

Market Report

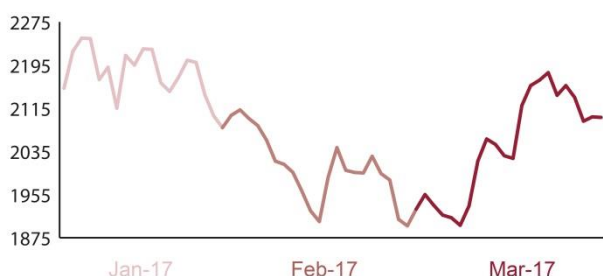
April 2017

Cocoa Beans Down trend stopped

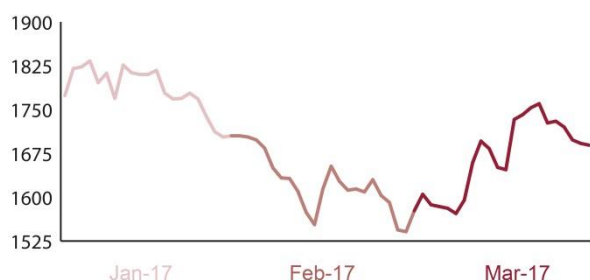
After six months of lower prices, March demonstrated a clear turnaround. March futures started at £ 1,544, close to the recent lows seen in February, and prices ended just a few pounds shy of £ 1,700. Almost ten percent gain for the month. Worth mentioning is that a large part of this increase was in two trading sessions only, showing four and five percent price increases just for those days. Systemic hedge funds were the driver by buying back their short positions when the cocoa market's downtrend was broken to the upside. This was also helped by some more friendly comments that came from the large cocoa conference in Miami that we referred to in our previous report.

Fundamental news mainly came from origin with continued good arrivals, where Ivory Coast showed port arrivals just above 1.4 million metric ton by the end of March. Basis the large drop in cocoa prices since the beginning of the 16/17 crop, Ivory Coast did what was largely anticipated; it lowered the farm gate price to CFA 700/kg down from the CFA 1,100/kg it announced at the start of the crop season, to ensure sustainability of the stabilized system. This adjusted price gives the farmer on average CFA 1,000/kg for the full season, equal to previous season's price. For next month the first quarter grind numbers, development of the spec position and weather forecasts will probably be the key elements of focus.

New York close, 2nd month USD/Mt



London close, 2nd month GBP/Mt



Cocoa Butter Sustained momentum

Despite the futures cocoa bean market trading in a range of more than 200 GBP during the month of March, the butter market remained stable. Many customers recognize the terminal price uncertainty going forward and opt for the opportunity to lock attractive outright prices on the products. The main fundamental update expected in the near term is the release of the grind figures for Q1 2017, which will give an indication on the speed of grind recovery. The latter is to be assessed in perspective of relatively tight finished product stocks and progressively improving demand prospects.

Cocoa Powder Attractive prices

March was a busy cocoa powder month. Buyers from across the globe benefitted from attractive prices to replenish their cover. On the demand side, indicators are gathering strength. For example, the premiumisation trend in confectionery continues to fuel the growth of applications for cocoa powder, from chocolates with high cocoa content, to innovative, flavor bursting, creamy fillings. Savvy buyers evaluate further coverage extension to secure their supplies into 2017 and 2018.

Cocoa Liquor Cover extension

Albeit heading into the slow season there is still good momentum in the liquor market. On the one hand, attractive outright prices continue to incentivize buyers to extend cover into 2017 and 2018. On the other hand, despite the increasingly healthy bean availability, the flow of product supply is not yet very smooth, especially for origin liquor. The combination of these factors creates an environment in which ratios are well-supported.





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A crop update

April 1 marks the transition from main crop to mid-crop in Ivory Coast. It is the perfect time to reflect on the past season and to look forward to the future.

The 16/17 main crop

The world will remember the 16/17 main crop to be exceptional in two ways. Firstly, for the sheer volume of arrivals and secondly, for how the crop reached the exporters. October volumes were large, though according to some players, still disappointing: they were 20 percent below the volumes of the previous year. However, November flow accelerated from around 60 TMT to 80 TMT per week. Arrivals for the first week of December exceeded the 90 TMT mark, though volumes started to slow soon after.

It was not because of a lack of fresh harvests, but rather because of major issues in the supply chain: exporters were willing to buy only limited amounts. Massive stocks were piled up in up-country sheds and in trucks in front of exporters' gates. It was only when the Conseil du Café-Cacao decided to sell new "déblocages" (export permits) that the exporters were able to resume their purchases and that stocks finally gradually decreased. This led to artificially inflated arrivals, i.e. higher than what fresh harvests would have given, during the months of February and March. Ultimately, cumulative arrivals in Ivory Coast exceeded 1.4 million tons, making this main crop the largest ever recorded by far.

The 16/17 mid-crop

December to February is the main dry season in West Africa. Precipitation is very limited, which, combined with the possible presence of Harmattan winds, induces water stress in cocoa trees. The average bean size and survival of the fruits are impacted, with direct consequences for the overall volume of the mid-crop. Last year, practically no rains were reported for almost three months in a row. This led to very disappointing 15/16 mid-crops in both Ivory Coast and Ghana and was the main cause for the 15/16 season ending with a significant deficit.

This year, however, the dry season was fairly mild. Pod development and survival were fine and we forecast a good harvest. Furthermore, the timing of the mid-crop is early this year: we expect arrivals to peak sooner than usual. This optimistic outlook for both the Ivorian and Ghanaian mid-crops, together with the formidable main crops, means the crop year 16/17 is likely to end with an unprecedentedly large surplus.

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.

