MONTHLY REVIEW OF THE COCOA MARKET SITUATION

OCTOBER 2010

The current review of the cocoa market situation includes price movements on international markets during the month of October 2010. Chart I shows graphically the evolution of prices on the London (NYSE Liffe Futures and Options) and New York (ICE Futures US) markets in October. Chart II shows the evolution of the ICCO daily price, quoted in US dollars and in SDRs, from August to October 2010. Chart III shows the end-of-month stocks in licensed warehouses in the United States and the arbitrage spread between the LIFFE and ICE futures markets.

In October, the ICCO daily price averaged US$2,927, up by US$52 compared to the average price recorded in the previous month (US$2,875). Prices ranged between US$2,833 and US$3,035.

A strong US dollar pressured cocoa prices to decline during the first week of October on both the London and New York markets. However, with lower volumes of cocoa arrivals to ports in Côte d’Ivoire than previously expected and reports of high incidences of black pod disease in West Africa, cocoa futures nudged higher during the second week of the month under review to £1,935 in London and US$2,888 in New York. Cocoa futures fell during the third week of October, as the publication of grindings data from Europe and North America showed a weak demand for cocoa. Supported by a weak US dollar as well as uncertainty over elections in Côte d’Ivoire and lack of origin selling, prices recovered at the beginning of the fourth week of the month. As shown in Chart I, cocoa futures attained £1,988 in London and US$2,945 in New York.
respectively, the highest for the month. However, this increase could not be sustained as cocoa futures declined during the rest of the month. Market participants monitoring the presidential elections in Côte d’Ivoire were expecting a short covering rally, but that failed to materialize and prices fell by 5% to £1,882 and by 4% to US$ 2,824 in London and New York respectively.

**Arbitrage between NYSE Liffe and ICE futures**

As shown in Chart III, the arbitrage spread (difference in price) between the LIFFE and ICE cocoa futures markets continued to shrink in October. The price premium fetched by the London cocoa futures market against the New York market followed a declining tendency and attained US$185 at the end of October. This situation resulted from the stronger depletion of certified warehouse stocks in the United States than in Europe. At the end of October, US certified warehouse stocks fell to 209,000 tonnes (down by 24,000 tonnes compared to the previous month) while in Europe, certified warehouse stocks amounted to 325,000 tonnes (down by 11,000 tonnes as compared with the previous month).

**Supply and demand**

On the supply side, total cocoa arrivals at Ivorian ports as at the end of October were about 109,000 tonnes, according to data published by a news agency. This was about 74,000 tonnes lower than the corresponding period of the previous main crop season. At the beginning of the season, the Ivorian Government changed its cocoa export tax from a flat rate (that was irrespective of the international market price) to a system based on the cost of cocoa beans plus insurance and freight (CIF). The total fiscal and parafiscal taxes were fixed at 21.5% of the international market price.

In Ghana, the Government increased prices to deter smuggling of cocoa to neighbouring West African countries such as Côte d’Ivoire. Prices for the 2010/2011 season were increased from 2,400 GH cedis to 3,200 GH cedis (US$2,238) a tonne. There were also signs that the current cocoa year could witness a good harvest. Indeed, in this respect, cumulative cocoa purchases by Cocobod in mid October indicated about 142,000 tonnes.

In Indonesia, the third major cocoa producing country, exports of cocoa beans have been significantly higher during the month of October, as traders took advantage of a lower export tax of five per cent. The Indonesian Government is expected to raise the export tax of cocoa beans to 10% in the coming months. Exports data indicate that about 34,000 tonnes of cocoa beans were shipped during the month as against 18,000 tonnes for the previous year. However, heavy rains and black pod disease could affect the 2010/2011 crop.

On the demand side, the third quarter European grindings data fell by 4% year-on-year to 331,182 tonnes. North American grindings rose slightly by 1.7% to 120,495 tonnes. With further installation of grindings facilities at origin, it is possible that European and North American grindings may not experience significant increases in future.

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