

COCOA MARKET REPORT

OCTOBER 2021



KEY TAKEAWAYS

- » Prices of the nearby contract tumbled by 9% and 6% in London and New York respectively in October.
- » Compared to their levels seen a year ago, monitored stocks of cocoa beans in exchange licensed warehouses went up by 19% in Europe and by 51% in the United States.
- » Since the beginning of 2021, gradings of cocoa on the London exchange reached 150,430 tonnes against 108,590 tonnes during the corresponding period of the previous year, while in the United States they soared from 25,143 tonnes to 112,066 tonnes.
- » Origin differentials generally remained low year-on-year.
- » Even though grindings increased year-on-year in Europe, North America and Southeast Asia for the third quarter of 2021, this was not sufficient to absorb excess production.

FUTURES PRICES DEVELOPMENTS

The current report provides a description of the fundamental factors that influenced the movements of cocoa futures prices and focuses on the December-2021 (DEC-21) and March-2022 (MAR-22) futures contracts as listed on ICE Futures Europe (London) and ICE Futures U.S. (New York). **Figure 1** shows price movements on the London and New York futures markets respectively at the London closing time in October 2021, while **Figure 2** presents similar information for the previous year.

Figure 1: Prices of the DEC-2021 and MAR-2022 futures contracts on the London (ICE Futures Europe) and New York (ICE Futures U.S.) markets

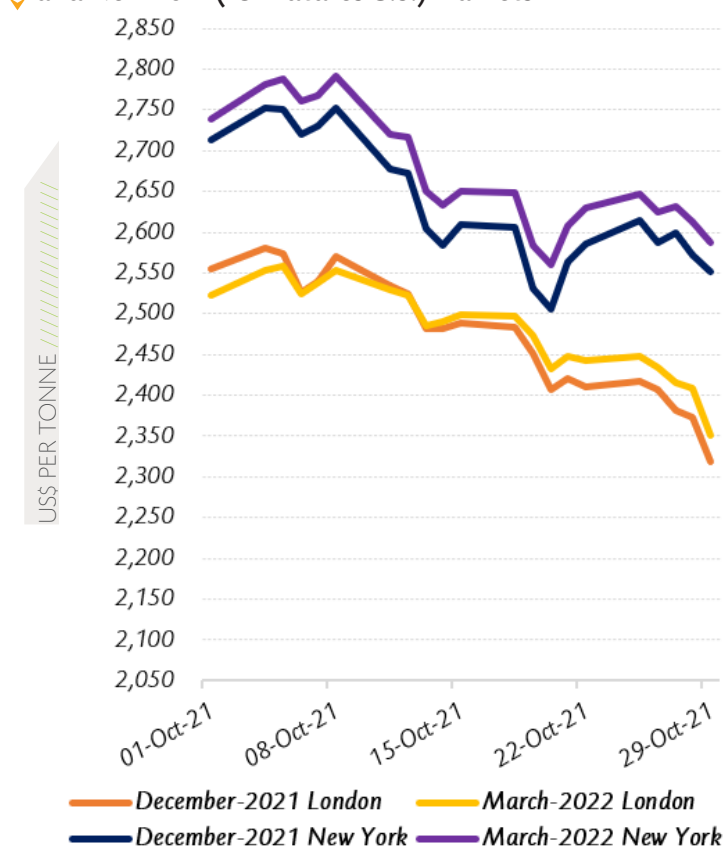
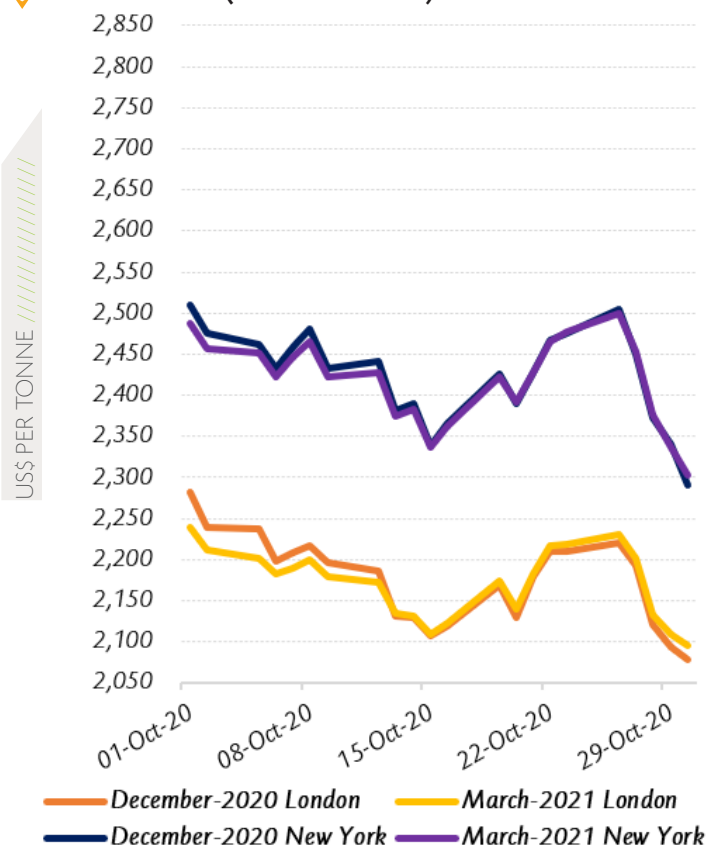


Figure 2: Prices of the DEC-2020 and MAR-2021 futures contracts on the London (ICE Futures Europe) and New York (ICE Futures U.S.) markets



Despite the backwardation observed in London over the first half of October, both the London and New York markets were in contango during October 2021, with the DEC-21 contract pricing lower than MAR-22 (**Figure 1**). Under normal market conditions, futures contracts with later expiries are more expensive than the nearest contracts to account for the cost of carry. The average discount applied on the DEC-21 contract *via-à-vis* MAR-22 stood at US\$9 per tonne on the London market and was lower compared to the discount of US\$40 per tonne recorded for the same futures contract on the New York market.

The lower average discount applied to the DEC-21 contract in London was a result of the price configuration change – from backwardation to contango – that occurred during the second half of the month under review, whereas in New York, prices remained in a permanent contango. As shown in **Figure 2**, a lesser form of backwardation was observed on both sides of the Atlantic over October 2020, in particular over the first half of the month.

The global cocoa market was bearish during the first month of the 2021/22 cocoa year. On both the London and New York markets, prices of the front-month cocoa futures contract witnessed pronounced drops. Compared to the settlement values recorded at the beginning of October 2021, prices of the DEC-21 contract declined by 9% from US\$2,555 to US\$2,318 per tonne in London, while in New York, they plunged by 6% from US\$2,713 to US\$2,552 per tonne. Prices declined as a result of excess supply despite the year-on-year increase in grindings for the third quarter of 2021 reported by the main regional cocoa associations.

► COCOA GRADINGS AND STOCKS IN EXCHANGE LICENSED WAREHOUSES

In October 2021, stocks of cocoa beans with valid certificates in European warehouses averaged 122,770 tonnes and represented 78% of the total average certified stocks. As indicated in **Figure 3**, stocks with valid certificates were up by 19% as compared to their average level of 103,461 tonnes seen in October 2020. In New York, total stocks increased by 51% year-on-year to reach an average of 350,340 tonnes in October 2021.

The main origins of cocoa graded on the ICE Futures Exchange over the periods January 2020 – October 2020 and January 2021 – October 2021 are presented in **Figure 4** for Europe and in **Figure 5** for the United States.

Over the first ten months of 2021, 150,430 tonnes were graded on the ICE Futures Europe, representing a 39% growth compared with 108,590 tonnes of cocoa graded over the corresponding period of the previous season. In the course of the above-mentioned time frame, the quantity of Cameroonian cocoa beans graded at the exchange was reduced from 52,110 tonnes to 49,200 tonnes.

Similarly, cocoa beans coming from Togo and graded at the exchange went down from 5,140 tonnes to 3,270 tonnes. Contrariwise, the volume of cocoa beans from Nigeria climbed from 17,490 tonnes in the previous year to 55,350 tonnes, while cocoa beans from Côte d'Ivoire increased from 30,580 tonnes to 39,140 tonnes. The volume of cocoa beans from other origins graded at the exchange went up from 3,270 tonnes to 3,470 tonnes.

During January 2021 – October 2021, the volume of cocoa beans graded on the ICE Futures U.S. amounted to 112,066 tonnes, up from 25,143 tonnes graded during the same period of the preceding year. Compared to the corresponding period of the previous year, the volumes of cocoa beans from Côte d'Ivoire and Ecuador in ICE Futures U.S. gradings increased from 15,699 tonnes to 60,302 tonnes, and from 1,129 tonnes to 19,443 tonnes respectively. Similarly, the volumes of Cameroonian and Peruvian cocoa beans at exchange gradings went up from 3,504 tonnes to 8,618 tonnes and from 760 tonnes to 7,148 tonnes respectively. The volume of Nigerian cocoa beans in ICE Futures U.S. licensed warehouses increased from 1,102 tonnes to 10,999 tonnes. Additionally, the volume of cocoa beans graded on the ICE Futures U.S. for other origins increased from 2,949 tonnes to 5,557 tonnes.

Figure 3: : Certified stocks of cocoa beans in Europe and the United States

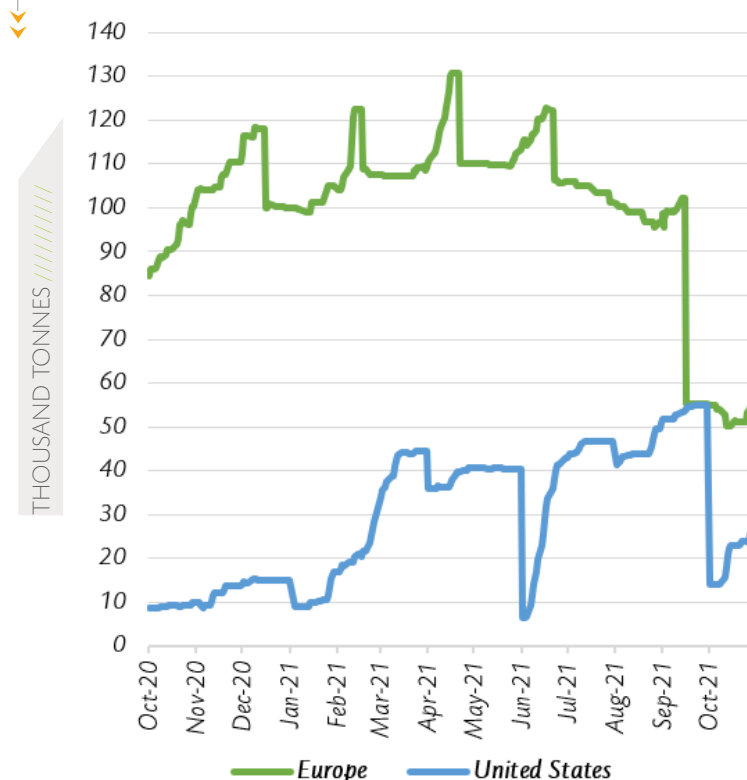


Figure 4: Cocoa gradings on ICE Futures Europe

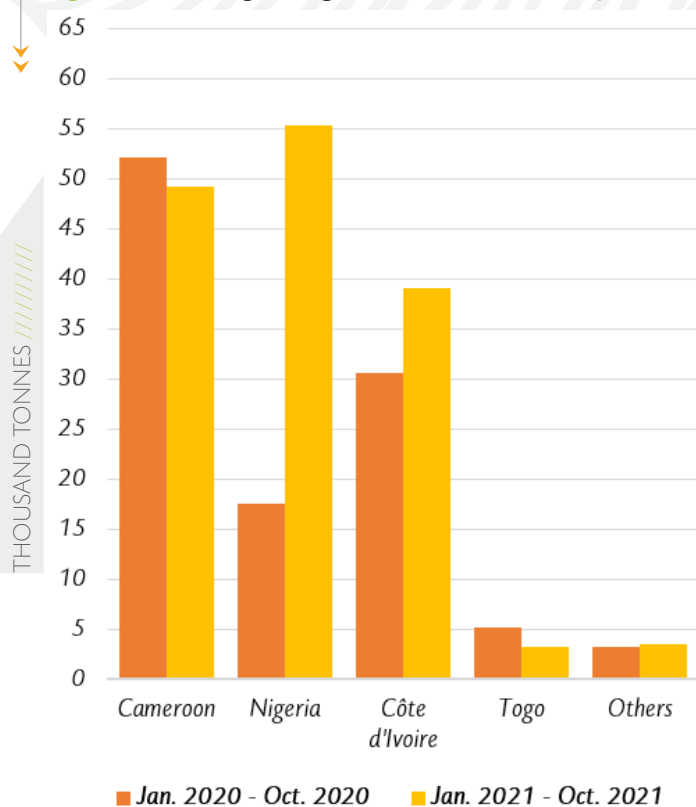
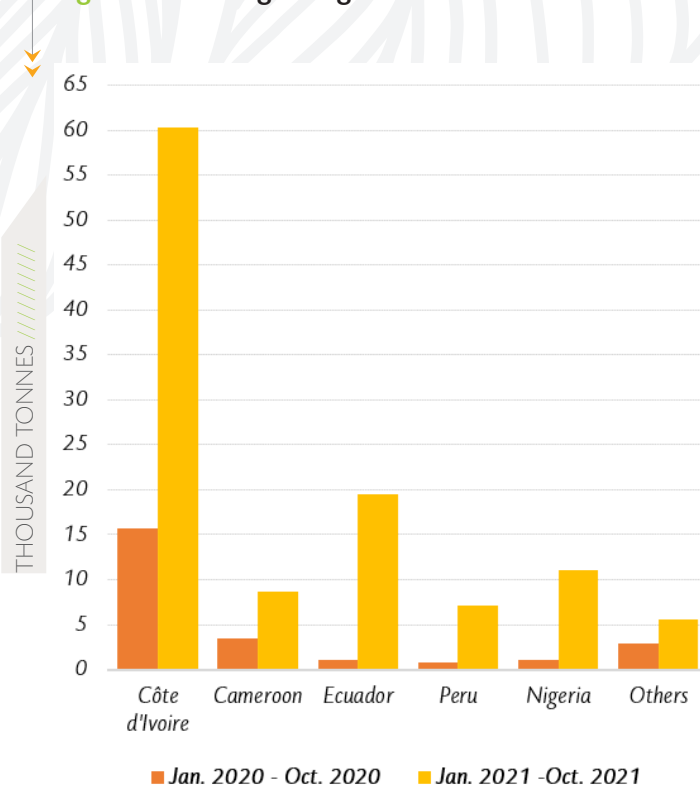


Figure 5: Cocoa gradings on ICE Futures U.S.



ORIGIN DIFFERENTIALS

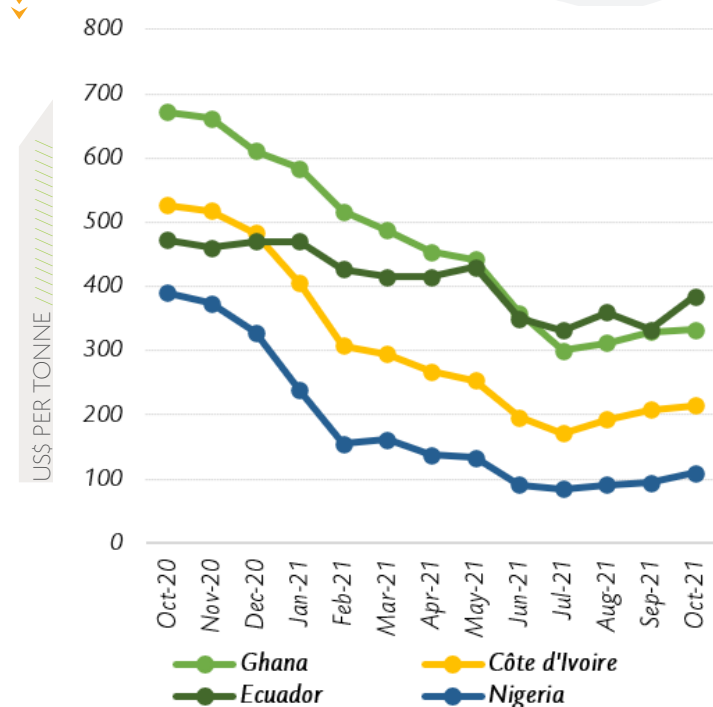
Compared to their levels recorded in October 2020, origin differentials over prices of the six-month forward cocoa contract in Europe and the United States for Ghana, Côte d'Ivoire, Ecuador and Nigeria followed a downwards trend in October 2021 (**Figure 6** and **Figure 7**).

In Europe, the differential for Ghanaian cocoa averaged US\$333 per tonne in October 2021, down by 50% compared to US\$672 per tonne recorded in October 2020. Similarly, the origin differential decreased by 59% from US\$527 to US\$215 per tonne for Ivorian cocoa beans. While a 72% drop from US\$390 to US\$109 per tonne was recorded for the Nigerian country differential of cocoa, the country differential of Ecuador declined by 19% from US\$472 to US\$384 per tonne.

On the U.S. market, cocoa beans from Ghana recorded a differential of US\$420 per tonne in October 2021 against US\$614 per tonne during October 2020. Over the same period, the premium applied to Ivorian cocoa beans fell by 33% from US\$481 to US\$320 per tonne. Premiums received for Ecuadorian beans in the U.S. dropped by 39% from US\$231 to US\$142 per tonne. In the same vein, a 40% reduction from US\$407 to US\$244 per tonne was recorded in the origin differential for Nigeria.

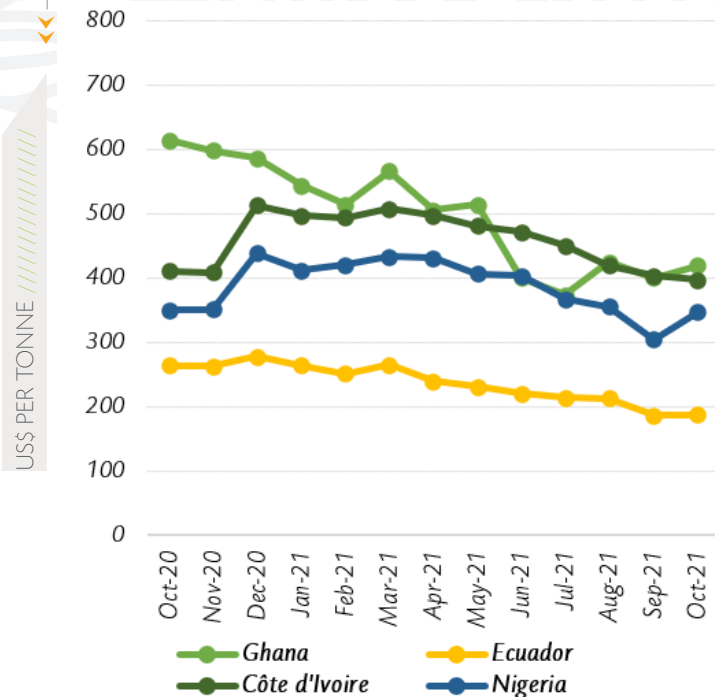


Figure 6: Origins differentials in Europe



Source: Commodity Risk Analysis (CRA)

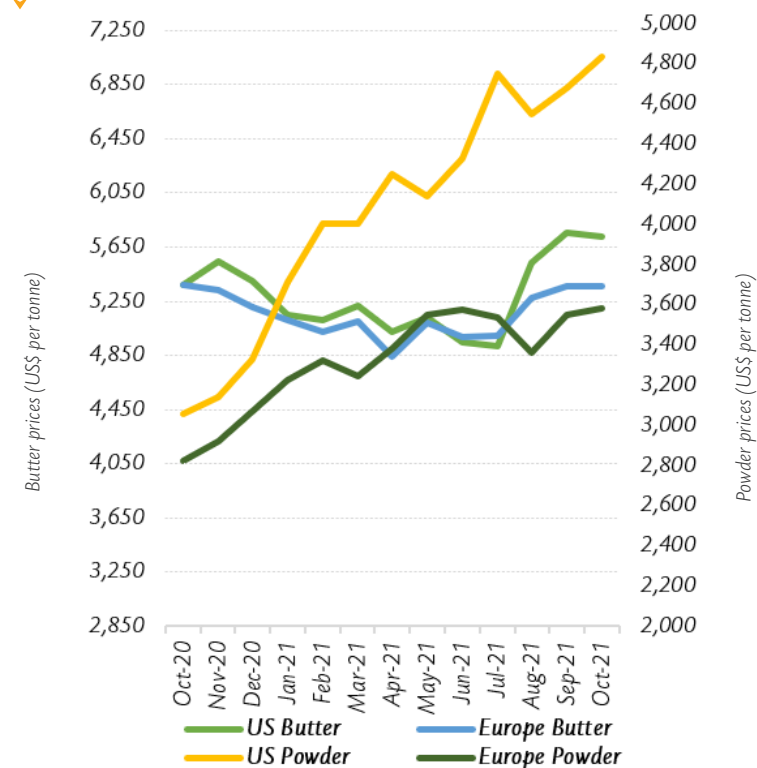
Figure 7: Origins differentials in the U.S.



Source: Commodity Risk Analysis (CRA)

PRICES OF COCOA BUTTER AND POWDER

Figure 8: Monthly averages of the six-month forward prices of cocoa butter and powder in Europe and the U. S. October 2020 – October 2021



Source: Commodity Risk Analysis (CRA)

Under normal market conditions, cocoa butter and powder prices move in opposite directions. A decline in the demand for chocolate generates an excess supply of butter and, therefore, a reduction in butter prices. Thus, cocoa processors raise the powder price – which is normally sold below production costs – so as to preserve their margins, since cocoa butter and powder are produced in fixed proportions.

However, **Figure 8** shows that, compared to levels seen a year ago, prices of both butter and powder went up in October 2021. While prices of cocoa butter remained virtually flat at US\$5,363 per tonne in Europe, they were strengthened in the United States by 7% moving from US\$5,374 to US\$5,729.

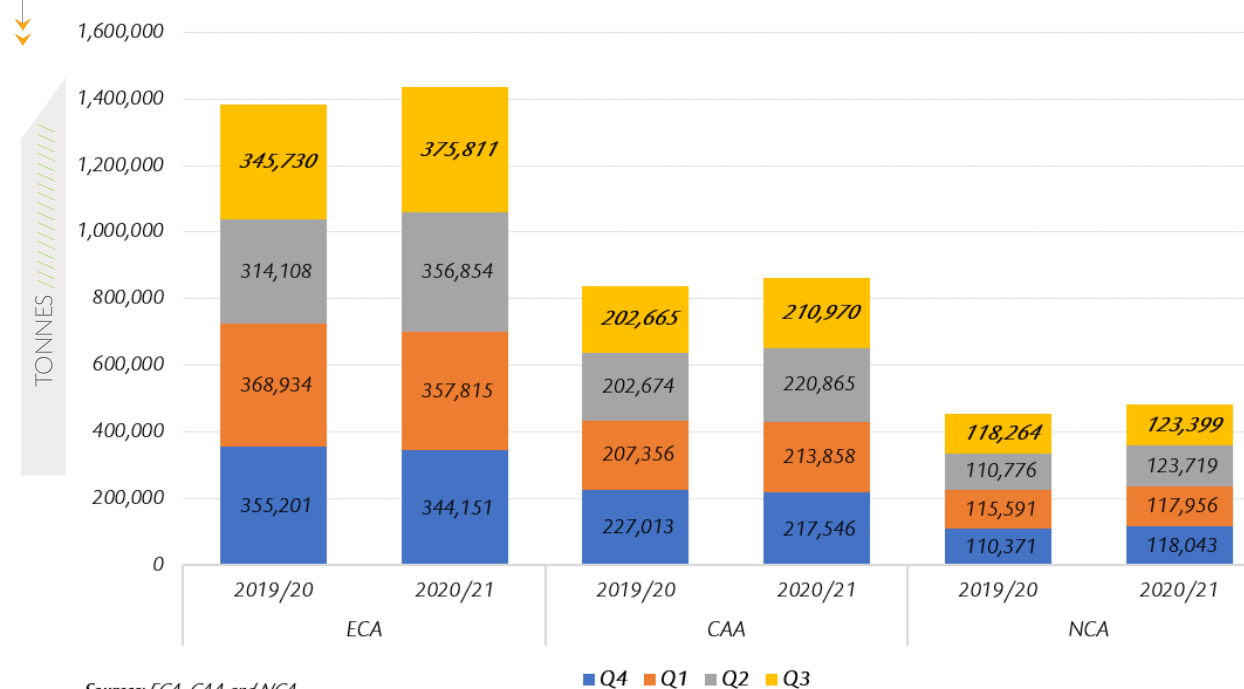
In a similar vein, prices of cocoa powder increased in October 2021 compared to their values recorded one year earlier. They rallied on both markets, up by 58% from US\$3,058 to US\$4,837 per tonne in the United States in October 2021. Over the same period in Europe, powder prices increased by 27% from US\$2,825 to US\$3,584 per tonne.

Since the start of the 2021/22 cocoa season, cumulative arrivals of cocoa beans in **Côte d'Ivoire** have been tighter year-on-year. Indeed, as at 15 November 2021, cumulative arrivals at Ivorian ports amounted to 489,000 tonnes, down by 10.9% compared to 549,000 tonnes recorded a year earlier. Furthermore, the country was reported to have exported 1.626 million tonnes of cocoa beans during the 2020/21 cocoa year against 1.572 million tonnes during the same period of the 2019/20 cocoa season.

In October, data published by the main regional cocoa associations for the third quarter of 2021 indicated that grindings substantially increased in Europe, South-East Asia and North America. **Figure 9** shows that the *European Cocoa Association* (ECA) published data indicating a year-on-year expansion of 8.7% from 345,730 tonnes to 375,811 tonnes in grindings. Similarly, the *Cocoa Association of Asia* (CAA) posted a year-on-year increase of 4.1% from 202,665 tonnes to 210,970 tonnes. Furthermore, processing activities improved in North America during the third quarter of 2021 with the *National Confectioners' Association* (NCA) reporting a 4.3% increase from 118,264 tonnes to 123,399 tonnes of cocoa beans grinded.

At the end of the 2020/21 cocoa season, the cumulative grindings of ECA members totaled 1,434,631 tonnes, up by 50,658 tonnes from the level reached at the end of the previous season. In South-East Asia, cumulative grindings soared by 3% year-on-year to 863,239 tonnes in 2020/21. Over the same period, grindings in North America rose by 6% from 455,002 tonnes to 483,117 tonnes.

Figure 9: Main regional cocoa associations quarterly grindings of cocoa beans



INTERNATIONAL COCOA ORGANIZATION

ICCO Building
II-Plateaux ENA - Avenue Boga Doudou
Abidjan Côte d'Ivoire - 06 BP 1166 Abidjan 06

Tel.: +225 27 22 51 49 50/51

www.icco.org

Twitter: @IntlCocoaOrg

Linkedin: International Cocoa Organization (ICCO)

