



COCOA MARKET REPORT

August 2023

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As we head towards the end of the 2022/23 season, cocoa prices are still relatively high. By 31st August 2023, prices settled at US\$3,730 per tonne and US\$3,633 per tonne in London and New York respectively (**Figure 1**). Exactly a year ago, i.e., 31 August 2022, the nearby cocoa futures settled at US\$2,095 per tonne in London and at US\$2,427 per tonne in New York (**Figure 2**). As at the time of writing, this represents the highest nearby contract price for the 2022/23 season. The development of price highs has been influenced by the decline in supplies for the current season as well as concerns for the upcoming 2023/24 season. As supply is the main underlying factor for the bullish prices, this report will review the current state of play for production and origin differentials for the leading producers. Implications of high cocoa prices on retail chocolate confectionery sales will also be touched upon in this report.

PRODUCTION

Cocoa production is highly sensitive to weather conditions and the latter has very often played a role in the gains or losses of cocoa prices. Heavy rains in West Africa are reported to have triggered the Cocoa Swollen Shoot Virus Disease (CSSVD) and the spread of Black pod diseases. These fateful incidences including high costs of inputs, have not spared the two leading producers (i.e., Côte d'Ivoire and Ghana) and affected their volume of production. In Ghana, as supplies were below expectation for the season, cross boarder trading and inability to fulfill cocoa contracts amongst others led the government to end the 2022/23 season earlier than normally scheduled. To halt further disruption to the marketing of cocoa, the Ghanaian government officially opened the 2023/24 season on 8 September with the producer price pegged at 20,943.84 Ghana cedis (US\$1,821) per tonne. This reflects a 64% rise compared to the 2022/23 season's price of 12,800 GH cedis per tonne. As may be recalled, in July, supply concerns led Le Conseil Café et du Cacao to cut off forward export sales for the 2023/24 season. On the back of projections of an El Nino occurrence, the expected below average rainfall would result in reduced soil moisture. This is raising concerns on the size of the 2023/24 crop and likely to cause further price rallies.

ORIGIN DIFFERENTIALS

A look at country differentials – differences between the cif price of a specific origin and prevailing futures prices – points out that producers are currently calling the shots in terms of premiums as they benefit from the current state of supply tightness. Compared to the premiums at the start of the season, representing a 27% rise for the European market, beans premium from Côte d'Ivoire increased from £319 per tonne to £406 per tonne while that for Ghana rose by 11% from £435 per tonne to £482 per tonne. For premiums relative to the United States market, Ivorian cocoa rose by 36% from US\$447 to US\$608 per tonne. That for Ghanaian beans were up by 24% from US\$583 per tonne to US\$725 per tonne. Overall, the month of August witnessed high premiums.

RETAIL CHOCOLATE SALES

Profit margins of chocolate manufacturers are likely to be at risk because of high cocoa prices including other ingredients such as sugar. Will this lead to a repeat of chocolate shrinkflation as manufacturers grapple with high prices of cocoa beans?¹ Or will the soaring cost of cocoa be passed on to consumers and will we see more pushbacks from retailers if manufacturers increase their prices? One hopes not, but the likelihood that there will be a return of price dispute amongst retailers and manufacturers cannot be ruled out. Couple of months ago, Belgian retailer, Colruyt, rejected Mondelez price hikes on its products.² Similar instances for other food products has happened in other countries. For example, in UK, Tesco and Kraft Heinz³, in US, Walmart and CPG manufacturers⁴ and in the Netherlands, grocer

1 <https://www.thechocolatejournalist.com/blog/craft-chocolate-shrinkflation>

2 <https://www.just-food.com/news/mondelez-embroiled-in-pricing-spat-with-belgian-grocer-colruyt/>

3 <https://www.just-food.com/news/kraft-heinz-tesco-settle-differences-in-uk-price-dispute/?cf-view>

4 <https://www.just-food.com/news/walmart-kicks-back-at-cpg-manufacturers-over-price-hikes/>

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Jumbo with Nestlé and Mars⁵. If it has happened for other food products, with the current high cost of cocoa beans, retailers and consumers should not be taken by surprise if chocolate bars reduce in size or increase in price. Data from Euromonitor depicts that retail growth of chocolate confectionery is rising faster in terms of value than volume. Between 2022 and 2023, the global retail chocolate confectionery market size is estimated to increase in value by approximately 6% and in volume by 1.4%. It is worth noting that between 2021 and 2022, the percentage growth for global retail chocolate confectionery market size in terms of value and volume were 2% and -0.5% respectively.

FUTURES PRICE DEVELOPMENTS

In response to the certainty of a global supply shortfall, prices of cocoa futures contract continued their upward trend in August. **Figure 1** shows price movements of the first and second positions on the London and New York cocoa futures market at the London closing time in August 2023, while **Figure 2** presents similar information for the previous year. Prices for the month under review averaged US\$3,453 per tonne and ranged between US\$3,323 and US\$3,730 per tonne in London. In New York, the average price was US\$3,416 per tonne and ranged between US\$3,269 per tonne and US\$3,633 per tonne. A year ago, the front-month prices were at an average of US\$2,041 per tonne and ranged between US\$2,100 and US\$ 2,154 in London. In New York it settled at an average of US\$2,369 and ranged between US\$2,278 per tonne and US\$2,430 per tonne.

Figure 1: Prices of the SEP-2023 and DEC-2023 futures contracts on the London (ICE Futures Europe) and New York (ICE Futures U.S.) markets

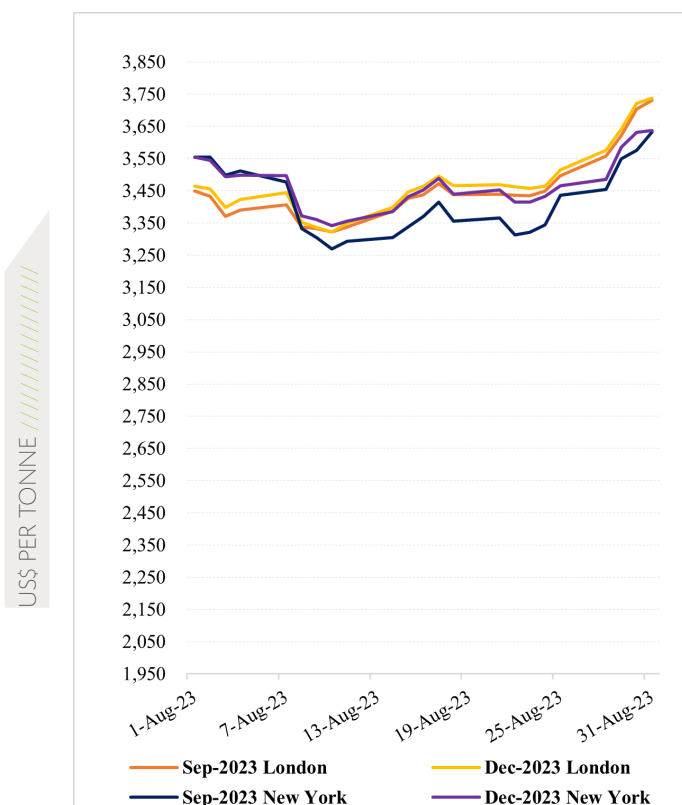
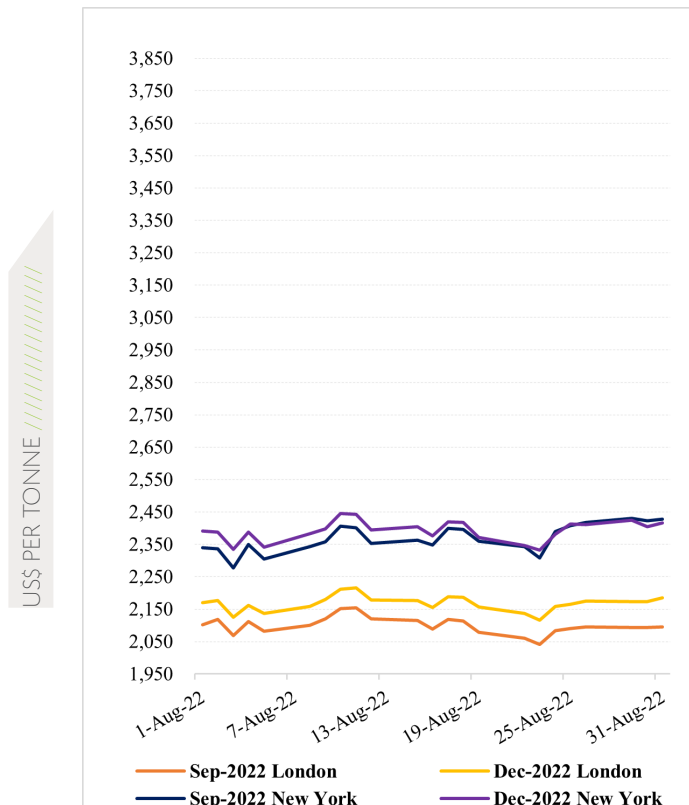


Figure 2: Prices of the SEP-2022 and DEC-2022 futures contracts on the London (ICE Futures Europe) and New York (ICE Futures U.S.) markets



⁵ <https://www.just-food.com/news/dutch-grocer-jumbo-in-pricing-spat-with-nestle-mars/>

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Prices maintained their high stance during the month under review. The obvious slight prices decline occurred during the second week of August – precisely 10th August. Compared to US\$3,449 per tonne at the start of the month, prices fell by 4% to US\$3,323 per tonne in London and by 8% from US\$3,555 per tonne to US\$3,269 per tonne in New York. This was in reaction on an account of improved weather conditions in Côte d'Ivoire coupled with subdued global economic growth which could soften demand. This decline in prices was short-lived and thereafter prices reverted and rallied to US\$3,730 per tonne in London and US\$3,633 per tonne in New York by the end of the review period.

SUMMARY OF REVISED GLOBAL SUPPLY AND DEMAND FORECASTS FOR THE 2022/23 SEASON

The latest issue of the Secretariat's Quarterly Bulletin of Cocoa Statistics (QBCS) highlights that the global cocoa market is contending with faltering production, growth in demand and high prices. Global production is projected to be up by 2.3% to 4.938 million tonnes. With a slack in demand, grindings are expected to fall by 0.2% to 5.003 million tonnes. Copies of the Quarterly Bulletin of Cocoa Statistics, in Microsoft Excel and Adobe PDF formats, can be ordered from the ICCO eShop: www.icco.org/shop or by email: statistics.section@icco.org