The current review reports on cocoa price movements on international markets during the month of July 2010. Chart I illustrates price movements on the London (NYSE Liffe Futures and Options) and New York (ICE Futures US) markets in July. Chart II shows the evolution of the ICCO daily price, quoted in US dollars and in SDRs, from May to July 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

July 2010

Price movements

In July, the ICCO daily price averaged US$3,230 per tonne, almost the same level recorded in the previous month, and ranged between US$3,144 and US$3,363.

The London cocoa futures market attracted vast media attention in the course of July. This was the result of the very large premium received on the July 2010 contract over deferred contracts as well as the result of the delivery of 240,100 tonnes of cocoa (97% of the valid certified cocoa stocks in Europe) at the expiration date in the middle of the month, the largest volume of certified physical stocks in 14 years. This development prompted 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”. This issue sparked into a debate over transparency on the London futures market.

As shown in Chart I, cocoa futures prices moved sideways albeit with a declining tendency in the first trading sessions of the month. Cocoa prices drifted upwards thereafter, surging to US$3,181 per tonne in New York, a two-month high, and to £2,317 per tonne in London in the middle of the month. The publication of data reporting stronger processing activity than expected by most market participants in the second quarter of 2010 in Europe (up by 12.7% compared to the same quarter of 2009) and in North America (up by 12.1%) provided some support to the markets. In addition, concerns over a spread of black pod disease in Côte d’Ivoire
resurfaced following reports of above average rainfalls in the country.

In the following days, both cocoa markets reversed, falling to £2,189 in London and to US$2,948 in New York mostly due to profit taking.

As shown in Chart III, the depreciation of the US dollar against other major currencies led to a strong rise in the price of most commodities (as depicted by the DJ-UBS Index) in July. Indeed, commodity prices, as captured by the DJ-UBS index, rose by almost eight per cent. However, there was not such a link with the cocoa market as cocoa prices followed a completely different pattern. While the movement of the US dollar has had an impact, it was overshadowed by other factors during this period. It was only at the end of the month that the New York cocoa market rose in line with other commodities while the London market moved sideways.

**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 weakened compared to the previous month, although it remained high, reaching US$372 at the end of the month. The price spread between the two markets depends partly on the stocks situation within these two markets. In general terms, the higher the stocks, the lower the market price. Indeed, NYSE Liffe reported an increase in the volume of certified warehouse stocks in Europe by 64,190 tonnes to 323,650 tonnes at the end of July compared to a month earlier. The price premium over the nearest positions was a major factor in attracting additional physical stocks. Conversely, US certified warehouse stocks declined to 245,766 tonnes (down by 16,993 tonnes) at the end of the month.

**Supply and demand**

On the supply side, total cocoa arrivals to Ivorian ports from the beginning of the season reached 1.090 million tonnes as the end of July, according to local exporters. This was about 25,000 tonnes lower than for the same period in the previous season. The weekly pace of arrivals declined in the course of the month and concerns over quality and spread of diseases due to above normal rainfall were raised.

On the demand side, as previously stated, processing activity during the second quarter of 2010 in Europe and in North America surpassed the expectations of most analysts. However, while demand for cocoa powder remained firm with the cocoa powder ratios increasing significantly, cocoa processors’ margins have been suffering from low demand for butter.