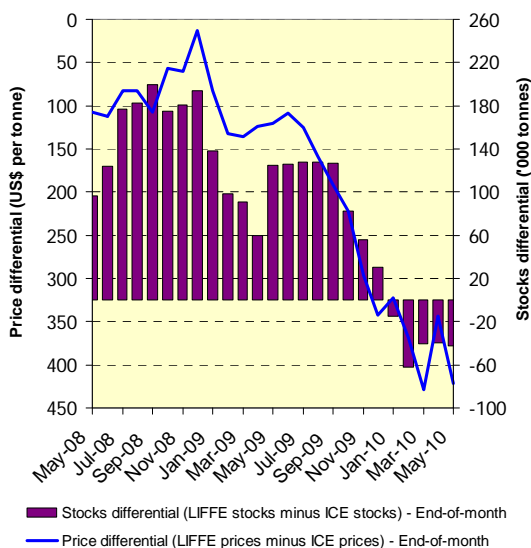
Chart III: ICCO daily price Index, Dow Jones-UBS commodity index and U.S. Dollar Index



Notes:

The US Dollar Index is a measure of the value of the United States dollar relative to a basket of six major foreign currencies. The Dow Jones Commodity-UBS Index tracks price movements across various commodities, including energy, precious metals, industrial metals, grains, livestock, softs (cocoa being excluded) and agriculture. Both indexes are rebased.

Chart IV: Arbitrage spread between NYSE Liffe and ICE Futures and licensed warehouse stocks



■ Stocks differential (LIFFE stocks minus ICE stocks) - End-of-month
 — Price differential (LIFFE prices minus ICE prices) - End-of-month



These increases were partly attributed to the upward revision by several analysts of the cocoa supply deficit envisaged for the current 2009/2010 cocoa season. For instance, the ICCO Secretariat forecast that the deficit would reach 69,000 tonnes, against 18,000 tonnes envisaged three months earlier. The upward revision of the global supply deficit resulted mainly from upward adjustments in the level of processing activity during the current season, partly thanks to a stronger than expected global economic recovery and to solid demand for cocoa powder.

It should be noted that a major concern on the London market has been the inverted futures price structure (“backwardation”), and in particular, the rising premium of the July 2010 contract over the September contract. Such a situation usually reflects concerns over availability of stocks for short term supplies; this has been mirrored by the low level of certified warehouse stocks in Europe. Additionally, this could reflect the attempt by a market participant of a “technical squeeze” by taking a large long position on the market, prompting concerns among other traders who find themselves struggling to fulfil their obligations.

Certified warehouse stocks of cocoa beans

As depicted in **Chart IV**, the price premium fetched by the London cocoa futures market against the New York market remained at a high level in May, reaching US\$422 at the end of the month. This situation resulted mainly from the depletion of certified warehouse stocks in Europe in the past few months. At the end of May, certified warehouse end-of-month stocks in Europe amounted to 240,000 tonnes (down by 13,000 tonnes compared to a month earlier) while US certified warehouse end-of-month stocks reached 282,000 tonnes (down by 10,000 tonnes).

Supply and demand

On the supply side, total cocoa arrivals to Ivorian ports from the beginning of the season reached 983,937 tonnes as the end of May, according to data published by the *CGFCC*. This was about 20,000 tonnes lower than for the same period of the previous season.

In Ghana, cumulative cocoa purchases by the *Cocobod* from the beginning of the season to the end of May reached 565,360 tonnes, a decline of about nine per cent compared to the same period one year earlier.

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