



MAREX SPECTRON

COCOA FUTURES AND OPTIONS MARKETS: A GOOD FIT FOR INDUSTRY NEEDS?

PREPARED EXCLUSIVELY FOR:

ICCO COCOA MARKET OUTLOOK CONFERENCE

PREPARED BY:

JONATHAN PARKMAN.
HEAD OF AGRICULTURAL BROKERAGE
+4420 7491 6734

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- **The Advantages and Disadvantages of having competing Contracts and Exchanges**
 - **A look at the technical differences between the ICE Europe and CME cocoa contracts**
 - **Practical and Theoretical Cost of Trade**
 - **Summary of Current Situation**

THE ADVANTAGES AND DISADVANTAGES OF HAVING COMPETING CONTRACTS AND EXCHANGES

- The existing 5 cocoa contracts came about in response to a number of factors
 - The desire expressed by some members of the trade and industry for a Euro denominated contract to mitigate GBP/Euro FX exposure
 - Dissatisfaction regarding the rules and the way they were interpreted under the old LIFFE cocoa contract
 - Disquiet regarding the monopoly created by the ICE exchange when they purchased the LIFFE exchange
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THE ADVANTAGES AND DISADVANTAGES OF HAVING COMPETING CONTRACTS AND EXCHANGES

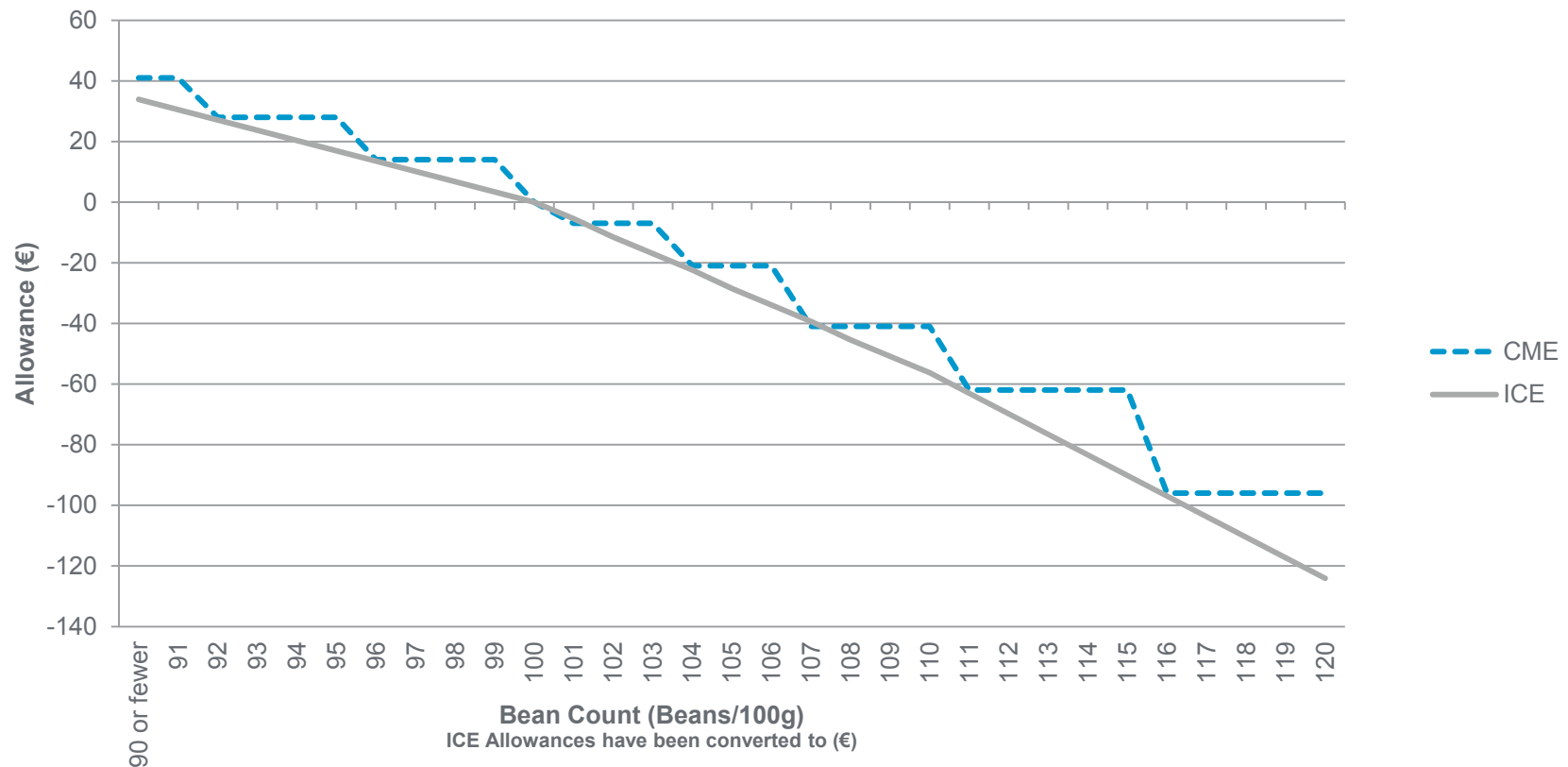
- Competing contracts provide a variety of choices for users
 - Competing exchanges provide a safeguard for costs of trading
 - Competing exchanges help to ensure relevance of the contracts
 - Too much competition can dilute liquidity
 - Differing regulatory jurisdictions can lead to regulatory arbitrage.
 - No Initial Margin offset between competing exchanges
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A LOOK AT THE TECHNICAL DIFFERENCES BETWEEN THE ICE EUROPE AND CME COCOA CONTRACTS

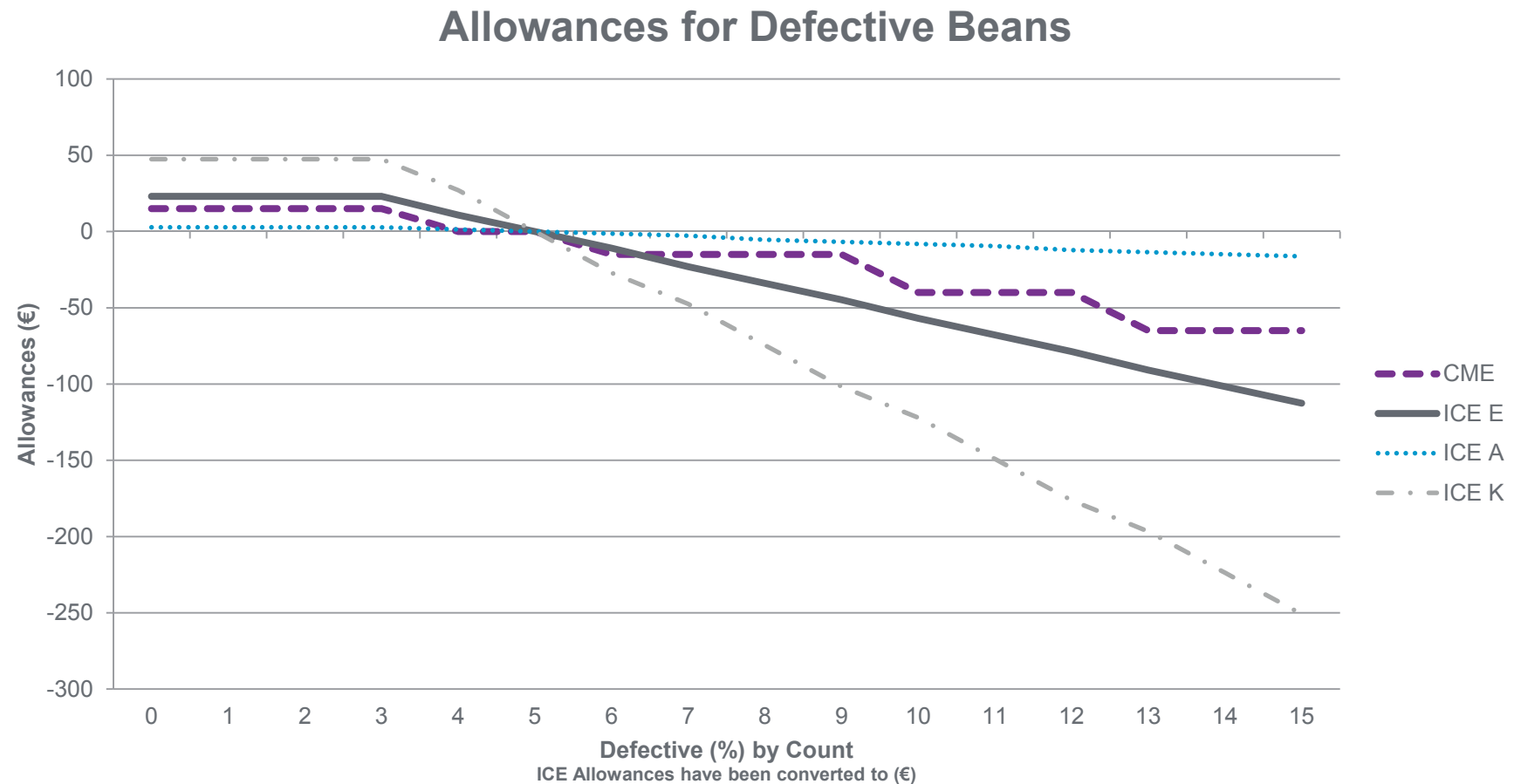
Origin Allowances			
Origin	CME (€)	ICE (€)	Diff (€)
Cameroon	0	0	0
Cote d'Ivoire	0	0	0
Ghana	0	0	0
Nigeria	0	0	0
Sierra Leone	0	0	0
Togo	0	0	0
Sao Tome	0	-33.90	-33.90
Brazil	0	-67.80	-67.80
Ecuador	0	-67.80	-67.80
Papua New Guinea	0	-67.80	-67.80
Malaysia	-25	-101.69	-76.69
Indonesia	-50	-135.59	-85.59
Mexico	-25	-135.59	-110.59
Colombia	0	-135.59	-135.59
Dom Rep	0	-135.59	-135.59
Guinea	0	-135.59	-135.59
India	0	-135.59	-135.59
Liberia	0	-135.59	-135.59
Madagascar	0	-135.59	-135.59
Peru	0	-135.59	-135.59
Tanzania	0	-135.59	-135.59
Venezuela	0	-135.59	-135.59

A LOOK AT THE TECHNICAL DIFFERENCES BETWEEN THE ICE EUROPE AND CME COCOA CONTRACTS

Allowances for Bean Count

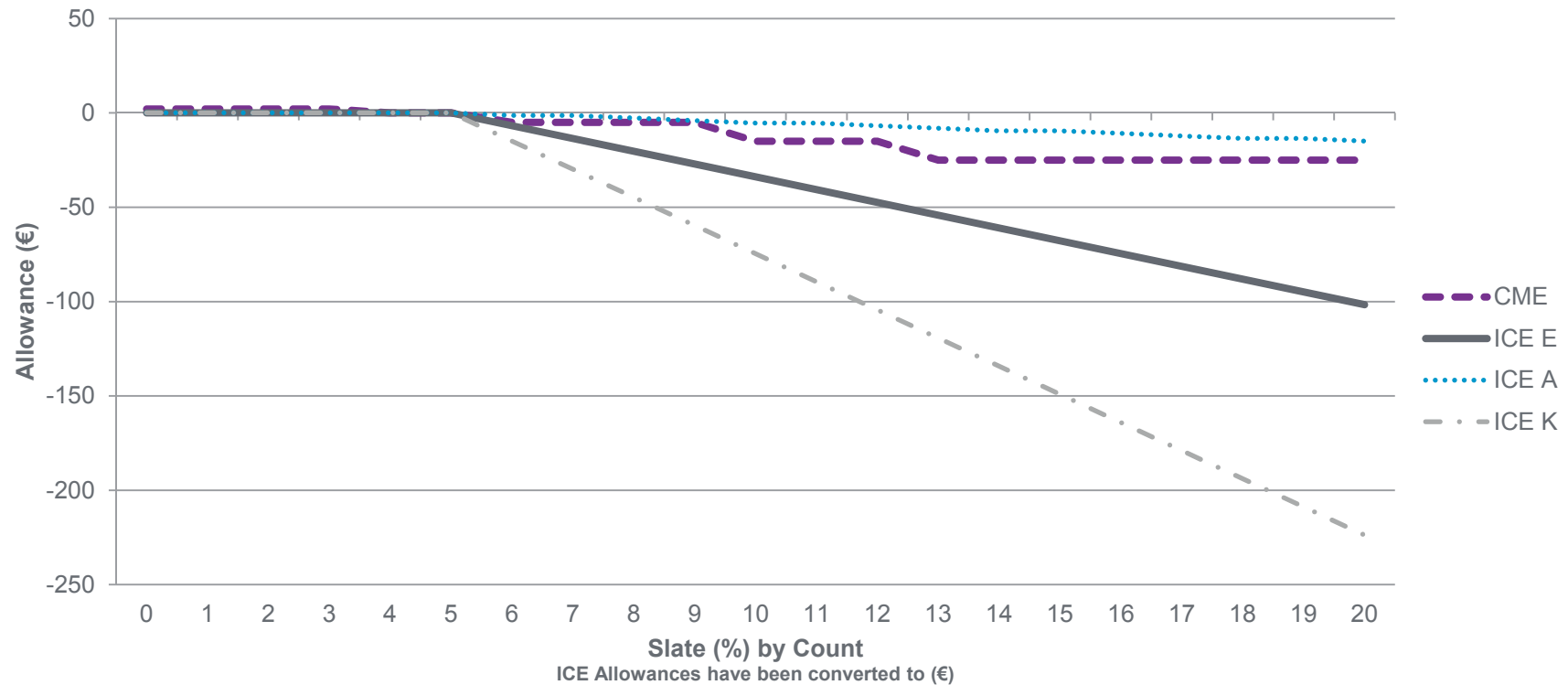


A LOOK AT THE TECHNICAL DIFFERENCES BETWEEN THE ICE EUROPE AND CME COCOA CONTRACTS



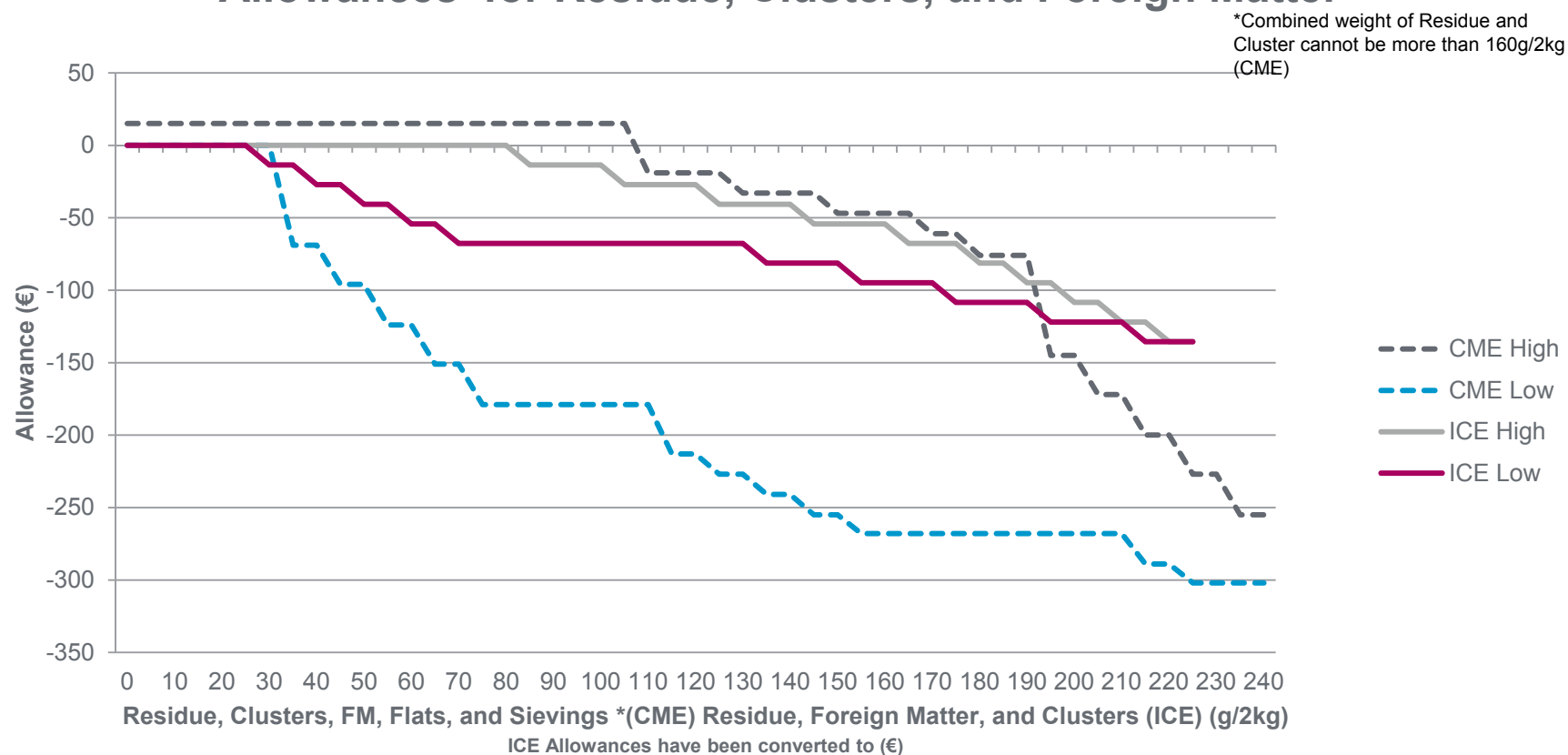
A LOOK AT THE TECHNICAL DIFFERENCES BETWEEN THE ICE EUROPE AND CME COCOA CONTRACTS

Allowances for Slaty Beans

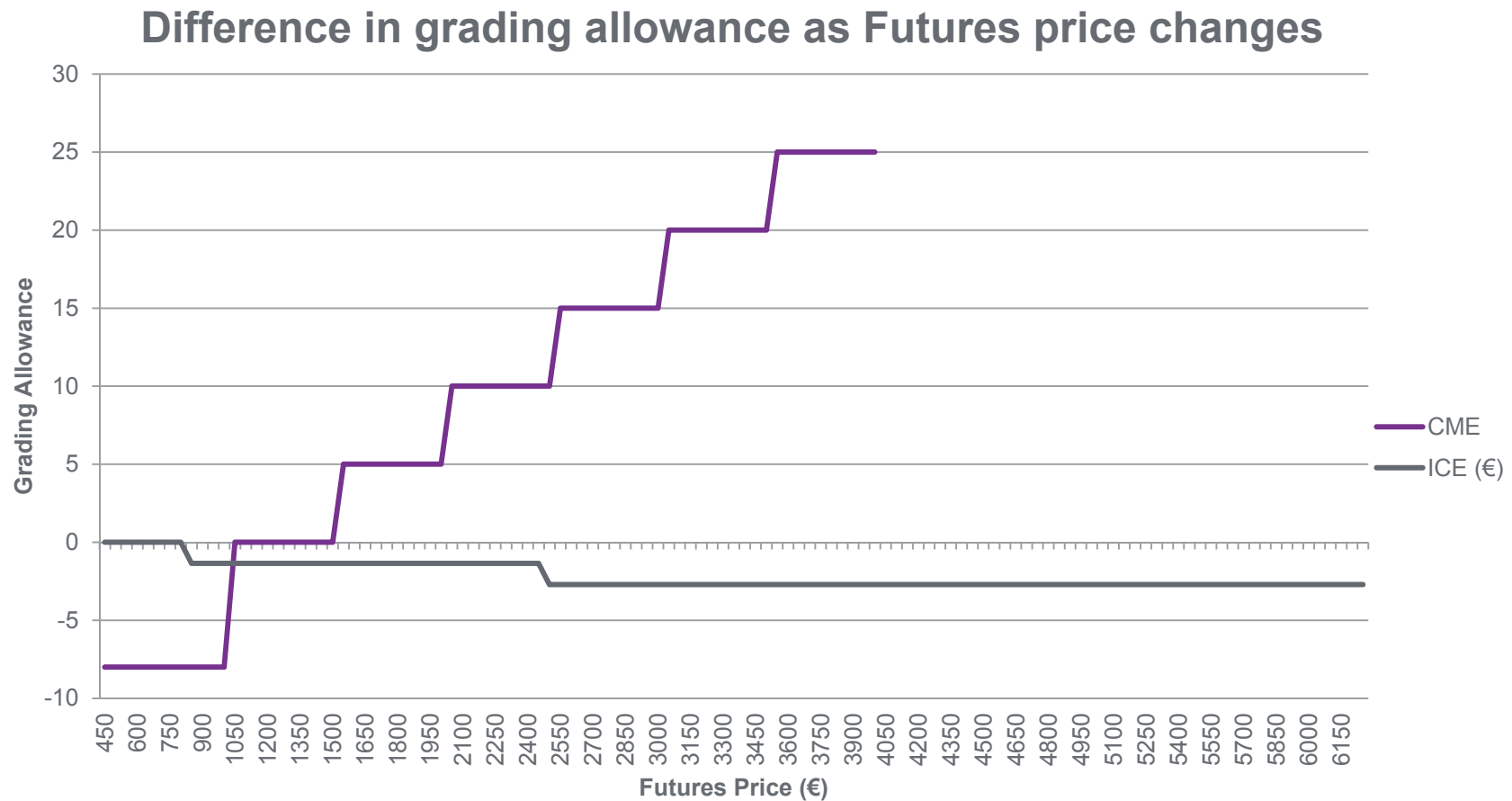


A LOOK AT THE TECHNICAL DIFFERENCES BETWEEN THE ICE EUROPE AND CME COCOA CONTRACTS

Allowances for Residue, Clusters, and Foreign Matter



A LOOK AT THE TECHNICAL DIFFERENCES BETWEEN THE ICE EUROPE AND CME COCOA CONTRACTS



PRACTICAL AND THEORETICAL COST OF TRADE

- **Exchange and clearing fees.**
 - **Grading, Storage and Tendering costs.**
 - **Brokerage commissions.**
 - **Initial Margins and Offsets.**
 - **Direct Market Access costs.**
 - **Bid, offer spreads. Futures and FX.**
 - **Differential risks.**
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SUMMARY OF CURRENT SITUATION

- Liquidity and cost of trade are the most important market features for all futures and options market participants.
 - Current liquidity is heavily biased towards the ICE contracts for 15/16 marketing year.
 - The impending marketing of the 16/17 cocoa crops will provide the first real choice for trade and industry hedging.
 - Investment liquidity will follow not lead any transition.
 - The CME Euro denominated contract is likely to continue to trade at a significant discount to ICE Europe contract
 - Currently, by far the most cost efficient way to trade cocoa in euros is to use the existing ICE GBP contract and trade GBP/EURO FX against it.
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THANK YOU

- **The Graphs and Tables were provided by IBEX Commodities**



COCOA DESK LONDON:

+44 20 7491 6780
Phil Hobcraft, Head of Cocoa Brokerage
+44 20 7491 6780
Eric Sivry, Head of Options

COFFEE DESK LONDON:

+44 20 7491 6700
James Hearn, Head of Agriculture
+1 212 584 3879
Cary Waldman, Head of Coffee North America

SUGAR DESK LONDON:

+44 20 7491 6741
Paul Bannister, Head of Sugar Brokerage
+1 212 584 3867
Anthony Contrastano, Sugar Options

NEW YORK

GRAINS DESK LONDON:

+44 20 7491 6790
Bertrand Oesterle, Head of Grains Brokerage

COMMODITIES RESEARCH DESK

LONDON:

+44 20 76 55 60 00
Georgi S. Slavov, Head of Research

Weather & Climate Research:

Dr. Giacomo Masato, Research Analyst
Dr. Daniela S. Domeisen, Research Analyst

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