COCOA MARKET REVIEW

JUNE 2010

The current review reports on cocoa price movements on international markets during the month of June 2010. Chart I illustrates price movements on the London (NYSE Liffe Futures and Options) and New York (ICE Futures US) markets in June. Chart II shows the evolution of the ICCO daily price, quoted in US dollars and in SDRs, from April to June 2010. Chart III presents the price movements for the three nearest contracts on the London futures market. Chart IV depicts the change in the ICCO daily price Index, the Dow Jones-UBS Commodity Index and the US Dollar Index.

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

In June, the ICCO daily price averaged US$3,231 per tonne, down by US$53 compared to the average price recorded in the previous month (US$3,178), and ranged between US$3,152 and US$3,314.

The upward price movement on both futures markets which started in the middle of May came to a halt in the first week of June when cocoa prices reached £2,430 per tonne in London, a 33 year-high, and US$3,070 per tonne in New York. Thereafter, cocoa prices moved sideways, influenced by the movements of the US dollar against other major currencies, as shown in Chart IV, and the higher pace of weekly cocoa arrivals to Ivorian ports than in the previous season.

It should be noted that the strong decline of the London price in the middle of June, as presented in Chart I, results mainly from the methodology used by the ICCO to compute the indicator cocoa prices on the futures markets. The representative price is calculated as the average of the quotations of the nearest three active futures trading months. On 15 June, the basis of the calculation changed, excluding from the calculation the front contract (July 2010) while the March 2011 contract was added. When such a shift occurs, it does not usually have any strong impact on the representative price. However, as mentioned in the previous report, the July 2010 contract held an unusually large premium over contracts with a later delivery date.
Inverted futures price structure on the London market

A major concern on the London market has been the inverted futures price structure (“backwardation”), and in particular, the very large premium of the July 2010 contract (and to a lesser extent, the September contract) over the December contract. As depicted in Chart III, this premium reached a level above US$300 per tonne at the end of June, representing a premium of 15%. In addition, it should be noted that the “open interest” on the July contract was above 50,000 lots at the end of June, while it is usually about 35,000 lots two weeks before expiry date.

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, partly as a result of a decline in production in Africa. Additionally, this could reflect the attempt of a market participant to “technically squeeze” the market by taking a large long position, prompting concerns among other traders who find themselves struggling to fulfil their obligations.

The higher price on the London futures market has attracted additional supply to Europe shipped in the past weeks from origin countries and from the New York market where stocks have been declining as a result. Consequently, at the end of June, certified warehouse stocks in Europe increased to 259,000 tonnes (up by 19,000 tonnes compared to a month earlier) while US certified warehouse end-of-month stocks depleted to 263,000 tonnes (down by 19,000 tonnes).

This price development on the London market led 16 cocoa companies and trade associations to send a letter to NYSE Liffe to complain that “a manipulation of the contract” was “bringing the London market into disrepute”. In response to this allegation, NYSE Liffe informed market participants that it is finalising plans to launch a commitment of traders report in the near future, detailing positions held in London's soft commodity markets in order to increase market transparency.

Supply and demand

On the supply side, total cocoa arrivals to Ivorian ports from the beginning of the season reached 1.049 million tonnes as the end of June, according to data published by the CGFCC. Thanks to larger weekly arrivals in June, the gap with the previous season has been reduced to 10,000 tonnes.

In Ghana, cumulative cocoa purchases by the Cocobod from the beginning of the season to the end of the main crop season at the beginning of June reached 581,437 tonnes.