

COCOA MARKET REPORT

SEPTEMBER 2021



INSIGHTS

- >> The average daily price of the nearby cocoa futures contract stood at US\$2,322 per tonne in London during 2020/21, down by almost 2% year-on-year from US\$2,358 per tonne recorded in the preceding season, while in New York it remained flat at US\$ 2,508 per tonne compared to US\$2,510 per tonne in 2019/20.
- >> Compared to August, commercial traders further extended their average net short positions during September in both Europe and the United States, up by 50,021 contracts from 21,453 contracts to 71,474 contracts and by 4,329 contracts from 26,184 contracts to 30,512 contracts respectively.
- >> Stocks with valid certificates in exchange licensed warehouses increased year-over-year from an average of 113,290 tonnes to 136,253 tonnes in Europe, and from 14,600 tonnes in September 2020 to 53,596 tonnes in the United States over September 2021.
- >> Compared to 2019/20, cocoa graded on the exchange during 2020/21 went up from 138,870 tonnes to 156,910 tonnes in Europe and from 25,679 tonnes to 109,599 tonnes in the United States.
- >> In Europe, total deliveries against futures contracts during the 2020/21 cocoa year reached 210,400 tonnes, up from 55,770 tonnes delivered against futures contracts during the preceding cocoa year.
- >> Origin differentials mirrored massive drops on both sides of the Atlantic in 2020/21.
- >> Prices of cocoa butter descended in both Europe and the United States, while in contrast powder prices mainly followed an upward trend.
- >> The average nominal farmgate price of cocoa beans for the 2021/22 main crop season declined from XOF1,000,000 (US\$1,830) to XOF825,000 (US\$1,467) per tonne in Côte d'Ivoire while in Ghana, it remained unchanged in local currency at GH¢10,560 (US\$1,769) per tonne. (Based on foreign exchange data gathered from *Refinitiv Eikon*, during the 2020/21 cocoa year, on average US\$1 = XOF546.34 and US\$1 = GH¢5.81, while over 1-4 October 2021 (start of the 2021/22 season), US\$1 = XOF562.25 and US\$1 = GH¢5.97).

FUTURES PRICES DEVELOPMENTS

The current report on the movements of cocoa futures prices focuses on the September-2021 (SEP-21) and December-2021 (DEC-21) futures contracts as listed on ICE Futures Europe (London) and ICE Futures U.S. (New York). It aims to provide insights on the price developments for these two specific futures contracts. **Figure 1** shows price movements on the London and New York futures markets respectively at the London closing time in September 2021, while **Figure 2** presents similar information for the previous year.

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

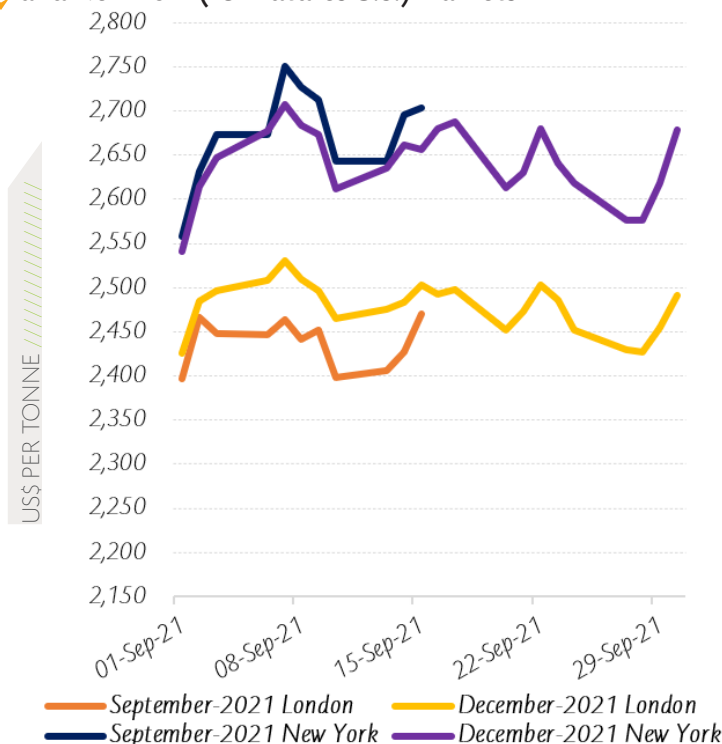
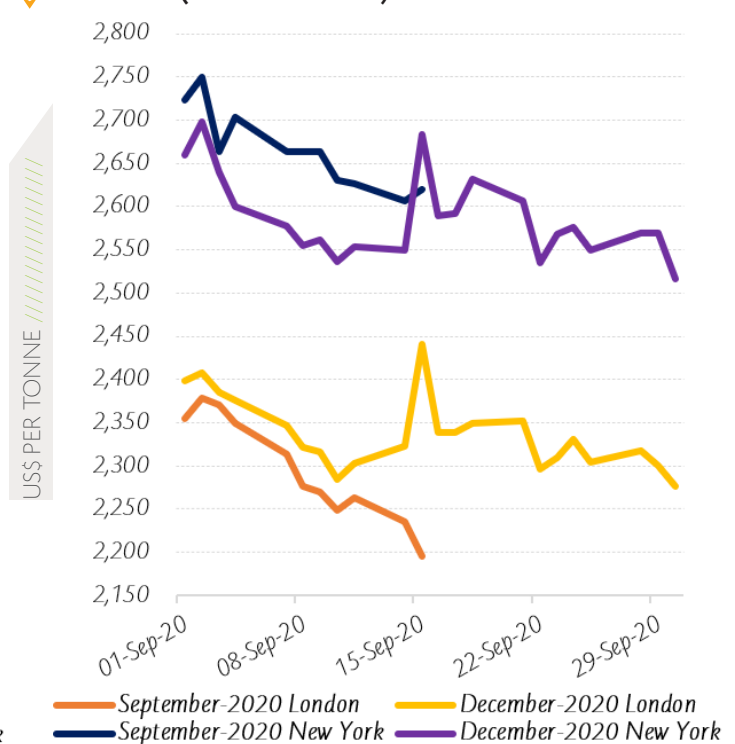


Figure 2: Prices of the SEP-2020 and DEC-2020 futures contracts on the London (ICE Futures Europe) and New York (ICE Futures U.S.) markets



As presented in **Figure 1**, in London the futures market was in contango: the SEP-21 contract was cheaper than DEC-21. The opposite situation was observed in New York where the futures market was trading in backwardation. These price configurations were similar to those observed a year earlier in September 2020 (**Figure 2**) - when the London market was in contango and the New York one was in backwardation. At the time, the share of Bulk Delivery Units in the certified stocks had increased from 41% or 47,727 tonnes to 45% or 50,955 tonnes in the ICE Europe licensed warehouses. In the meantime, in the United States, the volumes of certified stocks sharply declined year-on-year by 52% moving from 29,935 tonnes to 14,284 tonnes.

Over 1-15 September, prices of the SEP-21 contract averaged US\$2,438 per tonne and ranged between US\$2,397 and US\$2,470 per tonne in London. Meanwhile, in New York, the front-month contract prices increased by 6% from US\$2,558 to US\$2,703 per tonne. From 16-28 September, prices of the DEC-21 contract tumbled on both sides of the Atlantic as ample supplies recorded in Côte d'Ivoire and Ghana continued to overwhelm the global cocoa market. In London, a decline of 3% from US\$2,492 to US\$2,427 per tonne was recorded for the DEC-21 contract prices while in New York, prices weakened by 4% from US\$2,680 to US\$2,577 per tonne.

However, by the end of the month under review, prices reverted from their plunge and moved upward to settle at US\$2,492 per tonne and US\$2,678 per tonne in London and New York respectively. This price increase was mainly fuelled by the industry's optimism on the recovery of the demand for chocolate confectionery products.

It is noteworthy that, during the 2020/21 cocoa year, prices of the front-month contract averaged US\$2,322 per tonne, down by almost 2% compared to the average price of US\$2,358 recorded a year earlier in London. In New York, the nearby cocoa contract prices remained virtually flat year-on-year at US\$2,508 per tonne. Though demand saw an improvement, the structural supply excess of the world cocoa market maintained cocoa prices at lower levels year-on-year.

COMMERCIAL TRADERS (HEDGERS) NET SHORT FUTURES POSITIONING

Figure 3 presents the net short positions of commercial traders in Europe over the period 2018/19 – 2020/21, while **Figure 4** shows the same information in the United States, sourced from the weekly report on the Commitments of Traders. The size of net short positions can be thought of as a demand for “insurance” against price drops; and, its change over time can be viewed as the evolution of the risk perception of the entire spectrum of merchants and producers in the cocoa futures markets.

Figure 3: Net short positions of hedgers on ICE Futures Europe

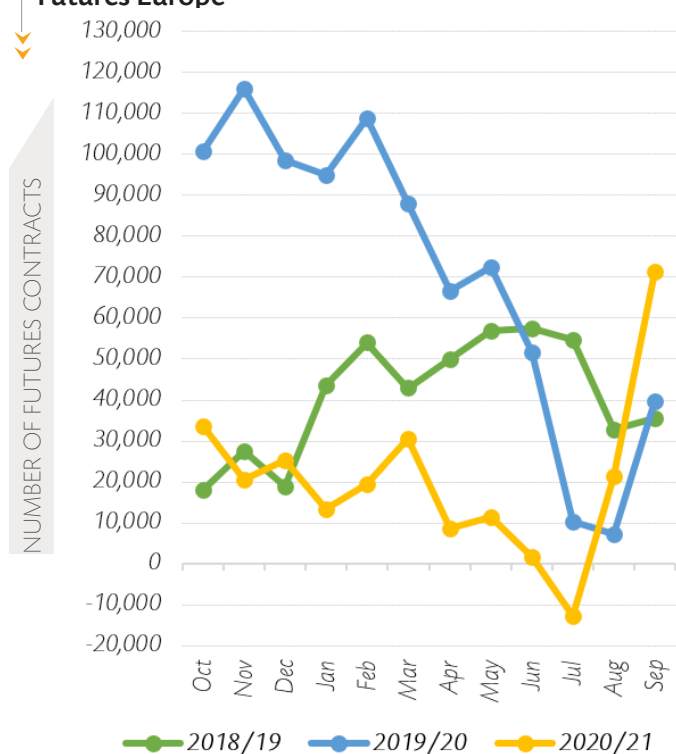
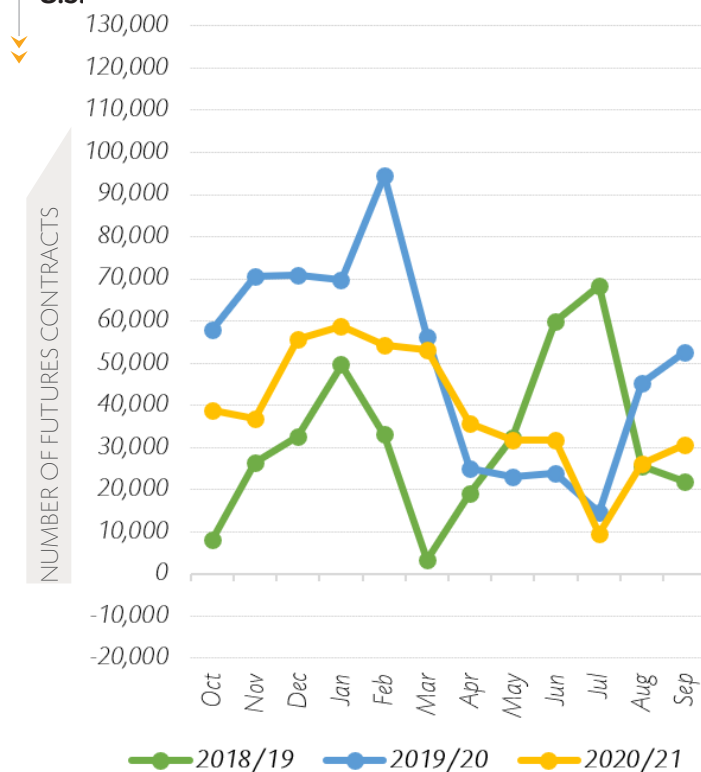


Figure 4: Net short positions of hedgers on ICE Futures U.S.



During 2020/21, the average net short positions in both Europe and the United States were generally lower than recorded over 2019/20. In the United States, they declined by 23% from an average of 50,344 contracts to 38,606 contracts. Concurrently, in Europe, they were down by 71% from an average of 71,281 contracts to 20,367 contracts compared to 2019/20 (**Figure 3** and **Figure 4**).

The COVID 19 pandemic, reducing the risk perception of a bearish market, has in turn reduced the need for a price “insurance”.

Focusing on the change in the net short positions in August 2021 against September 2021, a converging view emerges when comparing the commercial net short positions in New York and London. In London, the net short positions increased from 21,453 futures contracts to 71,474 futures contracts suggesting a threefold increase in the perception of a price risk (i.e., bullish market). Similarly, in New York, the commercial short positions increased from 26,184 contracts in August 2021 to 30,512 contracts in September 2021. The announcement of an anticipated reduction of the Ivorian crop for the 2021/22 cocoa season might have contributed to triggering the increasing need for price risk coverage of market participants.

▶ **COCOA GRADINGS AND STOCKS IN EXCHANGE LICENSED WAREHOUSES**

During September, stocks of cocoa beans with valid certificates in European warehouses averaged 136,253 tonnes, representing 83% of the total stocks. As displayed in **Figure 5**, stocks with valid certificates increased by 20% as compared to their average level of 113,290 tonnes seen a year ago. In the United States, total stocks rose by 48% year-on-year to reach an average of 357,555 tonnes in September 2021 (**Figure 6**) while certified stocks skyrocketed from 14,600 tonnes to 53,596 tonnes.

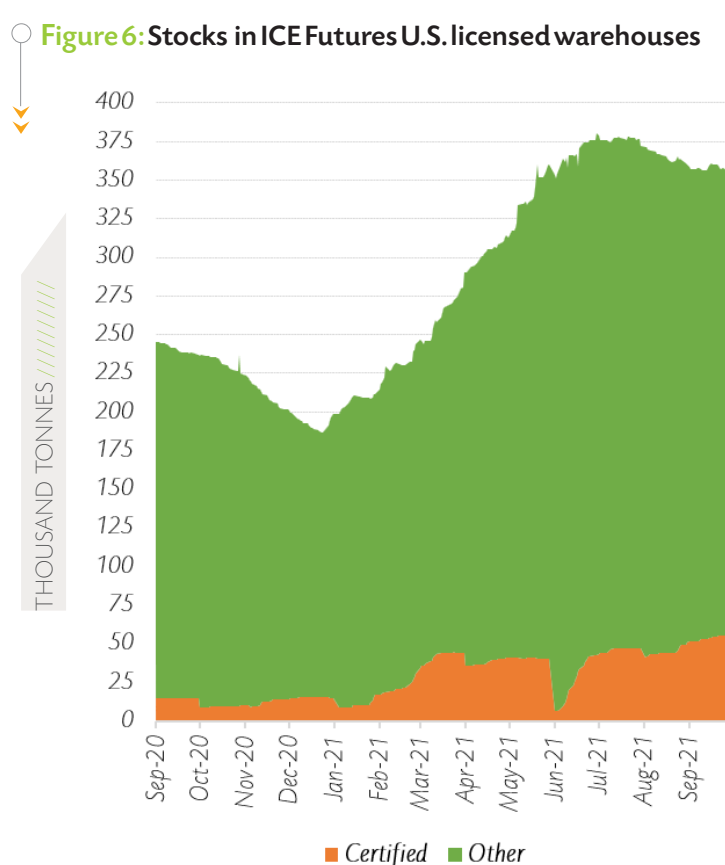
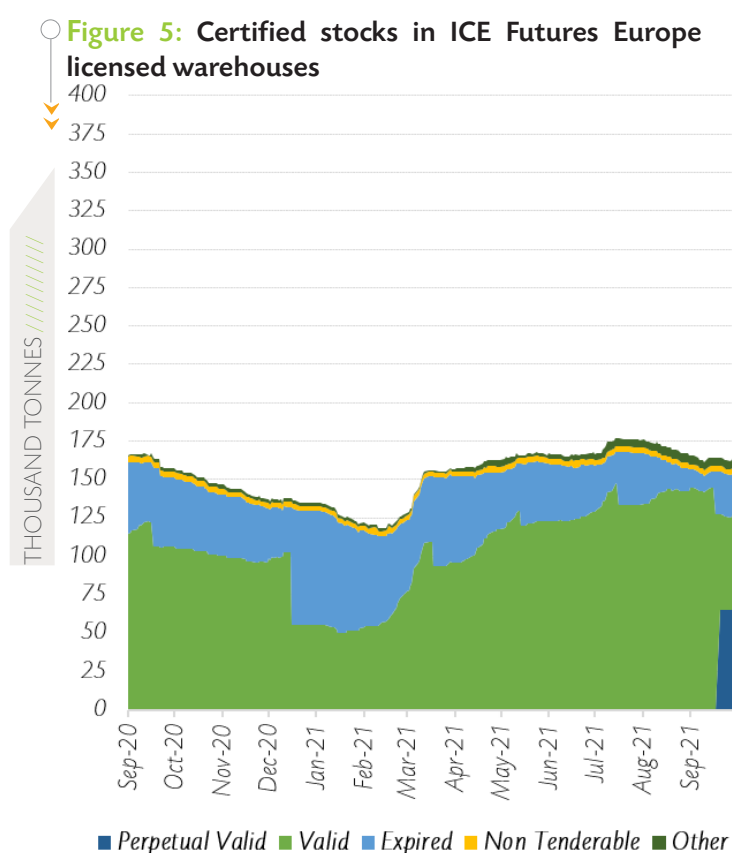


Figure 7 presents the main origins of cocoa graded on the ICE Futures Europe during the 2019/20 and 2020/21 cocoa seasons, while **Figure 8** shows the same information for cocoa graded on the U.S. Exchange.

Cocoa graded by the ICE Futures Europe during the 2020/21 cocoa year reached 156,910 tonnes, up by 13% from 138,870 tonnes of cocoa graded over the previous season. At the time, the volume of Cameroonian cocoa beans at exchange gradings was reduced from 70,750 tonnes to 53,210 tonnes. Similarly, the volume of cocoa beans originated from Togo and graded at the exchange was down from 5,160 tonnes to 3,270 tonnes. Cocoa beans from other origins graded at the exchange dropped from 3,880 tonnes to 2,260 tonnes. On the contrary, the volume of cocoa beans from Nigeria increased from 22,900 tonnes in the previous year to 60,210 tonnes, while cocoa beans from Côte d'Ivoire increased from 36,180 tonnes to 37,960 tonnes.

At the end of the 2020/21 crop year, the total volume of cocoa beans graded on the ICE Futures U.S. peaked at 109,599 tonnes of cocoa beans, up from 25,679 tonnes graded during the same period of the preceding cocoa year. Compared to the previous cocoa season, the volumes of cocoa beans from Côte d'Ivoire and Ecuador in ICE Futures U.S. gradings increased from 16,025 tonnes to 59,363 tonnes, and from 1,169 tonnes to 18,383 tonnes respectively. Similarly, volumes of Cameroonian and Peruvian cocoa beans at exchange gradings went up from 1,861 tonnes to 13,540 tonnes and from 1,502 tonnes to 5,112 tonnes respectively.

The volume of Nigerian cocoa beans in ICE Futures U.S. licensed warehouses increased from 1,313 tonnes to 8,374 tonnes. Additionally, the volumes of cocoa beans graded on the ICE Futures U.S. for other origins increased from 3,809 tonnes to 4,827 tonnes.

Figure 7: Cocoa gradings on ICE Futures Europe

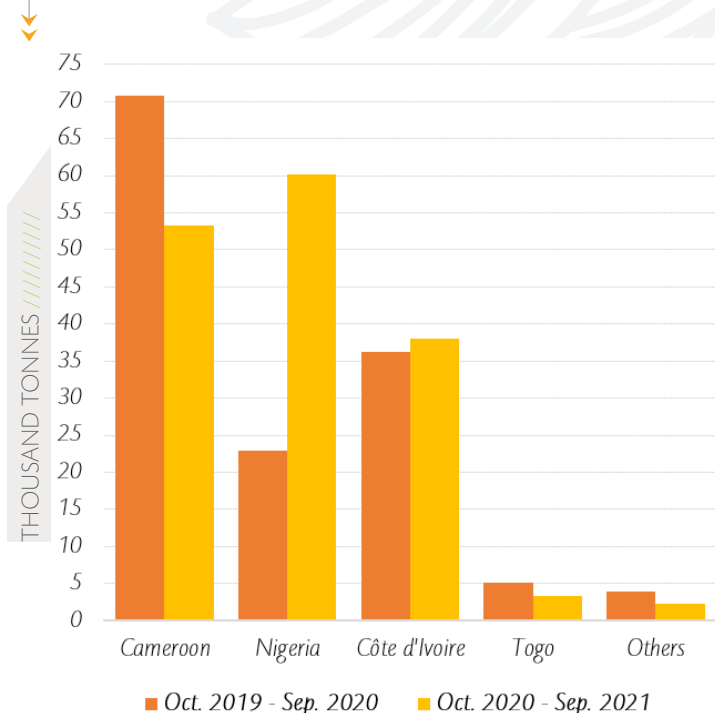
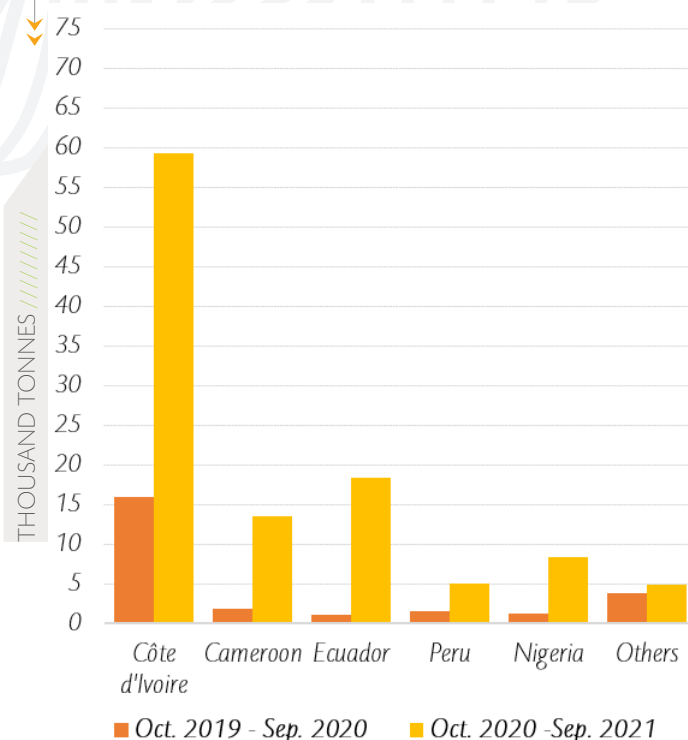


Figure 8: Cocoa gradings on ICE Futures U.S.



ORIGIN DIFFERENTIALS

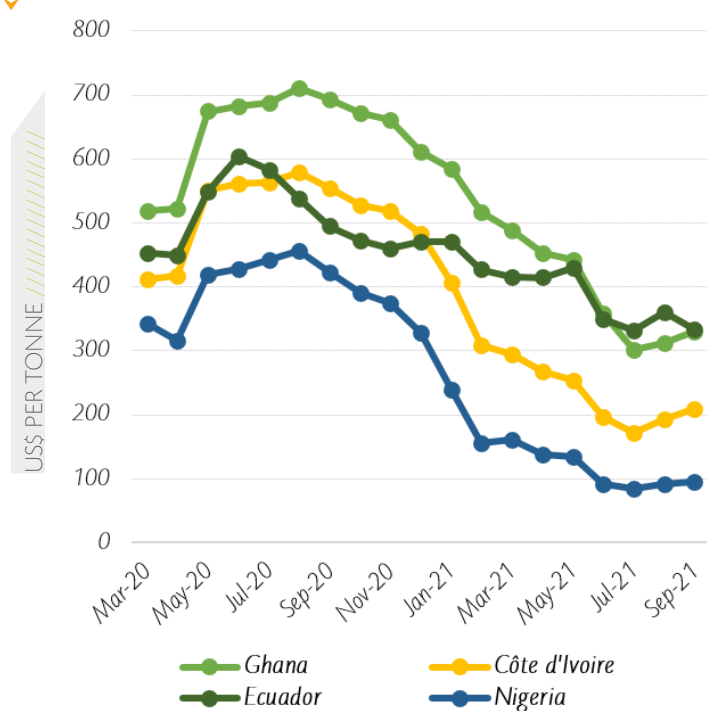
Compared to their levels recorded at the beginning of the 2020/21 cocoa year, origin differentials on prices of the six-month forward cocoa contract in Europe and the United States for Ghana, Côte d'Ivoire, Ecuador and Nigeria dwindled in September 2021 (**Figure 9** and **Figure 10**).

In Europe, the differential for Ghanaian cocoa averaged US\$329 per tonne in September 2021, 51% down compared to US\$672 per tonne recorded in October 2020. Similarly, the origin differential dropped by 60% from US\$527 to US\$209 per tonne for Ivorian cocoa beans. A 76% decrease from US\$390 to US\$95 per tonne was recorded for the Nigerian cocoa country differential, while Ecuador's differential declined by 30% from US\$472 to US\$333 per tonne.

Turning to the U.S. market, cocoa beans from Ghana recorded a differential of US\$400 per tonne in September 2021 against US\$614 per tonne during October 2020. Over the same period, the premium applied to Ivorian cocoa beans decreased by 38% from US\$481 to US\$296 per tonne. Premiums received for Ecuadorian beans in the U.S. were cut by 31% from US\$231 to US\$160 per tonne. In the same vein, a 40% reduction from US\$407 to US\$245 per tonne was recorded for the origin differential for Nigeria.

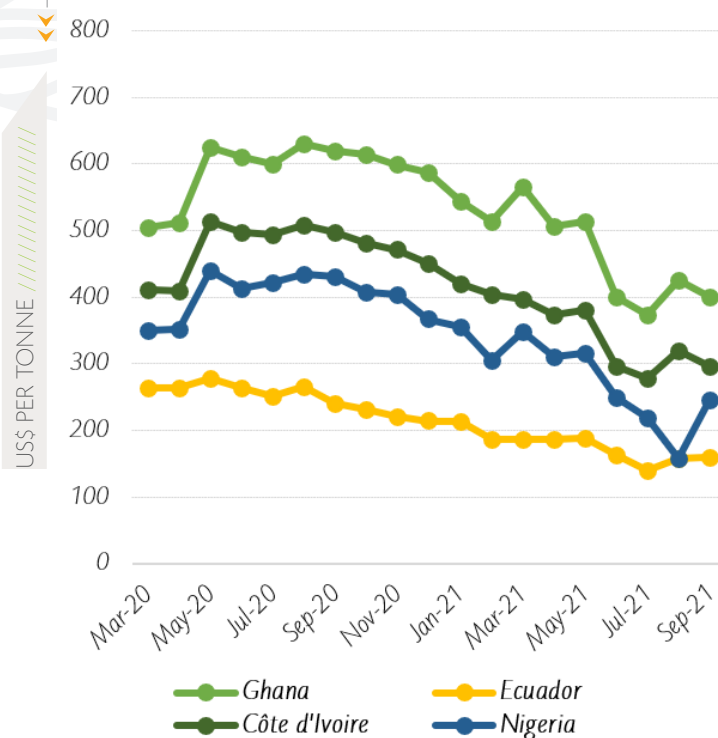


Figure 9: Origins differentials in Europe



Source: Commodity Risk Analysis (CRA)

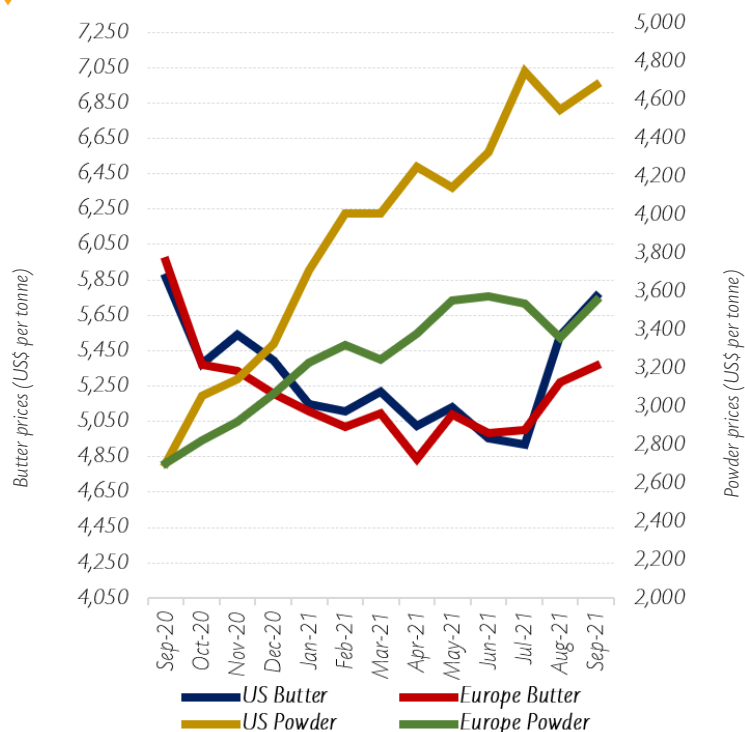
Figure 10: Origins differentials in the U.S.



Source: Commodity Risk Analysis (CRA)

PRICES OF COCOA BUTTER AND POWDER

Figure 11: Monthly averages of the six-month forward prices of cocoa butter and powder in Europe and the U.S.
September 2020 – September 2021



Source: Commodity Risk Analysis (CRA)

The inverse correlation which exists under normal market conditions between cocoa butter and powder prices is hereby presented in **Figure 11**. Butter and powder are produced in the same fixed proportion. A decline in the demand for chocolate generates an excess of butter supply and, therefore, a reduction in butter prices. Thus, cocoa processors raise the powder price – which is normally sold below production costs – so as to keep their margins constant.

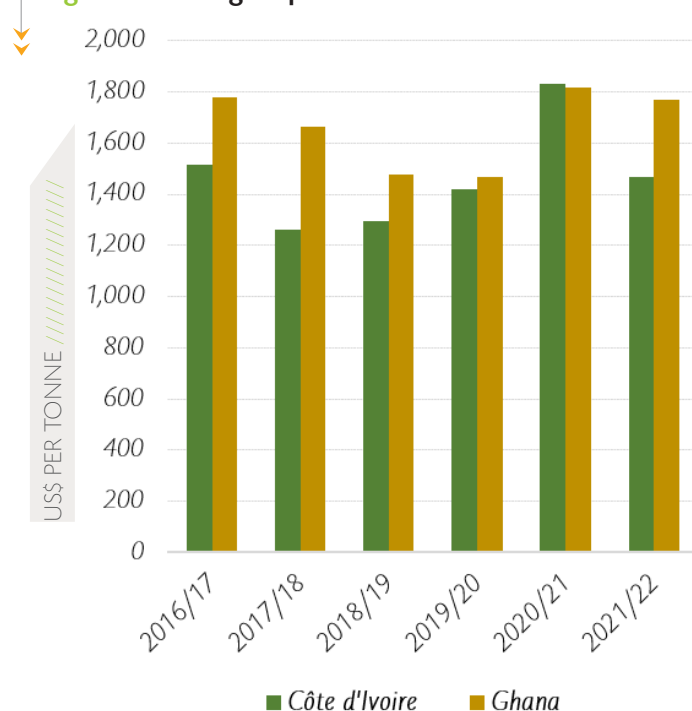
Compared with the average price recorded during September 2020, prices for cocoa butter were slashed by 10% in Europe and by 2% in the United States during September 2021. Indeed, prices for cocoa butter dropped from US\$5,865 to US\$5,757 per tonne in the United States, whilst in Europe they moved downward from US\$5,954 to US\$5,363 per tonne.

As opposed to the movements of cocoa butter prices, cocoa powder prices kept their increasing momentum in September 2021 compared to their values recorded a year ago. They soared on both markets, up by 73% from US\$2,705 to US\$4,677 per tonne in the United States in September 2021. Over the same period in Europe, powder prices had increased by 31% from US\$2,706 to US\$3,552 per tonne.

At the end of the 2020/21 cocoa year, cumulative arrivals of cocoa beans in Côte d'Ivoire overtook the country's all-time record. Indeed, as at 30 September 2021, cumulative arrivals at Ivorian ports were seen at 2.191 million tonnes, up by 5.6% compared to 2.074 million tonnes recorded a year earlier.

As presented in **Figure 12**, farmgate prices have been higher in Ghana compared to Côte d'Ivoire over the past five cocoa seasons, and this is still ongoing for the 2021/22 cocoa year. In Côte d'Ivoire, the price to be paid to farmers during the 2021/22 main crop declined from US\$1,830 per tonne in 2020/21 to US\$1,467 per tonne in 2021/22. In Ghana, cocoa farmers were paid an unchanged price in local currency of GH¢10,560 per tonne for the 2021/22 cocoa year. By factoring in foreign exchange movements in Ghana, this price is equivalent to US\$1,817 per tonne in 2020/21 and US\$1,769 per tonne in 2021/22.

Figure 12: Farmgate price in Côte d'Ivoire and Ghana



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)

