

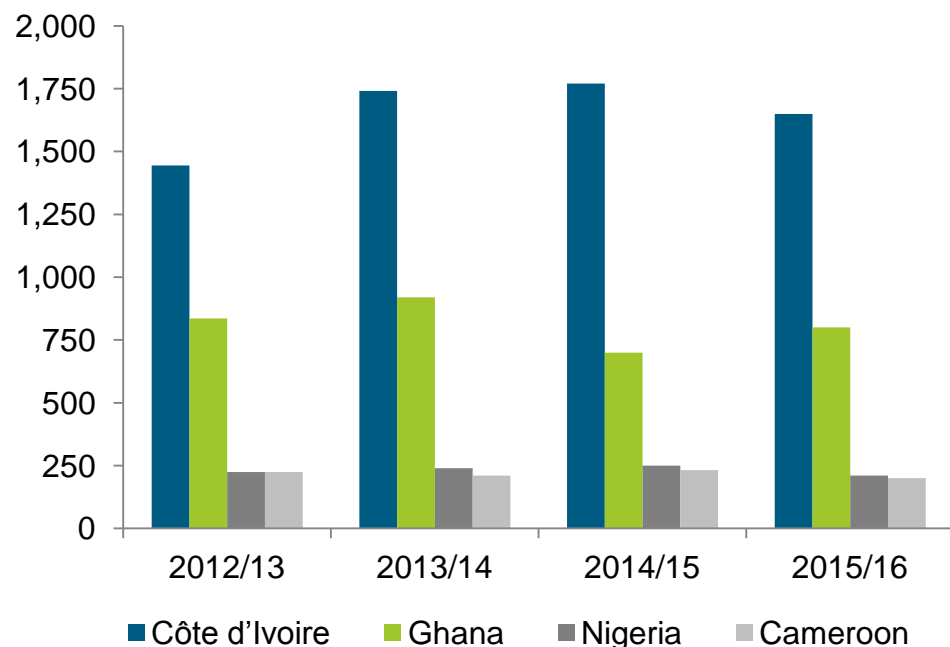
# In the shadow of El Niño: Outlook for West Africa's 2015/16 Cocoa Season

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London, 22 September 2015

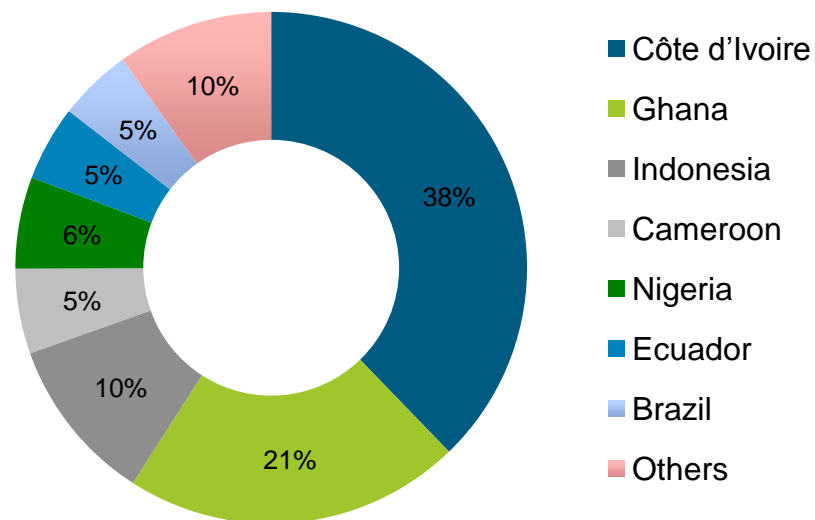
# West African output is set to fall in 2015/16

## Cyclical downturn in Côte d'Ivoire will offset Ghana rebound

West African cocoa production, 000s tonnes



Share of world cocoa production, 2010-14



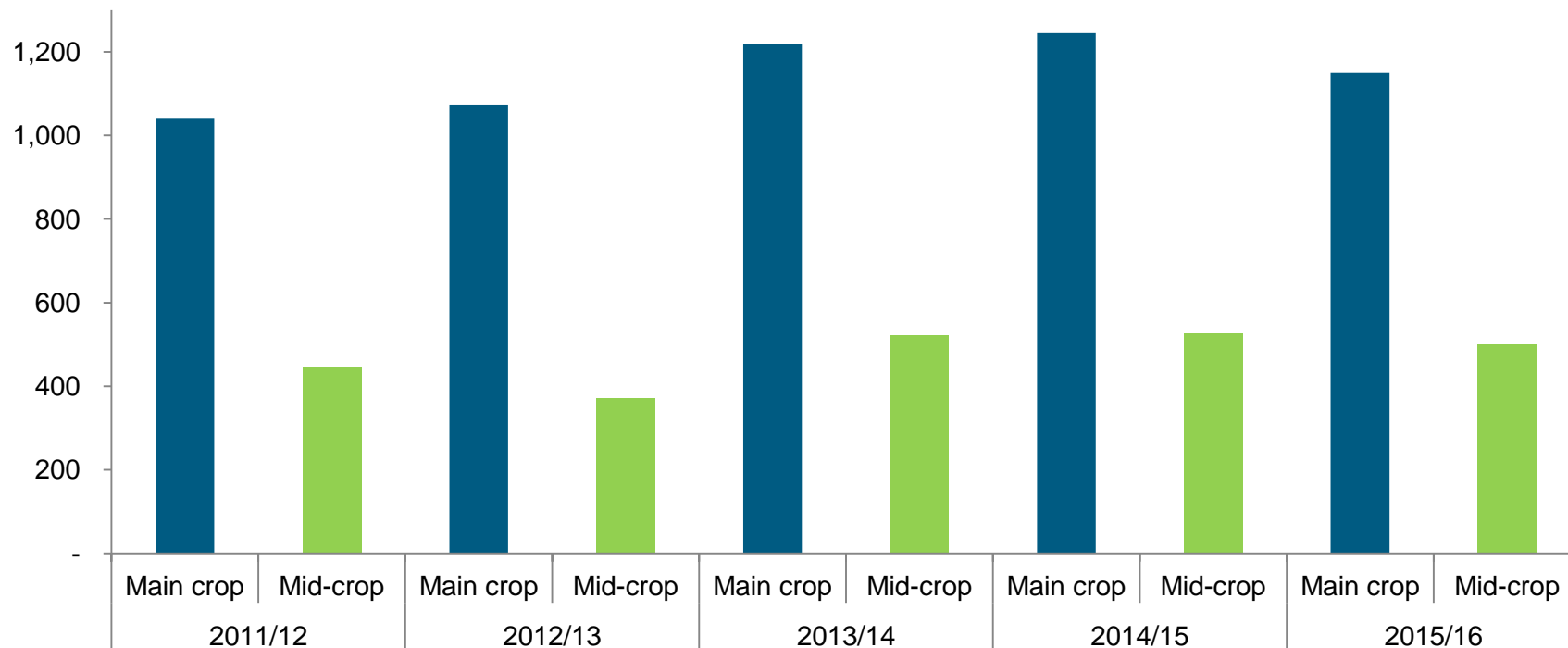
- After a record crop in 2014/15, West Africa's output is forecast to fall in 2015/16.
- Côte d'Ivoire will lead the fall, while Ghana will regain ground lost in 2014/15.
- Nigeria & Cameroon will struggle to boost output, remaining bit players for now.

Sources: ICCO, Ecobank Research.

# Côte d'Ivoire: third successive record crop is unlikely

High prices & new trees entering production will constrain any fall

Côte d'Ivoire cocoa production, 000s tonnes



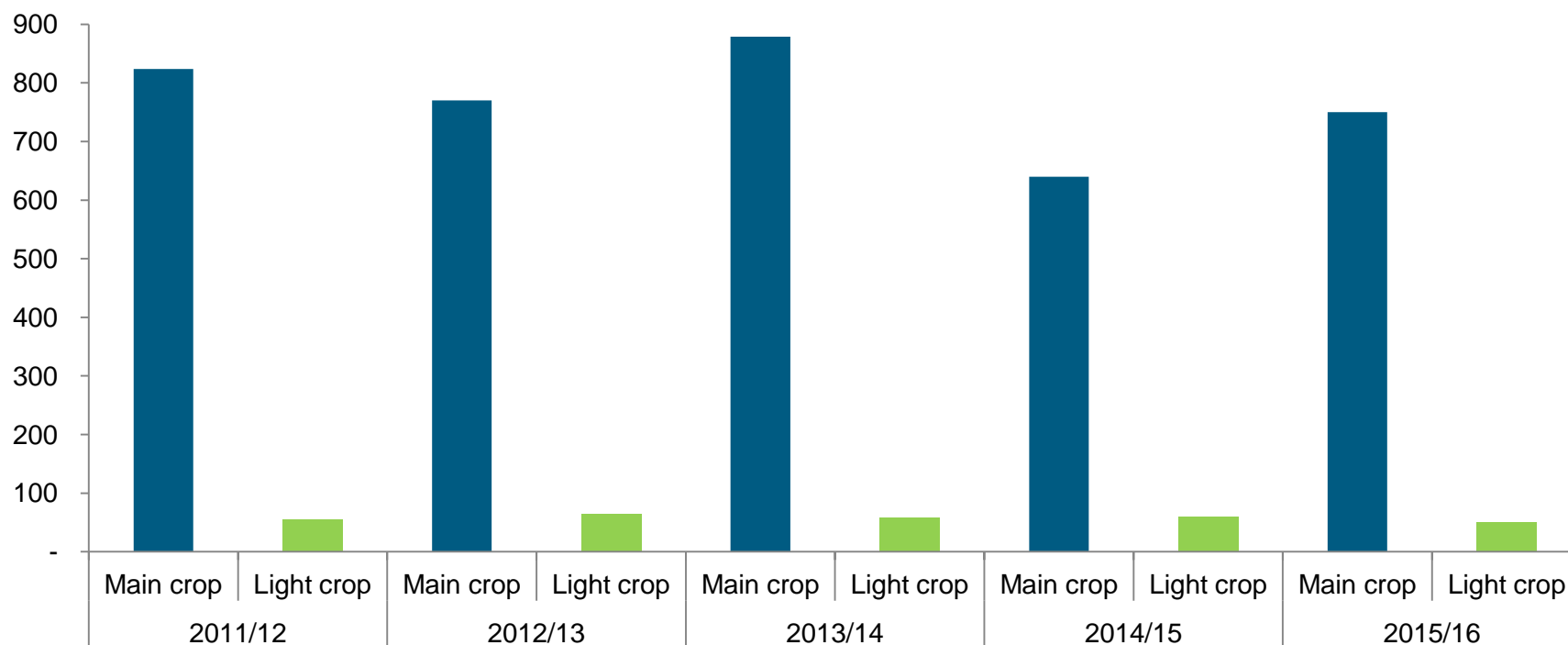
- Côte d'Ivoire is on track for a record crop in 2014/15, potentially reaching 1.8mn MT.
- But erratic weather, cyclical downturn and potential impact of El Niño are expected to cut the crop by 100,000 MT in 2015/16, producing a total crop of around 1.65mn MT.

Sources: ICCO, Ecobank Research.

# Ghana is expecting a rebound in 2015/16

But the root causes of last season's slump remain unclear

Ghana cocoa production, 000s tonnes



- Ghana's cocoa crop totalled 700,000 MT in 2014/15, 23% down on the previous season.
- A rebound is likely in 2014/15, but its strength could be constrained by the same structural and cyclical factors that caused last season's downturn.

Sources: ICCO, Ecobank Research.

# Fixed farmgate prices are expected to rise further

## Strong international prices should support any price increase

Fixed farmgate price, local currency & US\$

	2012/13	2013/14	2014/15
Côte d'Ivoire (XOF/kg)	725	750	850
Ghana (GHS/MT)	3,392	3,392	5,520
Côte d'Ivoire (US\$/MT)	1,479	1,546	1,456
Ghana (US\$/MT)	1,578	1,201	1,401
ICE cocoa futures (US\$/MT)	2,312	3,008	3,049
Côte d'Ivoire (% of ICE price)	64.0	51.4	47.8
Ghana (% of ICE price)	68.2	39.9	45.9

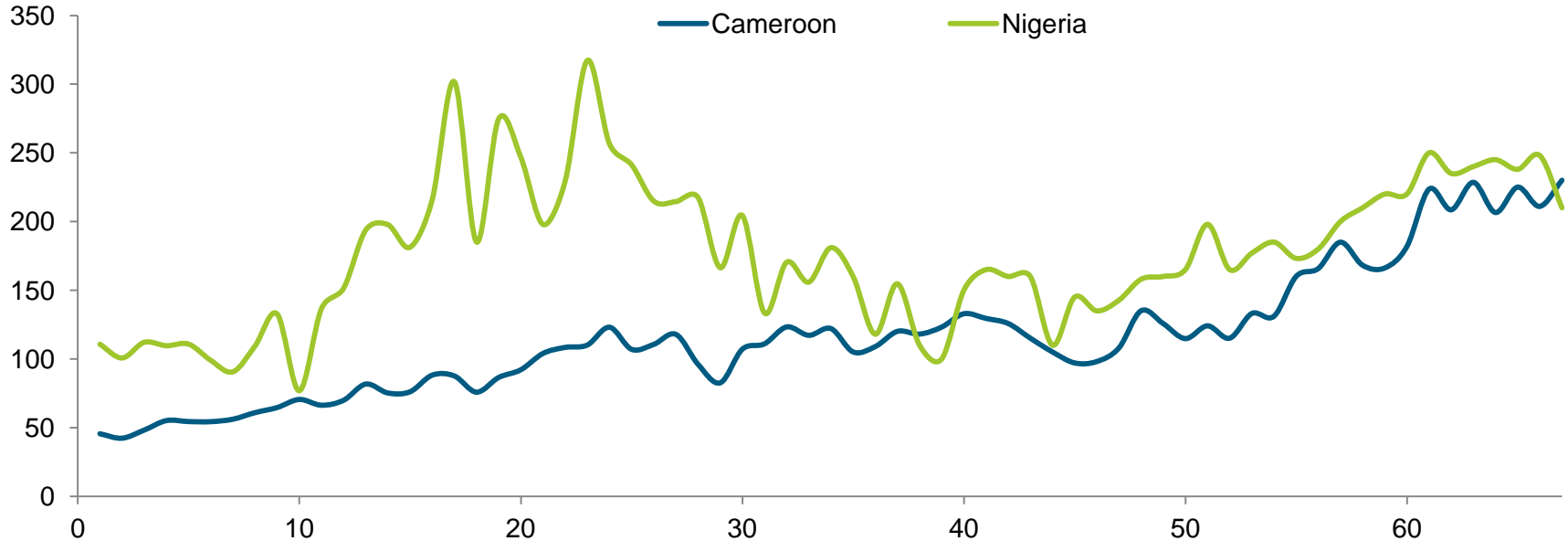
Sources: CCC, Cocobod, Bloomberg, Ecobank Research. 2014/15 average for season so far.

- Côte d'Ivoire has steadily increased prices since 2012/13, and is widely expected to raise them to XOF1,000/kg in 2015/16.
- However, the weak Euro (to which the XOF is pegged) and strong international prices have reduced the average farmgate price in US\$ terms to below 50% in 2014/15.
- Cocobod almost doubled the fixed price in 2014/15 to take account of high domestic inflation and strong international prices.
- With inflation remaining above 17% and persistent currency weakness, Cocobod will need to substantially increase fixed prices to match the Ivorian price in dollar terms.
- But the government may struggle to make such an increase given the constraints of its IMF-mandated fiscal programme.

# Nigeria & Cameroon: failure to launch

Despite huge potential, both countries' cocoa output is stagnant

Cocoa production since 1948/49, 000s tonnes



- Nigeria has struggled to increase output to its target level of 500,000 MT, but it still produces less than it did in the late 1960s & early 1970s.
- Cameroon's output has also disappointed, owing to dry weather and structural constraints.
- In the medium to long term both countries could become significant producers, helping meet part of the expected increase in world cocoa consumption.

Source: ICCO.

# El Niño is coming...

## But its impact on West Africa's crop appears to be waning

West Africa's cocoa production before, during & after the five strongest El Niño events since 1960, 000s MT

<b>Strong El Niño years</b>	<b>Previous season</b>	<b>El Niño season</b>	<b>Season +1</b>	<b>Season +2</b>	<b>% change 1 season</b>	<b>% change 2 seasons</b>	<b>% change 3 seasons</b>
1965-66	1,176.3	847.3	957.7	970.3	-28.0%	-18.6%	-17.5%
1972-73	1,150.5	1,008.3	940.0	995.7	-12.4%	-18.3%	-13.5%
1982-83	1,037.8	845.3	849.0	1,074.4	-18.5%	-18.2%	3.5%
1997-98	1,742.5	1,829.7	1,908.2	2,143.7	5.0%	9.5%	23.0%
2009-10	2,488.2	2,448.5	3,187.7	2,892.2	-1.6%	28.1%	16.2%

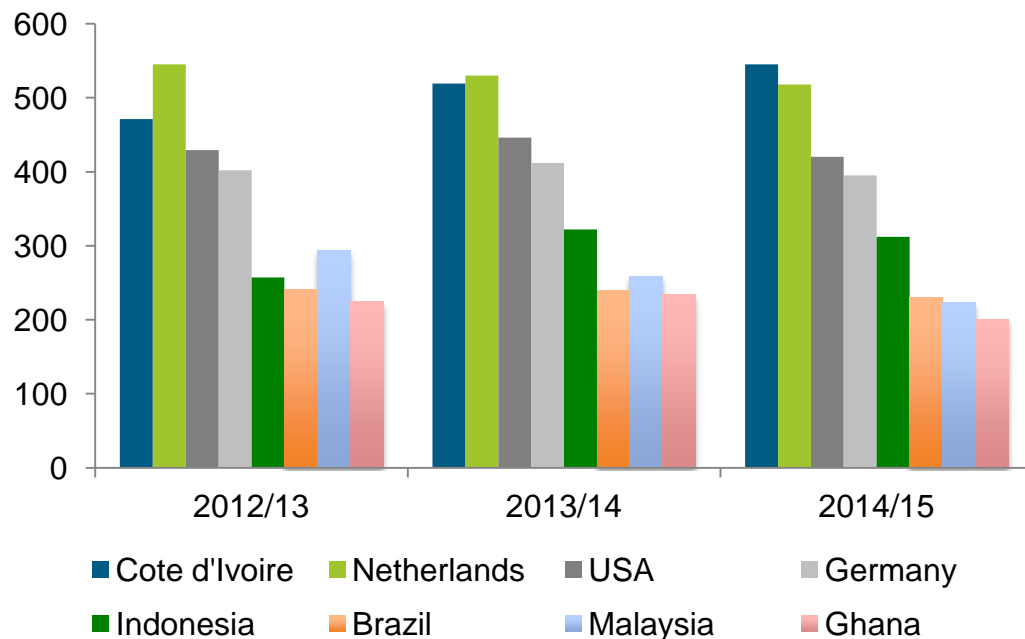
- El Niño has historically been associated with a drop in West African production.
- During the strong El Niños of 1965-66, 1972-73 & 1982-83, the crop fell sharply, both during the affected season and in the following two seasons.
- However, during the last two strong El Niños (1997-98 & 2009-10), production has been broadly flat, and has been followed by a surge the next two seasons.
- The key factor will be El Niño's impact on the seasonal Harmattan, which affects both the second half of the main crop and the development of the mid-crop.

Sources: ICCO, Ecobank Research.

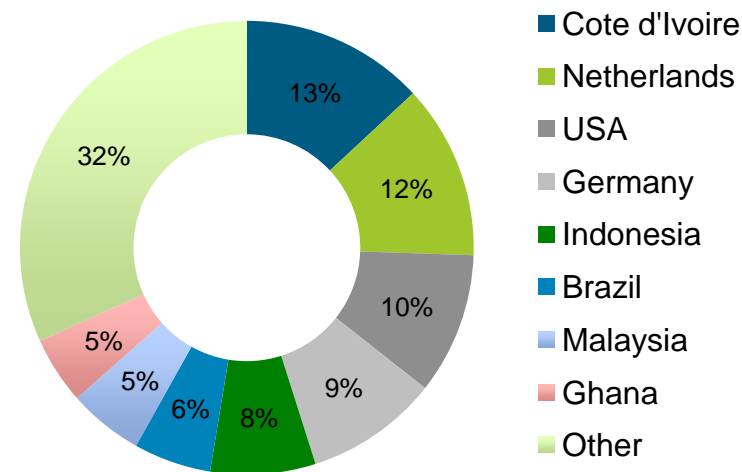
# West Africa's grinding capacity has reached a plateau

## Côte d'Ivoire is now the world's number one grinder

World cocoa grind, 000s tonnes



Share of world cocoa grind, 2014/15



- Côte d'Ivoire's cocoa grind reached 545,000 MT in 2014/15, 13.1% of the world total.
- The Ivorian grind has grown by 51% over past five seasons, but has reached a plateau.
- Ghana's grind has fallen to 200,000 MT, reflecting reduced availability of light crop beans.

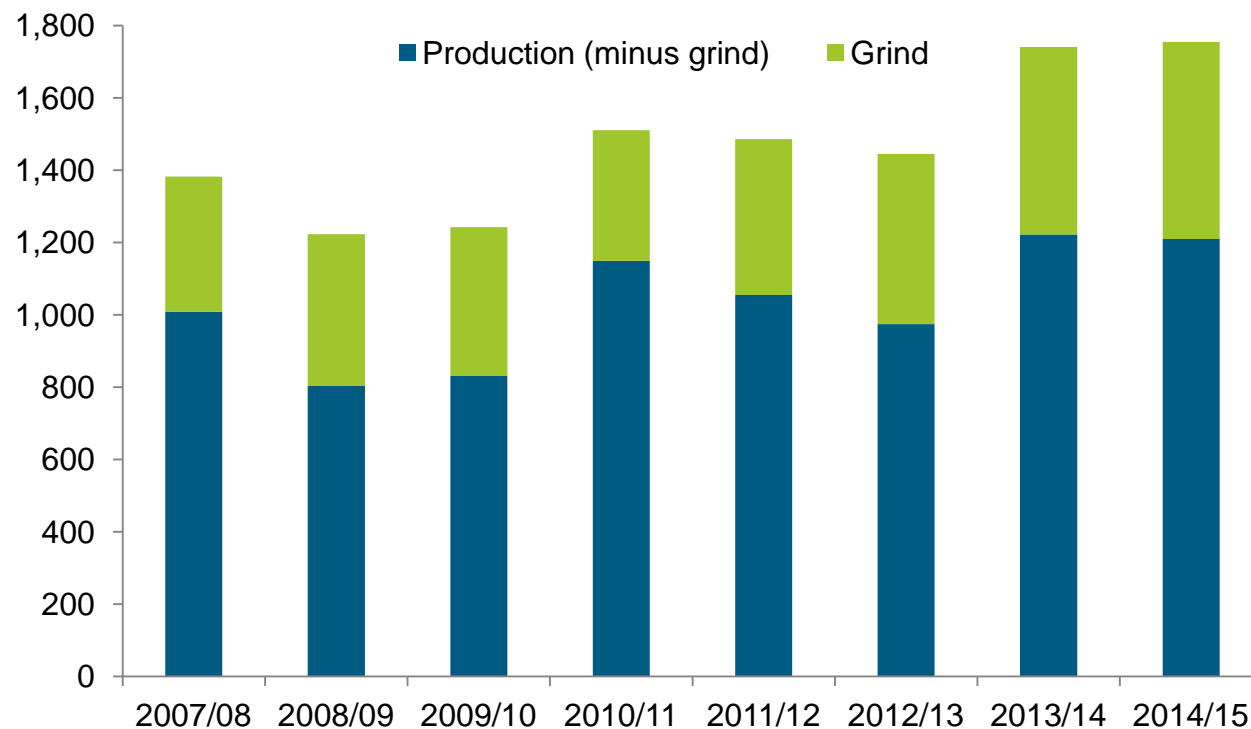
Sources: ICCO, Ecobank Research.



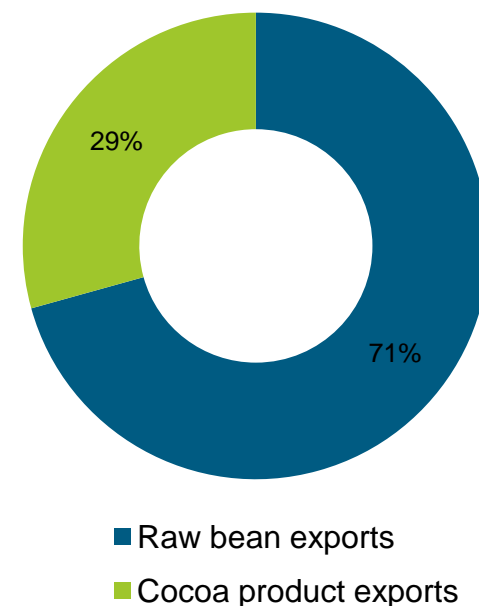
# Most beans are still exported raw

## Less than 30% of the cocoa crop is processed into products

Côte d'Ivoire's cocoa production & grind, 000s MT



ave % of cocoa processed



- Proportion of the crop which is ground has fallen from 34.2% in 2009/10 to 31.1% in 2014/15.
- The government aims to increase this to 40% in the short term, and 50% in the medium term.

Sources: ICCO, Ecobank Research.

# Key risks to the forecast (1)

- **El Niño – who else?**

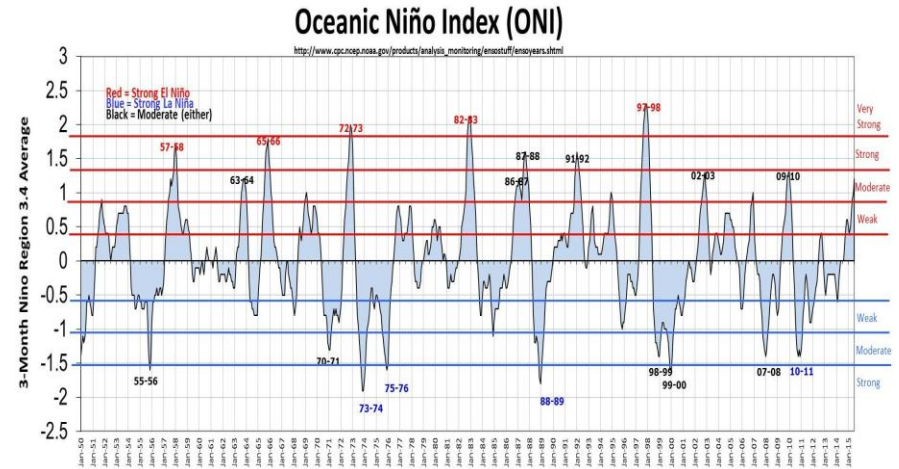
The weather phenomenon is the strongest since 1997/98 and it hangs as a major risk over this season, even if its impact on the crop is uncertain.

- **Ivorian output growing out of control**

Consistently high farmgate prices have driven a surge in plantings, many in areas unsuitable for long-term cultivation. This increases the risk of a surprise slump in the future.

- **Disease – it's always there**

Black pod and swollen shoot disease remain a constant threat to the crop, although they impact cocoa growing areas unevenly.



## Key risks to the forecast (2)



- **Labour shortages**

Growth of galamsey (gold mining) has caused shortages of workers for Ghana's plantations, and could get worse. There has been much talk of attracting West African youth into cocoa farming. But cocoa is not an easy crop, (maize, cassava and palm oil are easier), and the right incentives are not in place.

- **Presidential election in Côte d'Ivoire**

Pundits expect President Ouattara to be re-elected without fuss, but the risk of election-related violence remains, potentially disrupting deliveries.

- **Ivorian export contract dispute**

Traders are unhappy at the export quota given to local companies who they complain lack the capacity to meet their contracts.

Thank you