Cargill Cocoa & Chocolate

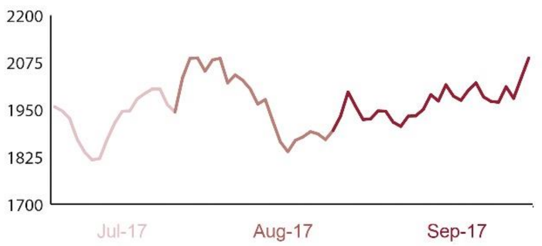
Market Report

October 2017

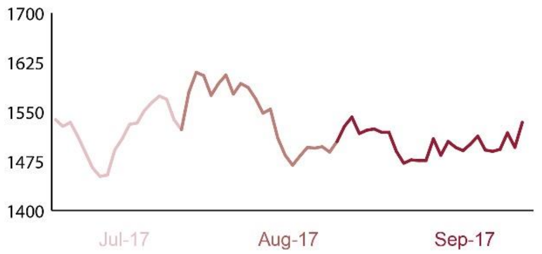
Cocoa Beans
Sticky 1500's

September saw overall price volatility under pressure as both markets continued to trade in sticky fashion within narrowing range (around the 1500 mark in London). Origin selling was the main theme of the month with flow coming from the tail end of the 17/18 forward sales in Ivory Coast and Ghana, the start of the spot sales for Nigeria and Cameroon and 18/19 forward sales to start soon as well. The confirmation of the new 17/18 IVC prices were released at 700CFA/kg, similar to what was already in place for the smaller mid-crop, but significantly below last year's main crop price of 1100 CFA, reflecting the strong down move cocoa experienced during past year. Waiting is for Ghana now to announce their official farmer price. Statements so far indicate that they will leave the prices unchanged, providing a sizable gap in prices between the two originating countries. At the time of writing the first price action in October shows supported prices, boding for an interesting start of the new cocoa season.

New York close, 2nd month USD/Mt



London close, 2nd month GBP/Mt



Cocoa Butter
Increased pace of activity as prices remain firm

Nearby price inverse kept growing with European spot liquid cocoa butter trading above the psychological ratio level of 3.0 against London. As market realizes that physical stock replenishment is still far out, the nearby tightness is spreading into Q1 2018 and is likely to maintain a certain risk premium across the overall ratio curve.

The activity level is visibly increasing, with focus quickly shifting to Q2 onwards positions, which so far remained relatively quiet. Outright cocoa butter prices are still trading around the four year low, around 4300 EUR /MT naked price. This provides the incentive to maintain , at least, or even extend further the outright price cover. On the background of this, prevailing market ratios seem to be a good risk mitigation option to cover increased part of the needs for 2018.

Cocoa Powder
Buyers extending cover

September was a busy cocoa powder month. Buyers from across the globe stepped in to cover additional spot needs and to extend their cover further into 2018.

On the availability side, tightness is still developing on the spot especially for premium and more complex cocoa powder types. Current environment combining healthy demand and still historically attractive prices is favorable to extending cover further into 2018.

Cocoa Liquor
Tightness to continue

As we continue to see bigger and smaller clips of demand around for spot positions the ratio's on the nearby remain very well supported. The tightness we have been experiencing for many months now will likely not to be solved in the first quarter, a view supported by the inverted ratio structure. Despite growing liquor demand it seems liquor supply has not yet returned to historic levels.

Cargill Helping the world thrive

Antoine Legrand
Crop Analyst, Research
Cargill Cocoa & Chocolate

A new crop year

1 October marks the start of the new cocoa crop year. It is the perfect time to reflect on past months, then look forward and share our expectation for this new season, with a special focus on Ivory Coast.

16/17, another crop for the history books

The ending season has been remarkable on so many levels. Firstly the huge size of the main and then mid-crop, which resulted in arrivals in Ivory Coast to break the emblematic 2 million tons level. This was the result of the combination of growing acreage, favorable weather, good pod development and improved farm maintenance. And secondly, the major hiccups that the supply chain in Ivory Coast encountered this year: these had disrupted the flow of arrivals and delayed the realization of the sheer size of the crop. World market prices collapsed in the last quarter of 2016 to reach multi-year lows. In Ivory Coast, this price drop was passed on the farmer with the lowering of the guaranteed price for the mid-crop, but not in Ghana, where nominal price remained unchanged. Thanks to higher production compensating for the loss in value, the overall farmer's income in these two countries, representing nearly 60 percent of the world's cocoa supply, remained incentivizing. And this translated into the good farm maintenance levels we have observed this season. It will have a positive impact on the 17/18 crop.

The developments of 17/18

Next to prices, rainfall has a dramatic impact on crops. The December 2016 - February 2017 main dry season was not particularly harsh. This had allowed the development of a good mid-crop and did not put too much stress on the trees. But the peak rainy season was a bit late to come, which somehow delayed the full recovery of the cocoa trees and alongside the 17/18 main crop pod setting. The initial pod count reports were not impressive, but things finally improved. Precipitations during the July-September 2017 dry season were not as abundant as last year, but overall fairly adequate. So today, botanical factors point to a late crop, but not a small crop.

Our expectations

Despite some positive trend, this main crop is not expected to match the record-breaking 16/17: botanical factors are simply "too average". Still, and thanks to the supporting 16/17 cocoa income, it will be a large crop from an historical perspective, the second best actually. Depending on the price difference between Ivory Coast and Ghana, that could lead to some smuggling, arrivals figures in the Ivorian ports may take some more time to show this.

Cargill has a dedicated Research Department and local teams in the main producing regions providing unique insights into the situation in the origin countries. Stay in touch with your Cargill representative for the latest updates on weather, crops and any other topics. We will do our best to enable you to manage your risks and thrive in an uncertain market environment.

We recently launched our new Cargill Cocoa Promise Report. It is a highpoint for our sustainability efforts - detailing our achievements, our new goals, and our future steps to further create positive impact for farmers, communities and mutual benefit for our customer and our business. Please click here to download the report.