

Cocoa Commodity Futures Shaken By Unrest In Côte d'Ivoire

Contributed by Euromonitor International
 Wednesday, 02 March 2011
 Last Updated Wednesday, 02 March 2011

Recent political instability in Côte d'Ivoire has driven up commodity prices for cocoa on trading floors on either side of the Atlantic.

This escalation marks a reversal from the general pricing trend seen since July 2010, when cocoa prices reached a three-year peak. Latest data on deliveries from the West African country, however, has helped calm the nerves of cocoa traders.

Ouattara announces ban on exports

Democratically-elected President Alassane Ouattara announced a ban on cocoa exports on 22 January to cut off resources to Laurent Gbagbo, who is refusing to leave power despite his internationally recognised electoral defeat.

Exporters breaking the ban risk seeing their export licences withdrawn if Ouattara successfully takes power. They also risk facing the possibility of international condemnation.

Information on the implementation of the ban has been sparse so far and, in some cases, contradictory. Some local sources were quoted as saying that 'there was panic in the sector' immediately after the introduction of the ban.

According to local officials, some exporters were "desperate to ship their cocoa as quickly as possible". One day after Mr Ouattara's announcement, however, the current Ivorian government vowed to 'fight back' with guarantees for shipping companies and to make sure that there were enough boats to carry the cocoa beans abroad.

Interestingly, international cocoa buyers/processors like Barry Callebaut and Cargill have remained tight-lipped about the impact the newly-introduced export ban might have on future cocoa trading.

Cocoa prices surge in four days

Irrespective of whether or not the ban is effectively implemented, there is little doubt that its mere announcement caused something of a stir on trading floors. On the London stock market, for instance, LIFFE cocoa futures surged by 4.5% in just four days of trading (20-25 January). Trading volume over those four days was in excess of 40,000 futures contracts, with the standard size of a LIFFE cocoa contract being 10 tonnes.

Traders going long (buying) on 20 January and short (selling) on 25 January at the peak of the trading season obtained a profit of around US\$1,000 per contract. Traders going long in 100 lots (standard 10-tonne contracts) on 20 January would have needed a margin ranging from US\$200,000 to US\$1 million (depending on their rating) in their trading accounts to obtain a maximum US\$100,000 profit (as of close of business on 25 January).

Interestingly, the latest news coming from West Africa has helped to calm, to a certain extent, previously jittery nerves on trading floors. According to local official data released on 4 February, Côte d'Ivoire's shippers and cocoa processors declared 80,415 metric tonnes of cocoa for export from 21 January to 3 February taking the cumulative total for the 2010/2011 season to 653,719 tonnes, according to official data.

This represents an increase of 4% on deliveries registered during the same period last year. This increase suggests that political instability in the region has failed so far to impact cocoa bean deliveries to processors, despite the uncertainty it has recently caused among traders.

Future direction

Recent data on Côte d'Ivoire's shipments is in line with ICCO's (International Cocoa Organisation) most recent "and bullish - production predictions. Its Executive Director, Jean-Marc Anga, stated in early January that ICCO expected global cocoa output to grow by 6-8% year-on-year to reach 3.8 million tonnes in the 2010/2011 growing season.

If real production matches these predictions, global cocoa output growth would be significantly higher than the previous season. Latest ICCO's estimates, released in late November 2010, showed a feeble 0.2% increase in global cocoa output and a 5% decline in ending stocks over the 2009/2010 cocoa season.

In addition, the international financial environment is easing pressure on agricultural commodity trading. The steady increase in cocoa futures prices witnessed during the first half of 2010 was partially driven by financial turmoil in peripheral EU countries.

Uncertainty about the capacity of these countries "especially Greece - to embark on aggressive deficit reduction policies and the danger of a potential break-up of the European Monetary Union prompted an influx of investment in highly liquid

US dollar-based commodities.

Historically-low interest rates allowed massive borrowing in dollars, which were in turn invested in commodities like cocoa. Traders liquidating cocoa positions would increase returns not only as a result of increased demand for chocolate in emerging markets but also because of additional returns on the back of US dollar appreciation.

Looking to the future, the prospect of a rapid escalation in the value of the US dollar witnessed during the first half of 2010 is unlikely to recur in the short term. There is agreement that the second round of the quantitative easing programme - announced by the US Federal Reserve in late 2010 - could have a weakening effect on the dollar's value.

In addition, latest data released by the US Bureau of Economic Analysis shows the current importance of exports to the US' GDP recovery. Understandably, there is little incentive for the US monetary authorities to boost the value of its currency.

Meanwhile, in the EuroZone, strong GDP growth in Germany and the implementation of strict deficit reduction programmes in peripheral economies have allowed a moderate stabilisation – if not reduction – in 10-year Treasury bond spreads for countries like Spain and Portugal. All these factors have contributed to a moderate recovery in confidence for the EuroZone and the euro itself.

Brokerage firms on both sides of the Atlantic have been quick to factor in the new financial and supply environment in their cocoa positions. ICCO's spot price on 9 February stood at US\$3,354 per tonne. On the Chicago Board of Trade (CBOT), cocoa futures for delivery in March stood at US\$3,272/tonne (9 February close) – around 2% lower than current ICCO spot prices.

For the minority of traders seeking to receive the underlying physical commodity, the current stability could be used to take long option calls (right to buy) positions in medium-term lots (May delivery). In doing so, they would allow cocoa processors to budget for cocoa stocking at resistance levels (highest futures projections) below the US\$3,300 per tonne mark.

The latter would be one of several possible strategies to anticipate a potential increase in cocoa prices linked to any worsening in political conditions in West Africa. Analyst Insight by Francisco Redruello.

Please visit [Euromonitor International](#) for more information

14 February 2011