



# Cocoa Market Update

Hugo van der Goes  
Barry Callebaut

Sugar Colloquium  
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## The last 9 months in Cocoa...

- Beginning of a deficit story for 2019/20 cocoa triggered a large buying wave
- Presidents of Ivory Coast & Ghana affirms commitment to \$2,600/T cocoa floor price
- World's biggest cocoa producer and neighboring Ghana “voluntarily decided” to limit cocoa production
- Ghana cocoa sector to receive \$600 mln to increase production
- Côte d'Ivoire raised farm gate price from 750 to 825 FCFA/kg
- Ivory Coast, Ghana strike first cocoa deals with living income premium
- Top Cocoa Growers see support for LID; Social Programs continue



**Cocoa Growing**

Cocoa Beans *Closely correlated with Bean Futures Market*

80%

**Barry Callebaut's core activities**

Cocoa Liquor *Closely correlated with the Bean Futures Market*

~54%

~46%

Cocoa Powder *Correlated with Bean Futures and Powder Ratio*

Cocoa Butter *Correlated with Bean Futures and Butter Ratio*

+ Sugar, Milk, others

+ Sugar, Milk, fats, others

+ Sugar, Milk, others

Powder Mixes

Compound & Fillings

Chocolate Couverture

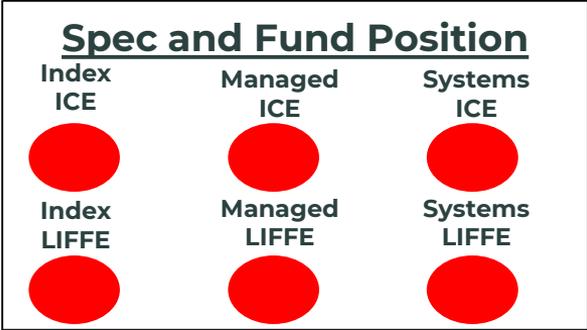
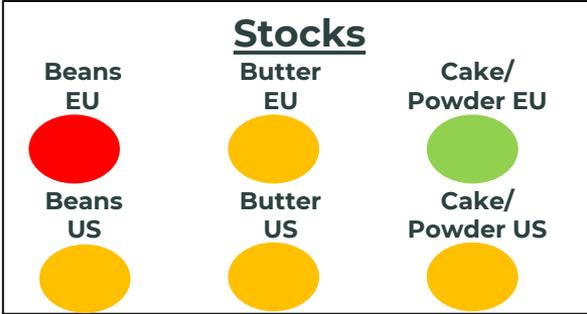
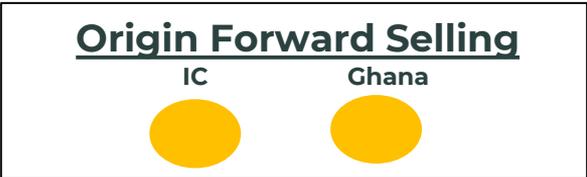
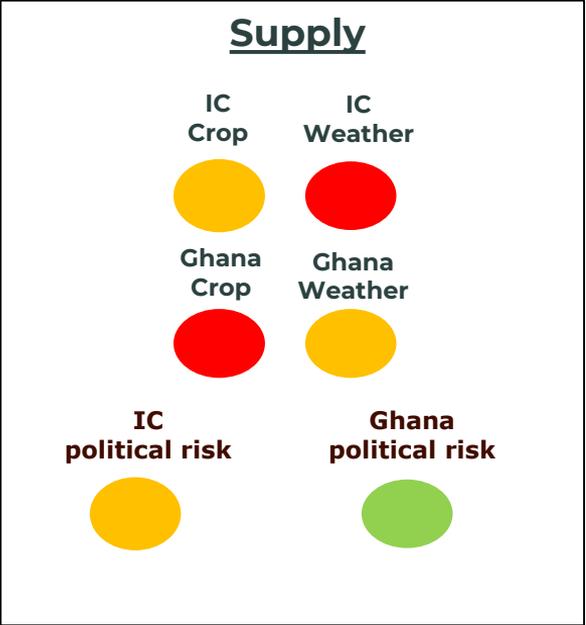
**Cocoa Butter pricing example**  
 $2.50 \times \$2,500 = \$6,250$   
 $2.00 \times \$2,500 = \$5,000$

**Cocoa Powder pricing example**  
 $1.00 \times \$2,500 = \$2,500$   
 $1.20 \times \$2,500 = \$3,000$

**Customers**

Food manufacturers, artisans and professional users of chocolate

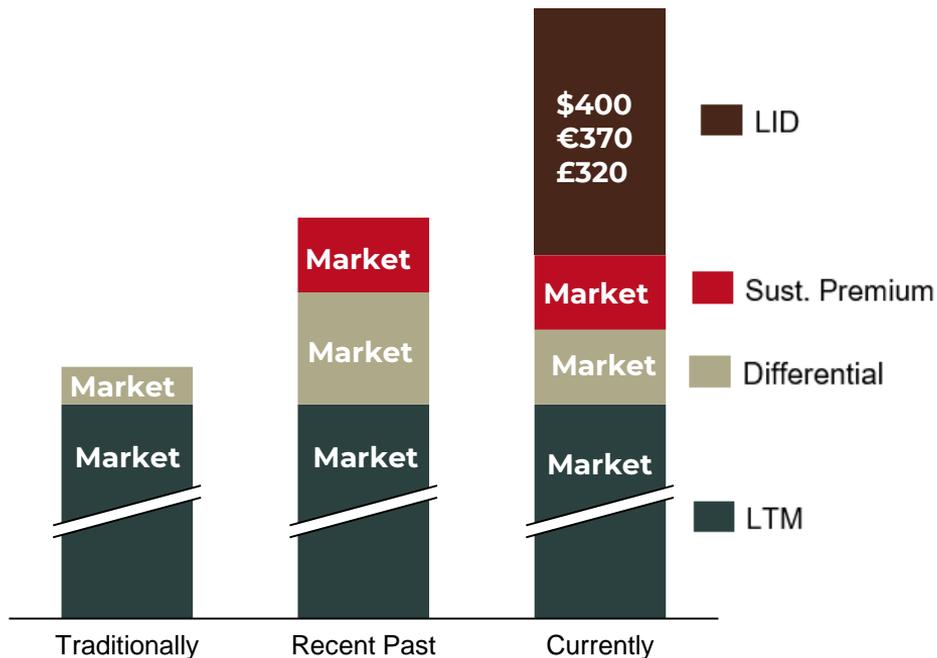




= bullish, up      = neutral, caution      = bearish, down

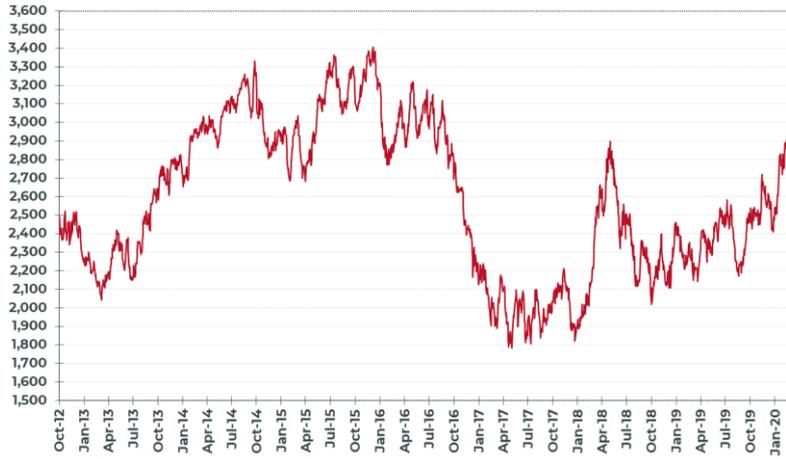


# Price Structure for beans for Côte d'Ivoire (at stable LTM)

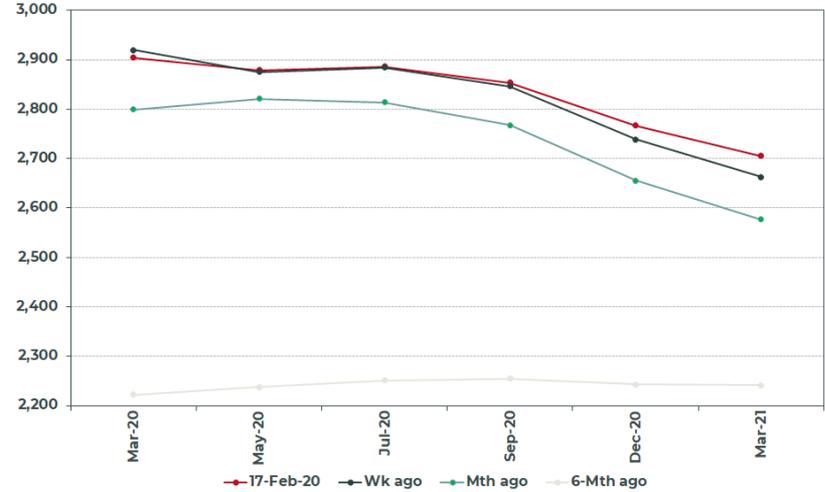


- ▶ Steady increase due differential rally, sustainability premiums and LID
- ▶ Cost per MT of beans up, i.e. LID of \$400/Euro370/£320 has become an integral part of the price calculation for both, cocoa products and chocolate
- ▶ Price impact not being felt from one day to the other but gradually

**New York Cocoa Futures**  
Second Position Continuation, Daily Close (USD/MT)



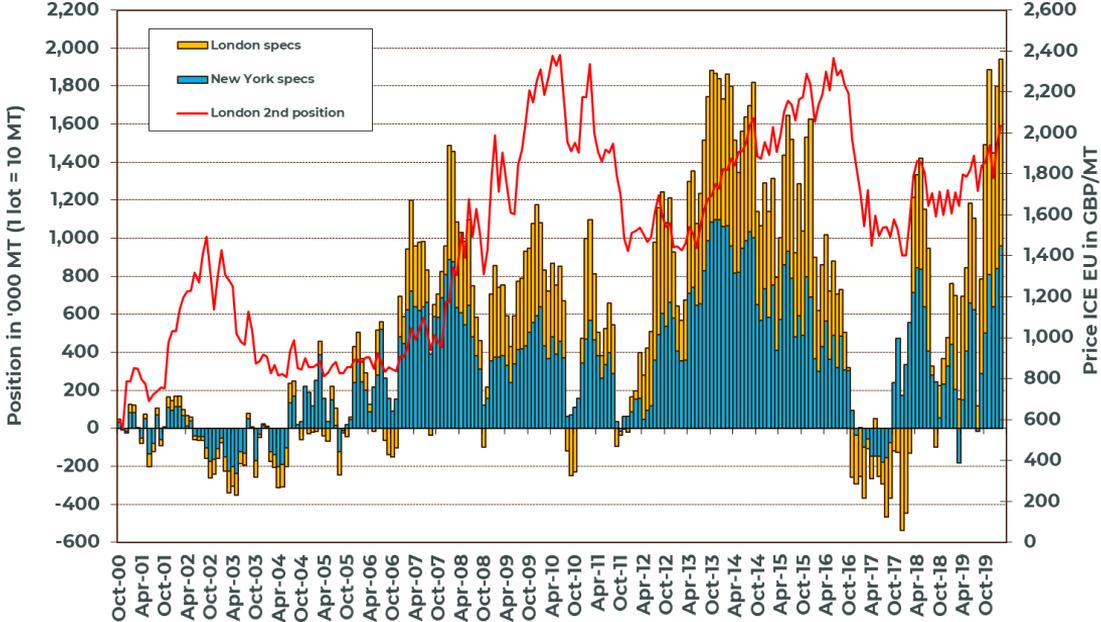
**Forward Curve New York**  
Daily close in \$/MT per Maturity Period



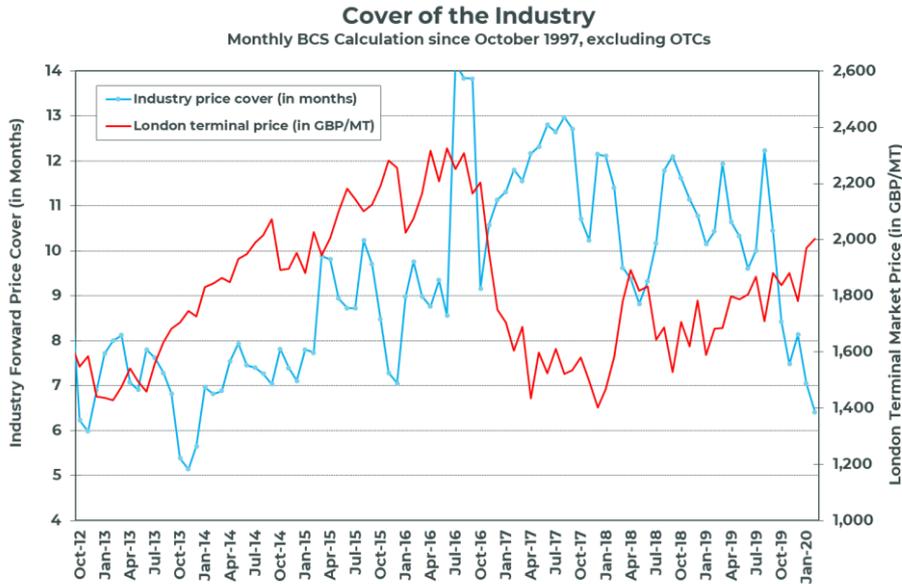
- ❖ New York futures on a bull run for the last few weeks
- ❖ Average price in Jan has been 2'687USD/MT, highest in the last 12 months
- ❖ Feb so far (as of Feb 14th) is showing an average price at 2'848USD/MT

- ❖ An inverted curve will remain attractive for a fund long position
- ❖ We expect the structure to stay as long as funds keep an active role in the market

**Position of the Speculators**  
 Monthly combined data from ICE US & ICE EU,  
 including index, options and OTCs



🔴 Spec funds increased their long position significantly over the last few weeks: combined net long of 194.2k lots close to the historical high of early Dec 2019 (200k)



- ❖ Due to the steep price increase since September, the industry cover dropped month-on-month and is now estimated at 6.4 months
  
- ❖ This is lower than last year at this time, when the cover was at 10.4 months
  
- ❖ We expect the industry to extend the cover, shall prices erode further from here

## Cocoa Tree Crop by Origin (ICCO)

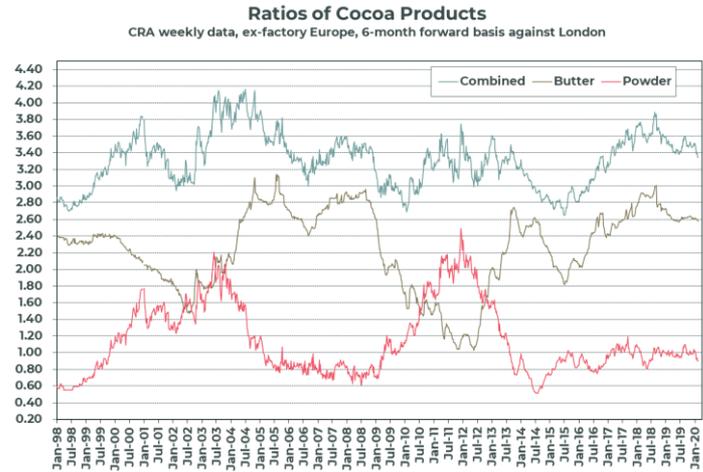
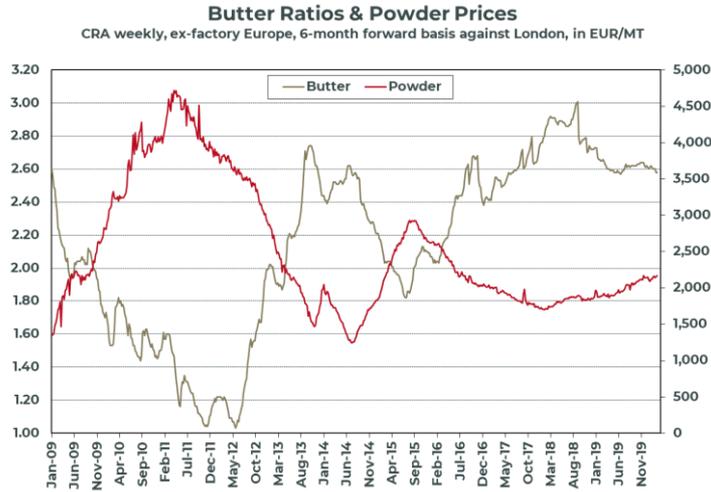
IN THOUSAND METRIC TONS	ICCO 16/17 DATA	ICCO 17/18 ESTIMATE	ICCO 18/19 ESTIMATE	ANALYSTS 19/20 RANGE
IVORY COAST	2,020	1,964	2,220	2,150 – 2,250
GHANA	969	905	815	800 – 950
ECUADOR	290	287	315	300 – 330
CAMEROON	246	250	280	250 – 310
NIGERIA	245	250	250	225 – 350
INDONESIA	270	240	220	150 – 205
BRAZIL	174	204	176	175 – 195
<b>WORLD CROP</b>	<b>4,731</b>	<b>4,651</b>	<b>4,834</b>	<b>4,800 – 4,900</b>
	<b>+18.5%</b>	<b>-1.7%</b>	<b>+3.9%</b>	

- For 19/20, market expect a flat year-on-year production evolution

## Cocoa Bean Grinding per Region (ICCO)

IN THOUSAND METRIC TONS	ICCO 16/17 DATA	ICCO 17/18 ESTIMATE	ICCO 18/19 FORECAST	ANALYSTS 19/20 RANGE
WESTERN EUROPE	1,520	1,595	1,602	
EASTERN EUROPE	108	115	117	
AMERICA	880	873	897	
AFRICA	901	963	991	
ASIA & OCEANIA	988	1,050	1,201	
WORLD TOTAL	4,397	4,596	4,808	4,870 – 4,900
	+6.5%	+4.5%	+4.6%	+1.5%

- Expect a slow down in grinding growth (ie bean consumption) due to high price environment



## Pre-20/21

- ◉ Butter ratios under Pressure; High US inventories – Market Inverse
  - ◉ Powder prices up; driven by poor combo Margin, Good demand and high diffs
- ## 2021
- ◉ Butter ratios to stabilize due to «LID»
  - ◉ Powder prices to firm due to «LID» & Combined Margin

# S&D and Conclusion



## S&amp;D (ICCO)

IN THOUSAND METRIC TONS	ICCO 16/17 DATA	ICCO 17/18 ESTIMATE	ICCO 18/19 FORECAST	ANALYSTS 19/20 RANGE
SURPLUS/DEFICIT	+287	+8	-21	-180 / -50
END-OF-SEASON STOCKS	1,714	1,722	1,701	N/A
STOCK/GRINDING RATIO	39%	37.5%	35.4%	N/A

- 🔴 The 19/20 crop year is pointing at a small deficit

## Bullish Factors

- ❖ Inverted market structure
- ❖ Forecast 19/20 S&D showing an increasing deficit
- ❖ Funds amplifying the deficit story
- ❖ Industry cover below the LTA (6.4 currently)
- ❖ Firm WA differentials against LDN; LID anticipation pulling Nigeria, Cameroon differentials up towards IC, Ghana
- ❖ Declining certified bean stock US/EU
- ❖ Demand for beans/products available pre-20/21 will go up as not subject to LID
- ❖ 2020 elections in WA
- ❖ Possibility of Harmattan during Q1 2020

## Bearish Factors

- ❖ Higher farm gate price for CDI and GH to stimulate production
- ❖ Outright prices products higher due to market and stronger GBP
- ❖ Lower Q4 grindings than market expectations could mean lower overall demand for 2019/20 crop year
- ❖ Weak macro factors and slow down in world economy

## Recommendations

- **Cocoa Market => 12 months @ market ~ 2,500 USD/MT deferred positions**
- **Butter Ratios => 6 months**
- **Bean Differentials => 12 months**
- **Powder => 18 months**





# Thank you!

Your Sales Representative is happy to receive any questions or comments!

February 2020