RESEARCH
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AN ANALYSIS ON SURGE IN COCOA PRICES

Ivory Coast, the largest producer of Cocoa in the world, facing issues that hinder the Cocoa production in the country. Result: Cocoa prices have more than doubled in last three years.

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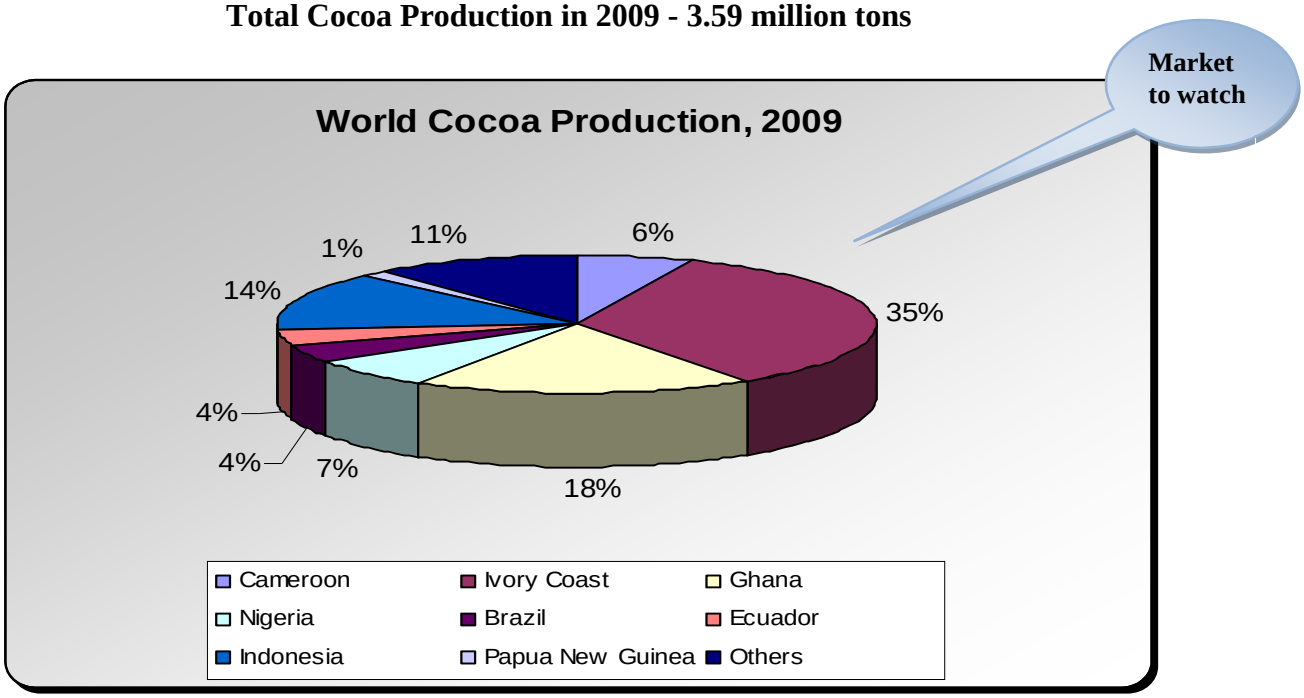
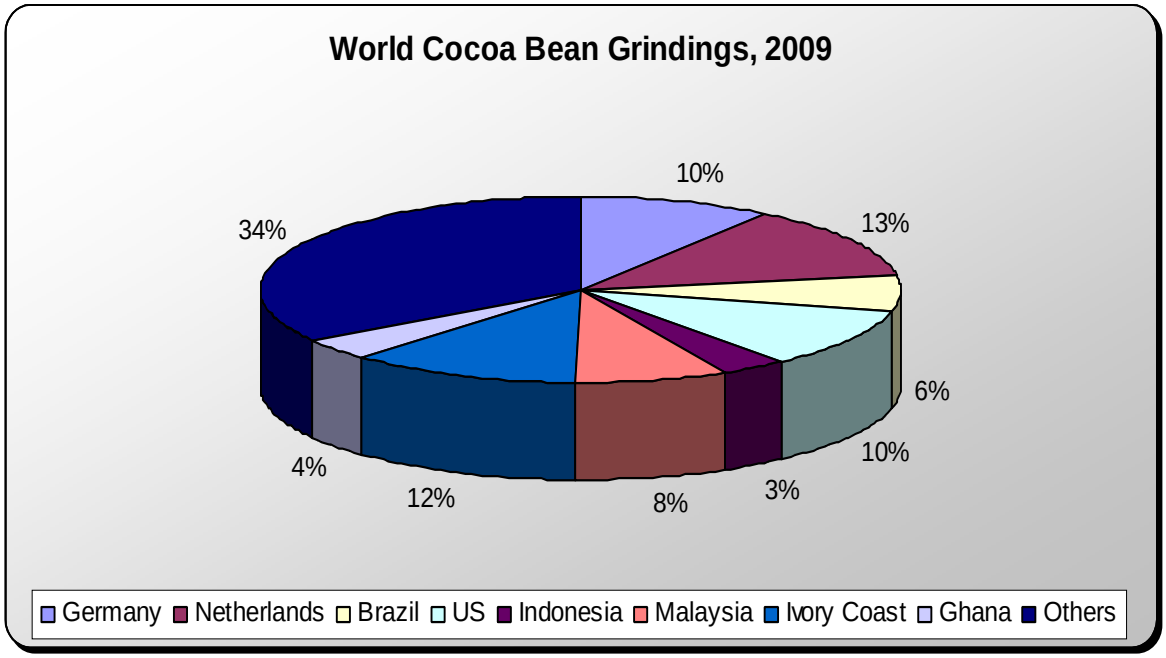
COCOA MARKET

Total Cocoa Production in 2009 - 3.59 million tons



Source: ICCO

Total Cocoa Grindings in 2009 - 3.49 million tons



Source: ICCO

Cocoa – Demand (Grindings) & Supply (Production)

Year (Oct-Sep)	Production ('000 tons)	% Change	Grindings ('000 tons)	% Change	End-of Season Stocks ('000 tons)	Stocks/Grindings
2002	2877		2886		1315	46%
2003	3179	10%	3078	7%	1394	45%
2004	3551	12%	3238	5%	1682	52%
2005	3381	-5%	3363	4%	1666	50%
2006	3811	13%	3508	4%	1931	55%
2007	3439	-10%	3661	4%	1675	46%
2008	3732	9%	3749	2%	1621	43%
2009	3593	-4%	3490	-7%	1688	48%

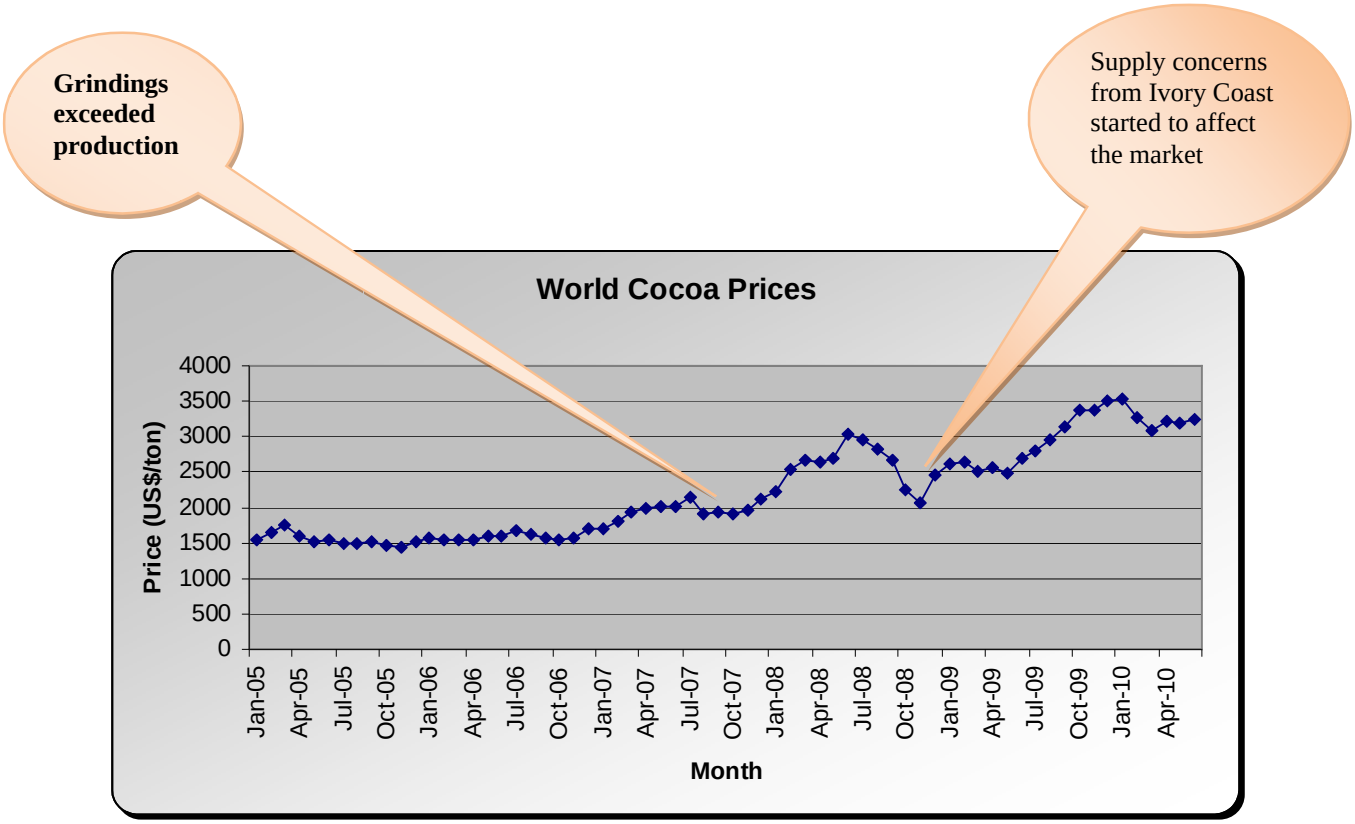
Source: ICCO

COCOA PRICES

Demand-supply gap remain a secondary thing on looking at the spurt in Cocoa prices from 2008. Average daily price on July 30, 2010 (New York Futures) was at $3,092/ton **(**£2,207/ton, London Futures**)**, already into highest in 30-years zone. The upward trend began in 2008 and continued the rally.

On analyzing all the possible factors that could be behind this price race, one thing certainly stood apart, a factor fundamentally changing the global Cocoa market. **Ivory Coast**, the largest Cocoa producer globally (around 35% market share), is drawing concerns from all Cocoa trading community.

Recent bulk purchase (around 241,000 tons at £2,317/ton, valued at £658 million) by a hedge fund in UK also failed to have an impact on the prices; interestingly Cocoa prices went down to £2,227/ton after the deal.



IVORY COAST & COCOA PRICES

Production of Cocoa from Ivory Coast has been consistently decreasing and was down by 175,000 tons in 2008/09 crop year. Cocoa harvest in Ivory Coast has fallen by more than 15% in last five years, a base effect that pushed the prices to peak levels in 30 years.

Total Cocoa output during 2008/09 was little above 1.22 million tons and lowest in last five years. This trend is expected to continue for the year 2009/10 as well.

This is mainly because of the diseases like swollen shoot and black pod. Farmers are also diversifying their crops so as to minimize losses due to these types of diseases. They began to cultivate other crops such as rubber.

Quality of Cocoa is affected mostly due to the occurrence of black pod fungus. In this case, processing companies and chocolate manufacturers will be in a position to purchase higher quantity of Cocoa beans in order to maintain their product quality (to maintain the same level of Cocoa content in chocolates), or else these companies will reduce the Cocoa content in their products if they don't want to pass on the increase in Cocoa prices to customers.

Another thing to note is that farmers cut short their fermentation process so as to access the Cocoa market quickly to sell when the prices are on at high level. This will result in low quality of Cocoa beans.

There are about 900,000 farmers in Ivory Coast who are into Cocoa production. An average production per farmer is around 1.36 tons of Cocoa in a year.

Treating the various types of diseases on Cocoa is expensive, which is above the level of farmers could afford. Hence either they go for alternate crops such as rubber or destroy the Cocoa trees so as to block the spread of the disease to other trees. Around 10% of Cocoa crops are lost due to these types of diseases.

Farmgate prices – the amount paid by middlemen to farmers for Cocoa beans – was at the range of US$1.99 per kg (as on Jul 18). However in Ghana, the amount is almost double. Ghana has been increasing its annual Cocoa output during the past three years.

Farmers are losing around 40% on the Cocoa international prices as a way of tax and other charges from government. Hence Cocoa farmers are uprooting their trees and planting other crops such as rubber so as to gain more benefits and avoid tax and other charges.

Ageing trees, expensive treatment for diseases and no help from government side, forces Cocoa farmers to look for other alternative crops.

Cocoa purchasers and chocolate manufacturers like Nestle are pushing themselves into saving the Cocoa trees and improving the crop cultivation in Ivory Coast. Nestle plans to spend about £67m during next decade to replant around 12 million Cocoa trees.

Outlook

Unless measures to control losing out Cocoa crops in Ivory Coast should be taken from government and other bulk purchasers of Cocoa (Nestle set an example), Cocoa production will continue to suffer in Ivory Coast.

As the harvesting season (by September) is approaching, lower than expected Cocoa output is the main reason behind the current price rally.

Prices may cool down after October; however Ivory Coast supply concerns will be a crucial factor in determining Cocoa prices in global market in coming years.

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