Cocoa Beans
Volatility continues amid rainfall concerns

High cocoa prices in September contrasted sharply with low rainfall volumes in West Africa. Rains have been scarce during September, potentially showing a 70% deficit for the month compared to multiyear averages. This weather situation caused concerns on the development and survival rate of the crops in West Africa and drove prices up for much of the month.

The bean futures market showed two steep short-term uptrends, which brought prices close to the previous month high of GBP 2242. This level remained broken, however, and with origins selling likely to take place in combination with the return of rains, prices lost much of the gains they had made throughout the month during the last three trading sessions. As predicted in our previous report, origin stepped in to benefit from the current attractive prices and both Ivory Coast and Ghana started selling forward their 16/17 crops.

Both the macro environment as well as the cocoa market still hold different uncertainties and are expected to remain volatile. Main price drivers to keep an eye on this month are the rains in West Africa during October; farm gate prices that will be announced for the main producing countries, third quarter grind numbers and the Ivory Coast elections on 25 October.

Cocoa Liquor
Peak season hits for liquor

September was a busy month for cocoa liquor as customers came in the market to buy additional spot volumes. Outright buyers used setbacks in the London futures bean market to cover. Ratio buyers stepped back into the market as well. With peak season in full swing, securing the supply in the spot is key priority for the chocolate industry, while keeping an eye out for 2016 cover with the new year coming closer. Availability of Ghana origin liquor remains a concern.

Cocoa Powder
A quiet month for powder buyers

It has been a relative quiet and uneventful month in the cocoa powder market. In August, the powder market stabilized after a long rally. In September buyers remained hopeful that powder prices would finally start coming down, but the market disappointed, with prices refusing to move in a clear direction. The result was a quiet market. The coming weeks should give more market direction, and once it is clear which way it is headed, buyers are expected to step in once again.

Cocoa Butter
Indian summer continues for butter prices

Although the summer is over, cocoa butter prices are still hot. When the spot price is higher than the deferred price, we say the market is inverted, which is an indication of poor physical availability. The market sees this as a temporary issue as prices in 2016 are currently softer than prices for nearby delivery periods. The sudden buying interest has caught the market by surprise, leading to a sharp rise in the spot price of butter, which surpassed last year’s peak price.
EU dairy market developments – managing volatility

On April 1 2015, the EU abolished milk quotas, leading to significant changes for the pricing of dairy ingredients used by chocolate manufacturers. Michiel van der Bom, Chocolate Commercial Director, and Muriel Le-Breton, Dairy Ingredients Purchaser, explain how Cargill Cocoa & Chocolate customers can make the most of a volatile dairy market.

Market liberalization and global market dynamics
Since the 1980s, the EU managed its dairy market through a complex system including production quotas, intervention prices, import barriers and export subsidies. Since 2008, the market has gradually been liberalized, and EU dairy producers have invested heavily in new production capacity in anticipation of the abolition of milk production quotas.

The abolition of intervention prices, import barriers and export quotas has allowed the EU dairy market to become more connected to the dynamics of the world markets, and to global supply and demand fluctuations.

Recent dairy market trends
For the most part of this year, the EU dairy market prices have been in decline, due to the growth of milk output in its most productive dairy producing regions. On a global level, this coincided with solid milk output growth in the United States and New Zealand, whereas a prolonged Russian boycott of EU dairy ingredients and the global economic slowdown has led to a steep drop in demand for dairy ingredients from emerging markets, especially China. Production has now started to slow, particularly in Europe and New Zealand, while the US market is in much healthier condition with good internal demand.

The dairy market seems to have bottomed out, with milk powder and butterfat prices starting to rise considerably. Skimmed milk powder prices, which hovered around EU intervention price levels for much of last summer, are trending upwards since early September. For the next two quarters we also foresee more upward than downward price risk.

What does this mean for the chocolate industry?
For buyers of milk and white chocolates, which contain between 14% and 30% dairy ingredients, it is clear that dairy market volatility has a considerable impact on final chocolate prices. This makes effective price risk management a must. Since the start of the liberalization, the volatility of dairy prices has increased, as shown in the following graph.

Turning volatility into an opportunity
Cargill Cocoa & Chocolate has a dedicated trading team to manage these risks for you, focusing on sourcing the right, approved qualities of dairy ingredients products at the best possible price.

Benefit from day-to-day accurate global market intelligence, a short, medium and long-term forward market vision, and an extensive supplier network through Cargill’s strong global presence in both agricultural commodity and ingredient markets, as well as the scale of our dairy purchasing portfolio.