



COCOA MARKET REVIEW

November 2023

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ERA OF PRICE BOOM: WEATHER AS A ROOT ISSUE BEHIND CURRENT SUPPLY SHORTFALL

Cocoa prices continued to extend their rallies in November and by the end of the month reached US\$4,522 per tonne in London and US\$4,458 per tonne in New York. Compared to prices at the official start of the 2023/24 season in October, this reflects an increase of 23% and 27% in London and New York, respectively. The current supply shortage, which has resulted in the prevailing price rallies, has mainly been caused by uncondusive weather conditions in Côte d'Ivoire and Ghana. Heavy rains have affected farming activities, the spread of diseases and haulage operations in the two countries. As these two leading producing countries supply about two-thirds of global cocoa beans, any change in their production tends to have a significant impact on the cocoa market.

Sourcing of cocoa beans has been challenging due to the downpours. The rains are reported to have affected the cherelles (young cocoa pods) on trees and have also brought about the rampant spread of black pod disease. Fermentation and drying of beans have also been an issue due to the lack of ample sunshine. Furthermore, transportation of available beans to the ports has been hindered by the deplorable state of roads leading to the farms, worsened by the rains.

Cumulative arrivals data published by Reuters show that since the official start of the season on 01 October 2023, main crop cocoa arrivals at ports in Côte d'Ivoire reached 548,000 tonnes by 03 December 2023, down by 35% compared to the same period during the last season. In Ghana, graded and sealed cocoa data from the start of the season on 08 September 2023 to 23 November 2023 is estimated at 189,470 tonnes. This is significantly down by 51% as compared to 383,496 tonnes recorded for the same time frame a year ago. All these have raised concerns over the outlook for the remaining main crop.

Soil leaching resulting from the heavy rains may also increase production costs for farmers, as purchases of

fertilizers to replenish soil nutrients in conjunction with pests and diseases control expenses are an extra cost. Farmers may be disheartened due to the poor crop outlook caused by adverse weather conditions and high prices of farm inputs. With such a situation, will farmers be willing to invest in their farms? Or will they rather be enticed by current high international prices?

Climate related challenges have consequences not only for producers but for consumers as well. Similar to high cocoa prices, confectionary manufacturers are also faced with other expenses such as surging cost of sugar. Prices of sugar have also increased due to weather events that led to declining production in key sugar producing countries. The high cost of key ingredients due to supply constraints will consequently raise production costs for chocolate manufacturers and eventually be reflected in the price rise of confectionery products. Indeed, manufacturers have hinted that the cost increases of key ingredients will be passed on to consumers. For example, Mondelez has stated that it will increase the prices of some of its confectioneries as the company faces rising pressure from cocoa and sugar costs¹. As at the time of writing, news reports cite that some leading international cocoa buying companies including Barry Callebaut AG, Cargill Incorporated and Olam International Limited are in a standoff with Ivorian government negotiators and are holding off cocoa purchases while waiting for a price discount.

Another way manufacturers may offset the rising cost of confectionery production is to adjust highly priced ingredients with less costly equivalents. Is there a likelihood of the rise of cocoa butter equivalents in chocolate confectionery production? Moving forward, the impact of demand remains unknown. More information will be available in January 2024 with the release of the Q4.2023 grindings data by the regional cocoa associations.

1 <https://finance.yahoo.com/news/oreo-maker-mondelez-raise-prices-223712488.html>



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FUTURES PRICE DEVELOPMENTS

Starting the month at US\$4,054 per tonne in London and US\$3,795 per tonne in New York, prices had risen by the end of the month by 12% and 17% to US\$4,522 per tonne and US\$4,458 per tonne in London and New York, respectively.

During November, the nearby contract averaged US\$4,335 per tonne and ranged between US\$4,054 per tonne and US\$4,547 per tonne in London. In New York, prices averaged US\$4,072 per tonne and ranged between US\$3,795 per tonne and US\$4,458 per tonne (**Figure 1**). At the same time a year ago, the nearby contract for November 2022, averaged US\$2,429 per tonne in London and ranged between US\$2,313 per tonne and US\$2,503 per tonne. In New York, the nearby contract averaged US\$2,445 per tonne and oscillated between US\$2,352 per tonne and US\$2,564 per tonne (**Figure 2**).

Figure 1: Prices of the DEC-2023 and MAR-2024 futures contracts on the London (ICE Futures Europe) and New York (ICE Futures U.S.) markets

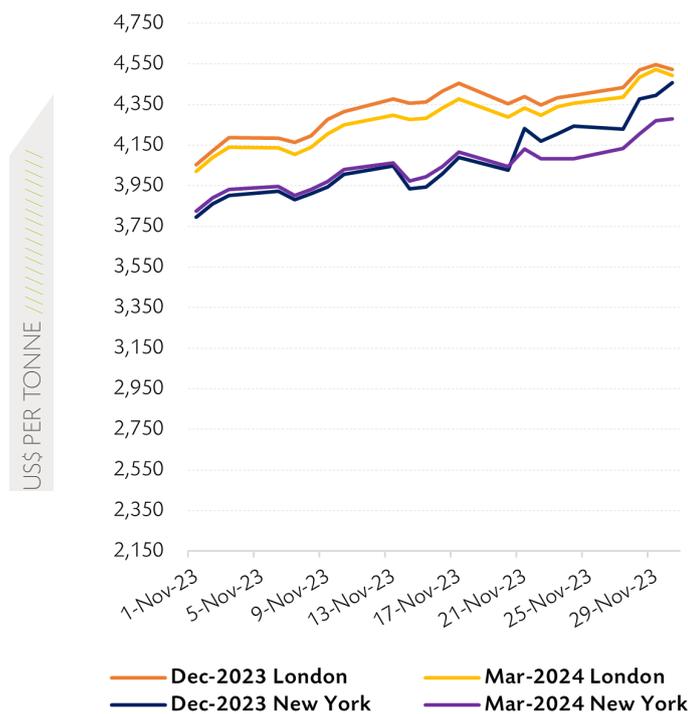
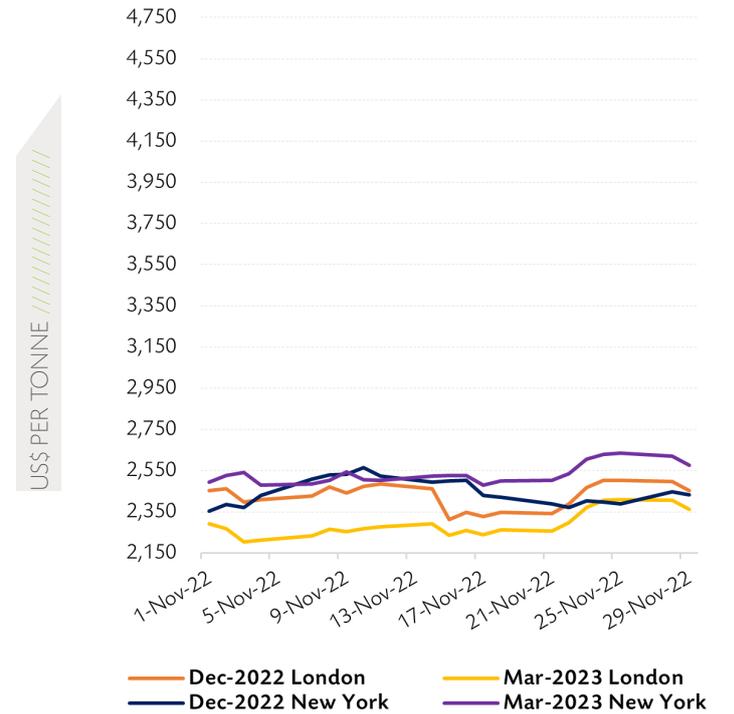


Figure 2: Prices of the DEC-2022 and MAR-2023 futures contracts on the London (ICE Futures Europe) and New York (ICE Futures U.S.) markets



The rise in prices for the ongoing season has been underpinned by supply tightness. It currently seems there is no sign of respite from price increases. The deficit expected for the current season and previous years' deficits have been caused by uncondusive weather conditions. As the season progresses and more information becomes available, it will become clearer how supply, demand and prices will play out.