

# COCOA MARKET REPORT



*Theobroma*

*Tendency and news from the cocoamarket during the period 2nd - April 27th 2007*

Price developments have been very volatile this month. On the basis of the second position July it has achieved a high of GBP 1068 and a low of GBP 976, whilst on balance values are GBP 90 lower. In New York, the very weak US\$ resulted in even bigger movements, with prices getting to their highest level since 2003, however on balance prices are US\$ 160 lower.

Since January, the market has seemed to be unconcerned by the extremely large speculative long position and, after breaking through the resistance levels, prices rose significantly during the second half of March. Of course, everybody knows that every rally is always followed by falling prices, but predicting the timing of a fall is the most difficult part of the job. This time it was all about liquidation on the first trading day of the month (and a new quarter), when in one day, prices lost GBP 60, due to aggressive fund liquidation. This decline equated to the total of the gradual gains of the preceding 2 weeks. The selling coincided with reports of rainfall in most African growing regions after a longer than normal dry season, which induced the bear camp to report again about improved growing conditions for the forthcoming mid crop.



According to some brokers, about 10.000 lots of the entrenched long position were most probably liquidated during the sell off, but there was no follow through selling. On the

contrary, lower market levels attracted fresh fund and industry buying, and consequently prices recovered quickly. This recovery was also short lived as, although origin supply and therefore selling pressure was very limited, fresh selling entered the market, driving prices down again to levels only slightly above the lows of early April. This nervous pattern continued and a few days later prices were again almost at the highest level of the month. This rally was mainly encouraged by reports that a significant part of the May long position had been switched further forward, at a premium, indicating the desire of fund players to remain in the cocoa market for the longer term. It is worth noting that the open position on May in New York was still extremely high; 72.126 lots on 1<sup>st</sup> April, but this position evaporated quickly ahead of first notice day in mid April.

The market looked to be in the mood to search for higher levels, but within a few pounds of the former high, more selling entered the market. During the next few days prices collapsed completely, encouraged by a report of very good flowering for the next main crop. Also lower USA grin-

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ding figures contributed to the bearish sentiment and decline. The published grinding figures show a different picture on different continents. Due to the outsourcing of grinding by the chocolate industry, as well as the globalization of the converter industry, who often operate in countries where we have no reliable statistics, it is very difficult to judge the growth of consumption. Some analysts believe that the growth is currently less than in recent years.

The 1<sup>st</sup> quarter grindings are published as follows:

	2007	2006	
<b>USA</b>	97.584	104.690	- 6,79 %
<b>ECA</b>	338.495	324.173	+ 4,42 %
<b>Germany</b>	87.852	79.385	+ 10,7 %

In the products market it has been relatively quiet, although at lower market levels outright buyers became more active. The butter ratio remained steady, reflecting the well sold position of the major converters as well as the inability of origin pressers to be active sellers, due to lack of beans.

The large price movements of this month are a reflection of increased levels of uncertainty about further price development. During this season, unofficial arrival figures in Ivory Coast have consistently fallen below last season, but the BCC recently reported an official delivery figure of 967.300 tonnes at the end of March, this being higher than last year. Furthermore Ghana is also running slightly ahead of last season. The recent drought will certainly have a negative impact on the current mid crops, but there are also indications that global grindings may not increase as much as previously anticipated. In addition, various analysts are now predicting a very large main crop for the coming season, based on current weather patterns and pod counts. The easing of tension is also demonstrated on the London terminal market, where the May07/May08 spread widened from GBP 45 to 62. According to the CFTC figures the funds still had an extremely large long position of 53.895 lots on 17<sup>th</sup> April, but this will be lower now. If the remaining fund longs continue to hold their position, the industries will be hoping for improved crops, as many of them have significantly reduced their forward cover. For the time being, however, it looks as if the silly season has started early this year, along with the European summer.

To be continued.....