

Market Report

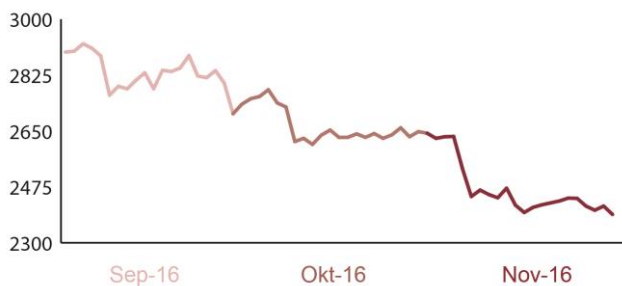
December 2016

Cocoa Beans

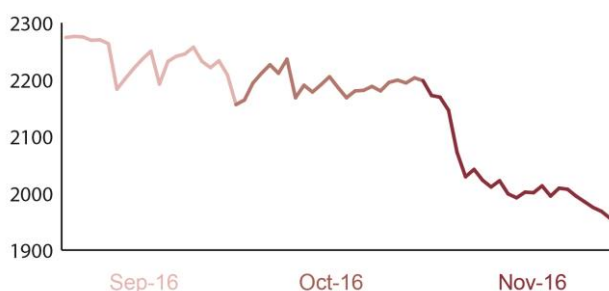
Tight range convincingly broken to the down side

September and especially October traded in very narrow ranges. November clearly broke that trend and managed to break out to the downside in style. With the last trading day in October still trading £ 2,200 we saw prices drive through multiple psychological levels in the month after, seeing levels close to £ 1,900 at the time of writing. Now what has been causing this drop of over ten percent in one month? One important element is the significant reduction of the position of speculators during the month. For the first time since a very long time their position is now short or easier put, they expect that the market will move down. Drivers are increasing main crop bean arrivals and a healthy outlook for the remainder of the season, combined with a mild outlook for the dry season ahead of us. This leads to promising conditions for the mid-crop development. In the meantime the main origins have been sidelined and still have sizable volumes to sell while being well below prices that were announced to the farmers.

New York close, 2nd month USD/Mt



London close, 2nd month GBP/Mt



Cocoa Butter

Terminal market drives lower prices

In December we start to see some loosening of the butter price. The information received on the crops in West Africa have resulted in considerable lower prices on the futures market. Two main drivers are at the basis for relief in butter price. First of all the cheaper raw material and secondly the replenishment of the pipeline of butter producers. The effect of the lower price allows to re-instate more sustainable cover length at the confectioners. More affordably priced butter will positively impact demand for chocolate. We expect to see the effects of that by second half of 2017.

Cocoa Powder

Steady pace

Consumption of products containing cocoa powder is still showing a robust performance. In South East Asia, sales of instant cocoa powdered drinks have grown considerably in the last few months. In North America, categories such as ice-cream and Biscuits have brought innovative seasonal items thus increasing their share in the Halloween sales.

In this supportive demand context combined with historically attractive prices, powder buyers across the globe continue to secure their 2017 cover.

Cocoa Liquor

Tight pipeline

November proved to be a busy month. The peak season remains in full swing with liquor availability very tight. This tightness is spilling over into the first quarter of the new year with availability improvements to be expected closer to Easter. On the buying side customers took the opportunity to extend cover on a scale down basis into the second half of 2017 as the market continued to slide. Outright prices are attractive while the lower market supports ratios.



Antoine Legrand
Crop Analyst, Research
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The unveiling of the Ivory Coast 16/17 main crop

West African main crops represent more than half the world's yearly supply, making the October-March period critical. We now have the first weeks of the new crop behind us and it is time to assess how the Ivory Coast crop started and share what we expect for the period ahead.

A transition from a very poor 15/16 mid-crop

The 15/16 crop ended in a very large deficit. West African mid crops were extremely poor due to an unusually harsh December to February dry season. So the industry and other market players waited anxiously for the first supply of fresh beans from the new crop to relieve the tensions in the market. Port arrival volumes exceeded 200TMT in October. This may look disappointing compared to last year when volumes were 20 percent higher. However, keep in mind that 15/16 had a unique arrivals pattern, with a strong start, followed by a very unusual decline in November and finally a second arrivals peak which started in late December and lasted well into January.

Last year's season was also impacted by the presidential elections in Ivory Coast in October 2015. These, combined with rising world market prices, raised expectations for a significant increase in local prices. Sizable stocks from the mid-crop had been stockpiled up-country in anticipation and were delivered to the ports soon after the announcement of a new, higher price. This inflated the volumes in October 2015. By contrast, 2016 mid-crop volumes were very low and market players did not anticipate a price increase, so up-country stocks were limited and did not inflate the numbers this year.

Good volumes

In fact, arrivals in October 2016 were excellent. The approximate number of 200TMT makes it the second best October arrivals ever, despite some negative factors. Firstly, the particularly abundant rains at the end of August and in September led to disruptions in the supply chain: it was harder to dry the beans and haulage activities were slowed by degraded roads. Secondly, the 10% increase in the farm gate price meant that more money was needed to buy beans up-country. Not all middlemen and exporters may have had sufficient financial means to start the season in full style. Finally, some players did not rush to get the first deliveries of the season, instead waiting for the peaking volumes that are usually associated with the best quality beans.

More to come

During November, we saw the flow of arrivals increase from below 60TMT per week to around 80TMT. Based on our analysis of the botanical situation, we expect arrival volumes to increase even further in December, subject to the supply chain having the financial and logistical capacity to handle it.

We are confident that the 16/17 season will deliver the biggest Ivory Coast main crop ever.

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 other relevant topics. We will do our best to enable you to manage your risks and thrive in an uncertain market environment.

