

COCOA MARKET REPORT



Theobroma

Tendency and news from the cocoamarket during the period 2nd July - 31st August 2007

Due to the holiday season this report covers a 2 months period. It has been a very interesting period during which prices declined strongly, mainly due to speculative long liquidation. On basis of second position December the high has been GBP 1147 - the highest level in 4 years - and the low GBP 931 while values are GBP 150 lower on balance.

Early July the market was still in the bullish mood. Fund and speculative buying were driving up prices, easily absorbing the relatively small supply of origin offers. Furthermore the London market still had to face nearby tension (a possible technical squeeze) with September trading at equal money to December. The extraordinary high level of outsider participation was reflected by the rise of the combined speculative long position in New York to 64633 lots on 3rd July. Fundamentally the market was also supported by low rainfall in many growing areas in West Africa during the second half of June.

Heavy rainfall during the first part of July and the publication of the record long position initiated the first wave of liquidation, leading to a decline of GBP 70. This setback was followed by a period of consolidation with prices trading nervously. A bit surprising to most in the cocoa community, the speculative long position continued to rise to 67095 lots on 10th July. Meanwhile the July position in London expired smoothly at a discount of GBP 30 with 33490 tonnes delivered.



The following grinding figures were published:

| | April/June | | | total | | |
|---------|------------|--------|----------|--------|--------|-----------|
| | 2007 | 2006 | | 2007 | 2006 | |
| USA | 95608 | 104879 | - 8,84 % | 193192 | 209569 | - 7,81 % |
| ECA | 323353 | 312817 | + 3,37 % | 661848 | 636990 | + 3,90 % |
| Germany | 78528 | 72890 | + 7,73 % | 166379 | 151212 | + 10,03 % |

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Another wave of speculative long liquidation entered the market at the end of July. In a couple of days prices declined GBP 75 before finding support. Most of the pressure was seen on nearby September, as a result of which the small premium over December eroded totally. Supported by various optimistic crop forecasts, after reports of strong rainfall during July, more price erosion was seen during early August and later, after another short period of consolidation, prices continued to erode. Certainly this weakness is also due to the problems in the financial markets, which strongly affects the position of many hedge funds.

The spread structure in London has changed completely. The September/December has traded nervously in a range of a discount of GBP 30 and 15 and the Dec07/Dec08 trades now at GBP 60, thus widening GBP 30. The speculative long liquidation has also led to a strong reduction of the open position, in New York from about 170.000 lots early July to 123.000 lots and in London from 210.000 lots to 190.000 lots. The last available data for the speculative position, of 21 August, show a massive decline to 35313 lots long and in London brokers feel that the speculative position is already short.

Activity in the product market has been much better than in beans. As a gift from heaven the market decline was used by chocolate industries, who have been withdrawn for many months during this year's rise. The demand resulted in a further rise of the ratio for most positions, of course in particular for 2007 positions. Also demand for liquor has been strong, leading to a small increase of the ratio. The powder market has been quiet with unchanged prices, not following the terminal market at all.

Though rainfall has been irregular in West Africa most analysts forecast a strong revival of production for the main crop. This optimism is recently countered by reports of a higher than normal presence of black pod infection, due to the actual weather condition of high humidity and limited sunlight hours. Due to the bad weather pattern in Indonesia, less optimism is seen for the crop size of this large producer. Based on a growth of consumption of 2% the actual forecasts reckon with in general a surplus of around 100000 tonnes compared with a deficit of around 250000 tonnes for the current crop. If these estimates will come true a continuation of the decline looks likely on the longer run. On the short term, however, the relatively limited origin sales will easily be absorbed by industries. Accordingly, eventual further pressure has to come from the funds, but the long existing index funds longs have proved to be strong in the past.

To be continued.....